



# Monetization Best Practices Manual

First Edition

**Food for Development**  
**ACDI/VOCA**  
December 15, 2003

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## List of Acronyms

<b>AID</b>	U.S. Agency for International Development
<b>ACDI/VOCA</b>	Agricultural Cooperative Development International / Volunteer in Overseas Cooperative Assistance
<b>AER</b>	Annual Estimate of Requirements
<b>BDCHA</b>	Bureau of Democracy, Conflict and Humanitarian Assistance
<b>BHR</b>	Bureau for Humanitarian Response
<b>CCC</b>	Commodity Credit Corporation
<b>C&amp;F</b>	Cost and Freight
<b>CRS</b>	Catholic Relief Services
<b>CS</b>	Cooperating Sponsor
<b>CSB</b>	Corn Soy Blend
<b>CSR4</b>	Cooperating Sponsor Results Report and Resource Request
<b>DAP</b>	Development Activity Proposal
<b>EMPA</b>	Empresa Publica de Abastecimento
<b>FAM</b>	Food Aid Management
<b>FFP</b>	Office of Food for Peace
<b>FFP/W</b>	Food for Peace, Washington D.C.
<b>FFPIS</b>	Food for Peace Information Systems
<b>GM</b>	Genetically Modified
<b>HQ</b>	Headquarters
<b>MT</b>	Metric Tons
<b>MOAVE</b>	Moagem de Cabo Verde SARL
<b>MOU</b>	Memorandum of Understanding
<b>POS</b>	Point of Sale
<b>PVO</b>	Private Voluntary Organization

<b>Vegoil</b>	U.S. vegetable oil
<b>USDA</b>	U.S Department of Agriculture
<b>WFP</b>	World Food Programme
<b>WV</b>	World Vision

## I. Introduction

The ACDI/VOCA Monetization Best Practices manual was developed for the purpose of sharing information and expertise. This document does not address the basics of monetization, which can be found in both the Food for Peace (FFP) Monetization Manual (Oct. 1998) and the Cooperating Sponsor Monetization Manual<sup>1</sup>. Instead, it provides complimentary information on specific issues related to different methods of monetization as well as some general best practices identified by ACDI/VOCA. The information should help to facilitate the training of new staff as well as encourage current staff to try and adapt ‘new’ ideas that have been successful in other contexts.

This document is based on experiences in ACDI/VOCA-managed USAID PL 480 Title II programs in Cape Verde, Uganda and Rwanda as well as a USDA Food for Progress Program in the Kyrgyz Republic. It draws on the experiences of seasoned professionals in monetization and presents best practices developed and tested over time.

Readers should always remember that one program’s successful practices will not necessarily flourish in another country, but exposure to new ideas can create new opportunities. Monetization is a challenging endeavor that requires ongoing re-evaluation of policies and procedures. This manual should be considered a working document, in which the best practices of tomorrow will find a place next to the ones that are currently tried and true.

The manual is divided into two sections. The first section describes some of ACDI/VOCA’s best practices and lessons learned as they relate to monetization in general; therefore they are not specific to any one type of methodology. The second section describes four different types of monetization and includes examples from ACDI/VOCA programs.

*The overarching goals of ACDI/VOCA monetization programs are to invigorate competitive, commercial commodity markets, and to maximize proceeds generation for development activities.*

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<sup>1</sup> The Cooperating Sponsor Monetization Manual is an excellent resource that offers, among other topics, useful baseline monetization information on conducting Bellmon Analyses, understanding the role of food aid in commodity markets, and assessing storage and handling capabilities.

## II. Themes

There are several overarching themes in this manual. These include:

- *Operate the monetization program as a professional business.*
- *Pay attention to details. Perfecting the 'simple' details is often the key to success.*
- *Monitor sales practices, learn from them and adjust strategies as necessary.*
- *Be open to new ideas.*
- *Be knowledgeable about international and local markets for the commodity that is to be monetized.*
- *Encourage the sharing of resources, staff and practices between programs.*
- *Emphasize transparency at every step of the process.*

The reader is encouraged to keep these themes in mind while reading through the document.

# **Section I**

### III. General Best Practices

The following sections describe some of the best practices identified by ACDI/VOCA. Clearly, these are best practices to date, and the reader is reminded that monetization practices can change depending on the situation. Furthermore, they must be adapted to the context in which the monetization is to occur.

#### A. *Defining the Monetization Method*

Monetization is generally defined as the process of generating proceeds by selling commodity. However, the monetization process can be much more than that. A Private Voluntary Organization (PVO) can use monetization as a development tool in and of itself to stimulate trade among small businesses, to teach transparency in marketing systems, and to create a forum for traders to interact and create new relationships. While every PVO strives to maximize proceeds from the sale of commodity, and Food for Peace (FFP) mandates that maximum value is achieved, the potential developmental impact should be taken into consideration when determining the approach.

ACDI/VOCA has used different mechanisms to monetize commodity, each selected based on the ability to generate proceeds and to have a positive developmental impact. These methodologies include: (1) negotiated sale, (2) small lot sealed bid (hereafter referred to as “small lot”) auction and (3) out-cry auction. Furthermore, ACDI/VOCA has been the lead agent for umbrella monetizations in two countries. Where deemed advantageous or necessary, more than one method has been utilized in the same country. Each monetization process was refined and adapted to the program’s needs and the reality of the market.

ACDI/VOCA considers several issues when defining the type of monetization it will utilize. These are identified during the initial assessment period and market analysis, and reviewed throughout the life of the program. Market changes may dictate that the PVO revise or adapt its processes depending on the situation. The following are some issues that should be considered for each commodity that is going to be monetized.

*Objective of the Program:* the PVO must first define its own objectives for the program. If developing markets is not one of them, then it may not want to invest in the time and effort associated with small lot or out-cry auctions. Negotiated sales may be an easier and more efficient means to generate proceeds.

*Staff Capacity:* a PVO must assess its own capabilities to handle more complicated monetization programs. For small lot and out-cry auctions, highly trained field staff are required to manage the intricacies involved in directly managing large volumes of commodity (such as storage, transportation and the training of potential buyers) over long periods of time. Knowledgeable, detail-oriented staff to backstop the program at the PVO’s headquarters is also crucial to the success of a program. Again, if the PVO does not have as its objective market development or does not have the staff capability, negotiated sales may be the more appropriate mechanism as it can be handled in a short period of time and can even be contracted out to other consultants/ organizations.

*Type of Commodity:* Storing and distributing bulk commodities are certainly more difficult for a PVO to manage directly. This is not to say that a PVO cannot rent silos, or contract out a local firm to assist with many of these matters, but the increased complexity should be considered when defining the type of monetization method the PVO will use. Furthermore, if the PVO is going to handle the commodity directly, then it must be able to manage problems associated with reconstitution, repackaging, and other commodity management issues not normally associated with a negotiated sale.

*Number of Buyers and Location:* A relatively small number of buyers limits the PVO's ability to sell under out-cry or small lot mechanisms as there is always the threat of collusion. Furthermore, the PVO should consider whether buyers are limited to the more urban areas or whether potential buyers from around the country could participate in the sale.

*Infrastructure:* Infrastructure in and around the area in which the commodity is to be monetized is a significant factor in the decision-making process. Is there sufficient access to storage facilities? What are the associated costs? Is transportation available? Can the buyers access the warehouse(s) during different times of the year, including the rainy season?

*Market Volatility:* The PVO may wish to safeguard against potential problems in the future by selling its commodity all at once upon arrival in country. There are risks with conducting small-lot auctions throughout the year, such as currency devaluation, security concerns, and market instability or fluctuations. However, the benefits of continuous sales include the possibility of generating greater proceeds as well as reaching new clients and expanding markets.

*Regulatory Controls:* Any price, supply or sales method controls by the host country government must certainly be taken into consideration when determining the appropriate mechanism for monetization.

These are just some of the issues that a PVO should consider when determining the monetization mechanism. Clearly, there are other issues that would apply depending on the specific situation. Each should be weighed according to the market the PVO is considering entering.

#### *B. Preparing for a Monetization Program*

Without going into the details of conducting a market or Bellmon analysis, since this information can be found in other sources, the following are considerations that ACIDI/VOCA would like to highlight in terms of proposal development and preparations for a monetization program.

The PVO should ensure that the identified commodity is palatable and acceptable to the local diet. Previously imported commodities, such as commodities that have been given as food aid during times of famine and drought, should be carefully considered. Such commodities may not be marketable as the local population may consider it unworthy of purchasing.

The PVO should also consider whether the commodity is directly consumable or whether it needs further processing (such as milling), whether the market can support the extra costs that

additional processing requires, and if the infrastructure can handle the shipment of the commodity. While certain trade groups in the US generally advocate commodity be provided in its final form, there are benefits to processing in the recipient country, including support and development of local businesses. The PVO should consider whether the monetization process can be tied in with the development activities. For example, in Rwanda, ACDI/VOCA assisted a wheat miller in re-starting operations. Later, under an umbrella monetization, ACDI/VOCA arranged for a sale of wheat to the miller.

The PVO must ensure that the host government agrees with the proposed monetization program. For example, the issue of genetically modified crops is becoming more prominent in food aid programs and the PVO must be aware of the country's position and possible future legislation. Furthermore, the sales mechanism may not necessarily coincide with the objectives of the government. The PVO must determine the comfort level of the host government by asking questions such as:

- Will the government endorse the sale of this particular commodity and the sales methodology?
- What are the possible risks involved with introducing the commodity for sale?
- Who are the stakeholders associated with this particular market?
- Who will potentially lose or gain from the monetization process?
- What will satisfy both the American commodity groups and local commercial importers?

Once the PVO has the support of the host country government and has determined that the methodology is appropriate and manageable, it should develop an agreement with the government outlining the objectives of the monetization and how the proceeds will be utilized. The PVO should include information about its limitations such as the ability of the US government to re-divert commodity or cease program activities. The PVO should include general timelines, expectations, and information about exclusion from taxation. The PVO must be sure the agreement is in accordance with local law, USAID regulations and the PVO's own policies.

### *C. Transparency*

The PVO must design the program to ensure maximum transparency. All parties must enter the transaction agreeing to operate in an honest manner. Transparency ensures equality between buyers and is necessary for the success and longevity of the program. The PVO should:

- Resist pressure to compromise transparency;
- Set strong, clear policies and be absolutely consistent in their application;
- Make buyers aware of the importance of transparency; and
- Set a precedent for both staff and buyers.

Transparency not only guarantees a successful sale of the commodity, but the PVO can teach transparency in sales agreements simply by providing a strong example. Small lot or out-cry auctions can reach a larger number of businesspeople and can therefore demonstrate transparency in sales to a large audience.

#### *D. Market Information*

The PVO must have accurate, up-to-date market information when preparing for any sale. This includes information on international and regional markets. The sales area may be the country as a whole or a smaller, more defined geographic area. It is extremely important to consider the specifications and acceptability of the commodity when assessing any market. Knowledgeable buyers will also be looking at the commodity's specifications, some of which USDA may not be able to guarantee. The PVO must also include similar commodities in the market as well as their substitutes as a component of the market assessment.

The PVO should never underestimate the intelligence of potential buyers, as buyers generally have access to world supply and price information. PVO representatives entering into negotiations should never walk into the meeting without a strong knowledge of current market trends and the ability to continue monitoring them.

The PVO can access information through trade publications and the Internet. Sources of information include the Grains Council Market Report and the Chicago Board of Trade web site. The US Wheat web page has excellent information on Gulf export prices, futures, and other information. A "price letter" comes out each Friday with this information. Trade organizations are another good source of information about commodity specifications and price information. They often work with the PVO in providing the necessary information and even providing samples. Clearly, there are additional sources of information depending on the type of commodity, and each PVO should identify and access the necessary information.

