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LESSONS FROM EXPERIENCE

A REVIEW OF AFRICA BUREAU COMMODITY IMPORT PROGRAMS 1980 - 1987

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FOREWORD

Commodity Import Programs, or CIPs, are a form of nonproject assistance (NPA) that has been used in sub-Saharan Africa for many years. CIPs have been used to provide for the disbursement of foreign exchange to economies in which it has been in critically short supply at a rate appreciably more rapid than can be accomplished with assistance in the form of projects. Almost invariably, the stability of the economies of recipient countries also has been judged to be of relatively high importance to the foreign and national security interests of the U.S. Government. Moreover, procurement regulations have insured that the great majority of the aid provided in the form of CIPs has directly benefitted U.S. exporters.

Prior to the mid 1980s the NPA status of CIPs, together with their source of funding -- the ESF Account -- had exempted CIPs from many of the administrative requirements exacted for project assistance, including those for periodic evaluation of performance. Given the increased use of CIPs during the early and middle years of the 1980s, however, as well as growing concern over the developmental content of the programs, Congress passed a requirement that all CIPs obligated during fiscal years 1986 and 1987 be evaluated for their performance in meeting the long-term development needs of recipient countries.

More recently, the Development Fund for Africa has challenged the Bureau to examine objectively the effectiveness and impact of its development assistance to sub-Saharan Africa, including NPA activities. Based upon those findings, the Bureau should make whatever adjustments are required to improve upon the efficiency and effectiveness of the official development assistance that it provides.

The present evaluation was undertaken in this spirit. Given the continuing, though diminished, importance of CIP Programs, together with other forms of NPA in the region in recent years, as well as the database provided by the evaluations undertaken in 1986 and 1987 to comply with the Congressional requirement, a synthesis of our experience with this important mode of assistance during the 1980s is essential. The evaluations examined here, which include the few undertaken prior to the Congressional requirement, permit a basis for future action. The assumptions underlying our CIP Programs have been re-examined and suggestions for modifications have been made. The implications for future assistance are clearly drawn. The suggestions encourage us to take full advantage of this extremely flexible mode of assistance by incorporating features into the design of future programs aimed at maximizing the achievement of their objectives in the most efficient and effective manner possible.

INTRODUCTION

In January, 1991, the Africa Bureau of the U.S. Agency for International Development (A.I.D.) initiated a study designed to synthesize the findings of the sizeable number of evaluations of the impact of its assistance in the form of Commodity Import Programs undertaken during the 1980s. The synthesis was conducted for the following reasons.

- **First**, A.I.D. is responsible for ensuring that its assistance to Africa is as effective as possible. This involves looking not only at the efficiency with which A.I.D. funds are disbursed to host governments, but at the impact that these funds have on people's lives over time.

- **Second**, the Foreign Economic Assistance Program of the U.S. Government has limited resources to provide and it is both fitting and proper that the search for the best way to apply those resources be constant. This involves periodic examination of our experience in order to learn ways in which our performance can be improved.

- **Third**, CIPs have historically played, and continue to play, a significant role in efforts to stabilize the economies of countries in which the U.S. has important foreign policy and/or national security interests.

- **Forth**, based on our experience with CIPs, there are lessons to be learned. Theories will be refined or disproved and implementation methods will be tested and modified so as to avoid undesirable effects in the future.

In order to fully understand the U.S. experience with CIPs in sub-Saharan Africa during the 1980s, it should be noted at the outset that the programs seldom had been employed there prior to that time. Thus, in most of the countries in which they were being implemented they were in a start up phase. As a consequence, the traditional groups with whom the programs worked were unfamiliar with their procedures. Given the many logistical arrangements that had to be first negotiated with the various host governments and then conveyed to eligible beneficiaries, the task facing Africa Bureau personnel, both in A.I.D./W and in the field, in starting up such programs were formidable indeed. This is especially true when one recalls that the implementation of CIPs had been previously restricted, in general, to countries in Europe, Asia, and Latin America that were at a significantly more advanced level of economic and commercial development than was true in Africa. Infrastructure, both physical and human, with which the CIP designers and administrators had to work, was spread relatively much thinner there than in the other areas where the programs had been successfully undertaken previously. Likewise, private sector businesses and commercial institutions, including the banks, were generally weaker than had been the case elsewhere.

Then too, in contrast to CIPs implemented previously in other geographic areas, the target countries had relatively few ties with the U.S. on any level other than diplomatic relations. Perhaps of greatest importance from the standpoint of implementing a CIP, there had been little U.S. foreign investment there, and, consequently, there was very little capital equipment of U.S. origin installed. Moreover, there were few established commercial ties or direct trade links, including shipping and airline routes, between the U.S. and the African countries. Thus, even in the unlikely event that an African enterprise had acquired equipment of U.S. origin, it generally could obtain access to spare parts or authorized repair facilities only with great difficulty, if at all. Then too, enterprises in the former colonial powers, such as the U.K., France, Belgium, and Italy were generally aggressive in protecting their existing commercial trade and markets from encroachment by others.

Finally, as a latecomer in implementing CIPs, the Africa Bureau itself was, at least initially, relatively inexperienced with the programs. Key personnel, including economists and commodity management specialists, who were also fluent in the host countries' languages, such as French and Portuguese, were in very short supply, both in Washington and in the USAIDs. The situation did not improve appreciably prior to the middle of the decade.

In combination, these obstacles forced the Bureau to be relatively flexible in adapting CIPs to the region. The previous dearth of information concerning the prior use of CIPs in the Agency leads to caution in arriving at conclusions about just how innovative the Bureau was in the process. Based upon the author's conversations with officials who have worked with the programs over a period of several decades, however, it appears that many of the efforts made to adapt CIPs to the realities of sub-Saharan Africa were either new, or had seldom been tried in precisely the same way previously. These innovations, which will be discussed in greater detail during the course of the study, include the following.

- New programs were started up and sustained in two countries -- the Seychelles and Mauritius -- where there were no A.I.D. offices from beginning to end.

- The Seychelles and Mauritius programs were also unique from the point of view that each was limited to a single commodity and each restricted importer eligibility to a single enterprise -- a private vegetable oil processor in Mauritius and a parastatal electric power company in the Seychelles.

- CIPs were undertaken in two Sahalian West African countries -- Niger and Senegal -- that had freely convertible exchange rates. (Both were FY 1983 obligations and there is no record in A.I.D./W to indicate that either was ever formally evaluated).

- In contrast to the overwhelming number of CIP undertaken in other geographic regions, a limited number of the African Bureau CIPs, including those for Mozambique, the Seychelles, Somalia, Sudan, Zambia, and Zaire permitted procurement from other developing countries. A few of these countries, such as Mozambique and Somalia, even permitted procurement from Japan and the countries of Western Europe.

- The 50/50 shipping requirement for U.S. bottoms was increasingly waived after 1985 for CIP recipients. Owing to the nature of the only commodity eligible for import in the Seychelles, the requirement was never imposed there.

- A limited number of the programs -- Kenya, Somalia, and Zimbabwe -- permitted the marketplace to allocate their CIP resources. Except for Kenya, where disbursement was temporarily stalled to permit the GOK to meet policy-based CPs, the programs were among the most rapidly disbursing of those surveyed. In addition, the teams that subsequently evaluated these programs found the commodities that were imported were "entirely appropriate" for the economies of those countries.

- Private sector operators were allowed to import in all of the CIPs reviewed except the Seychelles, where eligibility was restricted to a single parastatal enterprise. In a few cases, *only* private sector participants were allowed to import (e.g., Mauritius and Zaire). In all but a few instances, the majority of the available funds were allocated to the sector. The exceptions, in which public sector importers predominated, were in some of the CIPs for Madagascar, Mozambique, Somalia, Sudan, and Zambia. Even in those cases, however, the end users of the products imported were predominantly from the private sector.

It is also useful to mention at this point that all of the evaluations undertaken after 1985 were heavily influenced by the publication of A.I.D.'s *Evaluation Guidelines for NonProject Assistance (CIPs) and CIP-Like Activities* in August of 1985 and the simultaneous appearance of a series of criteria in the Foreign Assistance Act for FY 1986 by which the Congress requested that the Africa Bureau's CIPs be evaluated. Thus, what the reader can expect to find in the evaluations concerning political and economic impact was written with either of two publications, or both of them, in mind. The subjects that they emphasized are summarized briefly below.

The A.I.D. issued *Evaluation Guidelines*, which have been cited frequently as a reference in this study, focussed on four areas of concern: (1) how well the program had been managed; (2) to what degree it had met its documented objectives; (3) what had been its impact within the recipient country; and (4) what lessons had been learned. Based upon the Agency's four initial CIP evaluations carried out in 1984, including the first Somalia and Zimbabwe evaluations that are included in the present study, it is replete with practical, pragmatic advice gleaned from experience. In fact, one of the authors of the 1984 evaluation of the Zimbabwe CIP, and a leading A.I.D. authority on CIPs, was Joseph Lieberson, who also participated in the drafting of *Evaluation Guidelines.*

The provisions for evaluation that appeared in the FY 1986 Foreign Assistance Act, which are also referred to as *FAA Section 801 requirements*, directed that all Africa Bureau CIP programs obligated during FYs 1986 and 1987 be evaluated. Further, they also set forth the following criteria by which imports financed by the programs were to be used to meet recipient countries' long-term development needs:

> (1) Spare parts were to be allocated on the basis of evaluations of the ability of recipients to use them in a "maximally productive, employment generating, and cost effective way."
>
> (2) Imports were to be coordinated with investments "in accordance with the recipient country's plans to determine whether they will effectively promote economic development."
>
> (3) Emphasis was to be placed on imports for the agricultural sector, especially those that increased agricultural productivity for export or import substitution.
>
> (4) Emphasis was also to be placed on "a distribution of imports having a broad development impact in terms of economic sectors and geographic regions."
>
> (5) To enhance the likelihood that the commodities would be additional to others normally imported, consideration was to be given to historical patterns of foreign exchange uses.
>
> (6) Seventy-five percent of local currency generations under the programs were to be deposited in a special bank account, the uses of which were to be mutually determined by the USAID and the host government.[1]

Owing to the Congressional requirement, there has recently been a significant increase in the amount of information available concerning the efficiency and effectiveness with which they accomplish their objectives. The Project Evaluation Summaries, or PESs, that accompanied some of the evaluations indicate that the evaluations served as a useful tool both to the managers of the programs themselves as well as to the USAIDs that implemented them. Thus far, however, there has been no attempt to review systematically the evaluation reports that were produced for a broader, more global perspective on how the CIPs functioned as a mode of assistance. Overall, did they achieve their objectives within the time frames originally

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[1]Cf. Appendix A, pp.__.

envisaged? How, and to what extent, did they influence crucial host country macroeconomic variables such as the rate of growth of the GDP, the public sector deficit, the trade balance, the balance of payments, or the exchange rate? Are they an effective method for pursuing policy dialogue with host governments? While they are a form of development assistance that is useful to recipient governments, do they have any longer-term development results? Obviously, some Bureau personnel have accumulated enough experience with CIPs over the years to have formed some conclusions to such interesting and important questions. Even among those who have worked firsthand with CIPs, however, few feel entirely comfortable with their conclusions. Moreover, experiences in dealing with CIPs have been sufficiently diverse that there is little agreement between those familiar with the programs on the above issues.

Virtually all of the CIPs for which evaluations had been carried out in the 1980s that could be conveniently located in AFR/W are included in the study. Altogether, a total of 15 reports evaluating the experience of 39 separate CIPs with obligations totalling $791,630,000 that were authorized between 1980 and 1987 -- were reviewed and synthesized. Owing to their large number, the salient characteristics of the programs as a group were collectively compared and contrasted around major themes during the course of the study. The major findings were organized around three important topics. In the first, the various rationale for the programs and objectives they were designed to accomplish were examined in Chapter I. Next, the characteristics of the various programs are reviewed using a number of important criteria in Chapter II. The performance of the various programs in meeting those objectives are then reviewed using a number of important criteria in Chapter III. These include the economic and developmental impacts and an assessment of the overall efficiency with which the programs were managed. Finally, the lessons learned from the various CIPs will be set forth with some recommendations as to how they could be applied to like programs in the future in Chapter IV. For the reader's convenience, an Executive Summary appears at the beginning of the report.

EXECUTIVE SUMMARY

Commodity import programs, or CIPs, are a form of Official Development Assistance (ODA) that result in the transfer of commodities to a foreign country on concessional terms. Relative to other forms of ODA, CIPs have both advantages and disadvantages. Among the advantages are the fact that the typical CIPs' resources can be converted into commodities and transferred abroad much more quickly than those for projects. Likewise, CIPs permit a high degree of accountability and, when tied to procurement from U.S. sources, support American industry and employment in a very direct and visible way. The main disadvantage of CIPs is that they cannot disburse funds as quickly or as flexibly as cash transfers. As a form of ODA, CIPs have been declining in use since the early 1970s. They have been replaced in large part by the more flexible cash transfers.

