USAID / SOMALIA

EVALUATION SUMMARY

PART: I

EVALUATION OF COMMODITY IMPORT PROGRAMS
(649-K-603 AND 649-K-604)

NOVEMBER 1987
MOGADISHU

A.I.D. EVALUATION SUMMARY PART I

(BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS)

IDENTIFICATION DATA

A. REPORTING A.I.D. UNIT:
USAID/Mogadishu
(Mission or AID/W Office)
(ES# 88-2)

B. WAS EVALUATION SCHEDULED IN CURRENT FY ANNUAL EVALUATION PLAN?
yes ☒ slipped ☐ ad hoc ☐
Eval. Plan Submission Date: FY 88 Q 2

C. EVALUATION TIMING
interim ☐ final ☒ ex post ☐ other ☐

D. ACTIVITY OR ACTIVITIES EVALUATED (List the following information for project(s) or program(s) evaluated; if not applicable, list title and date of the evaluation report)

Project #	Project/Program Title (or title & date of evaluation report)	First PROAG or equivalent (FY)	Most recent TDD/PACD (mo/yr)	Planned LOP Cost ('000)	Amount Obligated to Date ('000)
649-0120	Commodity Import Program II	8/83	7/87	$16,000	$16,
649-0125	Commodity Import Program III	6/85	6/87	$27,000	$27,

ACTIONS

E. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

Action(s) Required	Name of officer responsible for Action	Date Action to be Completed
1. Local currency transfer and allocation discrepancies must be resolved.	USAID - E. McPhie (PROG) and L. Carpenter (CONT)	1/31/88

(Attach extra sheet if necessary)

APPROVALS

F. DATE OF MISSION OR AID/W OFFICE REVIEW OF EVALUATION: mo 12 day 15 yr 87

G. APPROVALS OF EVALUATION SUMMARY AND ACTION DECISIONS:

	Project/Program Officer	Representative of Borrower/Grantee	Evaluation Officer	Mission or AID/W Office Director
Signature	[signature]		[signature]	[signature]
Typed Name	Girard LaBombard	N/A	Emily B. McPhie	Lois Richards
Date:	24/12/87		1/7/88	1/7/88

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A.I.D. EVALUATION SUMMARY PART II

J. SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS (Try not to exceed the 3 pages provided)
Address the following items:

- Purpose of activity(ies) evaluated
- Purpose of evaluation and Methodology used
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office: USAID/Somalia

Date this summary prepared: December 31, 1987

Title and Date of Full Evaluation Report

Purpose of Activities Evaluated: The purpose of these two Commodity Import Programs (CIPs) was to provide foreign exchange for commodity importation from the U.S. and developing countries of the Free World in order to assist Somalia with its balance of payments position as well as to generate local currency for budget support. In addition, the programs included policy reform objectives.

Purpose of Evaluation/Methodology Used: This evaluation was undertaken at the termination of the second of the two CIPs being evaluated in order to measure the effectiveness and efficiency as well as the impact of these programs as is legislatively required. Methodology included a review of all relevant files and documents and interviews with appropriate participants in the program (from USAID, the GSDR and the private sector).

Findings and Conclusions: The evaluation found these CIPs to have had a positive impact on the Somali economy, helping to ease severe balance of payment problems, to finance growth-enhancing productive capital and intermediate goods inputs, and to strengthen the Somali private sector. In addition, the CIPs have promoted economic reform in Somalia. Problems in implementation included: inadequate tracking and documentation of local currency generations, transfers and allocations; a far smaller proportion of foreign exchange allocated to the private sector than was originally intended; and an overly ambitious policy dialogue agenda.

Principal Recommendations: As this was a final evaluation, the only recommendation is for USAID to resolve discrepancies in local currency transfers and allocations found as a result of the evaluation.

Lessons Learned: As given in the evaluation report:

(1) "There were simply too many conditions precedent and covenants." The policy agenda would have benefited from a narrower, more clearly articulated focus.

(2) "The overall impact of the CIPs on the private sector was reduced by the fact that the allocations to the private sector were only a little more than one half of the amount anticipated in the project documents. In the end, the need to provide a quick infusion of foreign exchange to ease Somalia's balance of payments difficulties proved to be much more important to the GSDR and the Mission than the private sector objective. "A greater private sector impact could have been achieved had AID insisted that the CIP funds initially allocated to the private sector in Program documents be followed."

H EVALUATION ABSTRACT (do not exceed the space provided)

For two weeks in mid-November 1987, a REDSO PDO and an AID/W economist, with assistance from Mission staff, undertook a final evaluation of the second and third Commodity Import Programs (CIPs) in Somalia to comply with legislative requirements for evaluation of these programs. The evaluators concluded that these CIPs have had a positive impact on Somalia's economy helping to ease severe balance of payment problems, to finance growth-enhancing productive capital and intermediate goods inputs, and to strengthen the Somali private sector. The report notes, "Generally, the performance of the USAID and GSDR management of the CIP programs has been very satisfactory..." One significant indicator of this successful management is the fact that other donors have based their CIP administrative procedures on those established by USAID." The report also notes "The CIPs have promoted economic reform in Somalia..." in the areas of (a) reduction of government employment, (b) introduction of efficient import procedures, and (c) establishment of private trade organizations.

The evaluation, however, found several points of weakness in the implementation of the CIPs. In spite of the Programs' positive role in private sector development, the allocation of foreign exchange to the private sector (48%) fell far short of that targeted (85%); public sector petroleum imports alone accounted for slightly less than 40% of all CIP II and III funds available. In addition, although an explicitly stated objective of these CIPs was to generate local currency for implementing policy reforms and priority development projects, primarily in the the agriculture sector, these generated funds in fact have been used primarily for non-agricultural projects and very little for policy reform activities; furthermore, the evaluation found that, while local currency generations had been properly documented as deposited, tracking and documentation of appropriate transfers among GSDR bank accounts and allocations to projects was far less adequate. Finally, the evaluation found that the "policy dialogue agenda attached to the CIP was too ambitious", and "The pace of reform has not proceeded as rapidly as anticipated."

I. EVALUATION COSTS

1. Evaluation Team

Name	Affiliation	Contract Number OR TDY Person Days	Contract Cost OR TDY Cost (US$)	Source of Funds
William Jeffers	REDSO/ESA	14	approx, $700	REDSO OE
Don Harrison	AID/W (AFR/DP)	5	approx, $1,500	USAID OE

2. Mission/Office Professional Staff F[illegible]n-Days (estimate) 15

3. Borrower/Grantee Professional Staff Person-Days (estimate) n/a

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(3) CIP procedures for suppliers (i.e., from the U.S. or developing countries in the Free World) are too complicated and serve as a bottleneck to smooth CIP implementation. Requirements to submit a number of forms should be eliminated or greatly simplified.

(4) U.S. suppliers did not respond to CIP opportunities as hoped. This situation is the result of: price factors (high costs of U.S. shipping and the high rate of the U.S. dollar compared to other currencies during the period covered by these CIPs); failure of many U.S. suppliers to respond to requests for proformas; the relatively small quantities required by many Somali importers; and the relative unavailability in the U.S. of some commodities required for Somali industries. "Once it is apparent that U.S. suppliers are not responding to requests for them to participate in the USAID financed CIP, options should be explored to increase U.S. procurement."

PREVIOUS PAGE MISSING

K. ATTACHMENTS (List attachments submitted with this Evaluation Summary; **always** attach copy of full evaluation report, even if one was submitted earlier)

L. COMMENTS BY MISSION, AID/W OFFICE AND BORROWER/GRANTEE

The USAID CIP Project Committee met to discuss the evaluation on December 15, 1987 and concluded that:

(1) The CIPs were good for the private sector but could have been better - the Programs might have had greater impact if they had been more private sector oriented and less policy dialogue oriented;

(2) The CIPs are not a fast disbursing mechanism given the Somali context and the CIPs' objectives for private sector development;

(3) Interference by AID/W in the public sector/private sector allocation of CIP funds inhibited the effectiveness of the Programs and the full achievement of objectives;

(4) Conditionality should have been (and in the future should be) realistic and enforced.

In addition, the Project Committee made the following comments on the report:

(1) Reference in the Executive Summary (page 2) to the USAID tracking system for allocating and disbursing local currency generations as "ineffective" is too strong a statement, in the Committee's opinion. The USAID acknowledges problems in accurate accounting for all transfer of local currency generations from one GSDR bank account to another and for all allocations and disbursements to development activities. However, prior to this evaluation the Mission had made efforts to improve its local currency tracking systems and has recently issued a Mission Order toward this end. Among other things, the Controller's Office is becoming increasingly involved in local currency tracking. As a result of this evaluation, USAID will further its efforts to improve its tracking systems.

(2) Regarding the Lessons Learned in the use of conditionality (page 36), the evaluation is too positive in stating that the CIPs have been able to affect a positive economic policy advance "in setting the stage for an active private sector Chamber of Commerce". A private sector Chamber of Commerce in Somalia is not as yet a reality and, at present at least, does not appear to be moving in a positive direction.

(3) The report's utility would have been enhanced if conclusions and recommendations had been included in the Executive Summary.

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SOMALIA

EVALUATION OF COMMODITY IMPORT PROGRAMS (649-K-603 AND 649-K-604)

November 1987
Mogadishu

UNCLASSIFIED

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ANNEXES

TABLES

ABBREVIATIONS AND ACRONYMS

ABS	Annual Budget Submission
AID/W	Agency For International Development Washington
CDSS	Country Development Strategy Statement
CIF	Cost, Freight and Insurance
CIP	Commodity Import Program
CMO	Commodity Management Office
CSBS	Commercial and Savings Bank of Somalia
EEC	European Economic Community
ESF	Economic Support Funds
GSDR	Government of Somali Democratic Republic
IBRD	International Bank For Reconstruction Development
IMF	International Monetary Fund
L/C	Letter of Credit
MOC	Ministry of Commerce
MOF	Ministry of Finance
MOI	Ministry of Industry
M/T	Metric Ton
PAAD	Program Assistance Approval Document
PAIP	Program Activity Identification Proposal
PL 480	Public Law 480 Food Programs
SDB	Somalia Development Bank
SSh	Somalia Shillings
U.K.	United Kingdom
U.S.	United States of America
USAID	United States Agency for International Development

PREFACE

The evaluation of the Somalia Commodity Import Programs II and III was undertaken to measure the effectiveness and efficiency as well as the impact of these programs as legislatively required of all USAID funded activities. Specifically, the evaluation was asked to examine: (a) the macroeconomic impacts of the CIPs; (b) the effects of the foreign exchange financing on both the private and public sectors; (c) the utilization of local currency generations; and (d) the overall management of the program.

The evaluation was carried out over a two week period in November 1987. Members of the evaluation team included; William A. Jeffers, REDSO/ESA Project Officer; Donald Harrison, AFR/DP Economist; Emily McPhie, Program Officer, USAID/Somalia; Girard J. LaBombard, Commodity Management Officer, USAID/Somalia; and Ahmed Ibrahim Tani, Program Assistant, USAID/Somalia.

The evaluation methodology used by the evaluation team was to: (a) review the programs' documents and correspondence; (b) collect quantitative data on the economy and the procurement and utilization of CIP financed commodities; and (c) interview AID, GSDR, and private sector importers who have been involved in the implementation and management of the programs.

The Evaluation Team would like to thank the following individuals for taking the time to be interviewed for this evaluation.

Isaak Ali Arrole, Private Sector
Hassan Jibril Mohamed, Private Sector
Abdullahi Haji Ahmed, Private Sector
Ali Nur Farah, Private Sector
Hashi Haji Wheleye, Private Sector
Yussuf Nur Hassan, Private Sector
Osman Aweys, Permanent Secretary, Ministry of Commerce
Abdirahman Mohamed Yusuf, Director Dept. of Foreign Trade
Shakiib Sh. Mohamud, Director Dept. of Licensing
Omar Hersi, Permanent Secretary, Ministry of Industry

I. EXECUTIVE SUMMARY

The USAID-financed Commodity Import Program assistance to Somalia has provided foreign exchange for commodity importation -- from the U.S. and developing countries of the Free World -- to assist Somalia's balance of payments position as well as to generate local currency for budget support. This evaluation reviews the performance of CIPs II and III which provided grant financing for $16 million and $27 million, respectively. These programs were implemented between Febuary 28, 1983, and October 12, 1987. As of the November 1, 1987, all dollar financing for CIP II and CIP III has been allocated and disbursed, and SSh 2.255 billion local currency generations have been deposited.