Even with extensive market information, the PVO should design monetization programs with conservative price estimates to buffer against potential falling market prices or local currency devaluation. The PVO must continuously research future prices in order to plan and budget realistically. At all times the PVO must be aware and take into account the role the state plays in price regulation of similar or substitute commodities.

#### *E. Documentation and Accounting*

Regardless of the type of sales mechanism, the PVO should maintain copies of all transactions relating to the sale of the commodity. Documents including the calls forward, bills of lading, sales agreements, survey reports, inventory lists, payments and deliveries should be readily accessible and well maintained. Databases are extremely useful in accessing information quickly and for denoting trends.

When dealing with small lot auctions, the PVO must set up appropriate accounting and inventory systems from the onset. These systems should include all payment information, including accruals and balances. These payment records must be checked regularly with the commodity inventory records, which should be updated on a daily basis.

An appropriate inventory and delivery system should be created specifically to monitor and track commodity in storage if the PVO has direct responsibility for it. The format and nature of the

inventory tracking system may vary by commodity. The accountant or monetization manager may keep these records.

The smaller the lot size, the more management is required. Furthermore, depending on the commodity type, issues such as reconstitution and repackaging may arise. Umbrella monetizations require detailed, well-managed accounting and financial systems. For example, if more than one PVO's commodity is stored in the same place, the lead monetization agent must have exact information about how much each PVO can claim as its own for accounting purposes in the event the umbrella consortium dissolves, there is a theft or significant loss.

#### **IV. Operational Management**

##### *A. Setting the Stage for Operations*

Monetization proceeds may not be available when program start-up costs, such as procuring equipment, leasing office space, and hiring personnel, are being incurred. The PVO must therefore assess how it will pay for initial costs. Possibilities include: (1) using USDA CCC (Commodity Credit Corporation) funds or USAID 202(e) funds to cover some of these costs<sup>2</sup>; (2) advancing funding to the program out of the PVO's own coffers; (3) arranging an umbrella agreement with other Cooperating Sponsors (CS) that allows for advances of proceeds from other PVOs' commodity shipments; (4) building in the cost of borrowing the funds; or (5) utilizing funding from a previous Development Activity Proposal (DAP) where there are some local proceeds to be rolled-over.

Schedules for procurement, staffing, and program outputs should all reflect the reality of funding availability. The PVO should anticipate the timeframe for the monetization, including the time needed for call forward approval, commodity procurement, commodity arrival at the final destination, and finalization of sales. In some cases, it can take up to six months for commodities to arrive at the final destination from the time the call forward is placed. The PVO should develop realistic budgets and implementation plans to coincide with the projected pipeline. Furthermore, the PVO should work with Food for Peace local officers so that s/he can help to explain the logistical and monetization process to BHR (Bureau for Humanitarian Response)/FFP/W.

##### *B. Staffing*

The PVO must assess whether it will need staff full-time, part-time or whether it is efficient to contract out certain tasks related to monetization. Capable local and headquarters based staff are vital to running efficient programs. The PVO should assess the size of the program and the level of effort required for monetization when determining the staffing requirements.

The PVO should, to the degree possible, hire experienced monetization managers who will be responsible for all monetization activities. However, given that this is a very specialized skill,

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<sup>2</sup> CCC funds can be used for all start-up costs before monetization proceeds are available and can also be used throughout the life of the project. 202(e) funds are only used for certain start-up costs and are available for the life of the project.

especially for small lot or out-cry auctions, the PVO may need to utilize its existing staff from other monetization programs to provide training and support. If the PVO does not have trained staff, it should consider hiring a consultant with the necessary capacities. A monetization program's success depends on whether the program is designed and managed correctly. Again, these costs should be incorporated into the budget.

The PVO should consider the positives and negatives associated with having expatriates in monetization programs. The PVO should assess the types of organizations with which the monetization personnel will be interacting. Expatriate presence may be necessary donor requirements. However, there may be activities which they cannot conduct, such as performing a market survey because they would receive exaggerated pricing information.

The PVO should also view the monetization process as an opportunity to train local staff to continue these types of activities in the future. Buyers are exposed to transparent sales mechanisms, but local monetization staff can become experienced in managing the sales process, including inventory controls, developing managerial and financial reports, conducting market assessments, and much more.

Existing staff should receive continual training. Monetization is not a static activity and managers must ensure that they are aware of changes to policies, procedures and the objectives of the donor. Furthermore, exchanging information and "lessons learned" between offices offers the opportunity to improve existing programs.

The PVO must have capable support staff in the field who can act in the absence of the monetization manager, thereby ensuring continuity of operations in his/her absence. If office operations are small and staffing limited, the PVO should ensure that capable staff can substitute either from headquarters or from another field office. No program should be dependent on any one individual. The local office should also develop and maintain a gender-balanced staff. A balanced staff helps to facilitate effective interaction with diverse groups of local buyers, beneficiaries, government officials, and other collaborators. Furthermore, a PVO would not want to send inadvertent signals. For example, by having a large all-male monetization team, the buyers may view the PVO staff as thinking that only men should be in the business.

No PVO should assume that operations cannot be improved. The PVO should consider bringing in a management auditor at least every two years for an outside perspective on the operations in order to assist in the identification of any problems or areas for improvement that may exist. Visiting staff members from HQ or other field offices can also offer suggestions based on their experiences or information that they have gained through Food Aid Management (FAM) trainings. New staff can offer a fresh perspective on routine operations. It is important to take an objective look at the monetization process throughout the life of the program.

While new staff can offer new perspectives, the PVO should also recognize the importance of low staff turnover. Few people are versed in the intricacies of monetization and significant time and effort is often spent in training new individuals. Furthermore, sales are often more easily secured when a level of trust between the seller and buyer exists, and this is often built on a personal relationship.

Lastly, the PVO should be able to enable or create a positive working environment in order to maintain harmony among the staff. Often monetization programs are conducted in areas where there may be cultural differences among local staff, such as being from different tribes.

In addition to ensuring well-developed staff, the PVO should consider the following professional skills when hiring:

- Report writing skills and experience;
- Computer literacy;
- Ability and enthusiasm to work in a team;
- Quantitative and reasoning/analysis skills;
- Motivation and willingness to work at a high level of professionalism and discipline; and
- Ability to adapt readily, learn quickly and offer ideas.

### *C. Office/Warehouse Location*

The office(s) and warehouse(s) should be located in secure and accessible areas. When warehouses are necessary to store commodity, the PVO should consider premises with railway access or those that are easily accessible by truck. The locations of the facilities should also be accessible to potential buyers.

The PVO should be sure to operate the office in a businesslike manner and should identify ways to reduce waste and avoid extravagance by focusing on what is vital to the business. The offices should present a professional atmosphere to the buyers to boost their confidence in the sales process. Storage facilities should meet the specifications as outlined in the monetization manuals published by FFP and FAM.

Whenever possible, the PVO should take advantage of economies of scale. For example, several PVOs may have greater cost savings by sharing a well-managed warehouse or monetizing under an umbrella agreement. This is discussed later in the section on umbrella agreements.

### *D. Maintaining the Balance between Monetization and Programming*

Though development activities may depend on the proceeds from monetization, these activities should not dictate the timing of the sales. Clearly, it is difficult to balance the needs of the monetization program with the cash flow needs of the development activities. If the PVO does not time the sales with the needs of the market, it runs the risk of potentially flooding the market with commodities whenever financial needs on the programmatic side arise. Trying to schedule sales based on program activity needs may take the focus off of running the monetization program as a business, as the stress will be on selling the commodities at any cost. This can ruin the PVO's chances of selling at competitive prices in the future.

The monetization manager will have to work closely with the development staff to ensure that funds are available for the development program and that activities are not delayed resulting from any lack of funds. Pipeline analyses should be conducted on a regular basis. Potential

delays in generating proceeds should be taken into consideration in this process. Delays can occur as a result of normal shipping constraints or problems with packaging<sup>3</sup>.

#### *E. Non-Negotiated Sales: Inventory Controls*

If the PVO is managing inventories of the commodity to be monetized, the PVO should maintain a sufficient amount on hand to prevent shortfalls or have to cancel sales due to insufficient stocks. Even though the PVO will lay out the call forward and sales schedule in advance, the PVO should be prepared for delays. It should take into consideration potential delivery problems beyond the normal time lag between calling forward and receiving the commodity when assessing whether its current inventory levels are sufficient

The PVO must be fully equipped to manage large volumes of commodity and be open to the possibility of backlogs occurring, even with a well-managed pipeline and understanding of the market. Clearly, as this can happen even under the most carefully managed programs, the PVO should investigate alternative modes of selling the commodity or dealing with the situation:

- Conducting extra sales (being careful to clearly publicize the sale).
- Creating alternate transaction sites. For example, temporary systems for accepting bids in alternative geographic areas can be utilized to reach new buyers and reduce the buyers' costs. However, this may increase the PVO's administrative costs.
- Reminding potential buyers personally, of upcoming sales events.
- Advertising aggressively.
- Offering discounts if absolutely necessary.
- Providing incentives during normal sales (e.g., free carton with "X" number purchased).
- Exercising the PVO's right to refuse to sell if prices are too low. Even a week's delay may provide sufficient time for the markets to adjust to a more lucrative situation

As will be discussed in later sections, the PVO must have a method for tracking its inventory closely. Systems should be in place to monitor inventory on a daily basis and to reconcile it against receipt and delivery documents.

#### *F. Publicity of Sale/Auction*

Unless the potential buyers are limited in number and easily identifiable, the PVO should advertise the upcoming sales. If the PVO is using small lot sales or out-cry auctions whereby there will be sales ongoing throughout the year, it is recommended that the PVO post the expected sales schedule for the year in advance. This benefits the smaller buyers in gauging when commodity will be available and prevents them from thinking they have to purchase their lots all at once. They can also see how much is entering the market and when which helps them estimate the impact to the market. An example of a posting is in **Appendix B**.

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<sup>3</sup> ACDI/VOCA has received mislabeled vegetable oil in its Uganda program. The oil was marked "Not for Sale" when it was in fact to be sold to local traders for resale. A swap with World Food Programme (WFP) in 2002 with the correct labeling occurred. While this did not necessarily affect sales because ACDI/VOCA had sufficient inventories at the time, this type of situation could result in significant delays in sales and the generation of proceeds in other instances.

Clearly, the anticipated dates or amounts to be sold may change during the year. The PVO should announce any change as early as possible and in a manner that reaches all potential buyers. Everyone should have access to the same information and it should be clear to them that they all have access to the same information.

An advertisement should be in the media form (print, radio) that reaches the potential market and should be in the local language in order to prevent any discrimination against buyers. The minimal information to be included is:

- Commodity to be sold, and any noteworthy specifications
- Number of lots / Metric tons
- Minimum deposit required
- Dates of sale or when tenders will be accepted, if applicable
- Location of sale
- Contact information
- Any incentives or bonuses (ex., free lot with every X purchased)

Examples can be found in **Appendix B**.

Advertising can be expensive and cuts into the proceeds generated, therefore consideration should be given as to how much additional information is to be conveyed in the general announcement. One recommendation is to have additional information available in a handout that can be provided to prospective buyers.

Publicity is often warranted after a sale occurs, again to ensure transparency and to reinforce the fact that this is a United States donation. Publicity can come in the form of an article in the paper speaking to the sale, or a more formal announcement paid for by the PVO stipulating the quantity purchased and naming the buyers.

### *G. Packaging*

Packaging of the commodity is extremely important. Governments often have set requirements on what must be included on packages such as date of packaging, name of the manufacturer, specifications, and the best used by date. Furthermore, within the growing controversy surrounding genetically modified (GM) food aid, governments may have requirements on GM labeling. All stakeholders must be aware of the requirements and keep one another informed.