Although CIPs had been a relatively important form of ODA in A.I.D. historically -- about 40 percent of all U.S. ODA had been disbursed through the CIP mechanism through 1985 -- they were administered by rules and regulations that were distinct from those of projects, the Agency's basic unit of management. One of the consequences of the separate treatment of CIPs was that there had been no requirement that they be evaluated prior to language inserted in the August, 1985 Foreign Assistance Act that specified that all CIPs obligated in sub-Saharan Africa during Fiscal Years 1986 and 1987 be evaluated annually. Faced with the Congressional requirement, many USAIDs voluntarily undertook retrospective evaluations of prior year programs as well. A total of 15 evaluations of 39 separate CIPs valued at nearly $800 million were reviewed and synthesized in the present study.[2] Undertaken in 11 different countries that varied considerably in size, level of economic development, and extent of government control of their economic systems, the evaluations constitute the single most extensive repository of information about A.I.D.'s CIP activities. According to the evidence available, the evaluations served as valuable management tools at the mission level at the time that they were carried out. Thus far, however, their results have not been systematically reviewed to determine how well CIPs performed as a form of ODA in achieving their objectives and what lessons can be learned to improve their performance in the future.

Despite their relative importance Agency-wide, CIPs had been seldom employed in sub-Saharan Africa prior to the 1980s. The deepening worldwide economic crisis of the early years in the decade resulted in urgent needs for rapidly disbursing financial assistance in Africa that could no longer be satisfied adequately by ODA in projectized form. However, while CIPs had been originally devised to assist the war torn countries of Europe after World War II, and were

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[2]The *CIPs* were obligated between 1980 and 1987. The *evaluations*, on the other hand, began with the review of the Zimbabwe and Somalia programs in 1984 and were carried out with increasing frequency through 1987. As the reader will note in the course of the study, CIPs had declined considerably in importance, both absolutely and relatively, by the latter year.

successfully adapted to the rapidly developing countries of Asia and Latin America thereafter, their reliance on transferring resources through the mechanism of international trade made them distinctly less well suited, at least initially, for the African milieu. To make matters worse, there were relatively few established trade links between the U.S. and the African countries. Consequently, Africans were by and large unfamiliar with U.S. products and manufacturers. Then too, the African Bureau initially had relatively few personnel with the requisite skills to design and implement the programs.

The evidence available demonstrates that both the Bureau and the CIP mode itself were sufficiently flexible to adapt rather well to the extenuating circumstances of the African environment. While an initial period of adjustment was usually noted as the missions familiarized their personnel with CIP procedures and acquainted appropriate host country nationals with their requirements, the great majority of the programs were soon running almost as smoothly as normal commercial transactions. Although the evaluations confirmed that CIPs are more cumbersome and time consuming to disburse than initially had been anticipated, virtually none of the programs came close to having to deobligate funds for lack of ability to move them. When circumstances arose that caused disbursement to proceed more slowly than planned, the missions soon modified the provisions of their programs in a manner that enabled them to accelerate the pace appreciably.

Review of the circumstances under which the various CIPs were designed leaves little doubt that they were usually structured to correspond to the perceived seriousness of the balance of payments deficits on the country's economic and political stability. The greater the threat was believed to be, the more the CIPs were designed to disburse their resources rapidly. The less serious that the threat appeared to be, on the other hand, the greater the tendency of the USAID's to design their CIPs to address the longer-term development concerns appearing in their approved strategy documents at the expense of a more leisurely pace of disbursement.

The key variables in CIP design that influenced the pace of disbursement most were organized into four relatively broad subject areas -- the target group, eligible commodities, sources and origins, and conditionality.

Selection of **the target group**, almost invariably a combination of public, parastatal, and private sector entities, influenced the rate of disbursement in a number of important ways. To begin with, requirements for the first two groups were more lenghty and time consuming to complete than they were for eligible private sector enterprises. The minimum value of an approved request for import was also an important consideration since emphasis on fewer, higher value imports reduced paperwork and processing time and concentrated on larger concerns and enterprises that were more likely to have the necessary access to capital, some knowledge of the financial transactions required, and experience in undertaking the various tasks associated with importing. A number of the evaluations noted, however, that the commodities imported were often beyond the means of the individual members of the USAIDs' target groups. To the extent that the ppor majority benefitted at all, it was usually *indirectly* through a wider variety of productive inputs, improved roads and transportation facilities, and the greater availability of consumer goods that would otherwise not have been available at all, or only in a much reduced quantity.

Determination of the **commodities eligible for import** also affected the rate of disbursement. In general, restricting eligibility to only one or a few commodities, or permitting the marketplace to allocate the CIP's resources, accelerated the pace of disbursement. Relegating the determination of eligibility to administrative decision making, on the other hand, usually had a dampening effect upon disbursement. The trend in commodity eligibility during the course of the decade was definitely toward administratively determined commodity mixes, usually with a pronounced sectoral orientation. While the data submitted in the evaluations concerning the CIPs were not standardized and were of surprisingly poor quality, it would appear that raw materials for use in processing activities, agricultural equipment, and spare parts for use in many different activities featured prominently in most of the CIPs. The emphasis placed on these commodities in the programs demonstrates that they placed considerable stress on the imported goods having an immediate developmental impact by maintaining existing levels of production, income, and employment. Overall, the speed with which the imported commodities were put to use directly or sold to others for that purpose provides solid evidence that program designers and administrators uniformly did an outstanding job at designating commodities for their CIPs that were not only appropriate for, but complimentary with, the economies in which they operated.

Since importers participating in the CIPs usually had little or no prior exposure to U.S. goods or enterprises, determination of **eligible sources and origins** also influenced disbursement rates. If the pace of disbursement had been a critical criterion to the success of the CIPs, designers would have been disposed to permit procurement from non U.S. sources. The relatively few instances in which such procurement was permitted, however, leaves little doubt that top level decision makers strongly preferred to maintain U.S. procurement, usually exclusively, even if it was at the expense of rapid disbursement. Imports of petroleum products totalling $84.1 million into five of the recipient countries were the only important exception to the "buy America" provision.

Finally, the extent of policy-based **conditionality** that was present in the program agreements was an additional factor that was capable of influencing the pace with which the CIPs could be disbursed. In one instance, host country compliance with conditions precedent to disbursement delayed implementation of the program for months. Overall, however, the evaluations disclosed that conditionality was employed only in a minority of cases and then overwhelmingly in the relatively "soft" form of covenants rather than as CPs.

While it is difficult to generalize from so many diverse CIPs, the evaluations discerned that there was no clear and unequivocal effort to take advantage of the design characteristics of the CIPs to enable them to disburse quickly. Indeed, to the extent that a trend can be detected, it was in the general direction of structuring them in the more "projectized" form of sectoral programs that made it even more difficult to disburse their resources quickly. Agency officials could not have been unaware of the direction in which CIPs were evolving. Rather, the characteristics of

CIPs that enabled them to disburse quickly appear to have been increasingly unattractive and unacceptable to those responsible for making the decisions.

Synthesis of the evaluation findings in the studies examined was facilitated by the appearance of guidelines published by A.I.D. for the evaluation of CIPs and the inclusion in the Foreign Assistance Act of 1985 of criteria by which the Congress specifically requested that CIPs be evaluated. Together, the two works suggested a methodological approach to evaluating the impacts of CIPs that was followed, to greater or lesser degree, by nearly all of the evaluations that were performed after their simultaneous appearance in August, 1985.

Political Impact Given their ESF funding source, the political rationale for undertaking CIPs was far more explicit than was typically the case with projectized ODA. However legitimate the evaluation of the political dimension of the "bang for the buck" derived from the CIPs, the subject was seldom directly addressed in the evaluations reviewed. The failure is attributed largely to the fact that the U.S.'s political relationships with CIP recipients were determined by factors outside the A.I.D. program and the lack of an accepted methodology for integrating political objectives, together with indicators of their achievement, into the Agency's design and evaluation processes.

Short-Term Economic Impact Evaluation of the shorter-term economic impacts of the CIPs usually began with the observation that the CIPs resources were relatively insignificant in comparison with the dimensions of the overall trade and balance of payments deficit and, in any event, would only be disbursed over a substantially longer period of time. Typically, the total annual obligation ranged between two to five percent of the trade deficit. Zimbabwe was the only country that reported higher figures. The average there between 1982 and 1986 was seven percent and ranged as high as 10 percent in 1984 and 1985. Virtually none of the evaluations attempted to estimate the CIPs' impacts on the GDP and only one estimated an effect on employment, which was carefully qualified by limiting the impact to employment in the industrial sector.

Unable to demonstrate significant macroeconomic impacts conclusively, most of the evaluations opted for a more disaggregated approach. There were two distinct efforts made to disaggregate. In the first, the available data were broken down by economic function such as industrial classification or sector in which imports would be used to provide a sense of who the end users were by the kinds of goods that were imported and the sector for which they were intended. In the second, knowledgeable government officials, bankers, private sector spokesmen, and end users were simply surveyed for their assessments of the CIPs' impact(s).

The results of the first approach made clear, once again, that the CIPs heavily emphasized commodities grouped under the headings of raw materials, agricultural equipment including light trucks and tractors), spare parts, and petroleum products. In addition, several of the missions presented data that extended over a period of several years that detected an evolution in the nature of the goods imported. Early emphasis on finished consumer goods and spare parts soon gave way to finished capital goods and intermediate products such as jute bags and baling hoops that are used for the packaging of exports. The data also demonstrated that the private sector directly received nearly half of the imported commodities and indirectly benefitted in one way or another from most of the remaining goods. The Sudan evaluation also employed input/output analysis in an innovative fashion to further analyze the effect of the imported merchandise on the complex interrelations between the various sectors of the economy there. The analysis concluded that the CIPs assistance in renovating and distributing electric power and financing fuel imports had favorably affected a considerable proportion of the country's GDP. Probably the single most important conclusion that can be drawn from the data presented with this approach is that the CIPs enabled important productive activities in recipient countries to continue functioning, though perhaps at a reduced rate, in economies that were under severe stress from a combination of significantly adverse external shocks and poor domestic economic policies.

Reforms of policies that severely distort the economy can have deleterious effects on the capacity of CIPs to function. This is particularly true in the case of foreign exchange rates. Several of the evaluations reported that as the free market and official rates of exchange converged, importers were left with little or no incentive to participate in the programs. Their CIPs effectively ceased to function.

Numerous surveys conducted with key functionaries in the public and private sectors resulted in still further disaggregation of the CIPs' economic impacts. This was the only level of analysis with which the evaluations appeared to be completely comfortable. They are replete with numerous, glowing, specific examples of enterprises that were continuing to operate solely, or principally, as a result of the commodities financed by the various CIPs.

Longer-Term Economic Impact While policy dialogues with host countries can emphasize shorter-term economic stabilization policies, the majority of those associated with the CIPs were focussed primarily on structural changes in the economy whose full benefits would only manifest themselves with gradual improvements in the country's capacity to sustain long-term economic development. Overall, the use of the CIPs to further the policy dialogue had mixed results. There were no unqualified successes. Somalia, Sudan, Zaire, and Zambia all reported initial success with the implementation of reforms with significant implications for longer-term economic growth. Without exception, however, the initial success was followed by growing frustration in maintaining the momentum of the dialogue. With the benefit of hindsight, several of the evaluations identified problems with the way in which the dialogue had been handled initially. These included an agenda that was too ambitious, strong emphasis on the private sector in two countries -- Somalia and Sudan -- in which there was deep distrust and a fundamental disagreement with such a policy, and a lack of sustained consistency in policy reform emphasis.

To a clear majority of the evaluation teams, CIP activities with longer-term development impacts were synonymous with the activities financed by the local currency generated by the commodities imported. A number of the evaluations were extraordinarily forceful on this point. Numerous specific examples of the favorable impacts of these activities were provided. They were frequently in the form of projects that were an integral part of, or were complimentary with, the USAID program in the country. Several of the evaluations also stressed that due to the slowness in disbursing funds from the CIPs, the local currency generations for financing these activities were also correspondingly slow in materializing.

Lessons to be Learned The systematic review of the numerous CIPs undertaken in various countries under circumstances that varied greatly was extremely useful in ascertaining the strengths of weaknesses of this form of ODA. The most important findings are summarized below.

- The extraordinary versatility of CIPs cannot be overemphasized. The can be custom tailored to disburse nearly as quickly as a cash transfer or a slowly as a project. They can be undertaken quite successfully in countries without a permanent USAID presence.

- The failure of the evaluations, whose teams included some of the Agency's finest economists, to address satisfactorily the extent to which the CIPs achieved their objectives highlights once again the necessity for a clearer, more sharply focussed statement of objectives and selection of performance indicators. To the extent that these programs will, in the future, continue to be funded from the ESF account, there is also a need to state clearly the political objectives of the CIP and develop a methodology by which A.I.D. personnel and contractors can evaluate the extent to which the political objectives were achieved. The DFA, with its very strong emphasis on measuring performance, is already beginning to implement enhanced management and evaluation systems that should go far toward addressing the shortcomings identified.

- Even when relatively large by A.I.D. standards, U.S. CIPs have generally not contained sufficient resources to have a measureable impact upon the host countries' major macroeconomic variables.

- CIPs are not as effective as projects in reaching the Agency's poor majority target group directly. Indeed, those most likely to benefit directly in the recipient countries are those in least need of ODA.