The CIPs have had a postive impact on Somalia's economy. CIP II and III have helped ease Somalia's severe balance of payments problems. The balance of payments assistance and foreign exchange reserve support furnished by the CIPs has not been unimportant. Over 1984-86, the CIPs funded between 2 and 5 percent of Somalia's import bill and 3 and 6 percent of the current account deficit before official transfers. CIP II and III have financed growth-enhancing productive capital and intermediate goods inputs. Thus, real growth in Somalia has undoubtedly been higher than it would have been without the CIPs. Real growth was 3.5 percent in 1984, a positively buoyant 6.4 percent in 1985, and 5.0 percent in 1986. U.S. imports as a share of the total Somali import bill have been on the rise, up from 11 percent of the total in 1982 to 20 percent in 1984. However, the CIPs have contributed only marginally. Total U.S. imports financed under the CIPs were but $6.5 million.

With respect to the private sector, the CIPs were to "strengthen the private sector and encourage it to play a more significant role in Somalia's development." CIP II and III substantially contributed to the strengthening of the private sector in Somalia. Even though the allocation of foreign exchange to the private sector fell far short of its target (48% instead of 85% of grant financing), the available financing has been used well. Significant numbers of business in the agricultural and industrial sectors have used the CIPs to start up new businesses, expand production, and maintain and even increase local employment levels. In terms of the number of import transactions, the private sector was by far the largest user of the CIPs. Commodity imports utilized in the manufacturing and construction industries were the principal users of financing allocated to the private sector. Agricultural and agribusiness sectors were the second largest users. Overall, the composition of imports was very appropriate to the needs of the country and provided good investment dollars to the private importer. The U.S. financed CIPs have also helped the Somali private sector build links with new trade partners.

In retrospect, the policy dialogue agenda attached to the CIPs was too ambitious. Nevertheless, the CIPs have promoted economic reform in Somalia, although in some areas, the pace of reform has not proceeded as rapidly as anticipated. Significant policy reforms have been encouraged in the areas of (a) reduction of government employment, (b) introduction of efficient import procedures, and (c) the establishment of private trade organizations. The GSDR reduced the number of civil servants 3,000 each year in 1985 and 1986 and abolished the practice of automatic employment for all school leavers, a practice that had led to a bloating of civil servant rolls. As of January 1985, the GSDR abolished the licensing of most imports, removing an important impediment to doing business in Somalia. In addition to its economic policy reform objectives, CIP II and CIP III included two other objectives for the public sector. The first was to provide a source of foreign exchange financing for the public sector, especially for public industries. The other objective was to generate local currency for implementing policy reforms and priority development projects notably in the agricultural sector. The public sector in fact received much more than the targetted 15% of CIP financing. It utilized 52% of the total CIP II and CIP III funding. Unexpected financing for the PL 480 shipping services under the CIP II and petroleum purchases under CIP III were the major cause for the large increase in the public sector allocations. Petroleum alone counted for slightly less than 40 percent of all the funds available under the CIPs. Public sector industries used CIP financing to revive sugar production and processing, rehabilitate the fishing industry, provide spare parts to the public pasta company, and expand the national telex system.

CIP generated local currencies were to be used to finance the implementation of policy reforms and priority development projects particularly in the agricultural sector. To date, these counterpart funds have been used to fund primarily non-agricultural projects and to a limited extent the implementation of policy reform programs. Nevertheless, it is clear that the local currency generations from the CIP have provided significant and effective support for the GSDR budget -- one of the CIP's principal objectives. While the USAID tracking system for generating and depositing local currency generations is meticulous, it is ineffective in tracking the allocation and disbursement of these funds. This aspect of the local currency tracking system needs to corrected immediately.

Generally, the performance of the USAID and GSDR management of the CIP programs has been very satisfactory, with the exception of the local currency tracking system noted above. During interviews with both private and public importers, they indicated that they had a clear understanding of the CIP's implementation process and expressed their satisfaction with the general system. Perhaps more telling, however, is the fact that other donors have based their CIP administrative procedures on those established by USAID. While the general satisfaction with the CIPs has been clearly articulated to the Evaluation Team, there have also been numerous suggestions by importers on how the CIP procedures might have been improved. These suggestions relate to suppliers payment documents and freight shipments.

The evaluation contains a short section summarizing the lessons learned which should be read in its entirety.

II. PROGRAM SETTING

A.Economic Background

1. General Economic Environment for CIPs

Somalia's options for developing its economy are limited. With a per capita GDP in 1985 of $260, Somalia has been designated by the United Nations as a least developed country. Only twenty percent of Somalia's five million people live in urban areas and an estimated sixty percent can be characterized as nomadic. Social welfare indicators are low; for instance, the infant mortality rate is 150 per thousand and life expectancy is 46 years. While Somalia's land resource is extensive, its principal economic value is confined to livestock grazing and irrigated banana production. Estimates suggest that less than 15% of Somalia is cultivable and most of this depends upon marginal rainfall to be productive. Somalia's modest economic infrastructure is another constraining factor. There are only two major urban areas, a poorly developed internal road network and no railroads. Continuing shortages of recurrent financing to maintain these assets have taken their toll on the capacity of this infrastructure. Somalia's financial resources are also very meager. Foreign exchange earnings are limited to a few sources, most notably livestock sales, bananas, and worker remittances from the Gulf states. Domestic savings have been negative. While government expenditures have not been excessive, normally less than 18 percent of GDP, the tax base is extremely narrow - 6 percent of GDP - and fiscal deficits have been chronic in recent years. The GSDR has depended heavily upon borrowing to make ends meet. The disbursed external public debt now exceeds GDP and debt service is approaching 90 percent. The country has come to rely more on external support, which has: (a) funded 100 percent of the investment budget; (b) accounted for close to half of the domestic operating budget; and (c) furnished significant amounts of technical assistance.

Nevertheless, there are sectors where Somalia could better utilize its existing economic resources. These sectors have been identified in numerous GSDR plans and USAID documents, including the PAADs for the Commodity Import Programs. The agricultural sector is by far the most important. Agricultural activities, predominantly related to livestock activities, have historically been the mainstay of the country's economy providing between 55-60% of GDP. Large areas of new land could be brought under cultivation and more efficient technologies introduced for both food and cash crops. Likewise, there are opportunities for expanding the productivity and profitability of the livestock sector with additional investment, the provision of social and productive services to increase off-take rates, and the expansion of export markets. In terms of its non-agricultural assets, Somalia could also take better advantage of its favorable location in relation to affluent Middle Eastern markets with which it has close cultural and commercial ties.

Yet, since its independence in 1960, Somalia has found it difficult to capitalize on these opportunities. In the 1960-69 period, the imbalances between the modern and urban sector and the agricultural/nomadic sector deepened, and there was mounting inflation and unemployment. In the 1970's, the GSDR energetically expanded its control of the economy, the public sector absorbing virtually all development investment and most of the skilled manpower and managerial resources. It dominated manufacturing and financial activities, controlled prices, and regulated or took over distribution and marketing. The livestock industry nevertheless remained predominantly private. The effect of these policies was to exacerbate Somalia's economic problems. From 1969 to 1977, economic growth barely kept pace with population, domestic food production stagnated, food imports rose, and export crop production declined. Following the Ogaden conflict with Ethiopia in 1977, the subsequent withdrawal of Soviet credits, and a massive influx of refugees Somalia entered a period of growing balance of payments difficulties and budget deficits. Financing these shortfalls through bank borrowing led to severe inflationary pressures which persisted through the end of the decade.

In mid-1981, the GSDR took dramatic steps to liberalize it economy. A one year Standby Agreement with the IMF was concluded involving major reforms including: devaluation, liberalization of private sector imports with official foreign exchange, increases in agricultural prices, and closures of certain public enterprises. Fiscal and monetary policies were also tightened and interest rates were raised. These measures, together with substantial reduction in the growth of net credit to the government, produced significant improvements in both the inflation rate and the balance of payments deficit. Still, foreign exchange resources fell far short of requirements and the GSDR continued to require support and encouragement in pursuing further liberalization and privatization of the economy.

Another economic shock hit Somalia in 1983 when Saudi Arabia banned livestock imports from Somalia and suspended the oil grant which it had been extending to cover most of Somalia's requirements. A further devaluation in 1983 failed to overcome the growing gap between the official and parallel exchange rates. Finally, inflation continued to grow and approached triple digits in 1984. This was the economic background against which the CIPs II and III were considered.

B. Policy Context for the Commodity Import Programs

The choice of the CIP mode of assistance was initially decided in 1981. In consideration of the economic problems described above, USAID provided the first CIP for the purposes of: 1) supporting the IMF stabilization program (including balance of payments support); 2) providing direct support for renewed emphasis on the private sector; and 3) providing general support for economic growth. This initial program proved to be very successful (see April 1984 Evaluation by P.Hagan et.al.) and set the stage for CIP II and CIP III.

Both the FY 1986 CDSS and the CIP II PAAD incorporated the Commodity Import Program within the broader framework of USAID's overall assistance strategy which was aimed at addressing the short term macroeconomic constraints and the longer term development needs of Somalia. This strategy had three major goals: stabilization, structural adjustment, and improving the quality of life. Two elements were highlighted as cutting across these goals: (a) the importance of continued accumulation of data to identify sector level constraints and to revise program strategies and (b) strengthening the private sector and encouraging it to play a more significant role in Somalia's development. The CIP II was designed as a non-project assistance mechanism to address, primarily, the economic stabilization issues and to some extent the longer term goal of structural adjustment. Specifically, the CIP was seen as "the mechanism for providing direct support for general imports and for encouraging the growth of the small industries sector" and also providing local currency generations for "the on-going policy dialogue on economic stabilization by giving the U.S credibility and leverage as a major contributor to the stabilization program." With respect to structural adjustment the CIP was expected to direct support to the agricultural and agro-industrial sectors which are generally viewed by both the GSDR and donors as the key to long term economic stability in Somalia.

The short term objectives of balance of payments support and reduction of the GSDR budget deficit remained intact under CIP II. The structural adjustment and quality of life goals identified in the FY 1986 CDSS were combined into a single objective aimed at "building a base for productivity in a diversified and outward oriented economy." The CIP III continued to accord high priority to promotion of an indigeneous private sector and structural adjustment.

III. DESCRIPTION OF THE U.S. FINANCED CIPS

A. Overview

The USAID-financed Commodity Import Program assistance to Somalia has provided foreign exchange for commodity importation -- from the U.S. and developing countries of the Free World -- to assist Somalia's balance of payments position as well as to generate local currency for budget support. Three Commodity Import Programs have been financed since 1982. The focus for this evaluation is the performance of CIPs II and III.

The Program Assistance Authorization Document (PAAD) for CIP II which provided $16 million in grant financing was signed on July 30, 1983. Negotiations were finalized with the GSDR and the Grant Agreement was signed on August 28, 1983. The Conditions Precedent to disbursement of funds were met on November 23, 1983. Financing Request No 1 was issued by the Ministry of Finance on November 23, 1983. AID/Washington issued AID Letter of Commitment (649-K-60301) in the amount of $16 million to Manufacturer Hanover Trust, New York, N.Y. This action facilitated issuance of letters of credit to suppliers. Initial allocations of CIP II financing were made on July 2, 1984 and by the end of calendar year 1985, 100% of the financing had been allocated.

A follow-on Commodity Import Program III was authorized in AID/Washington on February 28, 1985 for $27 million. The Grant Agreement with the GSDR was signed on June 13, 1985. The first Financing Request was issued by the GSDR Ministry of Finance on September 12, 1985. AID/Washington issued AID Letter of Commitment 649-K-60401 on September 26, 1985 in the amount of $27,000,000. The first allocation from the CIP III financing was made on September 30, 1985. By the end of calendar year 1986, 100% of the total grant had been allocated and 100% had been disbursed.

