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AN ASSESSMENT OF USAID/SOMALIA
COMMODITY IMPORT PROGRAM

AUDIT REPORT NO. 3-649-84-5
January 31, 1984

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COMMODITY IMPORT PROGRAM

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EXECUTIVE SUMMARY

Introduction

In recent years, Somalia's economy has been characterized by rapidly increasing budget deficits, sharply rising prices and severe balance of payments difficulties. This has led to a critical loss of foreign exchange reserves and an inability to sustain a level of imports essential to development.

In consideration of these problems, AID, on May 20, 1982, entered into a grant agreement with the Government of the Somali Democratic Republic (GSDR). The original grant was for $15 million. Amendment No. 1, dated September 8, 1982, increased the funding to $18.5 million. The grant is to be utilized through a Commodity Import Program (CIP) to provide short-term balance of payments relief through the financing of imports critical to the productivity of the Somali economy.

As of September 30, 1983, $18.5 million had been obligated for this grant. Letters of Credit (L/Cs) totalling about $17.9 million had been opened. Local currency generated from these L/Cs totalled about Somali Shillings (Sh.) 280 million. A follow-on grant, referred to as CIP No. 2, was signed on August 28, 1983, for $16 million. No L/Cs have been opened for this grant.

Purpose of Review

The purpose of our review was to determine whether (a) the GSDR was using AID-provided resources effectively and efficiently, (b) the program was meeting its objectives and goals as stated in program documentation, (c) USAID/Somalia personnel were effective in program monitorship, and (d) applicable laws and regulations were being complied with.

Findings, Conclusions and Recommendations

Although the program has been successful in generating local currency from the import of CIP commodities, the use and control of these funds warrant more positive action on the part of USAID and GSDR. The report contains four recommendations requiring USAID action.

-- USAID needed to accelerate the programming and implementation of projects that will use CIP generated local currency. Unless aggressive action is taken by both USAID and GSDR local currency generations could remain stagnant, thus delaying the utilization of these funds for development purposes.

USAID indicated that delays in programming and implementation of projects was due to time required to establish adequate controls over the utilization of the funds. They also mentioned that dialogue has been held with the GSDR in which CIP generated funds have been earmarked in the GSDR 1984 budget.

We commend USAID for these actions, but are still of the opinion that USAID and the GSDR need to accelerate the programming and implementation process. Unless this is accomplished, CIP generated funds could remain idle for long periods as has been the situation in the past.

For example, of the Sh. 280 million ($17.9 million) generated by the CIP, about 50 percent still remained to be programmed. Of the Sh. 142 million that had been transferred to projects, only a small amount, less than Sh. 4 million ($.25 million), had actually been spent. It is evident that more needs to be done (pages 3 to 6).

-- The CIP program provided the importer the opportunity to make windfall profits. We found that in some cases private importers were making windfall profits of over 100 percent on CIP commodities. We believe these profits are excessive and USAID should review this issue with the GSDR to determine if a higher rate of exchange should be used for the import of CIP commodities, thus generating additional local currency for development projects.

Responding to our draft report, USAID stated that the major emphasis of the CIP was to get the GSDR to allow the private sector to be involved in the development of the country and a free market system. They stated that this is slowly being accomplished by the CIP and that some commodities imported under the CIP have caused prices to drop drastically. They are not aware of any system by which they can deal in shilling-dollar transactions at other than the legal highest rate. The importer has to make a profit and though USAID is concerned, they really do not see how they can change the system to reduce profits, or if they want to. High profits are needed to revitalize the private sector participation in the recovery of the economy, and thereby benefit everyone, including the rural poor.

USAID further stated that they were instituting an end-use checking system, and as additional information becomes available, it will be discussed with the Ministry of Finance.