Buyers may also have their own requirements and the PVO may be able to influence the packaging standards. If the PVO has been operating in a market for any length of time, consumers often become familiar with the packaging. Any change or variation may not be acceptable or create suspicion among consumers.

The PVO should specify the proper packaging requirements in each Call Forward in detail. Information that should be provided includes: bulk vs. bagged, containerized, break-bulk or bulk shipping, method for loading and unloading commodities (pallets versus netting), markings or

non-acceptance of markings, best used by date requirements, dimensions of the containers and whether abbreviated markings are acceptable. The conditions should ensure that minimal damage or loss is incurred during shipping.

Though the PVO may take every precaution possible to ensure that the correct packaging is used for the shipment, there is still the possibility of mislabeling, incorrect packaging, and damage or loss. Shoddy packaging affects the ability of the PVO to sell the commodity at top value. If necessary, the commodity should be repackaged to guarantee a professional appearance and quality of the goods. The extra work and costs associated with repackaging are often recaptured in the purchase price. Whenever a problem arises, the donor should be kept informed.

When repackaging, or if necessary, reconstituting the commodity, the PVO should utilize containers that are acceptable or even popular with the final consumers. For example, US vegoil cans can be messy, difficult to pour from, and susceptible to damage. Furthermore, they are not reusable. Plastic bottles or jerry cans are valuable in and of themselves, and can be sold or reused after the oil is consumed. Repackaged commodity can actually obtain a higher price.

Lastly, the PVO should utilize standardized sizes, packaging and quality in a sale. It can be very difficult to negotiate sales when all of the commodity or its packaging is not the same. Furthermore, buyers may become accustomed to the appearance and quality sold in the past. Any variation may bring lower prices or not be acceptable.

#### *H. Storage*

The PVO responsible for storing the commodity must be detail oriented and trained in commodity management.

The warehouse should be managed with professional standards. The warehouse itself should be selected based on security, cleanliness, transportation access, ventilation, and capacity. The floor must be level for boxes or crates to be stacked. Commodity should always be stacked on top of pallets and never stored directly on the floor. Furthermore, any commodity spilt should immediately be cleaned to prevent accidents and the opportunity for pest infestation.

Commodity should be stacked on a first in, first out basis. This ensures that commodity with older best used by dates are sold first and reduces the risk to the PVO of having outdated commodity left in the warehouse. The PVO may want to consider designating one individual to stack the boxes. Other warehouse members hand this person the carton or container and then the designate is careful in placing it in the stack, thus reducing the risk of damage.

The PVO should take care to keep the warehouse dry and free of leaks, again, cleaning up any spills. Care should be taken to maintain a pest free environment and may require periodic fumigation.

In addition to verifying inventory levels daily after deliveries are made to buyers, the PVO should also conduct inventory verifications on a pre-determined schedule (such as weekly or monthly). Furthermore, spot checks should occur by representatives other than those that work

directly with the commodity. This may mean climbing up on ladders and verifying that all of the commodity is there.<sup>4</sup> The PVO must have security in place and methods to prevent theft both from external threats as well as internal ones.

### *I. Ports*

As mentioned before, the PVO should consider all infrastructures that can impact the time and/or conditions of the commodity arrival and sale. The PVO should assess:

- The security at the port;
- The quality of the facility maintenance systems;
- Resources available (storage facilities, whether facilities are enclosed and covered, conveyer belts for off loading and loading of commodities, potential bottlenecks, possible effects of heat and rain, accessibility by rail and/or trucks, etc.);
- Transportation capabilities;
- Management capabilities of port authorities; and
- Ability to off-load in rainy conditions (since this can substantially damage the commodity).

The PVO must continually assess the ability of the port to handle the commodity during the desired timeframe.

### *J. Surveys*

U.S. government donors are now requiring PVOs to assume responsibility for contracting their own surveyors, to be reimbursed by the donor. The PVO must take care to arrange impartial surveys at the port of arrival as well as the final delivery point. Tally clerks should conduct official counts of the commodity being unloaded. If there is any disagreement in the calculations, then re-counts must occur before the commodity is released and off-loaded. The clerks should also note any commodities that are damaged or stolen.

If there is any infestation of pests at the point of arrival, a Certificate of Infestation with Pests should be immediately issued by the surveyor. The PVO should then contract with an internationally recognized firm to inspect and physically treat (or supervise) the fumigation. After fumigation, the commodities should be re-inspected before shipment to the final destination. The PVO, or umbrella consortium, must consider how the costs will be treated. For example, if pests occur in one PVO's shipment but the PVO is part of a consortium, then all PVO members incur the extra costs.

### *K. Inland Transportation*

The PVO should be constantly aware of issues surrounding inland transportation as this may affect the timing of the Call Forward and/or delivery to the final destination.

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<sup>4</sup> Skilled thieves will often steal out of the middle of a large stack of cartons, thereby reducing the risk of being caught. An individual walking around the outside of the stack would be less able to notice.

Furthermore, the PVO should be sensitive to political and social issues that may cause delays in transportation (including potential strikes, political slowdowns, etc.). Normal operations should also be monitored. Do the rail lines have maintenance scheduled during the upcoming months? Are roads to be repaired? What condition are the rail cars or trucks in?

The PVO should consider the positive and negative aspects of hiring a local freight forwarder for the inland freight movement as opposed to utilizing a through bill of lading from the U.S. Having two separate contracts certainly requires more management and oversight, and must be authorized by the donor, to ensure that the inland freight company can be paid in a timely manner.

An inland freight management company with experience in the program country and with local representation can help to reduce losses, expedite cargo from the port, manage more timely clearance through customs, track the freight movement and issue any loss claims. If the PVO has programs in several countries in a region or is acting on behalf of an umbrella consortium, there are additional benefits to utilizing a local company that should be noted: (1) one freight forwarder is easier to educate on the PVO's procedures and standards; and (2) the larger the account with the company, the more leverage the PVO has to negotiate lower rates.

The PVO should look for a company with a strong track record in handling the type of commodity that is to be monetized and in working with local rail and/or trucking companies. The company should have direct representation at the port and container depot/warehousing facilities if at all possible.

The PVO may wish to only contract out on one-year terms, thereby requiring companies to re-bid for the contract and promote competition. The PVO should be sure to include specific language in the contract about its requirements for packaging and transportation. An example clause might be: "Doors are to be cabled in such a manner that the door can be opened enough to take inventory of commodities but not enough for them to be removed."

While the companies that the PVO hires may be reputable and problems are not frequently experienced, it is still a good idea to monitor the discharge whenever possible. This provides the PVO the opportunity to meet people involved with the process who may have suggestions on how to improve operations, or may have knowledge on small problems that currently exist. Furthermore, by developing relationships with individuals responsible throughout the various operations, the PVO will be positioned to more quickly and adequately address problems in the future.

#### *L. Market Surveys*

When managing small lot auctions, the PVO should conduct local market price and availability surveys on a regular basis. The PVO must determine if it wants to limit the surveys simply to the current market in which it intends to sell or to conduct periodic assessments of potential future markets. Part of the decision making process regarding the frequency of conducting surveys is the cost associated with these surveys. However, money that is spent in collecting information can negate losses if sales are conducted when prices are low or the market is flooded.

The PVO must also determine how often it needs the survey information. The PVO may find that a quarterly survey is sufficient while others, especially those conducting small lot auctions, may wish to conduct them on a more frequent basis. The PVO should have a standardized database in which to manage the information. This should allow not only for an assessment of the current market situation, but will provide an opportunity to assess trends in market prices.

The PVO must be sensitive to the culture in which it is conducting the market surveys. In some cultures the businesspeople may feel comfortable sharing information, while in others, the interviewer may have to rely on memory and write down the information out of sight. The interviewer should be a person familiar with the standard business practices in the area (to avoid getting inflated prices and to be able to determine the “final” price to the consumer). Furthermore, the individual conducting the market assessment should not indicate that he/she is going to buy anything or build up any expectations on the part of the sellers. Lastly, the market assessment should include enough businesses in the sample and if possible, in different market areas, to ensure that information is reliable.

## **Section II**

## V. Negotiated Sales

Most PVOs involved in monetization are familiar with the basics of negotiated sales practices. It may involve only one buyer in country or several, and generally includes larger volumes of commodity per sale. The following outlines some of the best practices as defined by ACDI/VOCA.

### A. *Timing*

Timing of sales is critical to maximizing proceeds and the PVO should be careful not to monetize based on the programmatic funding needs. By letting the development activities dictate the timing of the monetization, the PVO runs the risk of creating disincentives to local production, flooding the market, and having a negative effect on the market overall. The PVO should carefully design the monetization program and the development activities to ensure that sales can be conducted in a way that optimize proceed generation, do not harm the local market, and still ensure funding availability for program activities.

The PVO should assess local agricultural production and determine when harvest seasons occur if the commodity to be monetized is also locally produced or has substitutes locally produced. In a country that produces corn, for example, food aid corn may be brought in before and/or long after harvest(s), when local supplies are low, to avoid driving down prices at harvest time(s) and to provide food when local food supplies are short. At the same time, if the commodity is one that is not produced locally or in sufficient supply, then the PVO can consider selling throughout the year depending on normal marketing practices and the buyers' needs.

The PVO should remain flexible depending on market conditions on the exact timing of the calls forward and the sales. By working with the buyers, the PVO is often able to obtain better prices for the commodity.

### B. *Buyers*

The PVO should begin to develop relationships early with potential buyers. This in fact begins during the assessment period when the PVO is first investigating the potential to conduct a monetization program.

Once the PVO familiarizes itself with the local market and the buyer structure, it must decide on a suitable tender method. In countries where there are large numbers of buyers of monetized commodity, open tenders – advertised in local newspapers, for example – can be an appropriate tender method. In countries where there are only a few buyers, targeted tendering might be more suitable. In this case, the tender offer is only made to a select group of buyers. Lastly, the PVO might negotiate sales directly with specific buyers and consequently no tender is involved.

As the PVO begins to identify potential buyers, it should develop a good understanding of the buyer's financial and management capacity. If possible, the PVO should speak with others about past business transactions of the potential buyer and obtain references. The PVO should

consider the reputation of the buyer in the community as well. Does the PVO want to be associated with a business that is seen as less than reputable?

As part of this assessment, the PVO must determine the ability of the buyer to purchase the commodity and/or utilize financial mechanisms. The PVO should contact and meet with the buyer's banker and have them clarify the buyer's financial record. The PVO may request audited financial statements of the buyer. If audited financial statements are available, the PVO should request the auditor's opinion. Is it an "unqualified" (clean) opinion? If it is not, the PVO must consider the factors that render the opinion unqualified.

Representatives of the PVO should visit the premises of the business and get a feel for the buyer's management style, level of organization and cleanliness. The PVO should be aware of the warehouse space available to the buyer and what quantity of commodity it can handle in total. Furthermore, the PVO should get to know different people in the buyer's organizations. The PVO should know whom to contact if there is a question regarding the contract, payments, or general transactions.

Assessing a buyer's interest in buying commodity is a continuous activity and should not stop after the first sale (if there are to be more). The PVO should continue to evaluate the buyer's ability to purchase commodity to reduce the risk of problems with future sales. Furthermore, the PVO should always be open to the possibility of new buyers and conduct the same types of assessments of them. While long-term relationships with clients provide incentive to continue transacting with the same companies, the PVO should be aware of new traders in the market and begin the process of developing relationships.

### *C. Negotiations*

Negotiations are a function of the business transaction that is to take place as well as the personalities of those involved in the negotiation. Again, having positive, well-developed relationships can make the negotiation process much less arduous and time-consuming.