Based on Mission records, as of November 1, 1987, all dollar financing for CIP II has been allocated and disbursed and SSh 333,064,584 of local currency generations have been deposited. Similarly, all the dollar financing for CIP III has also been allocated and disbursed and SSh 1,910,505,691 of local currency generations have been deposited. A current W-214 from AID/W was not available in Mogadishu for the evaluation team to confirm these figures.

Table 1
Financing and Local Currency Generations
(Millions)

	CIP II	CIP III	Total
1.Foreign Exchange (U.S. Dollars)	16.0	27.0	43.0
2.Local Currency (Somalia Shillings)	333,064	1,922,123	2,255,187

B. Participating Organizations

The foreign exchange for the Commodity Import Programs is allocated by the GSDR to both private and public importers by the CIP Special Committee for commodities in priority areas identified by the GSDR and USAID. The Special Committee includes representatives from the Ministry of Commerce, Ministry of Finance, Central Bank, Commercial and Savings Bank of Somalia (CSBS), and USAID. The foreign exchange is made available through a U.S. bank guarantee to the U.S correspondent bank of the CSBS (Citibank). The priority commodities for CIP financing include those which will assist in the development of agriculture, agribusinesses, and small, light, private sector businesses. These include:

-Seeds	-Agricultural Implements	-Corn Shellers
-Animal Drugs	-Tractors and Spares	-Maize Grinder
-Truck Spares	-Heavy Equipment and Spares	-Fish Nets
-Seed Cleaners	-Manufacturing Raw Materials	-Feed Mills
-Water Pumps	-Manufacturing Machinery	-Cold Storage

C. Private Sector Procurement

A total of $20,713,998 in foreign exchange was made available to the private sector under both CIP II ($10,884.463) and CIP III ($9,829,536). This represents 48% of the total financing available under the two programs. With respect to the individual programs, 68% of the financing for CIP II was allocated to the private sector and 36% for CIP III.

Commodity imports for agricultural commodities have been given the highest priority for CIP financing followed by industrial commodities, transport spares and equipment, and non-agricultural finished products. A comparison of these priorities with the number of private sector import transactions and their dollar value for CIPs II and III are provided below.

TABLE 2
Priorities for CIP Private Sector Financing

Priority Hierarchy	Number of Transactions	Value (U.S. Dollars)
1.Agriculture	56	7,528,452
a)Production equipment and supplies		
b)Spares for existing equipment		
c)Equipment and Supplies for Irrigation Rehab		
d)Equipment and Supplies for New Irrigation		
2. Industry	58	8,330,265
a)Spares for existing Agribusinesses		
b)Machinery for new Agribusinesses		
c)Raw materials for Agribusinesses		
d)Spares for existing small industry		
e)Machinery for new small industry		
f)Raw materials for small industry		
g)Spares and materials for large industry		
3. Transport(excluding agricultural tractors)	8	1,328,219
a) Spare Parts		
b) New Equipment		
4. Finished Products	18	3,527,062
a) Construction Materials		
b) Others		
Totals	140	20,713,998

A list of all the import transactions financed by CIP II and CIP III is included as Annex B.

The procedures established for private sector importers to participate in the CIPs were very effective. For those private importers who wish to import commodities from the U.S. or a developing country, the first stop was to the GSDR Ministry of Finance or the USAID Commodity Management Office to ascertain if the item(s) are eligible for financing and the procedures to be followed in soliciting price quotations. The minimum dollar value per import transaction was $10,000 and the maximum was $1,000,000. Allocations were made by the CIP Special Committee which generally met every two-three weeks to review applications from private importers. Each application was accompanied by the following documents:

-Three price solicitations from suppliers in the U.S., developing country or both, which includes the quantity and origin of the commodities, price in U.S. dollars, FOB price, freight cost, insurance cost, supplier's bank, and recognition by the supplier that financing is provided through the CIP mechanism;

-Justification by the importer for the solicitation he has selected;

-Form B signed by the importer;

-Signed Letter of Credit Application Form from CSBS;

-Copy of Foreign Traders Certificate (Import License).

If the private importers application was approved, the CIP Special Committee issued a letter, co-signed by the Chairman and USAID CMO, to the CSBS, informing them of it decision and requesting the Bank to take on deposit local currency equivalent of 50% of the dollar value of the allocation (calculated at the official rate). Once the Committee received proof that the local currency had been deposited, it authorized, by co-signed letter, the CSBS to issue a Letter of Credit for the importer. This Letter of Credit was transmitted to Manufacturers Hanover Trust and Citibank New York, the CSBS correspondent bank in the U.S. The supplier was then approved to ship the commodities and, upon receiving a Bill of Lading, prepared the invoices necessary to obtain payment either directly by Manufacturers Hanover Trust and Citibank or through the suppliers own bank. Once the commodities had arrived in Somalia, they were held in port until the importer deposited the remaining 50% of the local currency deposit and paid any custom duties or port charges which had been incurred. Post-payment verification of the documentation by AID provided another countercheck that the procedures had been properly followed.

D. Public Sector Procurement

A total of $22,286,002 in foreign exchange was made available to the public sector under both CIP II ($5,111,341) and CIP III ($17,174,661). This represents 52% of the total financing available under the two programs.

A list of all the import transactions financed by CIP II and CIP III is included as Annex B.

The procurement procedures for the public sector were slightly different than those used for the private sector. Like the private sector, public sector importers were required to make their applications to the CIP Special Committee. The principal difference was that the public sector was required to use formal competitive bid procedures, approved in advance by the Special Committee, except for spare parts for existing equipment which was approved for negotiated procurement. Where these competitive procedures were required, the bid documents were advertised in the U.S. After public bid openings and the evaluation of all offers, the public importers informed the CIP Special Committee of their awards and submitted the following documents:

-Copies of the offers received;

-Copy of the evaluation and recommendation for award;

-Form 11 B;

-Completed Letter of Credit Form from CSB.

All other procedures, including the opening of Letters of Credit, shipping, and local currency deposits remained the same as for private importers.

IV.. FINDINGS OF THE EVALUATION

A. Economic Impact

1. Balance of Payments Support

A major objective of CIP II and III was to help strenghten Somalia's balance of payments. Somalia's balance of payments structure has been exceedingly weak. During 1961-85, export receipts financed on average only about 20 percent of imports; in 1984, the ratio was as low as 15 percent. In addition to inflows of private transfers in the form of workers' remitttances, receipts of foreign aid have financed the bulk of imports. Although a large proportion of external assistance has been received in the form of grants and on concessional terms, the debt service burden has risen rapidly in recent years and contributed to the pressure on the balance of payments. The current account deficit averaged 10 percent of GDP during this period; excluding official transfers, the average ratio was 24 percent. Deficits have been financed by an accumulation of payment arrears and debt relief.

The CIP II and III were not particularly successful in providing a rapid infusion of foreign exchange. Obligated in July 1983, CIP II was delayed by five months due to a series of problems in getting the documents to Washington, locating a lost document between Washington and New York, and getting the acceptance of the Bank for the Letter of Committment. Hence, most of the $16 million in funds provided under CIP II were disbursed in 1984.

Implementation of CIP III, obligated in February 1985, was delayed 8 months because the GSDR ordered an investigation to determine if the CIP program should be used to assist the private sector and if it was good for the country. The GSDR investigation was chaired by the Minister of State and a representative of every ministry, as well as the State Economic Committee in the Office of the President, participated. The conclusions of the investigation were that: (a) the CIP should be continued; (b) the CIP should assist the private sector; (c) the number of members on the CIP Special Committee should be decreased; and (d) the Ministry of Commerce would chair the Special Committee. These recommendations were implemented by the Ministry of Finance.

Other factors reduced the attractiveness of CIP III, causing further delays in making disbursements. First, the recently-instituted World Bank, Italian, and German Agricultural Import Programs provided financing for the backlog of demand for European goods. These programs had larger share of eligible items, were more price competitive due to the overvalued dollar during the early 1980's, and offered cheaper transport costs than the USAID CIP. Exchange rate developments also produced disbursement delays; the GSDR introduced a free basic exchange market in 1985, causing another wrinkle. The difference between this and the official CIP rate for the private sector was not enough to counteract the added costs or reduced profits of following U.S. CIP regulations. Therefore, some of the CIP III allocations were not picked up by the private sector as quickly as in previous U.S. financed CIPs. The final factor was that for those without political connections, credit is virtually unavailable to the private sector in Somalia, making it difficult to provide local currency for the required deposits. Even when credit was available, the difference between the official rate and the free market rate was not sufficient to outweigh the costs of having the local currency funds tied up for up to twelve months.

By February 1986, approximately $8.2 million of the $27 million allocated under CIP III had not been taken up by the private sector importers. Several large import allocations fell through at the end of 1985 including financing for agricultural tractors, implements and spare parts which were finally financed by the other CIPs as well as steel sheeting for ripple roofing due to an importer's shortage of local currency. Since allocations for the CIP III were only made in October 1985, the fact that some of the other private sector allocations had not been taken up cannot be considered surprising. Once allocations are made importers need time to renew proformas and arrange for the large amounts of the local currencies to be deposited. Nevertheless, the fuel crisis which surfaced in Somalia during early 1986 and the desire of both the MOF and USAID to accelerate the disbursements of foreign exchange led to the decision to use CIP funds for the purchase of petroleum. CIP III was amended to allocate the remainder of all CIP financing for GSDR purchases of petroleum products, and these supplies arrived in June 1986. Private sector importers continued to request financing from the CIP III for months afterwards and were told that no financing was available.

While the CIPs did not provide for a quick infusion of foreign exchange, the balance of payments assistance and foreign reserve support provided by CIP II and III has not been unimportant. For the purposes of our analysis, $16 million was provided in 1984, $19.8 million in 1985, and $8.2 million in 1986. The $16 million provided under CIP II in 1984 funded 4 percent of Somalia's import bill or 5 percent of the country's current account deficit before official transfers. For CIP III, the $19.8 furnished in 1985 financed 5 percent of the import bill or more than 6 percent of the current account deficit before official transfers, and the $8.2 million in 1986 covered 2 percent of the import bill and 3 percent of the current account deficit before official transfers.

Somalia's dire foreign exchange reserve situation suggests the importance of the CIP assistance. We would note that, at the end of 1984, Somalia had foreign exchange reserves amounting to but $6 million, one week of imports. For 1985, the respective data were $8 million and one week of imports. (Data for 1986 were unavailable.) Reserves amounting to three months of imports are normally considered prudent.

The CIPs have helped Somalia to meet targets set under the IMF stand-by arrangements in 1982 and in 1985. The funds provided under CIP II also may have played a role in enabling the GSDR to virtually eliminate import licensing in January 1985.

2. Impact on Growth

CIP II and III's impact on growth depends on the nature of those imports that would not have been made in the absence of the CIP arrangements. Clearly, the $17.2 million in oil imports financed by CIP III probably displaced regular foreign exchange imports. In the absence of CIP III funding, the GSDR would have sought out other sources of funds to finance the petroleum.

On the other hand, most of the other imports financed by CIP II and III probably would not have been transacted in the absence of the arrangements. Somalia has had severe balance of payments difficulties, and these difficulties have translated to an extreme scarcity of foreign exchange. Hence, excluding petroleum imports, the remainder of commodities imported by the CIPs has been additional to what would have been imported in the absence of the CIPs. These other imports consisted primarily of productive sector imports.

In sum, aside from the $17.2 million in petroleum and the $6 million set aside for Title I shipping costs, CIP II and III financed growth-enhancing productive capital and intermediate goods inputs rather than items destined for immediate personal consumption. Thus, real growth in Somalia has undoubtedly been higher than it would have been without the CIPs. Real growth was 3.5 percent in 1984, a positively buoyant 6.4 percent in 1985, and 5.0 percent in 1986.

By the end of 1984, U.S. imports amounted to $82.4 million or 20 percent of Somalia's import bill, up sharply from 1982 when imports added to $52.3 million or 10.8 percent of total imports. However, the CIPs have contributed only marginally. Total U.S. imports financed under the CIPs were but $6.5 million.