BACKGROUND

Somalia is located on the Horn of Africa with an area of 63.8 million hectares. The country has a population of about 4.2 million: 60 percent are nomads, 20 percent are settled rural dwellers and 20 percent are urban. In addition, as a result of its conflict with Ethiopia, Somalia has a huge refugee population with some 500,000 living in camps. An additional estimated 300,000 - 700,000 live with kinsmen or in the countryside.

In recent years, Somalia's economy has had rapidly increasing budget deficits, sharply rising prices and severe balance of payments difficulties. This has led to a critical loss of foreign exchange reserves and an inability to sustain a level of imports essential to development.

The balance of payments constraint precludes the importation of items critical to increased agricultural productivity. Other inputs, such as agricultural equipment and spares, construction machinery, and cement remain in short supply and are similarly affected by foreign exchange shortages.

In consideration of the Somali economic problems , and to meet the objectives of the U.S. economic assistance program to Somalia, A.I.D., on May 20, 1982, entered into a grant agreement with the Government of the Somali Democratic Republic (GSDR). The original Commodity Import Program (CIP) grant was for $15 million. Amendment No. 1, dated September 8, 1982, increased the funding to $18.5 million. The grant is to provide short-term balance of payments relief through the financing of imports critical to the productivity of the Somali economy.

As of September 30, 1983, $18.5 million had been obligated. Letters of Credit (L/Cs) totaling about $17.9 million had been opened. Local currency generated from these L/Cs totalled about Somali Shillings (Sh.) 280 million[1/].

A follow-on grant, referred to as CIP No. 2, was signed on August 28, 1983, for $16 million. No L/Cs had yet been opened for this grant. USAID/Somalia (USAID) officials stated that they have importers' applications for about $35 million and that L/Cs will be opened as soon as the grant's Conditions Precedent[2/] have been met by GSDR.

1/ $1 = Sh.15.6 as of September, 1983.
2/ Represents certain conditions that must be met by the GSDR prior to any disbursement by AID.

The CIP provides foreign exchange for commodity importation from the U.S. and certain developing countries. Its purpose is to assist the balance of payment stabilization program, as well as to generate local currency for budget support and development projects. In Somalia, the foreign exchange is made available through a U.S. bank guarantee to a U.S. corresponding bank of the Commercial and Savings Bank of Somalia (CSBS). The foreign exchange is allocated by the GSDR (through a special committee) to private and public importers in priority areas set by the GSDR and USAID. The GSDR's policy is to give priority to commodities which will assist in the development of agriculture, agrobusiness, and small, light industry for the private sector. Under the first CIP grant, approximately 70 percent of the funds were allocated to the private sector. Under the second grant, the private sector is to receive 85 percent of the funds.

Private importers under this program are required to solicit pro forma estimates (by telex or other means) from three or more suppliers. Supported by required documentation, the importers submit their financial application to the CIP special committee1/ for review and approval. Once the importer's application is approved the committee notifies the importer in writing of the approval, and determines the exact amount of local currency to be deposited by the importer into the CIP special account. The local currency covers the cost of the foreign exchange and U.S. banking charges.

After the importer deposits the local currency and provides the committee a copy of the bank deposit slip, the CSBS is instructed in writing to advise their U.S. corresponding bank to issue L/Cs on behalf of the importer. The importer is responsible for all local banking charges. When the commodities arrive in Somalia, the importer is also responsible to pay all duties, port charges, demurrage, clear the commodities out of the port within 90 days, and sell or use the commodities within a year.

The public importers are required to procure commodities by formal tender advertised in the United States, except for spare parts for on-hand equipment. Public sector importers use the same procedures to submit their financial applications and for payment of local currency as the private importers.

A CIPL unit was established in December 1982 to plan, budget, monitor and control local currency funds generated by the CIP program. The unit's name was derived from the first two letters of the CIP and P/L 480 programs.

1/ The committee members are representatives of the Ministry of Finance, Ministry of Commerce, Ministry of Industry, Ministry of Agriculture, Somali Development Bank, and USAID.