Once the PVO has determined that it has commodity to sell, it should approach the buyer(s) with the basic information. More than one representative from the PVO should be present at the negotiations. This provides witnesses in situations where a buyer tries to contradict statements made by a PVO representative.

When initiating the tender offer and/or during the start of discussions, the PVO should include all specifications of the commodity so that all parties are clear on what is being offered. The process should begin within a reasonable timeframe to avoid situations whereby the PVO may be trying to negotiate the sale in a very constrained time frame and might leave itself open to reduced offers. Furthermore, the PVO should be prepared to have to negotiate more than once if the original negotiations do not pan out.

While all PVOs want to obtain maximum cost recovery, the PVO must consider its other objectives of market development, access by target groups, etc. All factors must be included in the equation and they must be transparent to the buyers.

The PVO may offer an initial price which is then negotiated or the PVO may ask the buyer(s) to make offers that include the price, quantity, exchange rate and other general sales concerns. The PVO may stipulate the delivery time, or this may be included in the offer to be negotiated. The PVO should make sure that the potential buyers know that offers may be refused by the PVO at any time and under any circumstance. This should be part of the written offer to avoid any misunderstandings or legal difficulties.

If more than one bid is received, the PVO should open the bids privately, but in the presence of two or more individuals. Again, transparency should be maintained throughout the entire process. The PVO should ensure that everyone involved in the review process initializes or signs each document as proof that they were witness to the review process. The PVO must always ensure that the buyers include the specifications of the commodity in their bid to ensure there is no confusion or that the buyer does not expect additional specifications that the PVO cannot guarantee.

If in fact more than one bid is received, the PVO should continue negotiations with the buyers in private. If collusion is suspected at any time during the review process, the PVO must refuse all bids involved, without exception. If collusion is not at issue, and bids are still on the low side, the PVO can encourage the buyers to reconsider and/or raise their bids.

The exchange rate and currency to be utilized should be identified during the negotiation phase to avoid surprises. Possible exchange rates include: (1) the time the contract is negotiated or signed; (2) arrival at first port or commencement of discharge; or (3) at the time the contract is signed but with possible adjustment to the rate at the time of discharge within a predefined range (%).

During negotiations the PVO should know what the buyer's costs are for obtaining a bank guarantee or letter of credit. The fee paid by the buyer should be acknowledged and accounted for in the negotiations. The PVO must negotiate for the least risk to the PVO, while at the same time ensuring that the buyer's costs are minimized. The PVO should ensure that there are mechanisms to safeguard it against incurring additional, and possibly significant, costs. For example, even if the contract guarantees full cash payment upon arrival of the vessel, the PVO should require a guarantee. The risk of the shipment arriving and the buyer defaulting on the purchase must be minimized.

#### *D. Sales Contracts*

The PVO should begin negotiations prior to requesting the commodity to ensure that, (1) there are potential buyers for the commodity; and (2) that the terms and conditions are acceptable. Generally, the sales contract must be signed before the call forward has been approved – or in the case of USDA projects, before the commodity request has been submitted. The buyer may wish the call forward/commodity request to be part of the sales contract. Negotiations should already have taken place and an agreement reached, including the financial guarantee (i.e, a letter of credit or treasury guarantee) before the commodity is requested. A down payment must be made with the remaining balance paid within 90 days.

One of the greatest risks to a PVO can arise from language in a contract that is unclear or even omitted. One of the most common areas of contention can be different interpretations of contract language, or assumptions based on the omission of language. The PVO should take special precaution to develop contracts that are clear and detailed. The greater the detail and provision for contingencies, the less chance there is for contention.

The contract language should account for all costs to the seller and to the buyer. Furthermore, the contract should identify at what point the buyer takes possession of the commodity. The PVO must be careful not to use vague language such as “arrival at port” and should instead use language such as “at time of berthing”, “upon discharge into trucks” or “after loaded onto vessel.” Very specific language can prevent problems down the line in the event there is ever a problem with the shipment.

The contract should also be very clear on the payment methodology. The PVO should clearly identify when payments are to occur, in what format, and what the implications are for non-compliance.

The PVO should ensure that all equipment and infrastructure that could affect the sale has been reviewed and is in acceptable condition. For example, one program determined that the buyer could not show that its scales had been calibrated. Therefore, with both parties’ concurrence, it was written into the contract that the buyer would pay 99.5% of the bill of lading or 100% of its received tonnage, whichever was greater. In another case, under a USDA agreement, the local labor union called for the ships to be fitted with Australian ladders. There were no written laws specifying this so ACDI/VOCA could not require it be included in the vessel tender. However, because ACDI/VOCA was aware that the stevedore union would require this condition, it was able to include language in the sales contract so that the buyer absorbed the costs.

The PVO should include information in the contract that accounts for occurrences outside of the control of the PVO. For example, the PVO should not tie the contract to a specific delivery date as this is outside direct control of the PVO. The contract should include language that the US government may divert resources if necessary. While spelling out the possible problems may hurt the price the PVO is able to obtain, this level of transparency is necessary and may prevent the PVO from defaulting on a contractual obligation. Furthermore, by maintaining a level of transparency and developing sound business relationships over time, the buyer will generally become accustomed to the language and it will not have as significant an effect as in the beginning.

The PVO should use highly trained experts in translation if the contract is to be in another language other than English. If possible, the PVO should have the contract in both English and the local language, and include a clause identifying which version takes precedent if there is any discrepancy in the interpretation.

An example contract can be found in **Appendix C**.

#### *E. Capacity Building*

Even though the PVO is trying to maximize its own position during the negotiations, this does not mean that the sales process itself cannot be utilized as a training opportunity. The PVO should keep buyers informed at each step in the process of potential pitfalls and/or how to maximize their position. A business will not continue to conduct transactions with the PVO if it cannot accurately estimate its own ability to absorb costs and accept risks. In a market with a relatively small number of buyers, poor business skills on the part of the buyers clearly can affect the ability of the PVO to monetize.

The PVO should utilize meetings with various individuals throughout the organization as an opportunity to teach and explain the monetization process. Furthermore, the PVO can raise issues that require the organization to reflect on its own structure and commercial viability.

During the negotiation process, the PVO should encourage buyers to realistically assess the deal and consider what is in their best interest. The PVO should clarify the costs involved in loading, storage and transportation and work with the buyers on creating planning and budgeting processes for the sales.

Lastly, the PVO may hold independent training sessions apart from the negotiation processes. Training sessions can focus on how the buyers can improve business, open new business opportunities and realize higher profits. These training sessions can be open to existing buyers and potential buyers, thus strengthening the market into which the PVO can sell.

### **Challenges and Lessons Learned**

- Keep learning and adjusting processes according to market conditions.
- Be transparent in all operations.
- Use detailed language in all communications and contracts.
- Have more than one staff member familiar with the negotiated sales processes who can substitute for the “monetization manager” or responsible individual. This may be someone from the field office or from headquarters.
- Have materials reviewed for compliance with local laws, USAID regulations and internal PVO requirements. Keep documentation of discussions and correspondence related to the monetization.
- Keep information organized and up-to-date. Spreadsheets or databases can be developed for tracking monetization-related activities. Extensive spreadsheets can track commodity sales proceeds, payments received, commodity costs, estimated commodity costs, cost recovery based on FFP estimates, cost recovery based on actual costs, date of vessel arrival, dates of discharge, call forward date, metric tons (MT) shipped per bill of lading and MT received. Maintaining this information in one place allows for not only quick reference, but for conducting assessments of the monetization process.
- Collect best practices and lessons learned and develop manuals on the processes utilized in each country for staff training and reference.

### **Case Study – Cape Verde**

Since 1992, Cape Verde has utilized negotiated sales to generate proceeds for its development activities. Corn, wheat, peas, beans and rice have all been sold using this mechanism with great success.

Cape Verde has imported most of its staple foods through the parastatal organization Empresa Publica de Abastecimento (EMPA). ACDI/VOCA has been able to directly negotiate with EMPA for large quantity purchases. Wheat has been sold by ACDI/VOCA to MOAVE (Moagem de Cabo Verde SARL), the only wheat miller, which happens to be located in the country's second largest city.

EMPA imports commodity into two ports, Praia and Mindelo, where it has large silos and where large vessels may enter. It then redistributes the commodity throughout the island nation.

ACDI/VOCA has been able to successfully negotiate numerous sales with EMPA and MOAVE by developing strong relationships, maintaining a level of professionalism, and adapting payment schedules to better fit the needs of the buyer.

The monetization manager has been the main contact with the buyers, with the administrative assistant attending meetings and acting as liaison in his absence. The manager is careful to watch world prices of the commodities to be monetized as well as to maintain continual discussions with the buyers to determine when they will need shipments. At times the buyer has called ACDI/VOCA to see if it could purchase corn or wheat quickly when its reserves were low. At other times it has asked ACDI/VOCA to delay calling forward commodity when its supplies were more plentiful.

The monetization manager carefully watches the pipeline for the development activities to ensure that funds will be available throughout the year. Sales are not conducted around the development activities, but instead are structured to ensure funding is available as needed.



Unloading of bulk commodity

After the initial approach is made about a transaction (either by ACDI/VOCA or by the buyer), a meeting is held to work out the terms of the contract including the price, the exchange rate to be utilized, the shipping dates (though not necessarily tied to fixed dates), and the payment schedule.

ACDI/VOCA has utilized a payment system that allows for greater flexibility on the part of the buyer, which has allowed the PVO to obtain a better price per MT. The schedule is usually three or four payments, thus allowing EMPA or MOAVE to sell/utilize the commodity and use that revenue to continue making payments (i.e., not having to front all the money). EMPA has been backed by government treasury guarantees, thus alleviating the costs associated with letters of credit or commercial guarantees.

Another condition that is usually included in the agreement with EMPA is that the parastatal will pay 99.5% of the bill of lading or the actual received tonnage, whichever is greater. This clause resulted from an analysis of losses over time and the fact that the parastatal could not show that its scales were accurate.

The sales contract is drawn up both in English and Portuguese, with a clause stipulating that in the event of a disagreement, the English version governs. The contract is signed after the commodity is called forward, though the financial guarantee mechanism was put into place prior to the call forward.

In Cape Verde, ACDI/VOCA has utilized the same basic system of negotiated sales for a number of years. However, it has been forced to be vigilant in monitoring the markets and working to obtain the maximum level of proceeds possible. For example, while in the past both EMPA and MOAVE used government treasury guarantees against payment, after MOAVE was privatized; ACDI/VOCA started requesting privately sourced guarantees from a commercial bank. With the government trying to promote decentralization and commercial activities, EMPA is now being split into a food security agency and a private importer. This may require some additional adjustments in the future.

The systems for keeping track of the sales and the spreadsheets developed by the monetization manager in the late 1990's have been highly praised in past evaluations. All information regarding the sales is in one spreadsheet, ranging from the name of the vessel and dates of discharge to the FFPIS (Food for Peace Information Systems) price, the world market price, the cost and freight (C&F), the cost recovery benchmark, and other comparative price information.

The monetization manager continues to participate in monetization training sessions arranged by FAM in order to continually improve processes. Furthermore, ACDI/VOCA is beginning to investigate alternative sales mechanisms for different commodities.

## **VI. Small Lot Sealed Bid Auction**

### *A. Preparations for a Monetization Program*

The PVO, once it has decided that a small lot sealed bid system is the optimal approach, must begin preparations for the first sale. The PVO must first lay out the guidelines for how the sales will take place and ensure that all staff are aware of the processes. By determining how many sales transactions, the amounts to be sold, and by having a general understanding of the market, the PVO can anticipate the number of bids, the possible number of bidders, and other information that may affect the logistics of the sales process.