- If CIPs are used for extracting policy reforms from the host government, they should be clearly defined, sharply focussed, consistent with the USAID strategy, and be thoroughly understood by, and have the support of, the host government.

- Within the African context, CIPs do not function well when there no significant discrepancy between the official and market exchange rates. The explanation usually cited for this phenonemon is that there are numerous costs associated with CIPs including higher priced merchandise, the hassels and delays associated with the paperwork, the 50/50 shipping requirement for U.S. carriers, and the lack of repair facilities and other services available for American commodities. Consequently, when importers can obtain easy access to foreign exchange they prefer other sources of supply that do not have the requirements and conditions attached to them that U.S. CIPs do.

- As CIPs go, recipients were usually pleased with the U.S. version. A number of the evaluations noted that there had been comments from host country nationals that had participated in the programs that U.S. CIPs were easier to deal with and were more satisfactory than those of other donors with which they were familiar.

- The local currency counterpart funds generated from the commodity imports can be programmed to have a significant impact on the host country's long-term development objectives.

- A number of the evaluations stressed that CIPs were fairly complex and functioned more efficiently when an experienced commodity management specialist was present to administer the program.

CHAPTER I

COMMODITY IMPORT PROGRAMS (CIPs) IN A.I.D.

A. Background and Definitions

1. CIPS

CIPs, or Commodity Import Programs, are a form of Official Development Assistance (ODA) provided by the United States Government and some other major donors. They can be defined as one of a variety of alternative mechanisms for financing the purchase and shipment of commodities to another country. Little changed in their essential characteristics since the Marshall Plan era, CIPs were one of the earliest modes of ODA employed by the U.S.[2] Indeed, the original edition of Regulation 1, the formalized guidelines for procurement procedures under a CIP that are currently in effect, first appeared in 1948. The Programs have been employed regularly in one guise or another ever since. Prior to the 1980s, CIPs consistently accounted for nearly half -- about 40 percent -- of all U.S. ODA.

It should be noted from the outset that CIPs are such a flexible programming mode that only rarely are any two of them exactly alike, even when they are successive annual programs in the same country. Typically, however, the process for developing and administering a CIP proceeds along the following lines.

- Representatives of the U.S. and host government consult and mutually agree upon a list of the commodities, together with their sources and origin (usually from the U.S. exclusively), that would be eligible for the program.

- Once the Program Agreement is signed and the Conditions Precedent to disbursement are met, the USG agrees to pay the acquisition and shipping costs of those goods.

- Applicants residing within the host country whose participation in the program has been approved, through whatever process mutually agreed upon, then solicit price quotes in the form of *pro forma* invoices from suppliers.

- *Pro forma* invoices from the suppliers selected are then presented to the USAID, which in turn forwards them to A.I.D./W where a Letter of Commitment (L/COM) is issued to an American bank against which the

[2]Lieberson, Joseph. *Recent Evaluations of AID Commodity Import Programs (CIPs).* A.I.D. Evaluation Occasional Paper No. 4. Washington, D.C.: U.S. Agency for International Development, March, 1985. p. 3.

importers can open letters of credit (L/Cs) through a local branch or correspondent bank in the host country.

-- If the financing is provided in the form of a loan, the host country agrees to repay the principal and interest to the U.S. on standard A.I.D. terms.

-- Whether loan or grant, the host government also agrees to deposit an amount of local currency equal in value to some specified proportion of that generated by the importation of the commodities financed by the program into a special bank account established for that purpose. Prior to FY 1986 the full amount had to be deposited. The Foreign Assistance Act for FY 1986 specified that seventy-five percent of the funds be deposited.

-- Disbursal of the local currency would then be mutually agreed upon by representatives of the two parties.

Incidentally, with only one exception (the Zambia CIP for FY 1983), all of the other CIPs included in the present evaluation were provided in the form of grants.[3]

While the above represents a reasonably typical description of CIP characteristics, it is important to stress that many variations are possible with such programs. For example, some may have objectives that are economy-wide, others may have objectives that are limited to a single sector, such as agriculture, or education. Likewise, the list of eligible commodities can range from almost anything that can be legally imported into the recipient country to a single key item, such as fertilizer or petroleum, only. Moreover, the source and origin of eligible commodities can be, under extenuating circumstances, anywhere in the free world. Also, eligible participants in the program may be either entirely from the public sector or from the private sector, or from any conceivable combination of the two. While public sector recipients of CIP funds must advertise for competitive bids, private sector recipients are usually not required to. Program Agreements may contain an impressive array of conditions that require sweeping reforms in public policies that must be satisfied prior to initial or subsequent disbursement. On the other hand, there may be no substantive conditionality whatsoever. Likewise, the USAID may play a very active role in deciding upon the eligible uses of local currency counterpart funds. Contrariwise, the USAID may play a very passive role in deciding upon eligible uses, permitting the host government wide license to make its own determinations.

An interesting version that became increasingly popular in sub-Saharan Africa during the 1980's

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[3]For a more detailed description of CIP characteristics and development procedures, cf. pp. pp. 9 - 11, Appendices B and C, and Development Associates, Inc. *Evaluation Guidelines for Nonproject Assistance: Commodity Import Programs(CIPs) and CIP-Like Activities. A.I.D. Program Design and Evaluation Methods Report No. 4.* Washington, D.C.: U.S. Agency for International Development, August, 1985. Especially pp. 5 - 13.

was to design the CIP as an integral component of a program with specific objectives at the sectoral level such as increasing agricultural production and/or productivity and improving basic education.[4] In this case, rather than being an end in itself, the CIP served simply as the mechanism for procuring commodities that directly supported the objectives of the broader, more comprehensive, program. Examples of such programs include Zimbabwe's Agricultural Sector Assistance Program and Basic Education and Skills Training Program, Zambia's FY 1983 and FY 1984 CIPs which concentrated on the importation of fertilizer, spare parts, and machinery in support of policy reforms in the agricultural sector, and Kenya's Structural Adjustment Program Grant, which also concentrated upon the importation of fertilizer and goods for the private sector. To distinguish these CIPs from those in which they were an end in themselves, they are sometimes referred to as CIP-like activities. If the broader objectives by which an activity is being examined are important, the CIP-like categorization may be useful. Then too, even though the CIP "component" of the program may have constituted the overwhelming majority of the funding provided (in some cases, e.g., Kenya's Structural Adjustment Program between FYs 1984 and 1986, more than 90 percent of the total), for programmatic purposes, any CIP that was included as a component of a sectoral or structural adjustment program was not considered to be a CIP.[5]

Despite these reasons for distinguishing between the two types of programs, this evaluation has included both under the common heading of CIPs. It has done so for the following reasons. First, it is not uncommon for separate and distinct U.S. foreign economic assistance programs to share the same objectives. Secondly, the evaluations of CIPs that are being synthesized in the present study went to great lengths to include examination of the "CIP like" programs. Third, if one is interested in determining how flexible and adaptable CIPs are, then this mode of assistance should be studied in as many of its forms and manifestations as possible. Finally, the basic mechanism by which the goods were procured and shipped abroad remained identical with both types of program.

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[4]One reason for their increasing popularity was the language appearing in the FY 1985 International Security and Development Cooperation Act, P.L. 99-83, for ESF-funded CIPs and Sector Programs requiring "that those imports be used to meet *long-term* development needs in those countries" in accordance with a lengthy list of criteria. My Italics. This is the same legislation, incidentally, that required the annual evaluation of all CIPs obligated in FYs 1986 and 1987. House of Representatives. *Report of the Committee on Foreign Affairs U.S. House of Representatives. Washington, U.S. Goverment Printing Office, 1985. pp. 84-85.* Cf. Appendix A, pp. _____.

[5]The earliest definition of CIP-like programs makes the following distinction. "In contrast to regular commodity import programs, CIP-like activities are usually directed at a specific sector such as agriculture, the iron and steel industry, energy, or education. Typically, they are based on a single commodity or package of related commodities. Such activities are of limited duration and their objectives and goals are expressed in more precise quantitative terms than those for CIPs." Development Associates. *Evaluation Guidlines.* p. 9.

The exceptionally wide degree of latitude permitted in designing and implementing CIPS has made them one of A.I.D.'s most flexible and versatile programming tools. To appreciate just how flexible CIPs are, it will be useful to compare and contrast them to the other major forms for development assistance available to the Agency -- projects and other kinds of NPA.

2. Projects

Projects are usually defined as relatively well focussed, discrete activities that are designed to achieve specific results in areas of priority to the U.S.'s foreign assistance program. These areas included agricultural research and credit, family planning, health and nutrition, and primary education. Since projects are, in many instances, meant to address the most intractable of economic and social problems in the least developed countries, they are ordinarily designed to include relatively large amounts of medium- to long-term technical assistance and training but only modest amounts of commodities. Given the long-term nature of the problems addressed, projects are also rarely designed for fewer than five years' duration and frequently last for an entire decade, which is their statutory limit. Moreover, one or more follow-on projects may continue many of the original project's more successful activities with changes in emphasis that may be either cosmetic or substantive. Then too, the rules and regulations governing virtually every phase of project activity are so detailed that they imbue nearly every aspect of project development and administration with still further degrees of rigidity and inflexibility. In combination with the various features of project assistance already noted, they serve to make it very difficult to adapt projects to circumstances that can change very rapidly. Projects have demonstrated only a very limited capability to respond to a sudden major change in policy emphasis (which occur all too frequently with a natural disaster, or a change in government or even with the replacement of a cabinet minister). For example, it may be almost impossible for a primary health care project to respond effectively, and in a timely fashion, to a rapid increase in reported malaria or HIV/AIDS cases if the diseases were not initially included in the project's design. Similarly, it has proven to be extremely difficult for projects to respond meaningfully to the desperate requirement for assistance from a country that is trying to stabilize its economy in the midst of a rapidly deteriorating trade balance or central government budget deficits. Despite these shortcomings, however, the ability of projects to successfully target specific long-term development constraints has made them the preferred mode for the U.S.G. to provide ODA. Indeed, projects can truly be said to be A.I.D.'s basic unit of management.[6]

3. Cash Transfers

Another important mode for disbursing ODA is the cash transfer. As the title implies, it is simply a mechanism for transferring cash directly to another government. In a very real sense, cash transfers are closely akin to CIPs. One involves the transfer of approved commodities of specified source and origin. The other simply involves the transfer of cash alone. It is because

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[6]A.I.D. *Evaluation Guidelines for NonProject Assistance (CIPs) and CIP-Like Activities*. p. 5.

of this similarity that both types of assistance are commonly referred to either as nonproject assistance (NPA) or as program assistance. Needless to say, cash transfers also share the CIP characteristic of being an extremely flexible form of assistance. Both forms of NPA are far more suited for addressing shorter-term economic problems associated with stabilization and structural imbalance than assistance in the project mode. Indeed, as we shall see in the following discussion, in one crucial aspect cash transfers are even more flexible than CIPs.

4. Sector Assistance

Program sectoral assistance is designed to alleviate constraints on the growth of sectoral output and productivity. In some sector programs, such as those referred to previously as CIP-like, the foreign exchange uses are limited to the import of specific goods or categories of goods. In other programs the foreign exchange is used for local currency purchases. Sector programs are frequently tied to a policy dialogue between the United States and the host country. Disbursements are often conditioned on the achievement of policy goals such as import liberalization, credit tightening, or pricing changes. Sectors in which the United States has had programs include agriculture, health, education and energy.

5. Food Aid

Two forms of food aid, Public Law 480 Titles I and III, may also considered to be NPA.

a. Title I. Title I provides highly concessional loans to finance United States agricultural commodities. To the extent possible this assistance is linked to specific development objectives and targets in the cooperating country. Moreover, the local currency generated by the sales is used for a variety of developmental purposes agreed to between the host government and AID. Care is to be taken of the Bellmon Act to ensure that such sales do not discourage agricultural production in the recipient countries.

b. Title III. Title III provides multiyear supply agreements with IDA-eligible countries. Recipient countries must be prepared to undertake specific actions to address the constraints to equitable development, particularly in the food and agriculture sector. PL 480 local currency sales proceeds used for agreed upon development purposes may be applied against the country's repayment obligation to the United States -- that is, the U.S. may forgive the loan.

It should be noted that the distinction between projectized assistance on the one hand and the various modes of NPA on the other is so fundamental to the way that U.S. ODA is programmed and disbursed that it is embodied in the Foreign Assistance Act itself. Given the long-term nature of most economic development activities, as well as their orientation toward the poor, funds from the Development Assistance Account (DA) are allocated almost exclusively to economic assistance in the project mode. A.I.D. has been given the primary responsibility for the allocation and administration of funds from this account. The majority of Funds from the Economic Support Fund (ESF), on the other hand, (60 percent to 80 percent) have consistently been employed for shorter-term political/military/security objectives "in areas where the United

States has special security interests, [including] support for peaceful solutions to international problems which involve U.S. interests, national security, and the attainment of foreign policy objectives".[7] Reflecting the difference in objectives, the responsibility for policy decisions and justifications for economic support programs has been delegated to the Secretary of State.[8] Although A.I.D. is customarily consulted concerning the allocation of ESF resources, it is the Secretary who makes the final determinations. Once they have been made, however, A.I.D. is then responsible for the design and administration of the ESF Programs. NPA programs, whether in the form of cash transfers, CIPs, or sectoral programs, have been funded overwhelmingly from the ESF Account, or its predecessor, the Security Supporting Assistance (SSA) Account.[9]

Given their flexibility and suitability for addressing shorter-term problems associated with assisting host governments to avert major economic or political upheavals, the various forms of NPA may be most effective means for contributing to stabilization and economic and financial recovery. Most often cash transfers are used for generalized balance of payments support Also, CIPs can be used to fill a balance of payments gap by providing foreign exchange for critical imports. In other situations it may be necessary to relieve structural bottlenecks to achieve sectoral growth (such as inappropriate host government policies) that could most appropriately be handled through a sectoral program.