PURPOSE AND SCOPE

The purpose of our audit was to determine whether (a) the GSDR was using AID-provided resources effectively and efficiently, (b) the program was meeting its objectives and goals as stated in program documentation, (c) USAID personnel were effective in program monitorship, and (d) applicable laws and regulations were being complied with.

We reviewed USAID's and the host government's records, reports and correspondence. We held discussions with appropriate officials of the GSDR and USAID. We visited selected importers and banks in Mogadishu to review appropriate records and to determine if AID funds were being used properly. We also visited the port at Mogadishu to determine if there was any AID distressed cargo1/.

Our review was made in accordance with the Controller General Standards for Audit of Governmental Programs and accordingly included such tests of the program, records, and internal control procedures as we considered necessary in the circumstances.

The period covered by our review was from May 1982 to September 30, 1983. The audit was made during October and November, 1983.

FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

USAID Needed to Take Aggressive Action to Accelerate Programming and Implementation of Projects That Will Use CIP Generated Local Currency

USAID, in conjunction with the GSDR, needed to accelerate programming and implementation of development projects using CIP generated local currency. Realistic bench marks and target dates should be established in order to measure the progress of these undertakings.

Implementation Letter No. 1, dated May 23, 1982, required the GSDR to submit a plan which identified the general activities to be financed by CIP local currency generations. In August 1982, the USAID accepted the GSDR proposed plan. The proposed plan and its status as of September 30, 1983 are shown in Exhibit I.

1/ Commodities which remain in the port over 90 days are considered distressed cargo.

As indicated in Exhibit I, implementation of the proposed plan had been notably less than planned although the local currency funds are available. During the audit, we queried USAID as to the cause for the delay and what action they planned to take to implement these projects. The USAID responded in part:

> "... since 1983 was the first year of the CIP program they believe that it was more important to establish appropriate controls on the use of the funds than to accelerate disbursements. Therefore, in September 1982, USAID signed a contract with Coopers & Lybrand Associates (C&LA) a U.S. headquartered CPA firm with offices in Nairobi, Kenya. The contract provided for C&LA to (a) develop an operational manual, (b) train Ministry of Finance staff, and (c) provide technical assistance to the CIPL unit. The CIPL unit, formally established in December 1982, is responsible for reviewing all requests for PL 480 and CIP generated local currency.
>
> "Rather than allocating blocks of local currency to the various Ministries/Agencies, the GSDR and USAID decided to conduct reviews of individual proposals. To this effect, substantive guidelines were issued by the CIPL unit to improve and in many cases to teach budgeting principles. The establishment of this system was time consuming."

USAID further stated:

> "... although a plan was presented in August 1982, no currency was actually generated for several months. Importers had to learn the program, get quotations and process the paperwork. By the time significant deposits were made, USAID was preparing for the Consultative Group (CG) meeting to be held in Paris which was to define the Public Investment Program (PIP). USAID felt that CIP generated funds should be used to support the PIP and therefore did not push for any reprogramming exercise until after the CG meeting, which was postponed from March 1983 until October 1983. During the interim period funds were transferred from the special account to (1) the Kismayo Port Project, (2) the CIPL Unit Operating Expense, and (3) the Somali Development Bank Loan. The transfer to USAID Trust Fund was held pending USAID's requirement. It has recently been effected.
>
> "USAID believes that future programming will be more regularized. USAID agreed to reflect the PL 480 and CIP local currency in the Somali budget to comply with an IMF requirement. Individual projects will be clearly identified in the national budget which is prepared annually in November."

USAID made one final comment:

> "In conjunction with the Consultative Group meeting USAID will select development projects from the PIP and agrees to finance GSDR contribution from counterpart funds. USAID has identified approximately Sh. 400 million per annum under the 1984-86 PIP that could be funded from CIP and PL 480 generations. USAID believes that these major steps will lead to more realistic programming and more rapid disbursement of local currency while still maintaining proper control over the use of the funds."