The PVO should create written instructions for the bid procedure, both in the official language and any local languages that may be utilized by the bidders (depending on the PVO's target market). Everything should be explained clearly and in detail. The PVO must be explicit in the reasons a bid may not be accepted. All forms and documents should be created at the outset for everything ranging from the tender offer to inventory controls to reporting<sup>5</sup>.

Training sessions for bidders, which are described in more detail below, should be conducted both at the beginning of the program and throughout the life of activity to ensure new bidders can participate. While individual explanations are useful for interested bidders, group training sessions can provide an opportunity for buyers to meet other potential bidders, to hear what questions are being raised, and allow for in-depth discussions. Actual forms and equipment should be used in the training sessions. One useful activity is to conduct training sessions with the PVO staff first to ensure that they are aware of the processes and are familiar with the information.

The PVO must obtain the necessary equipment such as a lock box in which the bidders will place their bids. Staff should determine where in the office the box will be kept (preferably in a room with several staff members to ensure that no one has unseen access). At the same time, the PVO must ensure that the room is accessible to bidders without disrupting other PVO operations. The bid box should be kept in the same location throughout the life of the activity (to the degree possible) to prevent confusion among the bidders and the possibility of late bids.

### *B. Determining Lot Sizes*

The PVO should determine the minimum lot size based on the purchasing capability of the local buyers and its own ability to manage the commodity. Furthermore, the PVO should assess its capacity building objective. For example, a minimum unit that is valued at \$1000-\$1500 is still a considerable investment for small buyers. This minimum unit may ensure the participation of only potentially consistent buyers, even if their purchases are limited to single lots. Such participation of small, yet "serious" buyers can help focus the effort to train entrepreneurs in business procedures, the market and negotiating risks. It also contributes to building a substantial clientele for the program's continuity. At the same time, the more that smaller buyers are encouraged to participate and be trained by the PVO, the greater the development impact on

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<sup>5</sup> Any changes in documents and/or processes should occur between sales, not during them. Potential buyers should be informed of these changes prior to the next sale.

building local capacity. In any case, the PVO should be wary of allowing the market for US commodity to fall into the hands of a few large buyers.

The PVO should take care to utilize a standardized unit and ensure that all bidders understand what that unit is. The PVO may utilize a metric ton as the standard lot size since USAID uses this unit in calculating commodity and transportation costs. It will ease the PVO's burden in having to assess each bid and in reporting to the donor. Regardless of the unit utilized, the PVO should maintain consistency in its use.

During the life of the program, the PVO should continue to monitor the costs of managing the commodity against the benefits of small lot sales.

### *C. Sales Schedule*

The PVO should clearly display the yearly sales schedule in its office so that buyers can easily plan. Copies should also be provided to prospective buyers, since some buyers may not have ready access to the office. At the same time, the PVO should be flexible and open to changing sales dates if absolutely necessary. A sale may be cancelled due to low market prices, abundant availability of the product in the market, or untimely or problematic delivery of commodity to the PVO. Justification for cancellation may be found in the regular market surveys. Any change in schedule should be announced immediately.

While sales may be cancelled or delayed as mentioned above, the PVO should never move up an auction sale and should never sell more than was advertised. This would put buyers at a direct disadvantage. If there is a change in the tonnage to be sold, the change must be advertised well in advance of the tender. This helps maintain stability in the market. An example of a sales schedule can be found in **Appendix B**.

### *D. Advertising*

There are two types of advertising in which the PVO may want to invest: 1) general product advertising and 2) announcements relating to the monetization process. There is a difference between targeting wholesalers' or retailers' participation in the tender and targeting the final consumer.

General advertising can be used to introduce the commodity into the market before the first sale occurs, can be used to continually generate demand for the product during the life of the program, and/or can be used to introduce changes in the commodity or its packaging. For example, after years of selling vegetable oil in tins with red bands on it, USAID began using white bands on the vegetable oil to be monetized. This kind of change can most certainly affect purchases where brand identity is strong.

The PVO may wish to consider working with some of the wholesale and retail buyers in the advertising campaign. A promising practice is to print "Point of Sale" (POS) advertisements with the PVO slogan on it and a picture of the product that can be posted in front of small shops (especially if the market is strong for the PVO's commodity). Another possibility is to include

names of wholesale and retail buyers in general advertising campaigns to promote product demand. This will provide an incentive for the buyer to continue working with the PVO.

The sales mechanism or parts of it may be new to buyers. The PVO should advertise the program and when training sessions are to be held. Some staff outreach, such as walking through markets and talking directly to potential bidders may be necessary as well. If one of the objectives of the program is to reach a specific target population, such as women traders, the PVO should orient outreach and advertising to these populations. The PVO should be sure to use advertising means that reach the level of buyer with which the PVO anticipates working.

As the budget and time allows, representatives of the PVO should make personal visits to buyers. A sales call to a potential buyer may be for the purpose of informing him/her about the bidding process, recent prices or simply establishing contact. The representative can leave a memento such as a pen with the PVO name and phone number.

The PVO may wish to consider consulting a local advertising firm for the product advertising as well as for the training programs and the actual sales events. To minimize costs, the PVO may want to combine the advertisements whenever possible. The PVO must be sure that advertising costs are accounted for in the budget.

#### *E. Training*

Training is critical to the success of sealed bid auctions. Bids refused because the bidder did not understand the directions or because complete information was not provided can create frustration and a resistance to future participation. The PVO should be very clear in its directions and ensure that translations are accurate. Furthermore, the PVO may discover a cultural or business norm that does not fit in with its own sales approach and therefore requires additional focus during training events. For example, the buyers may be accustomed to purchasing “containers” whereas the PVO will be selling in “lots”. Issues such as these should be reinforced throughout the training session to avoid confusion during the sales process.



ACDI/VOCA Rwanda staff member training potential buyers on how to participate in small lot sealed bid auctions

Training can occur through formal group sessions or be conducted on a one-to-one basis. The PVO should have at least two people in each office who are responsible for talking with potential bidders and who will be able to answer questions. By having more than one person, this reduces the possibility that a potential buyer becomes frustrated by not being able to obtain information.

The PVO must be very careful to provide the same information to all potential bidders to avoid the perception of favoritism or unfair advantage by some parties. This means that small local traders and large commercial traders are provided the same information. By holding group training sessions,

some of this risk is reduced. Furthermore, group training sessions require less time on the part of the PVO staff, allow for potential bidders to hear one another's questions, see who may be their competition, and create opportunities for new business relationships to begin.

Individual meetings provide an opportunity for a personal connection to develop between the PVO staff and the buyer. It furthermore allows for the PVO staff member and the potential buyer to have in-depth conversations about the process. The PVO staff member can better ensure that the individual understands the processes by asking questions, something that may not be feasible in a larger group setting. Lastly, individual meetings can be extremely important in situations where cultural traditions prevent certain individuals from speaking out in front of the larger group (e.g., women may not want to ask questions and speak out in a room full of men). If individual training sessions are used, the PVO should be sure to have information sheets or guidelines for the staff members, thereby ensuring that all information is covered equally with all people.

Training should cover all information up until receipt of commodity by the buyer and not be restricted simply to the bidding process. The buyer should know within how many days s/he has to collect her/his commodity, the implications of not claiming the purchase, what documents are necessary, any transportation considerations, etc. by the end of the training session.

As mentioned in the section on negotiated sales, the PVO can provide training on how to negotiate the sales process to the bidder's own benefit. For example, the PVO may provide useful hints on how many bids to submit and how to price the bid in order to increase chances of winning (without jeopardizing the PVO's ability to obtain maximum cost recovery).

Lastly, the PVO should be sure to develop training materials for in-house use. These documents should be reviewed and modified over the life of the program as the sales methodology becomes more refined and adapts to the market situation. These documents can then be used by the PVO's other field offices when starting new programs. The PVO should also maintain lists of people/organizations who have inquired about the sales programs, or have been trained, and when.

#### *F. Sales*

The sales process must be entirely transparent, from start to finish, without exception. This is not to say that the PVO must provide all confidential information to the potential buyers, but that processes are clearly defined, adhered to, and that all buyers receive the same information and are provided the same opportunities.

The PVO must announce the tender in an open way, such as open campaigns or mass media. Individual phone calls to potential bidders are not acceptable as this could be seen as discriminatory. Information should include the name of the PVO, the amount of commodity to be tendered, the minimum lot size, the time and place of the tender, as well as any other requirements such as minimum deposits to be included with the bid (e.g., 5% of the total bid value). The date that winners will be announced should also be included in the offer. Example advertisements can be found in **Appendix B**.

The PVO should be certain to include the day and hour at which the bidding period ends in the instructions. Avoid statements such as Close of Business as this can mean different things to different people. Instead, the information must include specific language such as “no bids will be accepted after Thursday, January 23, 2005, at 17:00 hrs”.

The PVO should be certain that all relevant information related to the offer is posted in plain site at the office. Information may include the commodity specifications, pictures of the commodity packaging, the procedures for bidding on lots, etc. The PVO may post information from the last bid, including the previous sale’s “cut-off”, for reference.

The PVO should maintain a clearly identifiable bid box, with the same box being used for every tender (to avoid confusion or suspicion). The bid box should remain unlocked between bidding periods. The first buyer should verify that the box is empty and witness the PVO locking it. The bid box is locked as soon as the bidding begins with the submission of the first buyer’s bid. This guarantees transparency and ensures the trust of the buyers.

The PVO should have a quiet space in the office where bidders can fill out paperwork. PVO staff should take care not to allow for any bidders to feel intimidated by the bidding process. For example, in Uganda, it is very common for buyers to want to hang around the bid box in an effort to see what other people are bidding, how many bids they are submitting, etc.

A standard form should be used by all bidders. Information on the form includes:

- Contact information
- Number of lots bid for and price per lot (per pack type if more than one)
- Amount of deposit enclosed<sup>6</sup>
- Signature

The PVO should log and number each bid, then provide a receipt to the bidder. Under no circumstances should the bidder leave the office without the receipt (in cases where there is a good relation between the PVO staff and the bidder, there may be a sense of trust and “you can provide documents to me later”). The bidder is responsible for placing the bid in the bid box. This prevents any accusations of the PVO mishandling the bid if any problems develop. Furthermore, it ensures transparency in that the bid is not managed by PVO staff, except to log the bid when it is made.

At the exact hour stipulated in the offer, the bid box should be sealed, showing that no more bids will be accepted. This is a very transparent way of showing bidders that the PVO is honoring the conditions of the offer. Simply moving the box into a closed room or stating that no more bids will be accepted does not promote the same level of comfort.

On the day and time stipulated in the offer, the PVO should be prepared to read the bids, accept or reject the bids, and announce winners. Review of the bids should be in a public forum and open to all bidders. The PVO should determine a minimum number of witnesses, and it is

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<sup>6</sup> The bidder actually deposits 5% of the bid value into ACDI/VOCA’s account prior to placing the bid. Proof of that deposit is included with the bid.

recommended that at least one bidder be in attendance to ensure transparency. If no bidder is present, it is recommended that the review be postponed until a bidder can be contacted and invited to participate.

Representatives from the PVO open and review each bid. It should be immediately rejected if illegible, or is missing any required information such as the signature, the minimum deposit, or does not meet the minimum amount stipulated in the offer. There are no exceptions and there is no room for negotiation. If the deposit is one cent less than what is required per the conditions of the offer, the PVO must reject the bid. At least two people should calculate and concur on the bid information to prevent mistakes.

A “First In, Highest Bid Awarded” methodology may be used as criteria when determining bid acceptance, though other methods can also be used. Qualified bids are sorted according to the price offered (from highest to lowest) and the order by which they were submitted in the case of equal offers. This provides incentive to the buyers to submit bids earlier.