B. **Impact of the CIPs on the Private Sector**

1. CIP Objectives for the Private Sector

The documentation for both CIP II and III identified specific objectives for these programs with respect to the private sector. In the most general sense, the CIPs were to "strengthen the private sector and encourage it to play a more significant role in Somalia's development." More precisely, both documents targeted 85% of the financing for the private sector. The CIP III PAAD implied that local currency generations would be used for "using local currency to pay private sector entrepreneurs to undertake activities normally left to government, such as road maintenance, port administration, and rural health delivery."

2. CIP Performance and the Private Sector

The CIP II and CIP III substantially contributed to the strengthening of the private sector in Somalia. Even though the allocation of foreign exchange to the private sector fell far short of its target (48% instead of 85% of grant financing), the available financing has been used well. Significant numbers of businesses in the agricultural and industrial sectors have used the CIPs to start up new businesses, expand production, and maintain and even expand local employment levels.

In terms of the number of import transactions, the private sector was by far the largest user of the CIPs. Out of a total of 109 import transactions financed by CIP II, 98 (representing 60 different importers) were from the private sector. For CIP III 42 private sector import transactions (representing 32 different importers) were financed out of a total of 46.

Commodities utilized in the manufacturing and construction industries were the principal imports financed through allocation to the private sector. Agricultural and agribusiness sectors were the second largest users of CIP financing. Overall, the composition of imports was very appropriate to the needs of the country and provided good investment dollar to the private importer. However it is clear that the tractors imported for the agricultural sector had a much higher return for the economy than the raw materials for furniture or cement used for residential areas. Table 3 below summarizes the utilization of CIP financing allocated to private importers by sector.

Table 3
Distribution of Private Sector CIP Financing
($000's)

Sector	CIP II	CIP III	Total
1.Primary Agriculture (Supporting Ag Production)	4,757	28	4,785
2.Secondary Agriculture (Supporting Ag Processing)	1,478,	1,264	2,742
3.Private Transportation	159	1,167	1,326
4.Private Industry	4,490	7,370	11,860
Totals	10,884	9,829	20,713

The average foreign exchange financing per private sector transaction under CIP II was approximately $110,000 with individual transactions ranging from $10,000 to $925,000. Under CIP III, these levels rose significantly. The average value of all private sector import transactions was $234,000 with individual transactions ranging from $10,000 to $1,926,000.

One of the most important legacies of CIP II and CIP III in the private sector has been its contribution to starting new businesses and, in some cases, resurrecting old ones. New businesses which have used CIP financing for start up include a bonemeal processing plant, a factory for making polypretHane bags for agricultural products, a cattle feed factory, a vegetable oil processing plant, a tannery, an agro-chemical mixing plant, a fish distributor, a salt refinery, two bakeries, a biscuit factory, and a sandal factory. These new businesses have together utilized over 13% of the total private sector CIP financing. Two other enterprises were resurrected by the USAID-financed CIPs a steel fabrication plant and a galvanized pipe business (i.e. they had been closed but were purchased by new owners). These businesses used another 12% of the total private sector financing.

During the evaluation of these CIPs, private sector representatives indicated that if more funds would have been available to the private sector an even greater portion would have been used for starting up new businesses especially in the areas of agricultural processing and small manufacturing. A couple of businessmen have gone so far as to suggest that they are just waiting for foreign exchange financing to start new industries. Past experience in Somalia should be used to temper such statements. On one hand, these views of the few entrepreneurs interviewed during the evaluation could have been aberations. However, their perspective contrasts sharply with the traditional "trading" approach of most Somalis and could be important if it signals a movement in outlook by Somali businessmen no matter how few. Their line of reasoning is that as a limited number of individuals build up large capital balances of local currency they begin to look for ways of protecting it. Keeping large balances of funds working all the time is not easy. Trading, the most common use for these balances, is characterized by a number of risks associated with shipping, time delays, etc. With larger balances of funds, risks increase proportionately. The key point in their argument is that manufacturing or agricultural processing can be a way of building an assest which will deliver a steady stream of income which offers a certain amount of resistance to inflation and devaluations. These arguments should be explored in more detail by the Mission.

Estimates of overall production and employment increases generated by the USAID-financed CIPs are not easily calculated. The lack of foreign exchange is one of the principal causes for the severe underutilization of Somalia's productive capacity. Interviews with private sector businessmen who have participated in the CIPs indicated that their production is running at about 30-50% of capacity, rates that would have been lower in the absence of CIP financing. One company, Svila Paints, which is a veteran of CIP II and CIP III, reported that they will close down their operations later this month for the lack of foreign exchange. With respect to the new and resurrected businesses identified above, once they are better established, additional production for the country is expected. In particular, the bonemeal plant, tannery, and cattlefeed operations may have significant impact on other aspects of the economy since they utilize large amounts of local resources from the arable agriculture, livestock, and fisheries sectors. Approximately 230 new jobs have been created by the new and resurrected businesses. Financing for spares, new machinery, and raw materials for existing private sector operations are believed to have saved several times that figure. For example, each of the two hundred farm tractors imported under CIP II provided employment for two drivers or 400 jobs. Likewise, new bottles, better detergents, and more concentrates permitted the local Coca Cola representative to maintain his franchise and jobs for 150 people. In the agricultural sector, the impact was truly remarkable. With CIP financing, SNAI, a public sector sugar producer, purchased spare parts which allowed it to resume operations and return to work a force of 2,000 permanent staff in addition to 3,000 temporary workers. Spare parts for Juba Sugar Company registered similar re-employment gains.

The U.S. financed CIPs have also helped the Somali private sector to build links with new trade partners. Procurement from U.S. sources for CIP II included slightly less than one third of the total private sector transactions (31) representing thirty five percent of the total dollar value allocated to the private sector. U.S. sources for procurement financed by CIP III provided only two transactions, both for the private sector, for $36,000 out of a $27 million grant. By contrast, Taiwan received 35% of the import transactions and 27 percent of the CIP II financing and over 60% of the import transactions and 58 percent of the CIP financing allocated to the private sector. Kenya, the most accessible market for Somalia, captured ten percent of the private sector transactions and an equal share of the total CIP II financing for private importers. In CIP III, Kenya obtained two import transactions worth $237,000.

3. Perspectives on the CIP for the Private Sector

The relationship between CIPs II and III and the private sector has been developed and nurtured through a three way arrangement between the GSDR, Somali businessmen, and USAID. Each has had certain expectations concerning what the CIPs were supposed to accomplish and therefore have somewhat different perspectives on how these programs have fared.

The Somali businessmen point out in great detail that they have been heavily dependent upon USAID for the foreign exchange necessary to keep their existing operations going and for making new investments. They have viewed CIP II and CIP III as a commitment by USAID to the Somali private sector and productive investment (as opposed to trading). While they remember some of the inconveniences of the CIP process, they more vividly remember the pool of cheap foreign exchange which they were able to draw upon, and the "fairness" of the allocation system. Across the board, these businessmen remarked that the CIPs have been AID's most effective assistance program as evidenced by the publicity they received (especially since AID regulations require marking of all commodities with "AID handclasps"), the results they have achieved, and the birth they have given to other donor CIPs.

The GSDR has praised the performance of the CIP II and CIP III in keeping the private sector in business during a time of severe foreign exchange shortages. The GSDR is aware that the CIP financing reduced the private sector pressure on it to allocate its own scarce foreign exchange supplies to private businesses. But perhaps the most attractive feature of the CIPs to the GSDR is the way that they allocated scarce foreign exchange to productive private investments in the agricultural and industrial sectors. Another aspect of the CIP which the GSDR sees as a benefit is the fact that the import documentation for the CIPs (including the proformas and invoicing) makes the calculation of duties easier and makes under invoicing more difficult.

While support for the private sector was only one of the three objectives for USAID providing the CIPs there is a general recognition by USAID/Somalia that this aspect of the program has been successful. It is probably true that of these three objectives, strengthening the private sector has taken the backseat to economic policy reform in terms of Mission attention during the implementation of the CIPs. Even so, the Commodity Management Office which has retained almost exclusive responsibility for the private sector aspects of the CIPs, has accomplished a great deal. Its staff has met with and counselled a large portion of Somalia's private sector. They have also built a good working relationship (some over four years) with the 100 or so private importers who have utilized CIP financing, as well as the government institutions which support commercial activities in Somalia. It is unclear that the Mission was able to utilize the goodwill and broad based contact it developed with the private sector and related government institutions during the CIPs to effect the types of "strengthening of the private sector" implied in the CIP documents.

C. Impact of the CIPs on Economic Reforms

The conditionality attached to the CIP programs constituted an ambitious policy dialogue agenda. This was all the more the case given where Somalia was on the adjustment path. The GSDR structural adjustment program had begun way back in 1981. Most of the politically "easy" reforms already had been undertaken. What remained were the difficult reforms -- the so-called "sacred cows" on which the CIP programs focused. There simply were too many reforms, especially in light of the thin GSDR manpower base. Hides and skins, petroleum distribution, private sector banking, and the banana export industry, in particular, all constituted legitimate "sacred cows." The stage of the GSDR adjustment program suggested that we consider concentrating scarce policy dialogue resources on at most one or two issues.

The policy dialogue with the GSDR was framed within six covenants for CIP II and three covenants and two conditions precedent for CIP III. We should note that conditions precedent and covenants do not have equal footing. A covenant is not a requirement imposed on the host country; rather it is an article of good faith between the donor and host country.

Nonetheless, some impressive economic policy advances have been made, e.g., removal of import licensing, reductions in the civil service work force, establishment of a private trade organizations. On the other hand, in some areas while the GSDR complied with the letter of the agreement, it was less than forthcoming in terms of the spirit of the agreements. In this regard, we would note economic incentives for technical personnel in the civil service, stimulation of private savings and investment, export monopolies, and petroleum products distribution.

(1) <u>CIP II Conditionality</u>

(a) <u>IMF Stabilization</u>

Grantee covenants to adhere to the IMF stabilization program and any subsequent IMF program such as the forthcoming Extended Fund Facility.

Discussion:

GSDR performance relating to satisfaction of the covenant has been mixed. From 1981 through 1983, the GSDR successfully implemented two stabilization programs supported by IMF Stand-by Arrangements. The measures taken under these programs included adjustment of the exchange rate, fiscal and monetary restraint, and significant liberalization of agricultural prices and marketing. These measures contributed to some improvements in Somalia's economic and financial situation. Real GDP increases averaged 5 percent per annum, while the overall budget deficit (excluding grants) decreased from 17 percent of GDP during 1978-80 to less than 9 percent during 1981-83. Domestic credit expansion was moderated, and the inflation rate fell from 60 percent in 1980 to an average of 30 percent during 1982-83.

Somalia's economy, however, suffered a major setback in 1984 owing to the GSDR decision not to implement further policy reforms as identified under a draft IMF Extended Fund Facility arrangement, in addition to the suspension of cattle imports in the traditional Saudi market and the impact of the 1983 drought on domestic production. Consequently, the overall budget deficit rose sharply; public sector borrowing from the banking system doubled in one year; and the inflation rate reached a record 92 percent. Exports fell to 45 percent of the level recorded in 1982 and debt service arrears increased to about $190 million. As of year end 1984, Somalia's outstanding external debt was larger than its GDP.

(b) Reduction of Government Employment

Grantee covenants to reduce the central government's staff by hiring only half as many people as leave government employment during 1984.

Discussion:

Budget deficits in Somalia, which as a proportion of GDP stood at 9.3 percent in 1982, have been large. The "printing of money" to finance the deficits has produced inflation and drained scarce foreign exchange reserves. The large size of the civil service work force has contributed importantly to the deficits. A study commissioned by USAID argued for a 20 percent cut in the work force.

The GSDR has informed the World Bank that it reduced the number of civil servants by 3,000 each year in 1985 and 1986. Civil service employment, excluding defense personnel, had stood at 93,000 in 1985. The GSDR initiated a plan whereby released employees would be given either land (five hectares) or assistance in acquiring boats to become fishermen. Also, since July 1985, retired employees are not being replaced. Moreover, the GSDR abolished in 1983 the practice of automatic employment for all high school leavers, a practice that had contributed to a bloating of the civil service work force.

(c) Economic Incentives for Technical Personnel

Grantee covenants to initiate a review of the possible government reforms necessary to establish economic incentives to encourage retention of technically qualified personnel in major ministries.