In our view, USAID's future plans for the use of local currency generations appeared to be reasonable and the program's objectives should be obtained through aggressive action. However, two of the major disbursements of funds to the Kismayo Port project and the Somali Development Bank have been virtually unused by those recipients. In addition, more than half (about Sh. 150 million) still remain idle and unprogrammed in the CIP special account.

Unless aggressive action is taken, local currency generations will increase while disbursements stagnate. It is important to note that the follow-on CIP program could generate an additional $16 million (Sh. 250 million). These additional funds, based on the slow use of available funds, could remain idle for long periods of time. This would have an adverse effect on meeting one of the objectives of the program which is the development of the Somali economy.

<u>Conclusion, USAID Response, RIG/A/N Comments, and Recommendation</u>

The CIP program has been successful in generating local currency. But, unless these funds are programmed and spent in a timely manner, the program for developing the Somalia economy will be delayed.

<u>USAID Response</u>

In response to our draft report, USAID indicated that meetings have been held with MOF and the CIP generated proceeds of Sh. 300 million have been earmarked in the national budget for 1984, approved by parliament for development projects under the PIP as well as USAID trust funds. USAID further believes delays in devising a working, accountable and auditable system are better in the long run than rushing ahead with no system at all.

The CIPL unit of the MOF is currently monitoring the progress of obligated projects by approving budgets, monitoring of subsequent transfers of funds and monthly financial reports, monitoring bi-annual progress reports, doing spot check audits and conducting site visits. Benchmarks and target dates, when feasible, are written into the implementing letter which states when and how funds are tranferred and disbursed. The implementation letter includes a budget.

RIG/A/N Comments

We commend USAID on moving slowly to make sure an adequate system was in place before moving ahead. However, we are still of the opinion that aggressive programming and implementation action is required so that the funds will be used in a timely manner. This will take on more significance when Letters of Credit are opened for CIP No. 2. At that time, an additional $16 million (about Sh. 250 million) in local currency will be generated. This amount will be in addition to the Sh. 150 million ($9.6 million) now remaining in the CIP special account from CIP No. 1 generated funds.

USAID has indicated that certain funds have been earmarked for future development purposes. This could be considered a step in the right direction, but the mere fact that these funds are earmarked does not mean they will be utilized in a timely manner. For example, Sh. 75 million ($4.8 million) was transferred from the CIP special account to the Kismayo Port project in July 1983. At the time of our audit in November 1983, these funds remained idle. Also, of the Sh. 50 million transferred to the Somali Development Bank in July, 1983, Sh. 45 million were deposited in an interest bearing account, unused. Finally, about half of the generated funds remain unprogrammed. It is evident that more needs to be done.

We have therefore retained our recommendation, but have modified it to reflect the need for more aggressive action.

Recommendation No. 1

USAID, in conjunction with the GSDR, take aggressive action to program and implement development projects. These projects should be closely monitored by USAID to determine that CIP local currency funds are utilized in a timely manner.

The CIP Program Provided the Importer the Opportunity to Make Windfall Profits

The CIP Program provided the private importer the opportunity to make profits conservatively estimated to range from 69 to 123 percent. These excessive profits, while benefitting the importers, reduced the local currency that could have been available for development.

In Somalia there is a wide disparity between the official exchange rate ($1 = Sh.15.6) and the market rate ($1 - Sh.42). Importers who participate in the CIP program make their purchases at the official rate yet sell their products at the market rate. This equates to an immediate profit of from 2 to 3 times the importer's cost, insurance, and freight. Since there is no price control in Somalia on CIP commodities this situation will continue until the supply of scarce items meets the demand.

We tested five L/Cs to obtain some data on the profits which private importers made on CIP commodities. The samples included such items as vegetable seeds, tires and tubes, and cement. The result showed that the gross profit ranged from 94 to 253 percent on CIF. Importers estimated that other costs, such as duty, overhead, etc. could add an additional 25 to 130 percent to the CIF. This still leaves importers with a profit margin of about 69 to 123 percent. We believe that this is excessive.