#### *G. Notification to the Buyer/Contracting*

Once the winning bids have been determined, notification is given to the winners. This should be done through a formal letter, with information including the tender reference number, the amount won, the total amount to be paid as well as the deposit already received. Furthermore, the letter should include when total payment must be received by the PVO as well as the last date for receiving the commodity by the buyer. It should be very clear that the commodity will not be released until full payment has been received.

The PVO should then draw up a contract with the buyer that stipulates the quantity to be purchased, the description of the commodity and/or specifications, price information, packaging information and general conditions and limitations on the resale or use of the commodity as specified by USAID.

#### *H. Delivery to the Buyer*

The PVO should never release the commodity to the buyer without full payment and all paperwork in order. Only pre-identified PVO staff members should have authorization to release the commodity.

The PVO should determine if it will require notification of the buyer prior to his pick-up or whether s/he can show up to claim the purchase during pre-defined business hours. The benefits of the former are that the PVO does not have to have warehouse staff available at all times and can schedule as necessary, thus reducing costs. The benefit of the latter certainly is that it provides more flexibility for the buyer. If there are many buyers per sale, it may be necessary to have full time staff to accommodate them all.



Buyer picking up commodity at ACDI / VOCA warehouse

The PVO must maintain a very rigid system of documentation and accountability. There should be several tally clerks who count the number of boxes or units that leave the warehouse and then compare tally sheets. If there is any discrepancy, all boxes should be offloaded and the process started anew. The buyer should sign the delivery note indicating that the boxes were loaded, marking the date and quantity of commodities released. The sale to the buyer is considered complete and the PVO should not allow the subject to be revisited.

### **Challenges and Lessons Learned**

The general rule of thumb is that the lowest price accepted during the previous sale may be the top bid that the buyers want to place at the subsequent sale. It is very difficult to bring the price back up, or even maintain the price, once the minimum is accepted. PVOs should be aware of prevailing market prices when determining their own minimum acceptable price levels.

It is difficult to prove the development benefits of the small lot sales mechanism against the operational costs of running such a program. The PVO can however keep track of certain information that can demonstrate the PVO's outreach to the community through the monetization process. For example, the PVO can and should track the number of people trained, including the number of women vendors. Furthermore, the PVO can track by geographic area and/or size of the bidders' operations.

The PVO has much greater difficulty in estimating total proceeds that will be generated in a monetization program using a small lot sealed bid methodology. Prices can go up or down in the market, and new competition can arise over time. Therefore, the PVO should take extreme care in monitoring the market, the trends that can affect sales, and be prepared to alter sales schedules and the commodity to be monetized.

Also, if the PVO is conducting sales throughout the year, staff must be conscious of cultural events that can impact sales such as religious holidays. This is in addition to the normal market trends that may occur – such as seasonal variations in demand or supply.

The PVO must continually work with USAID on commodity specifications, commodity transportation, and packaging issues. The staff at headquarters must keep the field staff informed of changes in policy, standard markings or changes in labeling that can affect sales in-country. Even so, mislabeled commodity or damaged commodity can arrive in country. The PVO must be prepared to conduct swaps with other programs, and/or reconstitute or repackage the commodity.

The PVO must be open to trying new things. New markets can be explored, as can variations in the existing target market.

Lastly, the PVO must act professionally at all times. Staff must remember that the bidders are incurring costs simply by participating in the auction and take every care not to cause harm or additional difficulties for the buyers. Once a sale has been advertised, it is extremely difficult to cancel or postpone it.

## Case Study - Uganda

ACDI/VOCA has been monetizing vegetable oil in Uganda since 1989 using the small lot sealed bid auction method.<sup>7</sup> ACDI/VOCA has also been the lead monetizer under an umbrella agreement with other PVOs since 1999 to sell wheat. The umbrella consortium is discussed separately in Section VIII.

ACDI/VOCA manages its own warehouse, with full time staff. A monetization manager oversees all operations such as developing the annual estimated requirements, the market surveys conducted by local staff, as well as the monthly sales. Furthermore, the monetization manager is responsible for managing the pipeline to ensure that sufficient proceeds exist for the development activities and that no commodity is lost due to poor handling, theft or expiration. An example of a Scope of Work for the monetization manager can be found in **Appendix A**.

In Uganda there are also an assistant monetization manager, two full time accounts, and several staff members who work in the warehouse on a full time basis. Furthermore, ACDI/VOCA has a full time logistics manager that oversees the daily operations of transportation, inventory controls, and delivery to the buyers.<sup>8</sup>

The Uganda program conducts sales in Kampala, the capital city, where most of the target market can be found. Some bidders do travel to the city to participate in the monthly sales. At one point, ACDI/VOCA decided to set up alternative locations in up-country bank offices for clients to pick up bid forms and drop their bid submissions with the required deposit. Interest in the alternative system proved limited and too expensive, considering staff had to travel to and from the up-country locations. After a trial period of about six months, the alternative system was dropped due to low participation. ACDI/VOCA learned that most of the clients wanted to come to the actual bid location to interact with other bidders, survey the markets and participate in the process in person.<sup>9</sup>

The commodity is transported to the Mombasa, Kenya port, where it is off-loaded. ACDI/VOCA manages its own inland freight contract, and the vegetable oil is transported by rail to the city of Kampala. From 1997 to 2001, the vegetable oil then had to be transported from the rail station to the warehouse. Extreme measures had to be taken to minimize the opportunity for loss, and in fact ACDI/VOCA generally had less than 1% loss. Specific language was written into freight agreements, and surveys or another means of verification were utilized at all transportation points. In 2001, ACDI/VOCA relocated to a space that had direct access to the rail line. This has reduced the cost of inland transportation and further reduced the chances of loss.

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<sup>7</sup> A detailed explanation of how the small lot sealed bid sales mechanism was selected by ACDI/VOCA-Uganda can be found in the Cooperating Sponsors Monetization Manual.

<sup>8</sup> Commodity for a direct distribution program under ACDI/VOCA's Title II program is also managed by these same staff members.

<sup>9</sup> Conversely, ACDI/VOCA-Rwanda has experimented with conducting actual sales in up-country locations. The buyers however travel to Kigali to pick-up their purchased commodity. To date, this has proved very successful.

Once the commodity arrives at the warehouse, ACDI/VOCA stocks it according to a first-in, first out basis based on best used by dates. All cartons of vegetable oil are assessed for leakage or poor presentation. If tins are found to be leaky or damaged, then the oil is reconstituted into plastic jerry cans purchased locally. Damaged cans or cartons result in lower prices. Furthermore, they represent ACDI/VOCA poorly as well as the buyers who are trying to resell them to end-users.

Careful inventory controls are maintained by ACDI/VOCA for both the cartons and jerry cans of vegetable oil. Furthermore, any loss incurred during reconstitution is duly noted for reporting to the donor. Inventory levels are reconciled on a daily basis with arrivals and deliveries to buyers, and once a week a more rigorous count of the inventory is conducted by staff not directly responsible for the daily management. Any indication of theft or misconduct is treated immediately.

ACDI/VOCA manages its warehouse to keep it as clean and pest-free as possible. When deemed necessary, fumigation is arranged by a local company.

Each year, ACDI/VOCA determines its anticipated sales schedule and the amount to be sold. This is compared against the pipeline for development activities and the level of funds that will be needed during the year. Market surveys are conducted on a weekly basis.

Sales are generally conducted on a monthly basis; however ACDI/VOCA has had to cancel sales when prices were considered too low. Furthermore, it has had to negotiate sales of vegetable oil when the expiration date was near.

ACDI/VOCA has worked very hard to develop a consistent demand for the product which has helped ensure a market for the US vegetable oil and to maintain a strong relationship with the buyers. Posters are created promoting the benefits of vegetable oil, and to the degree possible, include the involvement of the buyers. Promotion of the sales events is also carefully managed.

A consistent and reliable pool of buyers has been established. ACDI/VOCA however continues efforts to encourage new buyers to participate in the sales process. This promotes competition for the commodity, thereby increasing the potential proceeds generated, but also means additional traders are trained in transparent business practices.

All activities are conducted in as transparent a method as possible. Documents over time have been refined and standardized. Buyers trust the process and understand it.

## **VII. Outcry Auctions**

### *A. Characteristics*

Outcry auctions, while easily adaptable to local conditions, are only applicable where economic and legal conditions allow for their utilization.

Outcry auctions are systems whereby potential buyers are gathered into one room and have the opportunity to bid against one another. Characteristics of an outcry auction include the following.

- Commodity prices are not regulated by any single authority or monopoly but rather determined by active trading among wholesalers and businesspersons in the market.
- Buyers and sellers are the people on the spot who know best the value of the commodity and who are able to ascertain its true market value.
- Buyers and sellers are able to meet face-to-face and develop business relationships.

During the auction, bidding is conducted openly and bidders visually see the prices being bid and recorded on the bid board. Auction participants actively compete with each other to purchase a lot and counter with bids of their own until there is one winner who has outbid all the others. It is at this point that the true price for the auctioned lot is “discovered” within a market-economy.

The PVO should be aware that prices may be influenced by different “internal and external factors”. For example, “internal factors” may include the quantity and quality of participants, auction atmosphere and conditions, auction rules and procedures, or simply the way the auctioneer conducts the auction. “External factors” can relate to the circumstances and conditions surrounding the wholesale and retail markets for a given commodity.

### *B. Preparations for an Outcry Auction*

The PVO should consider its objectives under the monetization process and the type of commodity that is to be monetized. The commodity to be auctioned can influence the format and specific intricacies of the auction. Furthermore, it can influence the auction atmosphere. If the PVO decides to use the out-cry auction approach, the PVO should treat it as a serious business transaction. If the auction is handled correctly, the PVO will be able to achieve:

- The best possible sales results of price discovery, transparency (open trading), competition and active participation; and
- That bidders are able to determine the fair market value for the commodity through transparent bidding and price discovery.

The PVO should familiarize itself with the legislation of the country in which the commodity is to be monetized and which may specifically involve the regulation of public sales. PVO representatives should consult with legal representation to ensure an accurate understanding of these regulations.

During the review process, the PVO should pay particular attention to the following:

- Rights and obligations of the participants and the auction organizers;
- Restrictions surrounding organizing and holding public auctions;
- Penalties for violating auction rules and procedures;
- Conclusion of sales agreements;
- Reasons for changes and annulments of sales agreements;
- Responsibilities and obligations for auction violations by participants;
- Discontinuance of obligations; and
- Rights of ownership of a commodity after it is sold.

As part of the preparation process, the PVO must develop different forms to meet legal and normal business requirements. One of the most important documents the PVO develops is the Statement of Rules and Procedures. This document may include the following:

- Conditions for holding auctions;
- Auction procedures;
- Criteria for who may participate in the auction;
- Procedures for registration;
- Legalization of auction results;
- Procedures for advance deposit payments;
- Payment and delivery of commodity (a separate document can be developed if necessary);
- Procedures for official notifications after the auction; and
- Other terms and conditions.

Furthermore, the PVO should develop the internal documents that serve as guidelines for implementing the auction. The PVO should be prepared to review and refine these documents throughout the life of the program to reflect changes in the auction methodology. Some of these documents include:

- Application form for participation;
- Form for canceling participation in the auction;
- Registration forms;
- Forms for recording auction sales;
- Protocol of auction results;
- Sales Agreements; and
- Forms for “Acts of Violation” during the auction (collusion or inappropriate activity/behavior.)

Lastly, the PVO should develop its “auction plan” which details the functions of staff members from preparations through the auction itself to activities after the auction is completed.

### *C. Training*

The PVO should conduct training sessions for potential participants as well as be available to sit down with them one-on-one. The same positives and negatives associated with each training method described under small lot sealed bid auctions apply to training for out-cry auctions. The potential participants should become familiar with the auction format of the PVO (as it may differ from other auctions in the area), the rules and procedures, as well as become familiarized with the commodity to be auctioned. All documents and equipment that will be used in the auction should be shown and explained to the potential participants. Furthermore, the participants should be aware of the payment mechanisms that the PVO will accept.