Discussion:

Low levels of salaries have contributed to low morale and motivation of the civil service. This has been a major factor behind Somalia's weak economic management and fairly ineffective use of know how generated through the ongoing massive, donor-funded technical assistance programs. In short, a well-functioning and well-compensated civil service is a must.

As required under the covenant, a study of civil servant salaries and incentives was prepared in 1984. Commissioned by USAID, the study recommended wage increases of 500 percent. However, the recommendations made in the study have not been implemented. Aside from a 10 percent cost of living hike in 1980, some increases in allowances, and salary increases ranging from 26-40 percent accorded for low paid staff in January 1987, there has been no general rise in civil servant compensation in recent years. Given the considerable inflation that has taken place, civil servant salaries in 1985 were 15 percent of their 1977 level in real terms.

(d) Stimulation of Private Savings and Investment

Grantee covenants to continue to liberalize rules and regulations which act as disincentives to private savings and investment in Somalia. Specifically, the Grantee agrees to (a) initiate a study of the foreign investment code, (b) initiate a study of the feasibility of an auction system for foreign exchange transactions. and (c) liberalize the granting of domestic light industry licenses.

Discussion:

An initial GSDR review of the foreign investment code was undertaken in 1984. As a consequence, a revised private and foreign investment code was sent to Parliament where it was approved. The revised investment code reduces regulations and gives concessions to private firms. It is unclear whether a Presidential Decree authorizing the code has been made. In any event, no firm has yet to come forward and make use of the code's concessions. Somalia's economic and social infrastructural constraints may pose formidable obstacles to foreign investors.

A Mission-funded study of the foreign exchange system was undertaken. A foreign exchange system which produces a realistic exchange rate is a must; appropriate price signals must be sent. The overvalued exchange rate that the GSDR has been maintaining discourages exports and augments the demand for imports. The study, which pointed out many of the administrative obstacles which prevented the foreign exchange system from operating efficiently, may have helped pave the way to GSDR adoption of a foreign exchange auction. The foreign exchange auction, which during the period of its use was instrumental in promoting a more realistic exchange rate, however, has since been abandoned.

The GSDR has not announced any policy measures to liberalize the granting of domestic light industry licenses. The removal of such licenses would have eliminated an impediment to doing business in Somalia.

The covenant did not address the issue of interest rates. Appropriate interest rates are a key element in the stimulation of private savings and investment. In spite of recent increases, interest rates remain sharply negative in real terms; they are lower than the inflation rate. Interest rates that are negative in real terms discourage savings. They also result in credit allocations based on "creditworthiness" criteria, denying the less creditworthy credit.

(e) Efficient Import Procedures

Grantee covenants to review the USAID-established special system for import licensing and report on the feasibility of applying this approach or an alternative to all imports.

Discussion:

In the past, import licensing was an important constraint to productive sector activity in Somalia. Import licensing reduced access to requisite imports. Where those imports consisted of requisite capital inputs, growth was affected negatively.

As of January 1985, the GSDR has abolished licensing of imports as well as exports, subject to certain exceptions. On the import side, the few prohibited items are related to national security, morals, and drugs. There are also a few items that are subject to prior approval, e.g., alcohol, tobacco, medical and pharmaceutical products.

Export licenses had affected negatively the production of those items on which they were applied. Even with the liberalization of export licensing, some important restrictions on exports remain, e.g., bananas, hides and skins, frankincense, and myrrh.

We, however, expect some backsliding on reforms made regarding import licensing. Import licenses are likely to be erected in the near future, unless the GSDR moves to re-establish an exchange rate system that produces a realistic rate. The recent GSDR decision to peg the exchange rate artificially high will reduce foreign exchange availability. An overvalued exchange rate affects exports negatively and makes imports cheaper. Also, donor flows have diminished with the GSDR decision to fix the exchange rate and abolish the auction. Hence, to allocate scarce foreign exchange, the GSDR may have to resort to import licensing and quotas.

(f) Parastatal Reform

The Grantee covenants to institute a detailed study of a selected parástatals, agreed to by USAID, to identify the preferred sequence of events to increase private participation in that entity.

Discussion:

An inter-ministerial commission was established. In addition to conducting a study of public enterprises and making recommendations for their operation, the Commission is (a) preparing financial audits of all enterprises, (b) recommending measures to improve enterprises' operations, (c) seeking to reduce the number of enterprises, and (d) standardizing accounting procedures.

In 1984, employees of parastatals were brought under the labor code that applies to the private sector. Compensation is now determined by bargaining; the GSDR can offer production incentives to individual enterprises; and parastatals are free to hire and fire. Boards of Directors are being established for each enterprise to enable them to operate more autonomously. Foreign rehabilitation of some enterprises already has commenced, including the Mogadishu Dairy, the Juba Sugar Plant, and a cement factory.

However, the unsatisfactory performance of public enterprises engaged in agro-industrial or manufacturing production continues to result in a drain on the public finances. Operating at very low capacity, the enterprises report losses. Unable to pay taxes to the GSDR or meet their own financial needs, they thus rely heavily on bank borrowing. Improvement of parastatal operating efficiency is essential to Somalia's future economic and industrial growth. Although the GSDR has been committed to parastatal reform, progress has been very slow. While the GSDR agreed to assign parastatals to various categories for the purposes of rationalizing their activities, actual reform measures, even feasibility studies to determine the viability of individual enterprises, have yet to be undertaken.

(2) CIP III Conditionality

(a) Private Trade Organizations

Condition Precedent

Evidence that the GSDR has reiterated its announcement that individuals, private sector companies, and businessmen may organize independent private trade associations for the purpose of promoting economic, commercial, and industrial progress.

Discussion:

A pre-requisite for an improved economic climate in Somalia is the creation of private institutions which can support and nourish private enterprise. In this respect, a private businessman's association, most notably an active private Chamber of Commerce, is needed to act as an independent voice of private sector concerns to GSDR and as a conduit to deliver training, information, and other types of services to private enterprises. Such an organization, which would provide a mechanism for identifying policies which would stimulate both domestic and foreign investment, would constitute an important asset in furthering Somali development goals.

The first step towards an effective private Chamber of Commerce has been undertaken. The Ministry of Commerce has relinquished control of the Chamber and an interim Board has been appointed by the President of the GSDR. The Board will function until the Chamber is self-supporting and elections by the paid-up members can provide an independent elected Board. A local Young Presidents Club also is being formed by local businessmen and the U.S. organization. In addition, a Somali-American Business Council has been formed in Washington, D.C. and Somalia.

(b) <u>Private Banking</u>

<u>Condition Precedent</u>

Evidence that the GSDR has announced publicly that private banks are foreseen as part of the economic and financial reform in Somalia.

<u>Covenant</u>

The GSDR covenants to continue its progress toward liberalization in the services sector. To further this progress, the GSDR will develop procedural guidelines for the establishment of private banks and examine the regulatory requirements for having other private sector activities in the services sector.

Discussion:

Financial intermediation is extremely undeveloped in Somalia. Little competition exists; the provision of services thus is inefficient. The financial system discourages savings and investment. Many private sector businessmen want alternative sources for loans and other bank services. In large part, these difficulties can be attributed to the ownership of intermediaries by the GSDR. For instance, the only commercial bank in the country -- the Commercial and Savings Bank of Somalia (CSBS) -- is State-owned. It is considered to be inefficient, serving as an impediment to further development of the country's private sector. The CSBS has many shortcomings related to its limited capacity to evaluate loan proposals adequately, monitor use of funds, and recover repayments.

In addressing the condition precedent and covenant, efforts have focused on private banking. Initially, it was thought that State law precluded the establishment of private banks. Hence, the rules and regulations permitting the establishment of private commercial banks were prepared by the U.K. private banking firm of Samuel Montague under contract to the EEC. Enactment of the rules and regulations were awaiting final approval of the GSDR cabinet and the President. It now appears that some of these efforts were not required. At the time of nationalization of private banks in 1970, there was a law permitting the establishment of private banks. That law has not been rescinded, although it perhaps may require some revision to make it more current. To establish a private bank, central bank authorization is required. However, before the Somali Central Bank will authorize a private bank, it must have Ministry of Finance approval which in turn is contingent on Presidential approval. In sum, although overtures have been made by two private foreign banks, no private banks operate in Somalia.

(c) Export Monopolies

The GSDR covenants to continue its progress toward liberalization of the export sector. To continue this progress, the GSDR will undertake an analysis of remaining export monopolies (hides and skins, frankincense and myrrh, and bananas) to define the benefits and costs of these monopolies and to explore the effects of opening these commodities to competitive exports through the private traders.

Discussion:

In light of the thin export base, Somalia must maximize the production of those goods that it does export -- bananas, hides and skins, and frankincense and myrrh. SOMALFRUIT, a joint venture between the GSDR and DeNadai, the Italian conglomerate, has exclusive export rights for bananas which, after livestock, is the country's most important export. GSDR parastatals control the export of hides and skins and frankincense and myrrh. SOMALFRUIT and the GSDR parastatals undoubtedly pay the Somali producer less than the producer would get if he were operating in a competitive environment. Hence, production and thus exports are discouraged.

Only modest progress has been achieved regarding the covenant. Price increases totalling 50 percent have been accorded to producers of hides and skins, and the commodities can now be sold freely on the domestic market. However, the export monopolies on hides and skins as well as bananas and frankincense and myrrh remain.

(d) Petroleum Products

The GSDR covenants, prior to the purchase under this agreement of petroleum products, to make its intention known that it will permit private importers to import petroleum products. Procedures for this will be mutually agreed between USAID and the GSDR.

Dicussion

Given the significance of petroleum to the Somali economy, reforms in the purchasing, pricing, and distribution of petroleum are of considerable importance. For instance, petroleum imports account for 40 percent of the country's total imports. It also is an important productive sector input. In the past, the National Petroleum Agency was responsible for the importation of petroleum products, paying more for petroleum products than it probably should have.

The petroleum distribution system is still a monopoly. Only a few private entities have actually been able to import diesel oil. No private import of gasoline or kerosene is allowed.

D. Impact of the CIPs on the Public Sector

1. CIP Objectives for the Public Sector

In addition to the economic policy reform objectives listed above, CIP II and CIP III included two other objectives for the public sector. The first was to provide a source of foreign exchange financing for the public sector, especially for public industries. The other objective was to generate local currency for implementing policy reforms and priority development projects notably in the agricultural sector. Both CIP documents anticipated that 15% of the total CIP financing would be allocated to the public sector.

2. Foreign Exchange Financing for the Public Sector

The public sector in fact received much more than the targetted 15% of CIP financing. It utilized $22.7 million representing 52% of the total CIP II and CIP III funding through 11 import transactions for the first CIP and four transactions for the second.

Yet the number of public sector transactions were few; only 11 for the first CIP and four for the second. The three allocations for the National Petroleum Agency and IRAQSOM Refining Company to import petroleum, lubricants, and oil overshadowed all other transactions financed by the CIPs. These two public sector companies received roughly $16.8 million through both CIPs representing a little less than 40% of the all foreign exchange provided by both CIPs. The single allocation the Ministry of Finance to pay for the shipping services of PL 480 food was the next largest allocation to the public sector. Public sector industries, primarily those involved in processing agricultural products, also received ten allocations of foreign exchange to purchase spare parts and some new equipment. Table 4 below summarizes the utilization of CIP financing by the public sector.

Table 4
Distribution of Public Sector CIP Financing
($000's)

Sector	CIP II	CIP III	Total
1. Primary Agriculture (Supporting Ag Production)	43,000		43,000
2. Secondary Agriculture (Supporting Ag Processing)	383,500	507,700	891,201
3. Public Transportation	3,761,305		3,761,305
4. Public Industry	707,586		707,586
5. Petroleum (a)	215,950	16,666,961	16,882,911
Total	5,111,341	17,174,661	22,286,002

(a) Steel sheets were provided to the national petroleum agency to make oil tins.