With the exception of the Africa Bureau's policy reform programs, including AEPRPs, or African Economic Policy Reform Programs, which were provided to host governments initially from the ESF account, but have been funded from the Development Fund for Africa within the DA Account since FY 1988, most NPA programs are still funded from the ESF account. It is for this reason that U.S. foreign policy and national security considerations are so frequently stressed with assistance provided in the NPA mode.

The P.L. 480 Program was, until the current fiscal year, handled in a similar manner. While administered by the Agency, the Departments of Agriculture and State were primarily responsible for determining the allocation of the resources authorized and appropriated.

Before closing the present discussion, it should be noted that U.S. Foreign Assistance legislation is generally silent on the most appropriate modes to be used to provide ODA in specific instances. However, the legislation has, at times, required that NPA be provided to certain countries such as Israel and Egypt. Otherwise there are few statutory limitations that do not also

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[7]Agency for International Development. *Congressional Presentation. Fiscal Year 1983. Main Volume.* Washington, D.C., 1983. p. 102.

[8]*FY 1983 CP. Main Volume.* p. 102.

[9]Prior to the mid-1970's the majority (about 60 percent on average) of CIPs were financed from the Development Assistance Account. Between the mid-1970s and the mid-1980s, however, all CIPs were financed exclusively from the ESF Account. Cf. *Recent Evaluations of AID Commodity Import Programs (CIPs).* p. 6.

apply to program assistance. Thus, procurement requirements, country limitations, special issue legislation (e.g., narcotics, human rights, and so forth), apply equally with both forms of assistance.

4. Trends 1965 - 1990

Trends in obligations for the various modes of assistance -- projects, and NPA (CIPs and cash transfers) -- since the mid 1960s appear in Tables 1 and 2. Note that both forms of NPA together accounted for a relatively stable 37 to 39 percent of total ODA between 1966 and 1982. The 1980s, however, witnessed a significant increase in the relative share of total resources allocated to NPA programs. They reached a high of 55 percent in 1986. There was a precipitous decline thereafter, with the share ranging between 34 percent and 39 percent of the total during the closing years of the decade. That was roughly the same share that had been allocated to NPA activities prior to the early 1980s.

Within the NPA category, the period witnessed a complete reversal of the shares allocated to cash transfers and CIPs.[10] During the latter half of the 1960s, CIPs were consistently receiving an annual average of nearly 40 percent of total ODA. Cash transfers, on the other hand, were receiving only one percent. Gradually, however, although the NPA category continued to receive about the same share of total ODA, the relative shares of the two components changed. During the 1970s CIPs received 27 percent while cash transfers' share rose to 9 percent. By the end of the decade, however, their relative shares were almost exactly reversed -- CIPs with 10 percent and cash transfers with 26 percent.[11] CIPs' shares remained in the 10 percent to 11 percent range until the middle 80s while cash transfers increased their share to about one third of all economic assistance. The middle of the decade witnessed an acceleration in the emerging trend. Not only was the CIPs' share declining relatively, but after 1984 it began to decrease absolutely as well despite significant increases in the total amount of ODA available. Cash transfers, on the other hand, managed further increases in their relative share, boosting it to a high of 49 percent of the total in 1986. After 1987 both components of NPA were declining both relatively and absolutely. CIPs' share of the total was fluctuating between two and four percent while cash transfers were accounting for nearly a third of total assistance.

The distribution of CIP resources by region also shows fundamental shifts during the period. In the late 1960s the Latin American region accounted for a quarter of the total. They were not

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[10]The NPA figures appearing in these tables are actually understated slightly, since a third category of NPA, "Other" includes mostly projectized ESF resources, together with some assistance provided in the *sectoral program* mode.

[11]"... starting in the mid-1970s there was a change in non-project emphasis with a switch to cash transfers and an increased emphasis on a political/security justification". *Recent Evaluations of AID Commodity Import Programs (CIPs).* p. 5.

employed in the region thereafter, however.[12] Africa, on the other hand, accounted for significantly less than five percent of all CIP financing prior to the late 1970s. By the early 80s, however, the sub-Saharan region accounted for 20 percent of all CIP funding. By 1984 the relative share had increased to 30 percent. Figures disaggregated by region are unavailable for the following two years. By 1987, however, the African share had risen to an impressive 51 percent. The share fell precipitously thereafter to an estimated four percent in FY 1991. The decline was a direct result of the advent of the Development Fund for Africa (DFA). The DFA provided the region with considerably greater flexibility in the programming of its resources. It did so, however, at the cost of most of the ESF resources that had been provided earlier. Given these developments, the Bureau's leadership decided that CIPs would not be actively pursued thereafter except in a few limited cases.[13]

Table 3 provides a breakdown of estimated CIP resources obligated in sub-Saharan Africa between 1983 and 1990 by country. Note that while a total of 14 countries received at least some CIP resources, they were disproportionately concentrated in only a few of them. Indeed, the five leading recipients -- Sudan, Kenya, Somalia, Zambia, and Mozambique -- accounted for nearly 80 percent of all resources in the CIP mode.

It is important to qualify the above conclusions somewhat, however. As we have already noted, the inclusion of CIPs in both sectoral and structural adjustment programs became increasingly widespread during the 1980s. Even though the great majority of funding for the entire program frequently could be attributed to the CIP component, these integrated programs were not considered to be CIPs from a programmatic point of view. The distinction is important because the folding of CIPs into such programs tended to overstate the extent to which CIPs were

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[12]The rapid decline in the use of CIPs in Latin America during the 1970s is attributable to a number of phenomena. Foremost among them appear to have been the widespread impression within the LAC Bureau that CIPs were too slow in disbursing, unwieldy, cumbersome, and management-intensive to address adequately the urgent balance of payments problems that were sweeping through the region at the time. Then too, the Latin American countries' trading patterns were such that they were typically purchasing a relatively high percentage of their imports from the U.S. in any event. In some cases, especially in Central America, U.S. insistence on an even higher percentage of imports coming from this country in the form of CIPs would have forced the members of the Central American Common Market (CACM) to compromise their mutually agreed upon objective of purchasing a larger volume of each others' goods. For a recent statement of the LAC Bureau's views toward CIPs, the reader is referred to the rationale for selecting a cash transfer rather than a CIP in Costa Rica in the early 1980s articulated in A.I.D. *The Effectiveness and Economic Development Impact of Policy-Based Cash Transfer Programs: The Case of Costa Rica*. Washington, D.C.: A.I.D., 1988. pp. 30 - 32. The author is indebted to Clarence Zuvekas of LAC/DP for directing him to this source.

[13]Conversation with Jim Govan, Deputy Director of the Africa Bureau's Office of Development Planning.

declining in use. As noted in Table 4, for example, including the funding for the CIP components of other programs in FY 1983 increased the amount of obligations for all CIPs in Africa by 50 percent.

B. Objectives

It will be instructive to use A.I.D.'s project logical framework terminology to quickly trace the chain of cause and effect of CIPs through from the initial inputs in the form of dollar loans or grants to the final desired outcomes, or objectives, sought.

1. Inputs A.I.D.'s most basic contribution to the CIP is foreign exchange with which to purchase and ship commodities to recipient countries. This is by no means the only input however. Others include assignment both by A.I.D. and the host government of personnel necessary to design and manage the CIP. If the CIP is regarded as the initial stage of a program that may be sustained over several years, associated technical assistance and training may also be provided in projectized form to enhance the capacity of the host country to effectively manage the program during its later stages.

2. Outputs The basic output is the delivery of the commodities to the host country. If the CIP is provided in the form of a grant, which has been the rule recently, an offsetting corallary to this delivery is the generation of local currency counterpart funds all or most of which are deposited in a special bank account. As noted previously, uses to which the funds can be put, in turn, are jointly determined by the USAID and the host government. The extent to which the USAID participates, however, has varied greatly in practice. Likewise, if policy reforms were required as conditions precedent and were in fact implemented in good faith, they too would be direct outputs of the CIP. If projectized technical assistance and training was associated with the CIP, they also would be considered as outputs of those activities as well.

3. Purpose The direct economic effects of the commodities imported and policies changed would be the next outcome of the CIP. Since almost any conceivable good may qualify for importation under a CIP, or any policy change made, it becomes difficult to generalize at this point. Then too, the extent of the effect that the importation of commodities has will depend to a considerable degree upon whether the goods are additional to those that would have been imported anyway. To the extent that they can be determined to be additional, they represent an increase in the country's real resources and will have effects that may be inferred from the commodity mix. To the extent that A.I.D. is simply providing goods that would have been provided anyway, A.I.D. is, in effect, simply freeing up the foreign exchange that would have been used to finance them, allowing it to be utilized however the host government sees fit. In either case, of course, balance of payments support for the full amount of the program is provided.

4. Goal These are the final, most broad-based effects, in the cause and effect sequence that began with the provision of inputs. They are frequently aimed at contributing to increases in

TABLE 1

A.I.D. CIPs, CASH TRANSFERS, AND OTHER FINANCING
FYs 1966 TO 1991
($ Millions)

Program ($)	1966-70 Annual Average	1971-78 Annual Average	1979-82 Annual Average	1983	1984	1985	1986	1987	1988	1989	1990
CIPs	842	721	437	497	563	436	443	359	144	247	69
Cash Transfer	25	240	1089	1593	1638	3224	3489	2319	1747	2031	2558
Other	1332	1699	2558	2840	3030	3555	3248	3459	3526	3567	5328
Total	2199	2660	4084	4932	5250	7215	7180	6137	5417	5848	7955
Program (%)											
CIPs	38	27	10	10	11	6	6	6	3	4	1
Cash Transfer	1	9	26	32	32	45	49	38	32	35	32
CIP & Cash Transfer Share of Total	39	36	37	42	43	51	55	44	35	39	33

Sources: *Recent Evaluations of AID Commodity Import Programs (CIPs).* pp. 13 - 15, and various annual editions of the *Congressional Presentation* (Main Volume, section on ESF Programs.

TABLE 2

CIP REGIONAL OBLIGATIONS TRENDS
FYs 1966 to 1991
($s millions)

REGION ($s)	1966-70 Annual Average	1971-78 Annual Average	1979-82 Annual Average	1983	1984	1985*	1986*	1987*	1988*	1989	1990	1991
Latin America	209	1	0	0	0	0	0	0	0	0	0	0
Africa	24	18	87	142	170	210	96	70	69	54	69	42
Asia & Middle East	609	702	350	405	393	226	347	289	75	193	0	199
TOTAL	842	721	437	497	563	436	443	359	144	247	69	241
REGION (%)												
Latin America	25	0	0	0	0	0	0	0	0	0	0	0
Africa	3	2	20	28	30	49	22	19	32	11	21	17
Asia & Middle East	72	97	80	72	70	51	78	81	68	89	79	83

* figures estimated by the author based on various annual editions of the *Congressional Presentation* and obligations data appearing in the evaluations.
na denotes that the data were not available.