### *D. Advertising*

The format and method the PVO uses is extremely important in attracting the target audience. To ensure broad participation, it is important and often legally necessary to notify the public about the auction. The PVO should consider newspaper, radio, television or public notice boards, and even combinations of these approaches depending on the outreach capabilities and budget constraints.

Before auctions begin, the PVO should poll the participants about how they learned or were notified of the auction. After a series of auctions and participant polling, the PVO should be able to determine the most effective means of advertising for the future.

As stated before, the PVO should ensure compliance with any regulatory requirements surrounding notifications of auctions. Generally, ACDI/VOCA has found that it is best to advertise:

- Date, time, place and form of sales;
- Commodity, number of lots and sizes;
- Reserve prices or how the information can be obtained;
- Location and time of registration;
- Advance deposit required;
- Brief information on the registration process;
- Name of PVO and contact information; and
- Other information as deemed important by the PVO.

Since advertising can be costly, the PVO may not be able to include all of the aforementioned information. At the very minimum, the announcement should include the basics of the sale, as well as the contact information of the PVO. The announcement should also stipulate that the PVO has the right to cancel the auction at any time.

The PVO should always monitor its announcements to ensure that accurate information is relayed to the public and maintain copies of announcements in their files, which can serve as public record and proof of notification.

### *E. Lot Sizes*

Just as with small lot sealed bid auctions, the PVO should conduct systematic market assessments of prices, availability and demand. These assessments should consider the same commodity in the market and any possible substitutes. Based on these assessments, the PVO can determine the number of lots to be sold and their sizes.

The PVO should consider putting up a limited number of lots for each auction and should never offer more lots than the forecasted number of participants. If the turn out is less than forecasted, the PVO may reduce the number of lots offered. Competition for a limited number of lots will help reduce collusion and ensure active bidding.

### *F. Reserve Price*

The PVO should set the reserve price, the starting point from which all bidding for the auctioned commodity begins. It may be set just below the market price to allow a sufficient number of bids in setting the true market sales price for the commodity in the auction.

In determining the reserve price, the PVO should consider that the starting price for an auctioned commodity will clearly depend on the market situation at the time and that larger lots generally have slightly lower reserve prices due to the volume being purchased.

Reserve prices will change from auction to auction. Prior to each auction, the PVO should publicly display or announce the reserve price next to each lot size put up for sale.

As the PVO gains experience with out-cry auctions, it will gain more confidence in setting a realistic reserve price. The PVO should consider the type and style of the auction and the auctioneer's ability to ensure a minimum number of bids above the reserve price when setting it.

### *G. Auction Location*

The PVO should select a location in a well-known area that is convenient for potential participants to reach. The location should be large enough to accommodate the projected number of participants, and allow for the auctioneer to have a clear view of all bidders. The space should also provide room for spectators who may be interested in learning about the process. Care should be taken to hold the auction in the same place each time to prevent confusion and participants missing events.

### *H. Auction Process*

In preparing for the auction, the PVO needs to set up the room prior to arrival of the participants. The registration desk, auctioneer's stand, and auction secretary's



Outcry auction in Kyrgystan

desk should all be positioned. Furthermore, the station for recording bids and the “gatekeeper” should be prepared with all necessary items. A PVO never wants to start the auction only to discover that it can’t record the bids because there is no chalk! The PVO should ensure that there is an adequate number of identification, or “number”, cards for the participants and that all are legible to the auctioneer, even from the back of the room.

### *I. Registration*

The participants may only register with pre-designated staff members. Registration may be conducted in 2 stages: preliminary and final. Preliminary registration permits the participants to register in advance and before the day of the auction. Final registration is held the day of the auction at the auction site, usually a few hours prior to the auction’s start. Whether at the PVO office or at the auction site, the PVO will want to post the information showing the tender number with date, number and size of lots offered, and reserve prices. Commodity certificates should be posted stating grade or type, quality and quantity and all specifications associated with the commodity. However, the PVO must assess the legality of the certificates and any risks associated with posting them. Participants must feel confident that the commodity that they will be purchasing is the same in the certificates displayed and may wish to inspect the commodity. It is to the PVO’s discretion to allow this, but as stated previously, all participants should be treated equally.

Potential participants should be allowed to review all information before registering in order to determine which lots and the number of lots for which they may wish to bid. Furthermore, copies of the rules, procedures, code of conduct and sales agreement should be posted in the same area. The PVO may wish to have copies of these documents signed by participants (only once is necessary for repeat participants) to show that they have read and understood the documents.

The PVO should not be overly concerned if there are not a significant number of preliminary registrations as many participants will not want to make unnecessary trips to the city where the auction is being held, unless of course this has been standard procedure in the past and suddenly the numbers decline. All potential participants should be aware of the time that registration will close and that no registration will occur during the auction.

Once the registration application is complete and the information is verified by the PVO, the participant must pay an advance deposit to ensure his or her sincere intent to participate and buy any lot that he/she wins. The PVO should then issue the participant a number board to be held up during the auction process as a bid on a desired lot.

Immediately following the auction, the advance deposit is returned to any participant who is not successful. The PVO retains the deposits of those who do win lots as a guarantee against concluding the sales agreement and receiving the commodity.

The PVO must anticipate and accept that some participants may decide not to participate after registering. If this is the case, the PVO should have the individual sign the form indicating such

and immediately return the individual's deposit. It is to the PVO's discretion whether to return any entrance fee that they may have charged for access to the auction site.

#### *J. Holding Auctions*

Before the auction begins, the auctioneer should briefly review the important points of the Statement on Auction Rules and Procedures as well as the code of conduct for participants. This can serve as a useful reminder to more experienced participants and can be extremely helpful to new bidders. The auctioneer should be prepared to answer questions raised by the participants.

During the auction, bidders are not allowed to speak or talk with each other. This is to prevent collusion, price fixing or other forms of misconduct among participants. Any act of collusion or misconduct may result in a reprimand by the auctioneer, being thrown out of the auction and/or forfeiting any advance deposit. The PVO should note that there is always a prevailing tendency among participants to purchase the auctioned commodity at the lowest possible price. In achieving that aim, the participant may seek to collude among his or her peers to exert influence on the bidding and subsequent price.

A staff member at the bid recording station writes the prices and participants' identification numbers on the tender board for each lot auctioned for all to see. It is important that all participants can see the board. This provides transparency and ensures that participants will not have any claims or questions about the final bid price or how it was determined.

The Secretary's responsibility is to record the final auction result for each lot in the tender list and in all other protocol documents. The Secretary ensures that the successful bidder immediately signs the Auction Result's Protocol and verifies whether the participant has any additional advance on deposit with which to bid on another lot.

After the completion of each auction, the PVO should record all payments and deliveries, including the sales agreement number, name of the buyer, the sales price and the quantity sold.

Delivery of the commodity is made only after the buyer has paid in full and provides official receipts showing that payment has been made (generally through bank receipts). After the payment is confirmed, the accounting department provides the necessary release form that the buyer can then show the warehouse personnel authorized to release commodity.

In receiving the commodity, the buyer must sign all appropriate delivery receipt documents acknowledging delivery and factual receipt of the purchased amount. The release document should stipulate that he or she has no further claims against the PVO and that the sale is final.

#### **Lessons Learned**

In a country that does not have a highly developed industrial sector and lacks experience with a market based economy, commercial agricultural development will take time to become a viable industry.

Government interests can have a positive or negative impact on an auction program. The PVO must take into consideration official and unofficial policies of the government.

Responsibility for the payment of all costs and/or taxes must be clearly defined at the onset of the program.

By promoting an understanding of auctions in general, the PVO can diversify its target audience. Those not familiar with or that do not traditionally participate in such activities may come to learn of the program and become actively involved. Furthermore, the target market can be expanded by offering samples to potential customers.

Different sales mechanisms can be combined to encourage participation in the out-cry auction. For example, in one case sealed bid auctions were held for second grade flour. The aim of the sealed bid auction was to create an incentive for wholesalers to participate in weekly auctions for first grade flour by only making registered auction participants eligible to bid on the second grade flour.

A PVO should continually assess its operations and its opportunities. The PVO can explore different geographic opportunities, possibly reaching new markets, or different payment systems (e.g., offering bank transfers as an option for making advance deposits).

### **Case Study - Kyrgyz Republic**

ACDI/VOCA began using out-cry auctions to monetize wheat in Kyrgyzstan in 1997. The purpose was defined as:

*“...to promote the development of a private sector flour market in the Osh Oblast region, through open and fair bidding and competition for all willing buyers according to the conditions of the statement of auction rules and procedures and exclusion of insolvent buyers from the bidding process.”*

ACDI/VOCA began by conducting research on the wheat grain and flour system in the north and south of Kyrgyzstan. In addition, ACDI/VOCA assessed local conditions in Osh and the mentality, stereotypes and behavior of people (future sales participants). Based on this information, ACDI/VOCA determined that it would hold most auction sales for the 1<sup>st</sup> grade flour and sealed bids for 2<sup>nd</sup> grade flour. Direct negotiation contracts were to be signed when the flour was bought in large amounts.

ACDI/VOCA determined the methods, documents and forms that it would use as well as the appropriate lot sizes. Furthermore, the mechanisms of payments and further deliveries and unloading were established according to the business conditions and commercial laws in Osh. Determination of lot sizes included an assessment of the potential customer demand and solvency. ACDI/VOCA decided to utilize small lot sizes in order to avoid allowing an individual or a group of people to monopolize the market and dictate price conditions.

ACDI/VOCA organized a large-scale campaign in mass media (newspapers, television and radio) devoted to describing the purposes of the future program. At the same time the work on deciding the auction rules and procedures was carried out as well as creating and registering appropriate documents (applications, contracts, etc.) In order to teach future bidders the auction process, ACDI/VOCA organized a seminar during which a detailed description of auction rules and procedures was given.

Auction sales of food had not been conducted in the Osh Oblast before, so it was ACDI/VOCA that became an initiator of open and transparent auction sales. At the beginning of this process, because of the passivity of the wholesalers unaccustomed to such a form of sales, both the number of bidders and the volume of sales grew very slowly. For example, only 38.25 metric tons were sold during the first auction. In order to attract more participants to the auctions and to increase the volume of sales, various advertisements and information on the purposes and mission of the program were published in the mass media. The number of bidders participating in the auctions as well as the tonnage sold increased.

ACDI/VOCA found that it had an impact on the liberalization of the local flour market.

- Wholesalers accepted auction sales as the most democratic, open and honest form of sale.
- New participants (unemployed farmers, teachers and other people who are involved with other forms of business activity) became involved in the process.
- Significant growth of competition occurred.
- The market was democratized and the criminal influence on the market weakened.
- The market mechanism role in the process of price formation was strengthened.

During the period of commodity transfer to the market the reserve prices changed according to the dynamics of demand in the local market. Gradually, while the commodity filled the market and was getting popular with consumers because of its high quality and because of growing competition, ACDI/VOCA was able to observe the growth of auction prices for the American flour. The prices were determined by the bidders during open sales.