The CIP is the vehicle used to generate local currency. Therefore, the more local currency generated the more funds that will be available for development purposes. If private importers are making windfall profits it appears logical to us that they be required to deposit local currency for their purchases at a higher rate. This, in effect, would generate additional funds for development, yet allowing the private importer to still make a reasonable profit.

Conclusion, USAID Response, RIG/A/N Comments, and Recommendation

Private importers are making windfall profits of over 100 percent on CIP commodities. To reduce these profits, USAID and GSDR should determine how local currency import rates can be increased to the CIP importers in the private sector. Under CIP No. 2, a small increase of from 5 to 10 percent in the exchange rate could generate an additional $800,000 to $1,600,000 in local currency. These additional deposits would provide additional funds for development purposes.

USAID Response

In response to our draft report, USAID/Somalia stated that the major emphasis of the CIP was to get the GSDR to allow private sector to be involved in the development of the country and a free market system. This has slowly been accomplished by the CIP and prices of goods such as tires and cement that were imported under the CIP have caused prices to drop drastically. They believe that the drop in prices of some commodities is a step in the right direction of providing goods at a lower cost to the Somalis. USAID further stated that they are not aware of any system by which they can deal in shilling-dollar transactions at other than the legal highest rate. They stated that the goals of the CIP is to provide balance of payments and promotion of the private sector, free market. The importer has to make a profit and though AID is concerned, they really do not see how they can change the system to reduce profits, or if they want to. High profits are needed to revitalize the private sector participation in the recovery of the economy, and thereby, benefit everyone, including the rural poor.

USAID did state, however, that they were instituting an end-use checking system, and as additional information becomes available, it will be discussed with the Ministry of Finance.

RIG/A/N Comments

Low official exchange rates result in windfall profits for the importer and at the same time reduce local currency generations. We agree that USAID should make additional analyses of importers' profits, as stated above, and discuss these findings with the GSDR in order to determine whether an increased local currency rate should be required for CIP imported commodities. USAID may also want to seek AID/W guidance on this matter. We are retaining our recommendation until USAID has further opportunity to study the issue.

Recommendation No. 2

USAID make additional marketing analyses of importers' profits and (a) inform GSDR of their findings and (b) if warranted, increase pressure to have the official exchange rate brought more in line with the market rate for the importation of CIP commodities.

USAID Needed to Determine Whether Interest Proceeds Received by the GSDR Ministry of Finance from the Somali Development Bank Loan Conflicts with Sec. 609 of the Foreign Assistance Act

One of the projects financed through the CIP special account is a Sh. 50 million (about $3 million) loan made by the Ministry of Finance (MOF) to the Somali Development Bank (SDB). The loan agreement, dated July 9, 1983, and approved by USAID, is repayable in seven annual installments with interest at 5 percent per annum. Principal repayments were to be deposited to the CIP special account. However, interest payments, which could amount to about Sh. 10.5 million ($.7 million) over the period of the loan, were to be paid directly to the MOF.

We do not agree with this repayment policy because, in our opinion, it may be in conflict with Sec. 609 of the Foreign Assistance Act (FAA). This section states in part:

> "That whenever funds from such Special Account are used by a country to make loans, all funds received in repayment of such loans prior to termination of assistance to such country shall be reused only for such purposes as shall have been agreed to between the country and the United States Government."

The loan agreement between MOF and SDB provides that interest proceeds are to be made directly to MOF. In our view, this repayment procedure fails to meet the intent of Sec. 609 of the FAA, unless the USAID, who approved the loan, fully intended that interest proceeds were to be paid directly to the MOF. If so, this places USAID in the position of not having any control over the use of the interest proceeds. This practice, in our opinion, is inconsistent with the FAA.