All petroleum products purchased were financed under CIP III. The original design of CIP III anticipated an allocation of $9.0 million for petroleum products principally as a mechanism for delivering fast disbursing balance of payments support. This initial transaction commenced in September 1985, less than two months after the Conditions Precedent had been met. The IPAQSOM Refining Company, as a public company, received the foreign exchange at the official rate of SSh 40=$1. The second petroleum import allocation was to the National Petroleum Agency, also a public company, in May 1986 at the commercial bank a rate of SSh 84=$1 rather than the official rate of SSh 56=$1 (the official rate had depreciated since September 1985). The decision of USAID to apply the commercial bank rate was based upon the fact that, since these funds were being appropriated from the private sector allocation the GSDR should pay the commercial bank rate. This was reluctantly accepted by the GSDR.

Certainly the financing for petroleum products from the CIPs offered quick disbursing balance of payments support and a broad impact on the entire economy. Diesel fuels especially are important for transport, electrical power, and agricultural equipment. However, the refined gasoline (7 MT) financed under the second transaction was primarily used for consumption activities.

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The CIP II financing for the PL 480 shipping services also was another unexpected allocation to the public sector. Normally, the GSDR had been paying for all of the freight charges for PL 480 Title I Commodities from its own resources. Negotiations between USAID Somalia, the GSDR, and private businessmen were in progress to allow the private sector to finance freight charges since the GSDR did not have any foreign exchange to pay freight charges. These negotiations involved using private sector finance for the freight charges in return for an equivalent share of the food commodities once they arrived in Somalia. Approximately forty businessmen were involved. Their proposal was to put up their own foreign exchange for the estimated $5.0 million (pre-delivery figure) required to ship the 1985 PL 480 Title I. In return they were to receive an equivalent value of the food calculated at at world price plus shipping. The price of the food for these 40 businessmen would have been slightly lower than the auction price (representing a profit for loaning the GSDR foreign exchange). This arrangement would have pre-empted almost a quarter of the food supplies of the shipment leaving approximately 40% of the shipment to be auctioned. The private financiers were to be excluded from the food auction. However, due to an intercession of the Somalia Ambassador in Washington to AID/Washington, a decision was made by AID/Washington to finance freight from the CIP. This decision undercut the groundwork which was being set up to eliminate very large foreign exchange costs from the government budget (especially for food freight charges and petroleum products) by transferring them to the private sector. While private importers are now able to participate in the food auction, freight financing is still being obtained from donors when domestic financing could be arranged.

Public sector industries used CIP financing to revive sugar production and processing, rehabilitate the fishing industry, provide spare parts to the public pasta company, and expand the national telex system. While the CIP financing for the sugar industry was critical at that time and generated significant production and employment gains, the company has since closed due to the obsolete and worn out facilities and the prohibitive costs of rehabilitation. By contrast, the CIP financing which was used for the spare parts for the pasta factory were sufficient to restart the business which is still operating. The foreign exchange allocation to the Ministry of Posts and Telecommunications permitted the expansion of the phone and telex circuits to northern Somalia and with the international community. This improvement permits commercial transactions to be carried out more quickly and over a broader area. CIP financing for marine engine spare parts was allocated to the Ministry of Fisheries to repair marine engines in an estimated 2,500 boats owned by government which were to be sold to the private fishermen. These sales have taken place, although the exact number of boats transferred to private ownership is not known.

3. Local Currency for the Public Sector

CIP generated local currencies have been used to fund a variety of primarily non-agricultural development projects in Somalia because, PL 480 local currency generations can be used only to fund agricultural and health projects. In light of this, it is unclear why the CIP generations would specifically have been targeted for allocation to the the agricultural sector as well. These local currencies have had significant impact on the projects which received them, although not necessarily "development" impact. In addition, CIP generations have had some very modest, although largely indirect, policy impacts.

These funds have been administered by the Domestic Development Department of the Ministry of Finance and jointly programmed by the Generated Shillings Proceeds (GSP) committee, comprised of four USAID and four GSDR representatives. Prior to the beginning of each year, the Minister of Finance and the USAID director sign an Annual Program Budget Plan (APBP) that establishes the uses to which CIP generated local currencies (as well as local currencies generated by other programs) will be put. This APBP is approved by the Council of Ministers as well as the Parliament. CIP generations have been used to fund the local currency costs of all non-agricultural (as well as a few agricultural) USAID funded development projects (i.e., Kismayo Port, Family Health Service, SOMTAD, PIP, PVO Partners, CDA Forestry, and Refugee Self-Reliance) as well as the USAID "Trust Fund" which provides shillings for contractor support. (In addition, 5 percent of each CIP's local currency generations has been reserved for USAID operating expenses.) CIP generations also have funded a variety of non-agricultural, non-USAID-funded development activities proposed by the GSDR and agreed to by USAID. (See Table 5 for a list of USAID and non-USAID activities funded by CIP generations.)

Of the SoSh 2,255,187,000 in local currencies generated by CIPs II and III, SoSh 112,759,000 (5 percent) went to USAID operating expenses (OE). This left the remaining SoSh 2,142,428,000 for programming and disbursement by the GSP Committee. As Table 5 shows, approximately SoSh 1,750,000,000 has been allocated to development activities from 1984 to 1987. Thus, 83% of CIP local currency generations have been allocated to either USAID OE or jointly programmed development activities. As of the writing of this evaluation, the remaining 17% of the CIP generations are unaccounted for. A major recommendation of this evaluation team, then, is that USAID must account for the remaining approximately SoSh 390,000,000 in CIP local currency generations that have not been allocated.

TABLE 5
ANNUAL PROGRAM BUDGET PLAN
ESTIMATED CIP FUNDED ACTIVITIES

	1987*	1986	1985	1984
USAID-SPONSORED PROJECTS:				
AGRICULTURE				
Refugee Self Reliance	14,000	76,000	38,000	22,000
LIVESTOCK				
CDA Forestry	--	35,000	31,000	28,000
PUBLIC WORKS				
Kismayo Port Rehabilitation	250	3,500	30,000	--
HEALTH/POPULATION				
Family Health Services	4,000	--	--	--
Other	--	--	--	5,000
MANAGEMENT TRAINING				
SOMTAD	4,300	14,000	--	--
OTHER				
Policy Initiatives/Priv.	9,000	57,000	6,000	4,000
PVO Partners	3,000	32,000	--	--
RHUDO T/A	--	500	--	--
USAID Trust Fund	95,000	90,000	30,000	16,000
RESERVE	--	25,000	--	25,000
SUBTOTAL USAID SPONSORED PROJECTS	129,550	333,000	135,000	100,000

*Estimated 1987 disbursements; 1987 APBP lists "ESF" (i.e., CIP and Cash Sales Program) allocations together. Until the end of March, 1987, CIP proceeds were used to fund these activities; thereafter, Cash Sales proceeds have been used.

	1987	1986	1985	1984
GSDR-SPONSORED PROJECTS:				
LIVESTOCK				
Tse-tse Fly	6,300	22,000	18,000	--
Northern Rangeland	3,000	10,000	7,000	--
MINERALS AND WATER RESOURCES				
Mogadishu Water Supply	3,000	5,000	20,000	15,000
Other	--	2,000	38,900	16,600

PUBLIC WORKS				
Hargeisa - Borama Road	16,000	58,000	400	1,500
Jasira Power Station	2,000	13,000	700	--
Burdhubo Bridge	67,000	--	--	--
Baidoa/Kismayo Electrification	3,000	20,000	--	2,000
Other	--	--	52,000	109,000
TELECOMMUNICATIONS				
Mogadishu New Tel. & Telex	3,200	8,300	22,000	--
Other	--	24,000	9,500	13,500
EDUCATION				
Primary Education	1,000	22,500	12,000	--
Technical Sec. Education	--	34,000	20,000	--
Technical Teacher Training Col.	--	15,000	10,000	--
HIGHER EDUCATION				
SOMAC/SAREC	1,000	2,800	2,700	--
Sidam/Fresno	500	5,000	8,000	--
Other	--	--	70,000	41,000
NATIONAL PLANNING				
Statistical Base	100	700	700	--
Strengthening Human Resource	200	300	300	--
Assistance of Plan. Department	600	375	375	--
National Monitoring/Evaluation	250	1,000	500	--
MINISTRY OF FINANCE				
Domestic Development Department	1,500	5,000	1,000	430
MINISTRY OF FISHERIES				
Coastal Development	--	33,000	23,000	10,000
OTHER	29,000	--	46,000	67,000
SUBTOTAL GSDR-SPONSORED PROJECTS	137,650	281,975	363,075	276,030
TOTAL	267,200	614,075	498,075	376,030

TOTAL ALL YEARS = Sh 1,755,380

It seems fair to say that very little development impact would have been achieved in the absence of CIP-generated local currency contributions since alternative sources of funds were probably not available (i.e., in the absence of CIP generations, there likely would have been little or no activity at all). This is not to say, however, that with CIP-generated funds, significant development impacts have necessarily been achieved. That is, in many cases, CIP generations have been used to fund routine government functions, often those established by previous donor-funded development projects. Thus, funds have been used to maintain salaries and operations of one-time development activities that should have become a part of the Government's "ordinary" (i.e., recurrent cost) budget or eliminated. In these cases, then, development "impact" seems less appropriate a description of these activities' achievements that development "maintenance." In other instances of non-USAID funded activities (and even some USAID-funded ones, as in the case of Kismayo Port), CIP generated local currencies have been used to fund capital expenditures (e.g., Burdhubo Bridge, Mogadishu Water Supply, Jasira Power Station, Hargeisa-Borama Road, Baidoa-Kismayo Electrification). These construction activities undoubtedly have a developmental impact.

Regarding the development impact of CIP generations on USAID-funded activities, in general it can be said that, to the extent CIP generations have paid for Somali staff salaries and benefits (such as improved office environment, expanded and more comfortable travel opportunities, etc.), these local currencies have "bought" greater motivation, participation and cooperation in achieving project goals. In the absence of these local currency payments, USAID-funded projects may have been able to achieve far less - or may have had to convert dollars to shillings to achieve the same result. CIP generations provided through the USAID Trust Fund also have saved foreign exchange in contractor support; all U.S. technical assistants resident in Somalia benefit from CIP generations in the form of house rentals, vehicle maintenance and other services. The benefit of CIP generations, then, has been largely to save USAID projects dollars and to allow the GSDR to meet its local contributions without further taxing its already over extended "ordinary" budget. In this regard, then use of CIP local currency generations has contributed indirectly to balance of payments and stabilization objectives of the CIPs and the broader mission program. The budget support objective of CIP local currency generations certainly has been directly achieved.

Regarding the ability of CIP local currency generations to address other broader policy issues, the most notable achievements have been in the opportunities to address some policy issues, particularly GSDR budgeting procedures. Although progress is slow, inroads have been made in discussing and implementing improved budgeting techniques. This progress has been supported within the Ministry of Finance (MOF) through the efforts of all full time Domestic Financial Advisor, funded by USAID, who worked on a daily basis with the Domestic Development Department and others in the MOF.

No CIP local currency generations have been programmed directly for private sector use (although the Policy Initiatives and Privatization project, as evidenced by its name, has used CIP generations to address private sector issues and needs, and a number of private sector contractors have received CIP generations in payment for development project activities).

The CIP local currency generations programming and disbursement system is very labor intensive. The GSDR often has had very different priorities than USAID in the potential use of these funds. While undoubtedly USAID could have done more to encourage the programming of these funds to more policy-oriented activities (e.g., such private sector development efforts as credit facilities and management training), these achievements could only have been made with far greater investment of USAID staff time. Given USAID staffing constraints, USAID has considered the CIP generations have been programmed and disbursed relatively effectively and efficiently. The discovery of approximately SoSh 390,000,000 in missing CIP generations as a result of this evaluation obviously casts some doubt on that assumption. More accurate accounting for all funds throughout the last several years as well as greater policy direction and development impacts as a result of CIP generations would have required a larger USAID staff effort more closely connected to the administration of the CIPs themselves.

E. PROGRAM MANAGEMENT OF CIP II AND CIP III

1. Staff for Managing the CIPs

USAID Somalia maintains a Commodity Management Office staffed by a direct hire officer responsible for: 1) monitoring the CIP program; 2)advising the GSDR ministries and importers on AID procurement regulations; 3) assisting importers to identify commercial suppliers that can meet their requirements; and 4) maintaining a commercial library. He is supported by a Somali counterpart with a broad range of contacts in the private sector and government ministries. The CMO also has a full time secretary.