The feedback from participants was positive. One participant stated:

*“When I read about your auctions in the paper I decided to try and participate in your auctions. At first I felt a little uncomfortable because I had never taken part in the auctions before and I was concerned about my money too. I also did not know anything about the quality of your flour and how it will sell. I think that it was a good idea to sell small lots of flour at the first auction. It allowed us to get involved in the process almost without any risk. I took part in the first auction, won and offered the first lot of flour to my regular customers. All of them said that the quality of flour was excellent. So I began to participate almost in every auction. I liked the rules of the auction and this form of open and honest sales. It was not too difficult; it was very honest, profitable and accessible.*

## VIII. Umbrella Monetizations

### A. *Benefits*

An umbrella monetization consortium allows for PVOs in the same country to coordinate their monetization programs in order to optimize the level of proceeds generated and lower the administrative costs. There are a number of benefits including:

- Consolidating shipments allows for reduced landing and freight costs, and minimizes paperwork;
- By having one lead PVO coordinate the arrivals and sales of all monetization commodity, the potential for flooding the market or negatively affecting one another's sales price is minimized;
- Administrative costs are reduced. Instead of several PVOs conducting market surveys, one PVO can carry them out. Furthermore, overhead such as rent, utilities and staff time can be minimized by storing the commodity in one location;
- With more volume and fewer competitors (amongst monetizers), the Umbrella Consortium's position in the market is enhanced;
- The PVOs can take advantage of the commodity management expertise of the lead organization and develop their own internal capacities;
- PVOs in an umbrella consortium are able to assist one another by ensuring funding is available for programmatic interventions. With approval from the donor agencies of all partners involved, it is possible for the consortium members to advance PVOs funds, on a case-by-case basis. All transactions must be in writing with a detailed description of what the advanced funds are intended for and when the advanced sum is to be returned; and
- The consortium creates a single voice for multiple PVOs involved in monetization, which makes it easier to manage from the donor's perspective, and results in a more powerful voice for the PVOs.

### B. *PVO Coordinating Committee*

All PVOs participating in an umbrella monetization should be represented on the PVO Coordinating Committee. Each PVO should have more than one person familiar with the consortium and its activities to substitute in the absence of the usual representative. These representatives are the decision-makers relating to the monetization within the country and transmit the decisions back to their respective headquarters. Generally, meetings may be held on a monthly basis, but the frequency should be determined at the onset. Meetings may be used to disseminate information, answer questions, discuss issues and clarify expectations and responsibilities. It can also be used as a forum for training members on monetization processes. Field trips can be arranged for the consortium members as part of a training initiative.

### C. *Responsibilities of the Lead Agent*

The PVOs may elect one organization to serve as the lead agent for the entire program or this position may be rotated among the consortium members. This should be outlined at the onset, as should all terms and conditions of how the consortium will be structured. The responsibilities of

the lead agent should be clearly defined, as well as how the members will pay for administrative costs incurred.

Responsibilities of the lead agent may include the following:

- Conducting all negotiations and managing all sales. Sales agreements are negotiated between the lead agent and buyer. If the commodity is to be sold under a negotiated sale, the lead agent is responsible for submitting a copy of the agreement to all PVOs for their approval and signature. No sale is final until the PVOs submit their approval (which should be within a predefined time period).
- Disbursing proceeds to the PVOs.
- Facilitating all paperwork, including bills of lading and reports.
- Dealing directly with shipping agents. The actual bills of lading can be endorsed to the lead agent, allowing it to facilitate all issues concerning the inland transporter and host government authorities.
- Negotiating and drafting inland freight contracts. It can be more efficient for the lead agent to handle the inland freight tender and all associated documentation on behalf of all members. All PVOs in the consortium must review contracts with the freight forwarder prior to signing.
- Analyzing cost recovery information and providing this information to the members of the consortium for their own reporting.
- Handling of losses and negotiating compensation between freight forwarders on behalf of the PVOs in the consortium.
- Acting as a leader in fostering a spirit of collaboration, understanding and transparency between members.

#### *D. Member Responsibilities*

Each member of the consortium has responsibilities to ensure smooth operations and the optimization of proceeds realized. Some of these responsibilities include the following:

- Facilitating communication with their respective headquarters, allowing the lead agent to coordinate with the local representatives.
- Assigning a knowledgeable staff member as the PVO representative in the consortium. Even though the lead agent is taking responsibility for daily operations, this does not alleviate a PVO's responsibility to be able to address transportation, packaging, dockage, quality, and contracting issues.
- Coordinating with the consortium to form a consensus on a call forward plan and the sequence of the calls forward.
- Reviewing and approving of contracts and documents within the specified time periods.
- Submitting paperwork and reports in a timely manner to the lead agent for review.
- Participating in meetings.

Each consortium will set its own guidelines for meetings, reporting, and general operations. These guidelines should be written down and signed by all members through a Memorandum of

Understanding (MOU). It is critical that all members adhere to the guidelines and operate in a transparent manner.

#### *E. Disbursement of Payments*

Each PVO receives a proportional share of the proceeds, minus operational costs, according to the proportion of commodity that it contributes to the consortium. Operational costs must be carefully managed to ensure that all costs associated with the umbrella consortium are in fact attributed to it and are not absorbed by the lead monetizer's own program. The pipeline must be carefully managed as these proportions will need to be adjusted during the year as the actual contribution is realized.<sup>10</sup>

At the end of each year, the lead monetizer reconciles the accounts according to the actual commodity received on behalf of each PVO. The expected proportions for the following year are also reviewed and agreed upon by all members.

#### **Lessons Learned**

All members should maintain packaging consistency in the commodities. Inconsistencies can create difficulties for the lead agent by having to sell various types or differently packaged commodity.

The lead monetizer should review the call forward of each member prior to its submission to ensure that all information is accurate. If anything is in error, it will affect the lead monetizer's ability to sell the commodity and can affect all of the PVOs' proceeds levels.

Reports are written and distributed by the lead agent on a pre-determined basis. These ensure that all parties receive the same information. Information should include sales volumes, sales prices, inventories, call forwards during the period, administrative costs incurred, losses and any other information deemed important to the monetization. Losses are pooled unless there is evidence of blatant negligence on the part of a partner. Since one bank account may be maintained for each commodity sold, information on the account(s) should be provided in the reports as well.

#### **Case Study - Rwanda**

ACDI/VOCA began working in Rwanda in 1998 managing sales of vegetable oil to generate proceeds for the USAID Mission. In 2000, ACDI/VOCA began managing a USAID Title II program. Because of its experience in monetizing vegetable oil in Rwanda, as well as in managing an umbrella monetization program in Uganda, ACDI/VOCA became the lead monetizer in a consortium with World Vision (WV) and Catholic Relief Services (CRS). This consortium was created with USAID Mission support and involvement.

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<sup>10</sup> The PVOs in the consortium will identify the expected contribution under their programs according to their approved commodity levels. However, this amount may not be the same as the commodity received in country.

ACDI/VOCA monetizes vegetable oil for all three cooperating sponsors. While each call forward is submitted by the individual PVO, they are closely coordinated to ensure sufficient stocks to hold monthly auctions and yet prevent excess inventory. ACDI/VOCA reviews the calls forward of each partner to ensure that the commodity specifications, packaging and any special transportation requirements are accurate and consistent.

Sales are conducted using the small lot sealed bid auction system as described in Section VI.

Coordination among the PVOs takes place in the field, with each cooperating sponsor responsible for relaying information back to their respective headquarters offices. ACDI/VOCA provides monthly reports to the USAID Mission as well as to each PVO on the monthly sales and inventory levels. Furthermore, regular meetings are held which are attended by representatives from the PVOs as well as from the USAID Mission/Kigali.

ACDI/VOCA also generates sales information for the annual reports. All Cooperating Sponsors use the same cost recovery information in reporting to USAID/BDCHA/FFP-Washington (BDCHA: Bureau of Democracy, Conflict and Humanitarian Assistance). Quarterly operational reports are prepared for the Mission and the partners as well.

The umbrella monetization process has worked very well in Rwanda and has allowed for each Cooperating Sponsor to have access to needed funds on a timely basis. In fact, at the onset of the program, in FY 2000, ACDI/VOCA advanced funds to the other PVOs. ACDI/VOCA was not yet prepared to begin development activities and so was able to allow the other PVOs to utilize proceeds that had been generated. This advance was then discounted out of future sales as ACDI/VOCA's funding needs grew.

Furthermore, in FY 2003, the Cooperating Sponsors discovered that the total vegetable oil being requested exceeded the quantity specified in the Bellmon Analysis. By working together to determine the best means of addressing the situation, it was determined that one PVO would substitute a comparable amount of wheat for vegetable oil. This coordination prevented any one PVO from suffering reduced proceeds levels or delays in getting AERs (Annual Estimate of Requirements) approved, as could have happened if three PVOs had been managing independent agendas and timelines.

## **IX. SUMMARY**

ACDI/VOCA has been active in Monetization since the late 1980's and has utilized varying methods to sell food aid commodity, including negotiated sales, small lot sealed bid auctions, as well as out-cry auctions. In each case, ACDI/VOCA assessed the market, the number of potential buyers, the regulatory and logistical frameworks in which it would be working, as well as the costs associated with running different types of programs in order to determine the appropriate sales mechanism.

ACDI/VOCA strongly believes in the development impact that can result from a well run monetization program far beyond the simple generation of proceeds for development activities. Buyers are trained in transparent sales mechanisms, competitive markets are enhanced and opportunities are opened to smaller traders.

ACDI/VOCA will continue to use monetization as a development tool, and will continue to explore different methods for ensuring the greatest development impact of the process as possible.

## **Appendix A: Sample Job Description for a Monetization Manager**

The Monetization Manager is tasked with the management of the sales section. This includes the oversight of vegetable oil tenders and wheat sales, marketing of commodities, market analysis, coordination with the Government of Uganda on imported goods, completion of sales-related reports to USAID, USDA and Title II Umbrella Cooperating Sponsors and management of sales staff. The Monetization Manager reports directly to the Program Manager and is required to fulfill the job duties listed below as well as other assignments as assigned by the Program Manager.

1. The management of vegoil and wheat calls forward and sales is the key responsibility of the Monetization Manager. This includes the following tasks:

- Holding of vegoil/wheat tenders
- Preparation of sales contracts
- Negotiation with oil and wheat buyers
- Accept/verify payments
- Authorize deliveries
- Prepare calls forward (oil, wheat and corn soy blend (CSB))
- Prepare commodity pipeline analysis
- Prepare sales schedule
- General sales analysis/cash projection, as required

2. In order to maintain the USA Vegoil sales volume and brand identification, the Monetization Manager is responsible for the marketing of PL480 (Public Law 480) commodities with a particular emphasis on vegetable oil. This includes some of the following duties:

- Design of marketing materials, e.g. print, radio, POS medium, etc.
- “Meet and greet” potential USA oil buyers
- Propose and manage event sponsorships

3. The Monetization Manager must keep up to date on the national and international market trends of commodities sold by the PL480 program, competing brands or commodities, or commodities proposed for sale. This also includes the development of market/price collection medium specific to the Program. Related tasks include:

- Assisting in preparation of Bellmon Analysis
- Assisting in preparation of Market Analysis
- Obtaining price information in Uganda and abroad
- Obtaining general qualitative market survey

4. Due to the close interaction with the Uganda Government on monetization, the Monetization Manager must be able to negotiate with government representatives, address problems as they arise, particularly on goods clearance issues, and prepare or revise the Host Country Agreement documents, as required.

5. The Monetization Manager is responsible for the preparation of all reports required by USAID/FFP, the USAID Uganda Mission, USDA and Title II Umbrella Partners. These reports include:

- Monthly Cooperating Sponsors report
- Monetization section in the CSR4 report
- USDA/GFFEI bi-annual report
- Monetization section of the Quarterly Report
- Cost recovery analysis
- Other reports and analyses as required by the donor or ACDI/VOCA-HQ (Headquarters)

6. The Monetization Manager is tasked with the management of staff in the section; this includes the Assistant Monetization Manager and the Sales Assistant. In addition, this position must liaise closely with the Logistics Manager on the processing of calls forward, pipeline development and the delivery of monetized commodities.