Conclusion, USAID Response, RIG/A/N Comments, and Recommendation

We believe that USAID needs to review the provisions contained in the loan agreement to determine if the repayment policy contained therein is inconsistent with Sec. 609 of the FAA. If so, then USAID should have the MOF amend the loan agreement. The amendment should ensure that interest proceeds are deposited to the CIP special account in the same manner as principal repayment and are used for an agreed-to purpose.

USAID Response

In response to our draft report, USAID stated that they will obtain legal opinion from REDSO/RLA on the interest proceeds from the SDB loan. When the opinion is received, appropriate action will be taken.

RIG/A/N Comments

We are retaining our original recommendation until USAID has further opportunity to review the matter and obtain a legal opinion.

Recommendation No. 3

> USAID should review the provisions contained in the loan agreement and obtain a legal opinion to determine if it is in accordance with Sec. 609 of the FAA. If it is not, USAID should have the MOF amend the loan agreement so that interest proceeds are deposited to the CIP special account.

Somali Development Bank Loan Activities Are Not Moving

We found that of the Sh. 50 million ($3.2 million) Somali Development Bank (SDB) loan, Sh. 45 million ($2.9 million) had been deposited in an interest bearing account since August 1983. This does not meet the intent of the MOF loan, which is to provide loans to farmers and private agricultural industries to finance agricultural inputs. This loan agreement was entered into between the Ministry of Finance (MOF) and SDB and was approved by USAID.

We visited the Somali Development Bank (SDB) to review their accounting records and procedures. As of October 25, 1983, SDB had committed 26 loans totalling Sh. 12.7 million ($.8 million). Of this amount, Sh. 3.2 million ($.2 million) had been disbursed. We noted, however, that the SDB had transferred Sh. 45 million of its Sh. 50 million loan from the MOF to an interest bearing account paying eight percent interest. SDB officials stated that the funds would remain in the interest bearing account until needed.

We question whether this approach is a positive step in meeting the MOF loan objectives. By depositing the funds in an interest bearing account, the SDB is assured of a three percent profit, or about Sh. 1.4 million ($89,000) annually, without any financial risk. Therefore, the SDB may not be exerting its best efforts to make loans to farmers and other small recipients. This defeats the purpose of the MOF loan.

It is important, therefore, that the USAID closely monitor the SDB loan activities to ensure that more loans are made to farmers and private agriculture industries. Funds should not remain idle for an extended period of time in an interest bearing account.

Conclusion, USAID Response, RIG/A/N Comments, and Recommendation

USAID needs to improve its monitoring of the SDB's loan activities. The first semi-annual report is due in January, 1984. The report should be analyzed to determine if the SDB is meeting the loan objective of making loans to farmers and other recipients to finance agricultural inputs. Attention should also be given to any idle funds that remain for extended periods in an interest bearing account. If SDB is not meeting the MOF loan objectives, then action should be taken to reduce the amount of the MOF loan.

USAID Response

In response to our draft report, USAID stated that a provision was written into the loan agreement with the SDB by which the bank will submit bi-annually progress and loan reports. The first such report is due in early January and will be reviewed by the Mission. The outcome of those reports will determine whether the bank will receive additional funds, and under what conditions in future years. If it is found that the SDB maintains a large portion of idle loan funds in an interest bearing account, action will be initiated by the Mission to reduce the funds and prevent its occurrence under future loans.

RIG/A/N Comments

We are retaining our original recommendation until USAID has further opportunity to review the matter.

Recommendation No. 4

USAID should determine that CIP generated funds are meeting the loan objectives and are not remaining idle in an interest bearing account. If funds are not being used, USAID should take action to reduce the amount of the SDB loan.

USAID Needed to Implement Its Management Control Procedures Over CIP Generated Proceeds and Letters of Credit

USAID was not verifying that importers' deposits were properly credited to the CIP special account in the Commercial Savings Bank of Somalia (CSBS). We also noted that monthly L/Cs reports were not received from CSBS in a timely manner nor were they reconciled to USAID records.