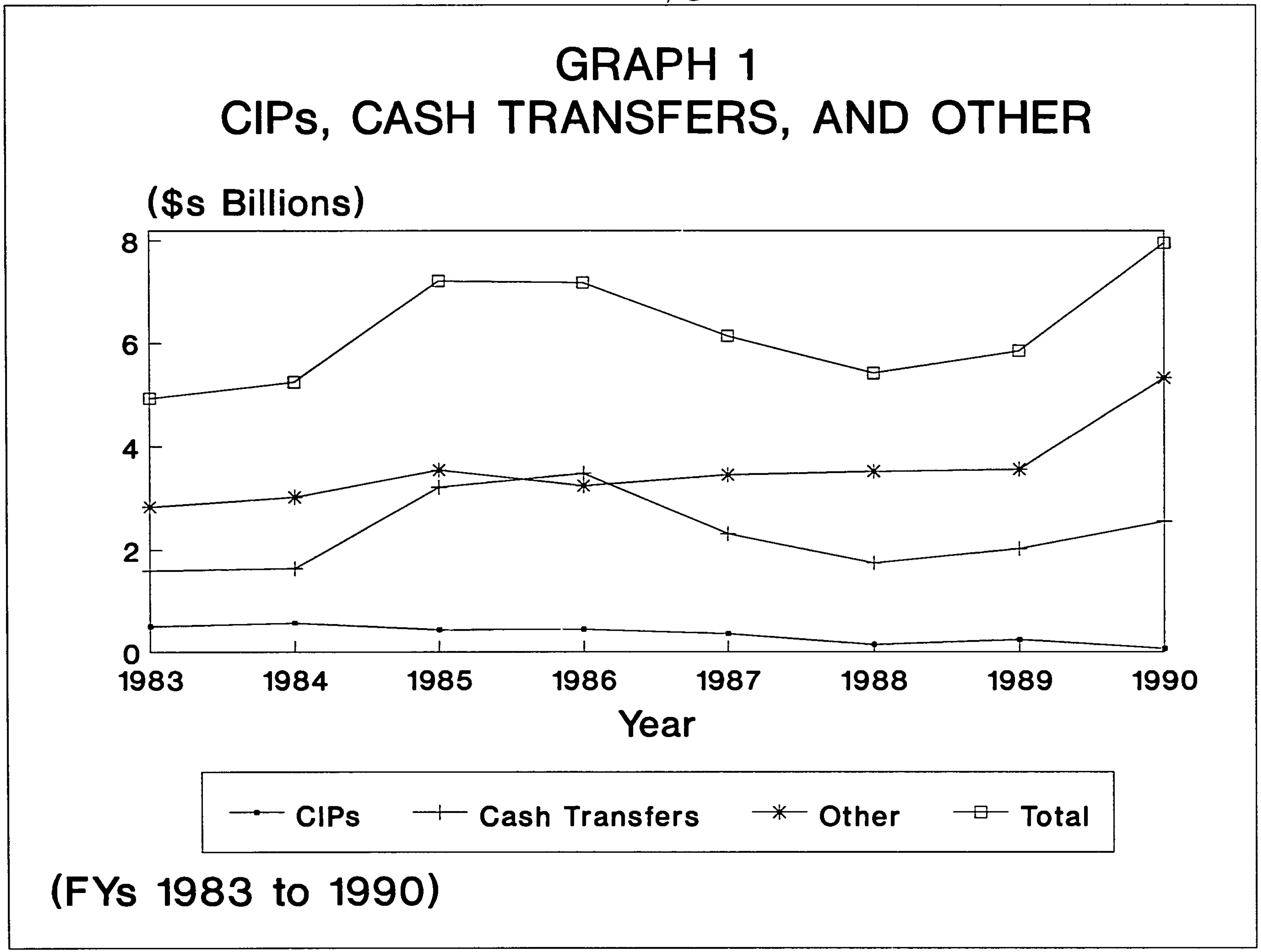
Sources: *Recent Evaluations of AID Commodity Import Programs (CIPs).* pp. 13 - 15, and various annual editions of the *Congressional Presentation (Main Volume)*, section on ESF Programs.

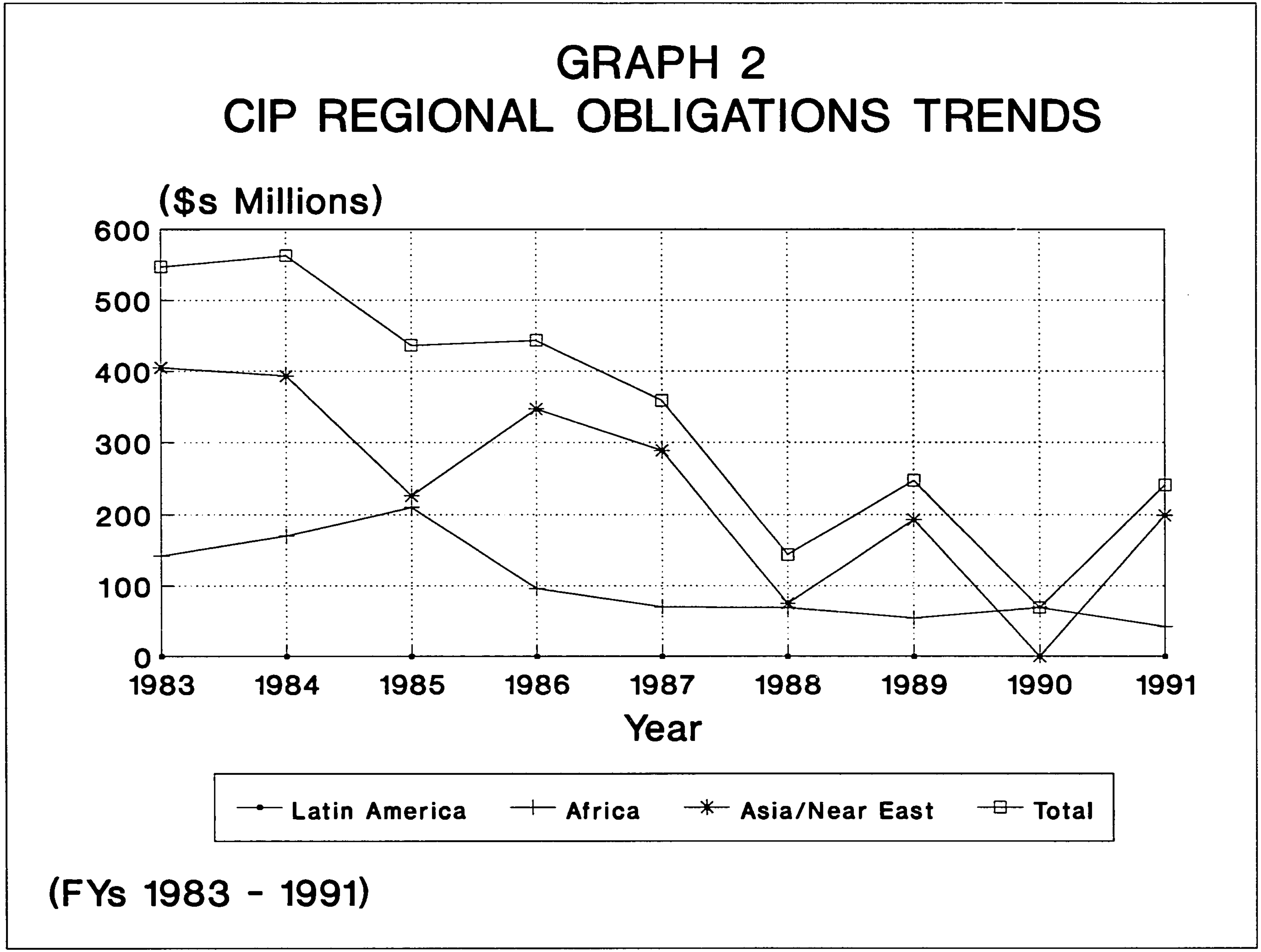
TABLE 3

ESTIMATED SUB-SAHARAN AFRICA COMMODITY IMPORT PROGRAMS' (CIPs) OBLIGATIONS, FYs 1983 - 1990
($s MILLIONS)

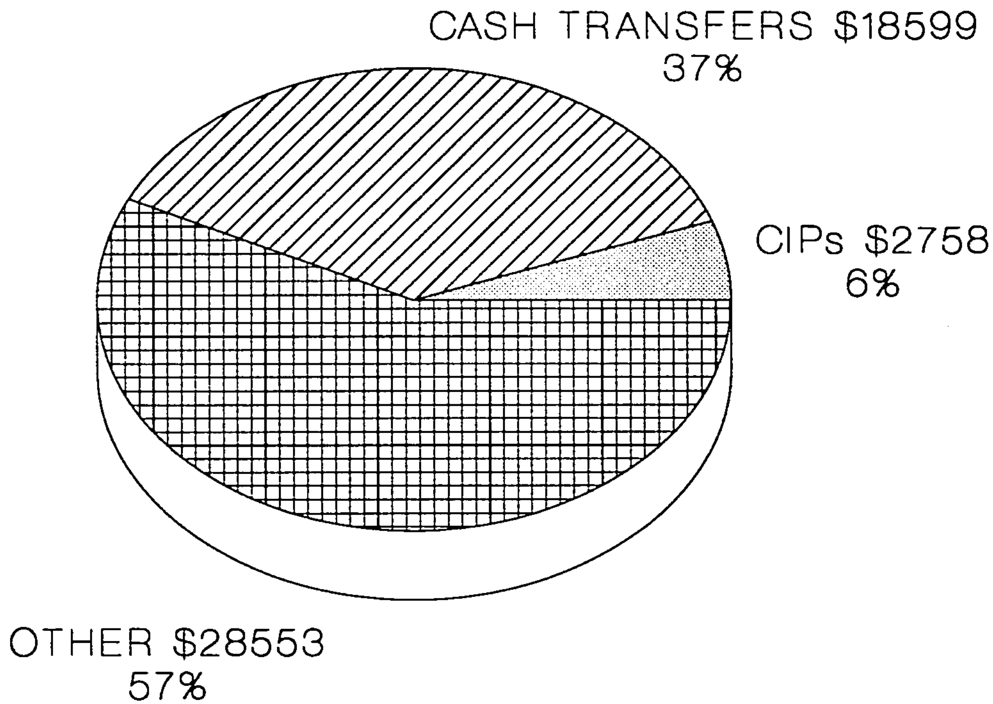
COUNTRY	1983	1984	1985	1986	1987	1988	1989	1990	TOTAL	(%)
Djibouti	0	0	0	0	0	0	3.0	0	3.0	0
Kenya	0	21.0	13.0	11.0	15.0	17.0	15.3	12.0	104.3	11.9
Liberia	0	0	0	0	5.0	0	0	0	5.0	0.5
Madagascar	0	0	4.5	2.2	1.0	2.0	0	0	9.7	1.1
Mauritius	2.0	4.0	2.0	1.9	1.0	0	0	0	10.9	1.2
Mozambique	0	6.0	11.0	9.6	10.0	14.8	13.6	22.5	87.5	10.0
Niger	5.0	0	0	0	0	0	0	0	5.0	0.5
Senegal	5.0	0	0	0	0	0	0	0	5.0	0.5
Seychelles	2.0	2.0	2.0	1.9	2.4	3.0	3.0	2.0	18.3	2.1
Somalia	16.0	0	30.0	22.0	17.1	0	0	0	85.1	9.7
Sudan	60.3	102.0	114.0	10.0	0	14.4	0	0	300.7	34.2
Tanzania	0	0	0	0	0	5.2	5.2	0	10.4	1.2
Uganda	0	0	0	0	0	12.5	0	20.0	32.5	3.7
Zaire	0	10.0	10.0	15.0	0	0	14.0	12.0	61.0	6.9
Zambia	15.0	15.0	10.0	17.0	18.6	0	0	0	75.6	8.6
Zimbabwe	37.0	10.0	13.0	5.0	0	0	0	0	65.0	7.4
TOTALS	142.3	170.0	209.5	95.6	70.1	68.9	54.1	68.5	879.0	100.0

Figures estimated by the author based on various annual editions of the *Congressional Presentation* and obligations data appearing in the evaluations.


GRAPH 1
CIPs, CASH TRANSFERS, AND OTHER
($s Billions)
8
6
4
2
0
1983
1984
1985
1986
1987
1988
1989
1990
Year
CIPs
Cash Transfers
Other
Total
(FYs 1983 to 1990)

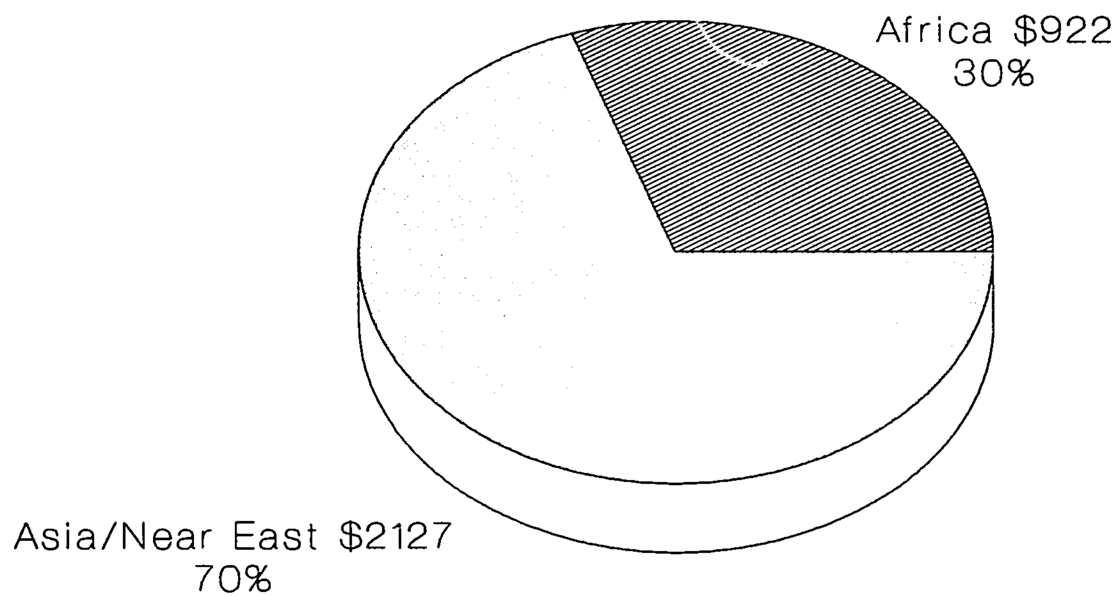

GRAPH 2
CIP REGIONAL OBLIGATIONS TRENDS
($s Millions)
600
500
400
300
200
100
0
1983
1984
1985
1986
1987
1988
1989
1990
1991
Year
Latin America
Africa
Asia/Near East
Total
(FYs 1983 - 1991)

GRAPH 3
A.I.D. ODA BY MODE
($s Millions)



(FYs 1983 - 1990)

GRAPH 4
REGIONAL DISTRIBUTION OF CIPs
($s Millions)



(FYs 1983 - 1991)

income, and employment, and to improvements in other facets of the standard of living such as health and educational attainment. The 15 evaluations that were examined for the present synthesis uniformly had difficulty in attempting to demonstrate effects at this level. Moreover, few objectives of this sort were established by the CIPs, especially those that were designed prior to the publication of the *Evaluation Guidelines* late in 1985. The main reason for the omission was that as a form of NPA, CIPs were not subject to the same design and evaluation requirements that had been in effect for some time for project assistance.[14] So, instead of utilizing the preceding logical framework as a tool for establishing a hierarchy of objectives, designers usually couched their CIP objectives in one or more of the following terms:

-- "...to reduce perilously high balance of payments deficits, to provide a measure of economic or political stability, to generate local currency for developmental needs, to provide the resources to meet reconstruction efforts resulting from natural calamities such as earthquakes, or to meet 'special economic, political, or security conditions.'"[15]

As noted previously, during the latter part of the decade CIPs tended increasingly to be incorporated as an integral component of sectoral assistance programs. In the process, they almost invariably assumed the same objectives as the broader sectoral program. Increases in agricultural production and productivity was the most frequently employed of these.