The CMO and his staff have successfully arranged for the allocation and disbursement of $43 million under CIP II and CIP III. This does not include the nearly $20 million from CIP I that was still being disbursed at the same time CIP II was signed. Although the number of transactions for CIP II was over twice that of CIP III, the large number of private sector imports for CIP II required continued support through most of the period covered by the CIP III. In addition, due to Somalia's relative isolation and poorly developed communication services, each procurement action has been relatively more difficult than in most other parts of the world.

The GSDR structure for managing the CIPs consisted of representatives from the Ministry of Commerce, Ministry of Industry, and Ministry of Finance. Each ministry had designated staff who would be responsible for sitting on the Selection Committee and maintaining records of applications and allocations. In addition, technical ministries, such as the Ministry of Agriculture, were invited to attend the Selection Committee meeting when their expertise was required. The evaluation team had the opportunity to review the records of the Ministry of Commerce and was impressed with their thoroughness not only for the USAID CIPs but also for those of other donors as well.

Overall, the performance of the USAID and GSDR management of the CIP programs has been very satisfactory. During interviews with both private and public importers, they indicated that they had a clear understanding of the CIP's implementation process and expressed their satisfaction with the general system. Perhaps more telling however, is the fact that other donors have based their CIPs on the system established by USAID. In this case replication, besides being the highest form of flattery, points out the real value of the CIP II and III management system.

2. Review of the CIP Procedures

While the general satisfaction with the CIPs has been clearly articulated to the evaluation team, there have also been numerous suggestions on how the CIP procedures might have been improved. These are briefly summarized below.

(a) Applications for Financing

All applications for CIP financing were received by the USAID Commodity Management Office. These arrangements were favorably viewed especially by private sector businesses. There were suggestions that the proformas required from the U.S. suppliers be reviewed. There was a general feeling that U.S. suppliers were not interested in providing goods to Somali importers. Numerous instances were reported where the importers spent large sums of money sending telexes to U.S. manufacturers without even a reply or in other cases U.S. suppliers referred them to their overseas subsidiaries, who are ineligible under CIP regulations.

(b) Allocation of Funds

There has been broad agreement among both private and public importers that the allocations for the CIPs were fair and above board. Some public importers were concerned about the "first come first serve" policy of the USAID-financed CIPs, and they would prefer a more "allocative" system. This however was a minority view. It should be pointed out that there is already an allocation system in the CIP in that there are funds set aside for both public and private sector with clear priorities for the productive uses of those funds. There is a danger that any more "set asides" would result in a slower disbursement of funds.

(c) Deposits of Local Currency

The introduction of the 50-50 percent deposit system was initiated with CIP III. This system required 50% of the local currency equivalent to the CIF value of the imports plus the U.S. banking charges (.5% of CIF) to be paid prior to the issuance of the L/C and the other half when the goods were delivered in Somalia. Previously, a 100% deposit was required prior to the issuance of the L/C. The USAID system never failed to obtain the full local currency deposit for any import for public or private sector since both the issuance of the L/C and the clearance of goods from port required a local currency deposit slip. This system used a fixed rate for determining the local currency deposits set at the rate of exchange on the day of allocation. A more general concern was that the local currency deposit for manufacturers was more harsh than for other importers whose cash flows are better off because of fast turnover items such as cement, steel rebar, and other construction materials. The Ministry of Industry suggested that the CIP could have been more effective if it had required manufacturers to put one third down at L/C, one third at the time goods are received, and the final third six months later.

(d) Form 11

Perhaps the most vocal complaints of all the importers was directed at FORM 11. This form is required under AID Regulation 1 and therefore has been a part of both CIP II and CIP III. Suppliers are required to fill in details about the commodities to be imported, send this form to AID/Washington for their approval and signature, get the form back from Washington and finally submit it with other payment documents to the U.S. Bank. The intent of this form is to assist U.S. Government offices to measure U.S. exports and also the eligibility of the commodities under AID Eligibility Listing. Non-U.S suppliers have difficulties understanding the purpose and the processing requirements of this form. As a result many suppliers have either failed to fill in the form or delayed submitting it to the bank with their other payment documents. According to importers, this has produced a loss of good will in some cases causing them to losing supplies. Since most of the procurement was non-U.S., there was probably little use of the Form 11 to measure U.S. exports.

(e) Shipping Procedures

Shipping under the CIPs have been a major problem because of the Cargo Preference Act. This act requires at least 50% of the tonnage and 50% of the dollar value of U.S. Government financed commodities to be shipped on U.S. bottoms. Somalia is not served by U.S. shipping lines except on very rare occasions when they deliver PL 480 food. U.S. shipping in any case is considerably more expensive than all other carriers and for obvious reasons, is not attractive to importers. Under CIP II, AID/Washington approved a one year blanket waiver of U.S. shipping from South and East Asia. This waiver was fully utilized by Somali importers for that year.

The U.S. shipping requirements are particularly detrimental to the Somali private importers who are, for the most part, small manufacturers. Encouraged by U.S. requirements to obtain competitive quotations from three or more sources, these importers can find themselves paying more for the U.S. non-competitive shipping than the product itself. One importer related the case where his original proforma quoted shipping out of East Asia was $22 M/T, however, at the time of shipment, he was told that the goods must be shipped on a U.S. bottom at a cost of $150 M/T. Since all the CIP funds had already been committed and his allocation was provided on the basis of non-U.S. shipping he was forced to come up with most of the extra cost from his own pocket. It was clear to the evaluation team that the high cost of U.S. shipping discourages local importers from using U.S. suppliers.

(f) Sourcing Requirements

There has been a great deal of controversy concerning the sourcing of CIP commodities from the developing countries among Somali importers and government officials. There was some suspicion that that quality of imports from these countries were substandard. It should be pointed out that, prior to the CIPs, Somalia's trading partners were primarily from Europe, especially Italy. Therefore when the initial orders for imports were made, the Somali's looked first to their old trading partners. In some cases, for instance the procurement of spares, this was necessary. However, when imports involved new machinery or raw materials, several Somali importers found very good sources of supply in the developing countries of South and East Asia. For example, cement purchased from Taiwan at $60 M/T was found to be of much higher quality than that previously supplied out of Europe at $42 M/T. The suppliers out of South East Asia have also proved to be technically capable and competitively priced to deliver small manufacturing and agricultural processing equipment. Several local entrepreneurs are starting new manufacturing businesses with CIP financed machinery from developing countries. These entrepreneurs have indicated that they are pleased with the quality, price, delivery time, technical support and short start up time for installation and commencing operations. One person indicated that his operations were able to reach full production within 6 months after the equipment had been installed and that comparable machinery from traditional sources took 2-3 years. Therefore, it does appear that sourcing from developing countries has proven beneficial to Somalia and that their views concerning other developing countries will likely improve with growing familiarity.

The lack of commodities purchased from the U.S. has been particularly disappointing. There have been several factors which have contributed to this situation. Price factors include the high rate of the dollar compared to other currencies during the implementation of CIP II and III and the high cost of U.S. shipping. Non-price factors have also been impediments to more U.S. procurement. The fact that U.S. suppliers in many instances failed to respond to the requests of local importers for proformas perhaps is indicative of the U.S. interest in the Somali market. To be fair to the U.S. supplier they are normally not interested in the small quantities of goods required by the Somali importers. Likewise, many of the raw materials, such as wattle (used for tanning), coconut oil, and resins and equipment for small industries are not areas where the U.S. has many or large suppliers. Where U.S. suppliers did express an interest in participating, they referred the Somali importers to their non-U.S. subsidiaries who normally handle the Africa market.

Under the CIP III, special efforts were made to procure $10 million of lubricants, grease, and finished petroleum products from only the U.S. AID/Washington (SER/OP/COMS) made a formal solicitation to U.S. suppliers and received no response. Subsequently, the procurement was awarded to local businessmen who supplied the goods from Europe and the Gulf states.

(g) Payments Procedures

Another area where Somali importers feel that the CIPs could have been more effective is in terms of streamlining payment procedures. Payments to suppliers were made by L/C issued by a U.S. bank upon the instructions of the Commercial and Savings Bank of Somalia. Requests for payments by suppliers required them to submit bills of lading, commercial invoices, copies of marine insurance policies, AID Form 282 and AID Form 11.

It appears that the major problems in the CIP II and III payment systems were late and inappropriate documentation which caused delays in processing and final payment by the U.S. bank. In examining the copies of L/Cs issued by U.S. banks it is not difficult to understand why suppliers in developing countries had problems interpreting the AID requirements. The language of the L/Cs were in some cases vague and instead of summarizing the AID requirements, they simply attached copies of AID Regulation 1. These attachments contained a great deal of legal language, outdated AID definitions, and a list of Code 941 countries which were no longer valid. In addition, U.S. banks took long periods of time, 1-4 months, to amend L/Cs and issue replacement of lost L/Cs. The performance of Manufacturers Hanover Trust for CIP II and Citibank for CIP III was equally discouraging. It is true that the U.S. Government credits which are processed by the U.S. banks are much more detailed and intensive. Some estimate that ten commercial L/Cs could be processed in the same time that it takes to process one U.S. Government credit. Somali importers are correct in highlighting this as a problem area for CIPs II and III, and AID should recognize that it must play closer attention to the initial L/Cs which are issued to insure they are easily comprehensible.

(h) Records and End Use Audits

The records of CIP II and CIP III transactions have been well maintained. Arrival accounting records at the Somali ports are available at the port authorities, although their system is for the most part very informal. USAID maintains files on each CIP transaction. These records include: all the proformas, bills of lading, commercial invoices, insurance certificates, local currency deposit slips, instructions to the U.S. bank to issue L/C, a memo on arrival accounting and amendment documents. The GSDR maintains records on all import items by importer name, dollar value, and type of commodity. The State Insurance Company also maintains records of import documentation for all CIP transactions. The GSDR Customs Office maintain copies of all records for the purposes of tariff collection.

USAID Somalia undertakes end use spot checks on all commodities financed under the CIPs. This includes on-site inspections for all machinery, manufacturing raw materials, construction materials, and transport and heavy equipment. There have been a number of imports financed by the CIPs, especially for the private sector, which are not easily inspected on an item by item basis. These commodities include vehicle batteries, tires, vegetable seeds, spare parts, water pumps, and bicycles. Rather than to follow each of these items to the end user the CMO has utilized spot checks for each of these categories. This approach would appear to be the most reasonable given the logistical difficulties in Somalia and the shortage of USAID staff time.

(i) Relationship of the CIPs to Other USAID Programs

The program assistance provided through the CIPs supported a broad range of sectors across the economy. USAID-financed project assistance has supported some of these same sectors. In considering the issue of how well the Mission managed the CIP, we have examined the linkages which have been developed between the CIPs and other parts of the USAID/Somalia portfolio. Given that the Missions theme of "increasing the participation of the private sector in development" was incorporated as an objective of the CIPs, the evaluation has focused on the extent to which the private sector opportunies created by the CIP were utilized by other USAID projects as a mechanism for promoting this objective. At the outset it is important to highlight that probably no formal linkage between the CIP and individual projects could have been expected. At a more informal level, however, two points bear further consideration. First, did the Mission recognize the complementarity between private sector CIP imports and their project portfolio with respect to increasing private sector participation in development? Secondly, did it consider any options for capitalizing on this complementarity? A listing of the CIP commodities groups and and their relationship with other USAID projects is provided below.

(1) Agricultural Inputs: The CIP was used by both public and private importers to purchase seeds, insecticide sprayers, tractors, implements, agricultural hand tools, and heavy equipment. These inputs complemented both the Agricultural Delivery Systems Project, the Bay Region Agricultural Development Project, and to some extent the Refugee Self Reliance Project. The private importers offered an excellent resource for expanding private sector participation for marketing agricultural inputs such as seeds, hand tools, and tractors. Private sector importers also opened opportunities for increased cash crop production by expanding commercial land clearing, making water pumps available for irrigation, and introducing new varieties and improved quality of seeds. The evaluation has found no evidence that any of these ideas were identified or explored by the Mission.