CIP procedures provide that USAID receive copies of importers' deposit slips prior to the opening of L/Cs. However, USAID was unable to reconcile these deposits to its records because the CSBS failed to provide the USAID with timely monthly bank statements. Despite frequent requests, it was not until September 1983 that the USAID received the first bank statement. A review of the statement showed that deposits had been made since November 1982.

Unless the deposits are reconciled to USAID's records, errors could occur without being detected resulting in funds being incorrectly credited to the CIP special account.

As an example, we compared the local currency deposited by importers to the CIP special account. In two instances we found that the CSBS had not credited the importers' deposits to the special account. The amounts totalled Sh. 6,782,496 ($434,775). We brought this matter to the attention of the USAID CIP unit who immediately notified the bank. The errors were subsequently corrected.

In accordance with Implementation Letter No. 1, dated May 23, 1982, CSBS was to submit to USAID monthly progress reports detailing L/Cs issued and the U.S. dollar value. We found that one report had been received in August 1983 although L/Cs had been opened for about nine months. USAID was remiss in not obtaining this information sooner. Furthermore, USAID's records were not reconciled to these reports because of lack of qualified personnel to make the reconciliation.

Without monthly reconciliations, differences could occur between USAID and CSBS records. This would result in management using erroneous financial information to base further commitments of CIP funds.

To illustrate, we compared financial information contained in the August 1983 CSBS report with USAID records and found numerous differences. The differences consisted principally of L/C amendments that were recorded on USAID records, but CSBS had failed to report to USAID. We pointed this out to USAID personnel and accompanied them to the CSBS section that handles L/Cs. USAID personnel showed CSBS the errors and requested that they be corrected in a revised report. The revised report had not been received at the time of our departure.

Conclusion, USAID Response, and RIG/A/N Comments

Management controls were needed to verify that importers' deposits were actually credited to the CIP special account. USAID also needed to reconcile L/Cs to USAID records on a monthly basis.

Our draft report contained a recommendation that USAID establish procedures to reconcile CSBS bank statements and L/Cs reports to USAID records on a monthly basis.

USAID Response

In response to our draft report, USAID stated that bank statements and L/C reports are now being furnished on a monthly basis. USAID financial ledger has been reconciled with CSBS bank statements and L/C reports through November 1983, and will continue to be done on a monthly basis.

RIG/A/N Comments

In view of the action taken by USAID, we have deleted the recommendation contained in our draft report.

USAID Needed To Increase Emphasis on "Buy America" Commodities

We believe that CIP programs should, whenever possible, "Buy America". If this practice is followed, it aids the U.S. in its battle against unemployment and balance of payments deficits. We made an analysis of the source/origin of commodities for which L/Cs were opened (see Exhibit II). The exhibit shows that about 35 percent of the L/Cs had their source/origin in the U.S. We estimate that more than 80 percent of the commodities could have been purchased from the U.S., some from depressed industries.

The principle cause for this low percentage of imports from the U.S. is that importers are concentrating their purchases in countries where prices are lower, yet failing to adequately consider the quality of the product. While we understand the profit motive, we believe that USAID should emphasize buying American products. Thus importers should be required to solicit more pro forma invoices from U.S. suppliers.

Conclusion, USAID Response, and RIG/A/N Comments

Because the U.S. is experiencing balance of payments problems and high unemployment, it behooves the USAID to maximize the purchase of U.S. products. We estimate that more than 80 percent of the CIP commodities could have been purchased in the U.S. USAID, with the assistance of the appropriate AID/W office, should take action which would ensure a greater participation by U.S. suppliers in the CIP program in Somalia.

Our draft report contained a recommendation that USAID, in consultation with the appropriate AID/W office, take action to provide greater participation by U.S. firms in the Somalia CIP program.