C. Advantages and Disadvantages of CIPs

1. Disadvantages

Based upon A.I.D.'s considerable experience in dealing with the various forms of NPA, there appear to be a number of disadvantages that CIPs share in common with the rest. They are briefly summarized below. More detailed discussion of these shortcomings follow in later chapters.

-- NPA programs can distort trade patterns, constitute a hidden subsidy to state enterprises, and undercut domestic production.

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[14]The rules and regulations established for projects appear in the Agency's Handbook Three, *Project Handbook* while those for NPA are found in Handbook Four, *NonProject Assistance*. Incidentally, one surprising manifestation of the difference in treatment of NPA assistance was the absence of evaluations. "... despite their size and importance in the AID scheme of assistance, AID/Washington did not formally evaluate a CIP until 1984." *Evaluation Guidlines*. p. 2.

[15]Development Associates. *Evaluation Guidelines*. p. 2.

-- Since their objectives are broad, it is difficult to evaluate the policy impact of NPA.

-- As the form of assistance that allows the most flexibility, NPA may be very susceptible to abuse.[16]

The major disadvantage of CIPs as compared to cash transfers, to which they are closely related, is that it is almost always simpler and significantly faster to disburse cash that is "untied" than it is to disburse cash that is tied to the procurement and shipping abroad of an approved list of specific commodities. This conclusion appears to be true regardless how restricted the number of commodities involved is or the ease with which they can be procured. The advantage inherent in cash transfers in this respect is particularly important when a developing country whose economic stability is considered to be important to the foreign policy and/or national security interests of the U.S. requires sizeable infusions of foreign exchange rapidly.

The reason for the significant difference between cash transfers and CIPs with respect to disbursement is simple. Even if it were assumed that the amount of time required to develop and meet the conditions precedent were identical for a CIP and a cash transfer, once that point has been reached the cash transfer can be disbursed very quickly. In the case of the CIP, however, many time consuming logistical arrangements would still remain before disbursement could commence. A representative checklist of some of the more important tasks that need to be undertaken prior to disbursement would include the following.

-- Preparation by the host government of a more comprehensive list of commodities to be procured by eligible public and parastatal entities.

-- A series of meetings between the importers and USAID administrators of the CIP to discuss the proposed procurement procedures.

-- Preparation by public and parastatal representatives of Invitations for Bids (IFB) that includes detailed specifications for the commodities that they intend to import.

-- Preparation and forwarding to A.I.D./W by the USAID of Financing Requests (FRs) for each approved commodity to be imported.

-- Issuance of Letters of Commitment, or L/Coms, by A.I.D./W to a

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[16]A.I.D. PPC/CDIE. *United States Non-Project Assistance (NPA). Response to Questionnaire by the DAC Expert Group on Evaluation.* Washington, D.C.: 1986. p. 6.

U.S. bank against which the importers may open Letters of Credit, or L/Cs, through a correspondent bank in the host country. Public sector importers must also post a performance guarantee prior to requesting issuance of the L/C.

Transmittal by the participating U.S. bank of the commercial documents (bill of lading, invoice, etc.) to the correspondent host country bank.

Likewise, experience has also demonstrated that once disbursements begin, they proceed more slowly than with cash transfers.[17] One of the provisions in Regulation 1, for example, requires that fifty percent of all merchandise financed by CIPs be shipped on U.S. flag carriers. According to the evaluations reviewed, this provision was routinely included in CIPs for African countries prior to about 1985, despite the fact that regularly scheduled services from U.S. shipping lines were not available for the great majority of them. As a consequence, compliance with this provision frequently delayed significantly the arrival of the merchandise that had been ordered.[18] The delays, in turn, slowed down the rates of disbursement for their respective programs since importers' obligations to the local banks that issued their L/Cs usually did not have to be satisfied until the arrival of their merchandise.[19]

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[17]"...the data suggest that the time involved in the actual importation of commodities is considerable...This delay in importation can raise doubt regarding the quick disbursing element attributed to the CIP. The balance of payments gap for any given year can remain open by a considerable margin due to the demonstrated procurement lags in the CIP." David W. Dunlop, R. Axel Magnuson, et. al. *Sudan CIP Evaluation (650-K-608 and 650-K-608A).* Khartoum: USAID/Sudan, 1985. p. 81.

[18]The Sudan evaluation, for example, noted that American goods cost more there, part of which was attributable to "the additional transport handling and time costs associated with U.S. commodities." *Sudan CIP Evaluation.* p. 80. The evaluation of Zambia's CIPs noted that "in 1984 the ocean shipping rate for fertilizer materials was approximately $50 per ton on foreign bottoms and $110 per ton on U.S. flag vessels. *Zambia. Evaluation of the FY 1983, 1984, and 1985 CIPs.* p. 16. The Evaluators estimated the cost differential from employing U.S. shipping for carrying 50 percent of the fertilizer materials for the FY 1983 CIP of $15 million at about $2.5 million. As substantial as the differential was, importers in neighboring Zimbabwe appeared to have been more concerned about the infrequency of sailings. "Firms surveyed did not seem as concerned about the cost of US CIP shipping requirements as they were about the infrequency of US ships sailing to Durban...deliveries had been delayed as a result of no ship sailing immediately for southern African ports." *An Evaluation of the Zimbabwe Commodity Import Program 613-K-603.* p. 15.

[19]The reader may find it useful at this point to work through the various steps involved in first allocating CIP resources in Sudan and Somalia and then processing the transactions in diagram form in flow charts that were prepared by the teams that evaluated their initial CIPs.

Another representative example of how disbursements can be unexpectedly delayed considerably is illustrated by the experience of private sector businessmen in Somalia. After being informed that their proposed imports were approved for inclusion in their country's CIP, they waited for months for U.S. suppliers to respond to their requests for price quotes and estimated delivery dates in the form of *pro forma* invoices. Some of the suppliers queried never bothered to respond.[20] It should also be noted that when CIPs are initially implemented in countries whose participants are unfamiliar with their procedures, a substantial amount of additional time would be lost simply in trying to reach potential users to advise them of the program's availability and the details of its operations.

Overall then, the cumulative effects of successfully completing the numerous logistical arrangements required of CIPs on their rates of disbursement are substantial. Even when special circumstances were present that tended to facilitate the above process, such as the unique characteristics of the CIPs for Mauritius and the Seychelles, which shall be discussed in greater detail later,[21] full disbursement usually required nearly a year. Other CIPs that were more representative of this mode of assistance, although well managed, such as those of Zimbabwe and Mozambique,[22] routinely required about two years to fully disburse. Many others were slower

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They appear in Annex D. Likewise, the reader may also find useful a booklet explaining the CIP and detailing its procedures that was prepared for Zimbabwe's business community by the USAID. See *Information an Guidance on the Implementation of United States Agency for International Development Commodity Import Programs in Zimbabwe* in Annex C.

[20]Jeffers, William A., Harrison, Donald, *et. al. Somalia. Evaluation of Commodity Import Programs (649-K-603 and 649-K-604).* Mogadishu, Somalia: USAID Somalia, November, 1987. p. 41.

[21]Cf. ff. 27 and p. 28.

[22]It should be noted that neither country's CIPs required any policy-based conditionality. A representative example of disbursement rates under CIPs can be seen in the Zimbabwe CIPs:

	Obligations	Disbursements
1982	$58,000,000	$ 5,024,609
1983	52,000,000	47,073,533
1984	31,000,000	56,383,649
1985	13,000,000	32,475,791

Cohen & Buchmiller. *Evaluation of CIPs in Zimbabwe.* p. 22.

still. In Sudan, for example, full disbursement usually required between three and four years.[23] If there were still other factors present that contributed to delays in disbursement, such as waiting for the host country to implement policy-based conditionality, the amount of time involved was even greater. Review of the disbursement performance for other Bureau CIPs during the eighties discloses that most of them did in fact require more than two years to complete. In Kenya, for example, evaluators found that by early 1987 only about $778,000 had been disbursed from the $15 million CIP component of the country's FY 1984 structural adjustment program owing to a number of unforeseen delays, including five months for the GOK to meet the Conditions Precedent (CPs), and an additional four months for the mission to issue the financing requests (FRs). For the FY 1985 program the slippage was much worse. The target for the GOK to meet the CPs was set for March 1986. According to the January, 1987 evaluation, the CPs had still not been met by that date.[24] It should be noted, however, that delays in meeting CPs were equally capable of delaying disbursement of cash transfer programs as well.

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[23]"While the CIP is intended to be quick disbursing, ... the time between the signing of a CIP grant agreement and full disbursement is between three and four years". David W. Dunlop, R. Alex Magnuson, *et. al. Sudan CIP Evaluation.* pp. 41. Cf. p. 78 also.

[24]Here is the actual, as compared to the planned, schedule for completion of major events in the disbursement of Kenya's 1984 and 1985 CIPs.

KENYA CIP TIMETABLE

	FY 84 -- $15.0 million		FY 85 -- $13.0 million	
	Target	Actual	Target	Actual
Authorized	9/17/84	9/21/84	9/15/85	9/13/85
Grant Agreement	9/21/84	9/25/84	9/30/85	9/20/85
CPs Met	11/30/84	2/28/85	3/--/86	
FRs Signed		6/28/85		
L/COMMs Established	12/15/84	8/06/85	9/15/86	
Grant Fully Disbursed	10/31/87		9/30/88	

"As stated ... the $15 million FY 1984 CIP was to supply approximately 12 percent of the average annual quick-disbursing assistance required during 1984-85 ... As of the end of January, 1987, total disbursements and the total counterpart deposit equivalent under the CIP were $777,326.69. Thus, the program has clearly not been successful in meeting its stated purpose, with implementation leading to disbursements which are now far too late to ameliorate Kenya's balance of payments situation of 1984 and 1985." Rosalie Fanale, David Cowles, and Mike McWherter. *Evaluation of the Kenya Commodity Import Program (CIP).* Nairobi, Kenya: USAID Kenya, 1987. p. 13.

2. Advantages

Given their inherent flexibility, including the ability to operate free from longer-term technical assistance and training constraints, it should come as no surprise that the most important advantage of CIPs is the fact that they are capable of furnishing large amounts of resources to countries more rapidly and with fewer complications than projectized assistance.[25] Another advantage of CIPs is that, like cash transfers, they can provide relatively large amounts of foreign exchange, usually on grant terms. The prospect of receiving funds under such conditions can provide a powerful bargaining tool to USAIDs that are engaged in the policy dialogue process. While cash transfers also offer these same advantages and provide even greater flexibility and more rapid rates of disbursement in the process, there are, nonetheless, circumstances that occur relatively frequently under which it may be preferable to provide ODA in the form of CIPs. To begin with, as we shall see shortly, CIPs can be tailored to impact on specific areas of interest such as a sectoral development program. Likewise, there are situations in which the recipient country's management of its foreign exchange reserves is relatively weak. If the USAID has serious questions concerning a host government's ability to utilize effectively a cash transfer, a CIP may well represent the only practicable alternative available. By the very act of tying its

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[25]This conclusion is based upon the fact the CIPs are usually able to fully disburse within two to four years of the initial obligation date whereas projects, as we have previously noted, require considerably longer. Note also the Agency's handbook definition of the CIP as a "mechanism for providing short-term relief from constraints on the economy of a less-developed country." Agency for International Development. AID Handbook Number 4. *Nonproject Assistance.* Washington, D.C.: U.S. Government Printing Office, 1975. p. 1-1. Note also, "Compared to AID projects, CIPs are often viewed as an easy way to make a quick and immediate impact -- they can be put in place quickly, disburse rapidly and require almost no U.S. staff." *An Evaluation of the Zimbabwe Commodity Import Program 613-K-603.* p. 16. Likewise, "An important characteristic of a CIP is its potential to provide rapid and voluminous infusions of capital or goods into a country's economy, particularly in contrast to USAID projects involving long-term technical assistance or training with a small commodity input." A.I.D. *Evaluation Guidlines for NonProject Assistance (CIPs) and CIP-Like Activities.* p. 5.