(2) Livestock Inputs: Private sector importers used CIP financing to purchase animal medicines, bonemeal milling machinery, and animal feed equipment. Another important contribution of the CIP was to obtain GSDR approval for the particapion of private businessmen to market non-injectable veterinary supplies. The animal feed equipment and bonemeal machinery relate very closely with the activities of the Livestock Marketing and Health Project. This is one area where the Livestock Project might have utilized the CIP-financed resources of the private importer to fulfill its objectives of incorporating private enterprise into the livestock sector.

(3) Water Extraction and Distribution Inputs: The CIP financed private imports of water pumps, steel casing, screens, and spare parts for drilling rigs. The imports complemented the inputs provided under the Comprehensive Groundwater Project and the Bay Region Agricultural Development Projects. This is one area where the Mission with technical assistance from LBII developed a plan to utilize the private sector, which had been considerably strenthened through the CIP, in Somalia's water development programs. With the closure of the CIP III and its ability to support the foreign exchange requirements of the plan, it has been put on the shelf.

(4) Health Supplies: The CIPs helped to establish privately owned ancillary health facilities including a medical testing laboratory and optical lens grinding and sales of eyeglasses business. These types of services are in the same sectors as the Primary Health Project and the Family Health Services Project although not closely related. It would appear, however, that these private services might have some value as a model to USAID financed health projects on how private sector participation could be increased in the health sector.

In summary, while the Mission made a great deal of progress in "strengthening" the private sector through the CIP, it misseo several opportunities to utilize this new strength in some of it own financed development projects.

V. LESSONS LEARNED FROM CIP II AND CIP III

A. The Use of Conditionality

A CIP mechanism can be used to promote economic reforms in the Somali context. In the case of CIP II and III, a number of significant policy reforms have been encouraged, most notably in the areas of (a) reduction of government employment, (b) introduction of efficient import procedures, e.g., the removal of import licensing, and (c) the establishment of private trade organizations. More modest gains were achieved in encouraging stablilization through support of IMF agreements, producing a revised foreign investment code, and rationalizing parastatal enterprise. Notable failures consisted of (a) enhancement of civil service motivation through the provision of greater incentives, (b) removal of the export monopolies on bananas, hides and skins, and frankincense and myrrh, and (c) the establishment of a private bank. In part, the failures can be attributed to the highly ambitious policy dialogue. There were simply too many conditions precedent and covenants.

Clearly, the areas in which we achieved the greatest economic policy advances were those where we took a "hands-on" approach. The success achieved in encouraging the GSDR to reduce the size of the civil service is probably the best example. USAID was out front on a multi-donor supported effort to rationalize the size of the public sector. A product of this exercise was a Civil Service Report. While the GSDR has been unable to implement the salary increases called for in the report because it simply does not have the money, it has been able to reduce the number of civil servants by 3,000 each year in 1985 and 1986, adopt in 1985 a policy of not replacing retired employees, and abolish the practice of automatic employment for all high school leavers. Another good example is the spade work initiated in setting the stage for an active private sector Chamber of Commerce. In both cases, the substantial "hand holding" paid handsome dividends.

On the other hand, in those areas where a notable lack of success was reported, e.g., export monopolies and private banking, strong vested economic and political groups were well entrenched. In the case of bananas, there is involvement of a parastatal and an Italian conglomerate, in addition to complexities related to relations with the former mother country. The Somali Leather Agency, as a parastatal, has exclusive export rights for hides and skins. As for a private bank, it would have to knock heads with the GSDR-owned Commercial and Savings Bank of Somalia -- the only commercial bank now operating in Somalia. Significant policy dialogue resources would have to employed if headway were to be made in dislodging these strong, vested interests.

B. Using CIPs for Private Sector Development

Although the CIPs made considerable progress in strengthening the private sector the Mission could have done more and, perhaps more importantly, missed several key opportunities for increasing private sector participation in Somalia's development.

The CIP mechanism does a number of things very well. The importance of foreign exchange made available to the private sector through the CIP cannot be overstated. There has been no other official source of foreign exchange for private importers to use (CIP III predates the GSDR Auction). The CIP mechanism has also been very effective in opening up new areas of imports which had been previously the strict reserve of the Government. CIP II and III firmly established agriculutal inputs, agricultural tractor and implements, vehicle spare parts, tires and tubes, animal medicines, sewing machines and yarns, and construction materials as legitimate areas for private importers. Another important impact of the CIP's has been its success in financing new agricultual processing and manufacturing businesses. While there are no firm quantitative estimates of production and employment increases attributable to the CIP there a numeous anecdotal examples above which clearly illustrate the impact of the CIP in these areas. The CIPs have also been very effective in introducing Somalia to new trading partners.

The effectiveness of CIP II and III as a mechanism for promoting policy reforms beneficial to the private sector has been mixed. Although the CIP documents anticipated several GSDR policy reforms which would increase private sector participation in the economy, very little progress was made on any of these. The general poor performance in achieving policy reforms related to the private sector can be explained by two factors. First, there is a real reluctance on the part of the GSDR in relinquishing its control of the economy, and any policy reform related to the private sector needs a great deal of prior consultation and clear understanding by both parties on how these reforms could be implemented. Second, there were probably too many policy reforms tied to a single program(s).

Even when unexpected emergencies arise, additional allocations to the public sector should be scrutinized for their impact on the private sector and in relation to the objectives and covenants established in the project documents. The Mission missed opportunities for getting the types of private sector particpation in the economy implied in the project documents. Two instances stand out clearly. The first was the public sector purchase of petroleum. This purchase stood in stark contrast to the Grant Agreement which covenanted the GSDR to allow private participation in the market for petroleum products. Even if the Mission was concerned about quick disbursement for balance of payments support it could have been more insistent about using private marketing arrangements for the petroleum deal. After $17 million of petroleum purchases under the CIPs GSDR policies with respect to private sector involvement in the markets for petroleum markets have not changed at all. Another similar situation arose when CIP II financing was used to permit the GSDR to pay PL 480 freight charges instead of using private sector financing. This action seriously setback efforts to eliminate foreign exchange costs in the government budget by transferring them to the private sector. Finally, there were probably opportunities to utilize the private sector businesses supported by the CIP in other USAID financed project activities.

While setting targets for allocations between private and public sectors establishes an intent, based upon CIP II and III experience there is a clear idea how arbitrary these figures can be. The overall impact of the CIPs on the private sector was reduced by the fact that the allocations to the private sector were only a little more than one half of the amount anticipated in the project documents. In the end, the need to provide a quick infusion of foreign exchange to ease Somalia's balance of payments difficulties proved to be much more important to the GSDR and the Mission than the private sector objective. Perhaps this was most clearly illustrated by the massive petroleum purchases financed under CIP III. In early 1986, with disbursement under the CIP legging, $8.2 million of CIP financing was transferred from the private sector allocation to the public sector.

Methods of using local currency to support private sector should be explored. Local currency generated under the CIP II and III have been used very little for the activities directly related to the private sector.

C. Streamlining CIP Procedures

While there are bottlenecks in the CIP procedures, they principally affect the suppliers much more than the importers. The in-country procedures although elaborate, are established to maintain fairness in the system. The effectiveness of the CIP system in attracting the participation of "all the good ideas" of Somali importers depends upon their perception that the CIP will give them a "fair shake". These elaborate procedures work smoothly and efficiently because they are supported by the full time services of a USAID Commodity Management Officer. Suppliers, especially from developing countries, face numerous requirements associated with AID Regulation 1, without prior experience with this Regulation or access to someone who can interpret its information for them. The opportunities for streamlining CIP procedures are those associated with suppliers payment documents and freight shipment.

A copy of Form 282 should be signed only by the supplier. The purpose of Form 282 is to allow the U.S. Government to collect for overcharging. Presently both the supplier, the master of the shipping vessel or shipping agent, and the insurance agent are required to sign Form 282. The basis for requesting that the supplier be the only responsible party is the fact that the supplier accepts the quotes for the freight and insurance charges as part of his/her quotation. Since this is a agency wide regulation the Mission would be required to negotiate this change with AID/Washington SER/OP.

Form 11 should be omitted from the required payment documents or at least re-routed to go from AID/Washington to the U.S. Bank. The purpose and the problems associated with Form 11 are outlined in Section E 2 (d). While the best case scenario is to eliminate it from the required payment document it is another part of AID Regulation which may prove resistant to change. If AID/W after giving its approval, sent the Form to the U.S. bank, one entire step, measured in thousands of miles, is eliminated.

A blanket waiver for non-availability of U.S. bottoms should be issued for areas that are not serviced by U.S. flag. These areas would include South and East Asia. This would save the Mission and suppliers a great deal time in requesting AID/Washington for a waiver for each transaction.

D. Encouraging U.S. Exports

The poor representation of U.S. suppliers in the CIPs calls for a reexamination of the opportunities for U.S. manufactured products and raw materials in Somalia. Only $6.5 million out of the $43 million provided by CIP II and III originated in the U.S. Of this $3.7 was tied to the U.S. shipping of PL 480 products. Some of the reasons for the low U.S. participation is highlighted in Section III.E.2(f) on page 33.

Once it is apparent that U.S. suppliers are not responding to requests for them to participate in the USAID financed CIP, options should be explored to increase U.S. procurement. Ideally, this would be done at the design stage or later if necessary. Some of the options which could be implemented include, but are not limited to, the following:

-using a trade mission of U.S. businessmen, familiar with small businesses in the areas of agricultual processing and small scale manufacturing, to identify products in Somalia which could be supplied from the U.S. market;

-expanding the eligibility of items which can be CIP financed to include areas where the U.S. is more competitive such as food, paper products, and raw materials such as cotton;

-although not desirable, earmarking a certain portion of the CIP for U.S. procurement only.

ANNEX 1
SCOPE OF WORK
FOR THE EVALUATION OF
COMMODITY IMPORT PROGAMS II AND III
(649-K-603 and 649-K-604)

A. BACKGROUND TO THE EVALUATION

Since 1982, USAID/Somalia has implemented three Commodity Import Programs (CIPs). The first CIP for FY 1982 was evaluated in April 1984. The Commodity Import Programs for FY 1983 and FY 1984 have now been fully disbursed and USAID intends to review the performance of these programs. As the time and resources for this evaluation are limited, the evaluation team should be selective in its research and its reporting to the Mission, focusing in particular on key impacts.

B. PURPOSE OF THE EVALUATION

The purpose of the evaluation is to measure the effectiveness and the efficiency of the FY 1984 and FY 1985 Commodity Import Programs as mechanisms for U.S. development assistance.

C. STATEMENT OF WORK

1.Assess the macroeconomic impacts of the CIPs in Somalia. Particular emphasis should be placed on the analysis of CIPs effects on Somalia's balance of payments, foreign exchange reserves, economic growth, imports, consumption patterns, and U.S. share of the market.(Harrison)

2.Analyze the impacts of the CIPs on private sector growth and develpment. In partiuclar, note changes in production, productivity, exports and employment that resulted from CIP commodities.(Jeffers/Tani)

3. Based on the experience of CIP II and III, assess the CIP assistance mode in terms of encouraging economic reforms and facilitating policy dialogue. Specifically, relate the intitial conditions precendent and covenants to the economic reform programs which have been implemented.(Harrison)

4. Assess the developmental impact of the CIPs with respect to public sector development programs. Analyze the impact of both the foreign exchange and local currency resources made available to public sector through the CIPs. (McPhie)

5. Examine the management of the CIPs with respect to the size and composition of support staff, complexity of tasks, and total time required to support the programs.(Jeffers/Tani)

6. Based upon the findings in 1-5 above, assess the appropriateness of the CIP's for Somalia and document any "lessons learned". (Jeffers/Tani/Harrison/McPhie)

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D. METHODOLOGY

The team should work cooperatively in completion of the statement of work. Given time constraints, it is recommended that the team internally determine a division of labor appropriate to the skills of the individual team member, each working on a specific aspect.

As time allows, the team should cover as much of the Statement of Work as possible. Particular emphasis should be placed on documenting the impacts of the CIPs (as outlined in points 4 and 5 of the Statement of Work). In addressing private sector impacts, the team should visit selected private sector CIP beneficiaries to assess the appropriate use of commodities received as well as document private sector opinions on and reactions to CIP experiences.

E. REPORTS

The team's report should be concise and focused. The report should emphasize key factors in the design and implementation of CIPs that have led to key impacts (or, if appropriate, lack of impacts).