USAID Response

In response to our draft report, USAID cited examples where importers requested pro formas from U.S. suppliers, but prices were not competitive. Such an example was the cost of cement which cost $95 per ton from the U.S. versus $63 and $60 from South Korea and Turkey, respectively. Thus, the importers purchased the cement from South Korea and Turkey. USAID also stated that requests for quotations for tires were sent to U.S. manufacturers as well as tire distributors with no response from tire manufacturers and few from the tire distributors. Thus, tires were purchased from South Korea, which provided the lowest prices, and these tires are approved by the U.S. Department of Transportation.

USAID did, however, further comment that in order to improve U.S. suppliers' track record in supplying goods under the CIP, USAID will forward a list of all Somali importers' names, addresses, and type of goods that importers wish to import to AID/W for advertisement in the Commerce Business Daily (CBD) and the AID Export Opportunity Bulletin. Also, a copy will be sent to the Department of Commerce for their assistance to contact U.S. manufacturers. USAID believes that this is all they can do to improve U.S. suppliers' participation in the CIP.

RIG/A/N Comments

In view of the action which USAID plans to initiate to encourage more participation by U.S. suppliers in the Somalia CIP program, we have deleted the recommendation contained in our draft report. However, we suggest that USAID consider including in future CIP agreements a provision which requires the purchase of a certain percent of the commodities from the U.S. This percentage can always be modified if found to be unreasonable.

EXHIBIT I
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GSDR Proposed Activity Plan and Status as of September 30, 1983

Entity	Planned Amount (Sh.Mill.)	Funds Provided as of 9/30/83 (Sh.Mill.)
Ministry of Agriculture--Irrigation rehabilitation, reservoir construction, flood control and agricultural education	Sh. 58.0	Sh. 0
Ministry of Livestock, Forestry and Range--Animal health initiatives, range and forestry education, fodder improvement/production and livestock marketing	40.0	0
Ministry of Health--Preventive medicine and rural health delivery	15.0	0
Water Development Agency--Development of water supplies for human and animal consumption	20.0	0
Settlement Development Agency--Construction of housing, schools, clinics, water supply and roads and support for agricultural development	7.0	0
Ministry of Marine Transport and Port--Local costs associated with Kismayo Port rehabilitation	25.0	75.0
Ministry of Public Works--Road rehabilitation and maintenance	20.0	0
Somali Development Bank--Loans to private entrepreneurs	28.0	50.0
CIPL Unit Operating Expense	1.5	2.5
USAID--U.S. local currency costs	11.3	0
GRAND TOTAL	Sh. 225.8	Sh. 127.5

Summary of Procurement by Source/Origin

Country	Value ($000)	Type of Commodities
U.S.A.	$6,195	New heavy equipment & spares, metal sheets, bars, plates, tractor spare parts, spare parts for sugar mill, pump spare parts, seeds, generators & water pumps, utility vehicles.
South Korea	7,069	Tires & tubes, cement, batteries.
Turkey	980	Cement.
Italy *)	973	Channels for station & spares, spares for equipment, spares for sugar mill equipment, vehicles spare parts.
Pakistan	703	Light rails & accessories.
U.K. *)	541	Mill rollers, transmitters & receivers, battery charges.
Brazil	519	Tractors, trailers & ploughs.
India	275	Spare parts for trucks, water pumps & pipes, chemicals for soap
Taiwan	230	Chemicals for soap, yarn.
Kenya	220	Cement, chemicals for paint.
Japan *)	182	Truck spares.
OTAL	$17,887	

*) Source/Origin waiver obtained

APPENDIX A

LIST OF RECOMMENDATIONS

APPENDIX B

LIST OF REPORT RECIPIENTS

	No. of Copies
Field Offices	
USAID/Somalia	5
REDSO/EA	1
AID/Washington	
AA/M	1
AA/AFR	5
AA/PPC	1
AFR/EA	2
EXRL	1
LEG/OD	1
GC	1
IG	1
M/FM/ASD	2
OP.A	1
PPC/E	1
PPC/E/DIU	2