It is also important to note that rapid disbursement may not be the only indicator of success for a CIP. If disbursement is delayed due to the negotiation and implementation of policy reforms (which could have delayed disbursement of a cash transfer by an equal amount of time), the program may nonetheless be considered a success once the reforms are made. "Just because a CIP does not perform well in an operational sense, i.e., disbursement is slow or does not occur at all, does not mean that the CIP, is a 'failure.' To the contrary, to the extent that the CIP, preceding CIPs and the overall program have helped alter the host country's policy framework and to liberalize the economy, the CIP is a success. The greater the shortage of foreign exchange ... the better will be the CIP's performance in an administrative/accounting sense, but the larger objective remains unattained." Jim Mudge, Jim Harmon, and Bruce Stader. *Zambia. Evaluation of the FY 1983, 1984 and 1985 Commodity Import Programs.* p. 40.

assistance to the procurement of commodities of known and approved sources and origins, the U.S. will be able to demonstrate that its NPA is contributing to the stabilization and economic development of the host economy. Likewise, by making explicit the benefits that would derive directly to U.S. manufacturers from a CIP, the tying of procurement to U.S sources is likely, even when the Development Fund for Africa,[26] is taken into consideration, to make it more palatable to Congress and the American public.[27] This has traditionally been an important selling point for CIPs. This is especially true when one considers that for other than humanitarian assistance and disaster relief, foreign aid traditionally has had no constituency and only limited support among taxpayers.

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[26]Recall that while the DFA has greater flexibility for overseas procurement, it still expects that the overall proportion of U.S. procurement will not change significantly.

[27]"Because cash transfers are not tied to U.S. sources of procurement, they may appear to promote other developed country's exports at the expense of U.S. commercial interests. However incidental, such concerns by the American public and Congress could undermine U.S. development assistance programs." A.I.D. PPC/EA. *United States Non-Project Assistance (NPA). Response to Questionnaire by the DAC Expert Group on Evaluation.* Washington, D.C.: 1986. p. 6.

CHAPTER II

AFRICA BUREAU CIPs DURING THE 1980s

A. BACKGROUND

As we have observed already in Table 2, there was a rapid buildup in CIPs in sub-Saharan Africa between the late 1970s and the mid 1980s. Indeed, whereas the Africa Bureau had had little prior work with CIPs prior to 1980, by 1987, the year before the DFA was established, slightly more than half of all CIP funding provided by A.I.D. was obligated within the region.

The most important reason for the increasing popularity of CIPs by far was the deteriorating state of the sub-Saharan regional economy. The years between 1979 and 1983 saw a series of major external shocks. Oil prices rose sharply in 1979-1980. Real interest rates increased dramatically in 1980-1981, reaching historically high levels. There was a prolonged recession in industrial countries between 1981 and 1983.

The countries in the region were especially hard hit, because production was not only held back by the devastating combination of external conditions including adverse terms of trade and reduced capital inflows, but by a series of deleterious domestic policies as well. These included poor incentives to farmers, costly and inefficient agricultural marketing systems for both inputs and outputs, and the maintenance of overvalued exchange rates. Between 1973 and 1982, countries such as Sudan, Tanzania, Uganda, and Zaire experienced an appreciation of their real exchange rates, because relatively high rates of domestic inflation were not fully offset by falls in their nominal exchange rates. Even countries such as Kenya, Madagascar, Mauritius, and Somalia, which did depreciate their nominal exchange rates, ended up with a higher real effective rate or only a small devaluation. The same phenomenon affected pricing policies, particularly in agriculture. Although nominal producer prices were increased in many cases, they were lower in real terms than before in countries such as Kenya, Madagascar, Malawi, Mali, and Niger.[28]

Governments throughout the region also allowed their public finances to deteriorate. In countries such as Burundi, Guinea, Mali, Malawi, and Sierra Leone, public expenditures increased despite budgetary constraints. Moreover, domestic savings had already collapsed in many countries,

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[28]The World Bank's annual editions of its *World Development Report* describe these events in some detail and provide solid statistical evidence of the region's macroeconomic woes throughout the decade. Cf. especially, the World Bank. *World Development Report 1986*. Washington, D.C.: World Bank and Oxford University Press, 1986. pp. 24-39, and World Bank. *World Development Report 1990*. Washington, D.C.: World Bank and Oxford University Press, 1990. Table A.ll. *Investment, Saving, and Current Account Balance Before Official Transfers, 1965 to 1988*. p. 167.

including Sudan, Ethiopia, Ghana, Tanzania, Kenya, and Zimbabwe.[29]
Yet another important factor that contributed to the rapid growth of CIP programs in Africa was the way in which our national interests were perceived as being increasingly threatened by the security situations on the continent and in the Indian Ocean Basin. ESF funds were employed liberally in the countries that bordered Libya, most notably in the Sudan, and in countries strategically situated within the Indian Ocean basin, such as Djibouti, Somalia, Madagascar, Mauritius, and the Seychelles.[30]

Together, these developments served to stimulate a rapid increase in NPA activities throughout the region. The primary factors in determining whether the individual country programs were in the form of CIPs or cash transfers were undoubtedly the prospective recipient's management of its foreign exchange resources, together with the Africa Bureau's assessment of its long-run development potential.[31] The concentration of CIPs in Eastern and Southern Africa, for example is explained in large part by the fact that even though the Francophone developing countries of the Sahel also suffered balance of payments and government budget deficits that were similar in magnitude to those encountered elsewhere on the continent, their participation in the CFA Franc monetary agreements assured adequate management of their foreign exchange resources and a fully convertible currency throughout the economic crisis of the 1980s.

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[29]World Bank. *World Development Report, 1984. pp. 24, 26.*

[30]The annual Congressional Presentations mention these geo-political factors explicitly. For example, the FY 1982 CP discussion of the ESF Account contains the following justifications:

-- "Djibouti: $2 million...to demonstrate the positive benefits associated with...a moderate foreign policy which makes possible the continuing and increased access of the ships and aircraft of the U.S. Navy to use Djibouti's servicing facilities;

-- Mauritius: $2 million for a Commodity Import Program to provide tangible assistance with a balance of payments crisis in a country which has been consistently responsive to requests to provide access to its facilities by U.S. Naval units;"

Agency for International Development. *Congressional Presentation Fiscal Year 1982 Main Volume, Amended Version.* Washington, D.C., 1982. p. 103.

In addition, the FY 1984 Main Volume of the CP notes the "continuing United States' support of strategic, key countries and access to military facilities in the Persian Gulf region,..." p. 83.

[31]Conversation by the author with the Africa Bureau's chief economist, Jerry Wolgin.

B. AMOUNTS PROVIDED

Table 4 summarizes some of the more important properties of the CIPs whose evaluations are contained in the present synthesis. These include the country, the fiscal year in which the CIP was obligated, and the amount of the obligation. The reader is reminded that only the FY 1983 Zambia CIP was provided as a loan. All of the others were grants.

Together, the 39 CIPs obligated a total of $791,630,000 in ESF funds in 11 different countries between FYs 1980 and 1987. While the individual country programs were fairly numerous and the amount of funding that they contained was sizeable, it is important to note that the great majority of the funds were concentrated in relatively few countries. Indeed, over three quarters -- $611 million, or 78.4 percent -- of the total were obligated in only three countries. Slightly over half of the total -- $402,500,000, or 50.8 percent -- was obligated in Sudan alone. An additional $147 million, or 19.8 percent, went to Zimbabwe. Somalia was the third highest recipient, with $61.5 million, or 7.8 percent.

Table 5 arranges the data appearing in the previous table on an annual basis. It also compares the total annual amounts from the CIPs evaluated with the overall figures that the annual *Congressional Presentations* reported as obligated in the form of CIPs by the Africa Bureau and the Agency as a whole. The latter data previously appeared in Tables 1, 2, and 3. Note that for fiscal years 1983 and 1984, the total amounts obligated by the CIPs that were evaluated exceeded the figures provided earlier in Tables 2 and 3 for all of Africa. Indeed, for FY 1983 the figure is more than half again as large as the total amount of CIP funding reported for the region as a whole. This is due to the fact that, as we noted before, CIPs that were included as integral components in sectoral or structural adjustment programs were not considered, for programmatic purposes, to be CIPs. It should be stressed that the figures appearing below *only* include the amounts obligated for the CIP components of those programs rather than total funding for the programs themselves.

C. TARGET GROUPS, COMMODITIES, AND THEIR SOURCES

As noted previously, eligibility to import under a CIP, together with the commodities and their sources, were subject to negotiation between the USAIDs and host governments. The USAID position was typically influenced by the degree of severity of the economic crisis facing the host country, on the one hand, and the desire to utilize the CIP's resources to further its strategy for addressing the country's long range development constraints, on the other. In general, the more urgent the nature of the short-term economic problems, the greater the pressure to design the CIP so that its resources could be disbursed rapidly. The primary longer-term development impact of the program was then achieved through the judicious programming and administration of the local currency generated from the importation of the CIP's commodities. The less urgent that the problems of short-term macroeconomic imbalance were perceived to be, on the other hand,

TABLE 4

SOME PROPERTIES OF AFRICA BUREAU CIPs INCLUDED IN THE PRESENT SYNTHESIS

COUNTRY/NUMBER/TITLE	FISCAL YEAR	$s OBLIGATED	TARGET GROUPS
Kenya			
615-0213 Structural Adjustment Prog.*	1984	15,000,000	Agricultural and Private Sectors
615-0213 Structural Adjustment Prog.*	1985	13,000,000	" " "
615-0240 CIP	1986	11,000,000	" " "
Liberia			
669-0214 CIP	1987	5,000,000	Private Sector Businessmen (65.0%)
Madagascar			
687-0101 Ag. Rehabilitation & Support*	1985	14,235,000	Agricultural and Transport Sectors
Mauritius			
642-K-601 Mauritius CIP I	1982	2,000,000	Private Sector Veg. Oil Processor
642-K-602 " CIP II	1983	2,000,000	" " " "
642-K-603 " CIP III	1984	4,000,000	" " " "
642-L-604 " CIP IV	1985	2,000,000	" " " "
642-K-606 " CIP V	1986	1,914,000	" " " "

Mozambique			
656-K-601 Private Sector Rehab. I*	1984	6,000,000	Private Agricultural Sector
656-K-601B " " " *	1986	9,570,000	" " "
Seychelles			
662-K-601 CIP I	1982	2,000,000	Energy Sector
662-K-602 CIP II	1983	2,000,000	" "
662-K-603 CIP III	1984	2,000,000	" "
662-K-604 CIP IV	1985	2,000,000	" "
662-K-605 CIP V	1986	1,914,000	" "
Somalia			
649-K-602 CIP I	1982	18,500,000	Private Sector (68.9%)
649-0120 CIP II	1983	16,000,000	" " (68.0%)
649-0125 CIP III	1985	27,000,000	" " (36.0%)
Sudan			
650-K-601 CIP	1980	50,000,000	Economic Policy Reforms
650-K-602 CIP	1981	50,000,000	Policy Reforms & Private Sector (50%)
650-K-603 CIP	1982	100,000,000	" " " " (60%)
650-K-604 CIP	1983	62,500,000	" " & Parastatal Reform
650-K-605 CIP	1983	20,000,000	Parastatal Reform
650-K-606 CIP	1984	40,000,000	Rainfed Agriculture
650-K-606B CIP	1984	62,000,000	" "
650-K-607 CIP	1984	18,000,000	" "
Zaire			
660-0100 Ag. Inputs Support I*	1984	10,000,000	Agriculture, Transport, & Energy
660-0103 " " " II*	1985	10,000,000	" " "
660-0121 Structural Adj. Support*	1987	15,000,000	" " "

Zambia			
611-K-009 CIP (Ag. Sector Support)*	1983	15,000,000	Parastatal & Private Agriculture
611-K-601 CIP " " " *	1984	15,000,000	" " "
611-K-602 CIP	1985	10,000,000	" " "
Zimbabwe			
613-K-603 CIP	1982	50,000,000	Private Sector
613-K-604 Ag. Sector Assistance*	1983	31,000,000	Agriculture Sector
613-K-605 CIP	1983	37,000,000	Private Sector
613-K-605A CIP	1984	10,000,000	Private Sector
613-K-606 Basic Ed. Sector Assist.*	1983	29,000,000	Education Sector

* Denotes the CIP component of a sectoral or structural adjustment program.

Sources: *Recent Evaluations of AID Commodity Import Programs (CIPs).* pp 13 - 15 and annual editions of the Agency's *Congressional Presentations* for pertinent years.

TABLE 5

ANNUAL OBLIGATIONS FOR CIPs INCLUDED IN THE PRESENT SYNTHESIS ($ OOOs)

YEAR	TOTAL CIP OBLIGATIONS IN EVALUATIONS (From Table 4)	TOTAL AFRICA BUREAU CIP OBLIGATIONS (From Table 2)	TOTAL U.S. CIPs (From Table 1)
1980	50.0	87.0*	437.0*
1981	50.0	87.0*	437.0*
1982	172.5	87.0*	437.0*
1983	214.5	142.3	497.0
1984	182.0	170.0	563.0
1985	78.2	209.5	436.0
1986	24.4	95.6	443.0
1987	20.0	70.1	359.0
TOTALS	791.6	948.5	3609.0

* Denotes annual average for the 1979 - 1982 period

Sources: All of the CIP and Sector Evaluations included in the present study, (Cf. Bibliography), plus *Recent Evaluations of AID Commodity Import Programs (CIPs)*, pp. 13 - 15 for data prior to FY 1985 and annual editions of the *Congressional Presentation (Main Volume)* for individual years thereafter.

the greater the mission's tendency to consider not only the local currency generations, but the CIP's dollars as well, as additional resources with which to further longer-term economic development objectives. Accordingly, the CIP tended to be designed to channel its resources directly toward sectors and target groups that had been identified as priority areas in the mission's approved development strategy. The elaboration of detailed criteria specifying the importers and their goods, however, usually required considerable thought and lengthy negotiations prior to being finalized.[32] Establishing the eligibility of individual importers and commodities often proved to be time consuming as well. As a consequence, disbursement typically proceeded at a more leisurely pace when the criteria were present.

1. Target Groups

The trade off between short-term macroeconomic considerations and longer-term economic development strategies affected the selection of the target group in a number of ways. Foremost

[32]"There is a natural programming tension in any CIP between rapid disbursement rates and targeting commodities to CDSS designated beneficiaries. The CIPs reviewed in this paper chose to emphasize disbursement rates." *Recent Evaluations of AID Commodity Import Pograms (CIPs)*. p. 3.

among these was the degree of specificity with which beneficiaries were identified. As a general rule, the fewer details present concerning the target group, the more rapidly the CIP could be disbursed.[33] The more specific the details, on the other hand, the more slowly that disbusements tended to proceed. The evaluation of Zimbabwe's first CIP noted, for example, that

> "There was a suggestion that the CIP could have been more targetted toward the rural poor or to industries that were 'most efficient'...In addition to the problem of determining which industries 'deserved' a CIP allocation, such targeting would have slowed disbursements. Another type of targeting would have been to direct the CIP allocation to special groups (e.g., tractors and pumps for small farmers). That would have created many of the management problems of a more traditional AID Project."[34]

Review of the CIP evaluations disclosed that the socio-economic groups that were to benefit most directly from the CIPs were usually not specified in detail. Indeed, the majority of CIPs did not go beyond the sectoral level when designating beneficiaries.[35] Table 3 lists the sectoral orientation of the programs evaluated. Note that the agricultural and private sectors were the preferred areas of concentration by far. The emphasis upon agriculture was even greater if one takes into account that imports for the sector, including agroindustries, usually featured prominently among the items imported by private operators for the programs in which their participation was targeted. Moreover, programs in Zaire, Madagascar, and Mozambique that emphasized the transport sector also had an agricultural orientation since the vehicles and spare parts that they imported were for the purpose of carrying the produce of rural farmers to urban markets.

While small farmers and private businessmen were frequently cited as the groups toward whom the USAID strategies were directed, it is interesting to note that the evaluations found that, in fact, they seldom profited directly from the CIPs. In Zaire, for example, the CIPs financed the importation of commodities for both the agricultural and transport sectors. While small farmers were targeted as primary beneficiaries, the evaluation concluded that:

> "Subsistence farming in Zaire can absorb few imported commodities directly. The significant effects for small farmers resulted mainly [indirectly] from improved

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[33]There is an important exception to this statement. It occurs when the number of participants, though quite specific, is also severely restricted. Extreme examples would be the CIPs for Mauritius and the Seychelles, where a single enterprise was allowed to import one specific commodity in each of the two programs. Disbursement was relatively rapid in both cases.

[34]*An Evaluation of the Zimbabwe Commodity Import Program 613-K-603.* p. 2.

[35]The objectives for each CIP appear in their respective Project Summary Sheets in Annex B.

roads, dependable farm to market transport, inputs like livestock feed and fertilizer and critical consumer products made possible by the CIPs."[36]

The team that evaluated Somalia's first CIP noted essentially the same phenomenon:

"A significant proportion of the agricultural commodities under the first CIP consisted of heavy items such as tractors and diesel-powered water pumps. Applications for the second CIP so far received also run in this direction. Evidently these are destined for farms of substantial size. Small farmers, except perhaps by banding together, would lack the financial means to acquire such equipment."[37]

Finally, Kenya's experience with a CIP oriented toward the small private businessmen produced similar results:

"Fifty percent of the importers interviewed cited difficulty in obtaining bank credit. While the problem is not specific to the CIP -- many smaller businesses have difficulty with credit for whatever purpose -- it would be useful if AID could undertake steps to broaden the base of participation."[38]

Based upon such observations, it would appear that, in general, the developmental impact of CIPs occurs in large part through a "trickle down" process. Apart from public sector entities, who generally featured prominently, those who usually benefit most directly from the programs are the larger, more affluent manufacturers, businessmen, transporters, and farmers with expertise in importing and sufficient capital to purchase items such as raw or semi-finished materials, trucks, tractors (and their spares), and water pumps. The typical CIP's design is consistent with this conclusion. One of the most common requirements imposed for simplifying and expediting the complex administrative procedures encountered in CIPs is a transaction size ranging between $10,000 and $250,000. Virtually the only exceptions to the minimum figure were a $20,000 floor in Zaire and a $5,000 floor encountered in Kenya's three CIPs.[39] A concerted effort had been

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[36]Vernon Johnson, Manfred Mueller, and Cornelius Stek. *Independent Impact Evaluation of USAID/Kinshasa CIP Grants 660-0100, 660-0103, and 660-0121.* Arlington, Virginia, Development Associates, 1988. p. 9. Hereafter cited as *USAID/Kinshasa CIPs.*

[37]Theodore L. Lewis, Jose M. Ricardo, and Peter J. Hagan. *An Evaluation of the Somalia Commodity Import Program 649-K-602.* Mogadishu, Somalia: USAID/Somalia, 1984. p. 48.

[38]Rosalie Fanale, David Cowles, and Mike McWherter. *Evaluation of the Kenya Commodity Import Program (CIP).* Nairobi: USAID/Kenya, 1987. p. 2.

[39]"The PAAD requires that priority be given to transactions of more than $100,000 and limits the smallest acceptable to $20,000." *Independent Impact Evaluation of USAID/Kinshasa CIP Grants.* p. 19.

made there to reach smaller businessmen.[40] Individuals and enterprises who can negotiate transactions of that size in sub-Saharan Africa are typically among the top one or two percent of wealth holders and income recipients. They are scarcely the group that the USAIDs usually try to target in their strategies for developing the economies of the host countries.[41]

The benefits accruing to host country nationals who were selected to participate in the CIP could be considerable.[42] They typically included one or more of the following.

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[40]One of the Zimbabwe CIP evaluations did produce an interesting suggestion for bringing in smaller firms, however:

> "If AID and the GOZ agree that, for administrative purposes, the minimum allocation should be US $ 10 thousand, then AID should encourage the use of consolidators. Consolidators would enable several firms which require less than US $ 10 thousand to share an allocation, thus more private enterprises could benefit from the CIP. Also, it is possible that consolidators could obtain better prices for larger purchases, as well as reduce shipping costs from the United States."

Dr. Neal Cohen and Jane Buchmiller. *Evaluation of Commodity Import Programs 613-K-604, 613-K-605, and 613-K-605A, 613-K-606 in Zimbabwe.* Harare: USAID/Zimbabwe, 1986. p. iv.

[41]A possible modification in this conclusion was found in the second evaulation of Zimbabwe's CIPs. There, an end use survey of participants noted that representatives of two of the largest importers agreed that "large foreign exchange users cannot take advantage of CIPs and other donor programs unless the programs are sufficiently big. They believe that the GOZ feels pressure from donors and from the public to allocate CIP funds to as many firms as possible. Consequently, firms such as Dunlop and ZEMCO, which may request an allocation exceeding the amount available in a small CIP, will not receive donor assistance." Cohen and Buchmiller. *Evaluation of CIPs in Zimbabwe.* pp. 6 - 7.

[42]The reader should also be aware, however, that these additional benefits from the CIPs were at least partially offset by additional costs that were not present in purely commercial transactions. These included the higher relative cost of shipping on U.S. flag carriers that has already been mentioned, higher U.S. prices due in part to the strong upward pressure on the dollar in foreign exchange markets between the late 1970s and mid 1980s, and the additional costs associated with the paperwork, compliance with U.S. procurement rules (e.g., several price quotes) and more frequent and lengthy delays for arrival of goods. Taking all of these factors into consideration, Liberia's CIP evaluation observed that "It is easy to see why experienced commodity management officers estimate that private sector importers using the CIP end up paying 20 to 25 percent more for their imports under the CIP as opposed to normal commercial purchases." *Evaluation of the Liberia CIP.* p. 15. These factors will be examined in detail in forthcoming chapters.

-- Importers received foreign exchange that, as we observed at the beginning of this Chapter, was frequently in very short supply and was often provided at a subsidized rate of exchange. Depending upon the extent of subsidization, importers' markups for their merchandise, which may also have been in very short supply, may have exceeded the actual costs by a considerable margin.[43]

-- Quicker and easier approval for import licenses.

-- A grace period of as much as 180 days between the date the L/C was opened and the date that payment for the goods was required.

-- Access to U.S. suppliers through advertising financed by the CIP.

-- Access to goods that permitted either expansion or continued operation when shutdowns or cutbacks that were otherwise certain were looming on the horizon.

The benefits that the participants received from the use or sale of the commodities imported then trickle down to the poor majority that the USAID's usually tried to target in the fashion alluded to above for the Zaire program. Some of the forms that these "indirect" benefits commonly assumed were the following.

-- Improvement, or at least the maintenance, of the transport system for marketing rural farm produce.

-- Greater availability, or the continuing availability, of inputs that enhance productivity such as improved seeds and fertilizer.

-- Greater availability, or simply the continuing availability, of certain key consumer goods such as kerosene, spices, basic medicines, and so forth.

-- Enhanced opportunities, or at least the maintenance of existing opportunities, for off farm employment in other sectors of the economy such as construction, manufacturing, or retailing.

Another method for specifying the target group that was occasionally employed was to confine the geographic focus of the program. Thus, Zaire restricted the area in which its CIPs operated

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[43]"From information disclosed by traders, it is estimated that profits averaged from 20% to 50% on sales within the private sector and 50% plus on sales to government entities." *An Evaluation of Somalia's CIP*. p. 9.

to the Provinces of Shaba and Bandundu while Mozambique focused exclusively on the Green Zones, a densely populated small farmer area outside of Maputo, and the Chokwe District on the Limpopo River, about 100 miles north of the capital. Emphasis on other characteristics of the target group could also result in an unintended geographic focus. For example, the team that evaluated Somalia's first CIP found that programming a considerable proportion of resources to the private sector also had resulted in an urban focus, since all of the merchants who participated were either from Mogadishu or Hargeisa.[44]

Of course, the same target group could also benefit from local currency counterpart funds being jointly programmed by the USAID and host government for expenditure on programs that would benefit its members either directly or indirectly. As a matter of fact, a number of the evaluations remarked that it was principally through these programs that the poor benefitted most from the CIPs. The evaluation of Zaire's CIPs observed, for example, that "The major economic impact for small farmers is through the use of local currency generated by the CIPs and used in support of USAID Agricultural projects."[45]

2. Commodities

Decisions concerning the eligibility of specific commodities were also influenced by the relative weights assigned to short- versus long-term considerations during the negotiating process. The greater the amount of emphasis placed on rapid disbursement, the more that efforts were directed toward selecting commodities whose procurement could be accomplished relatively quickly. Note has already been made of the fact that in a few cases, such as Mauritius and Seychelles, eligibility was restricted to a single commodity.[46] In other instances, especially Zimbabwe,

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[44]*Evaluation of the Somalia Commodity Import Program 649-K-602*. p. 8.

[45]USAID/Kinshasa CIPs. pp. 9, 86. Likewise, "The principal development impact of the U.S. Commodity Import Programs has originated from the utilization of the counterpart funds for specific capital development projects in Seychelles." William A. Jeffers, Stuart Callison, *et. al. Evaluation of Commodity Import Programs for the Seychelles, FY 1982 - FY 1986*. Nairobi: REDSO, 1987. p. 31. Also, "...the local currency allocations are more consistent with USAID Sudan's CDSS objectives than what has occurred to date via the initial imports financed via the CIP." *Sudan CIP Evaluation*. p. 64. Finally, "it is important to note that the CIP complements a major USAID goal, promotion of the private sector so as to stimulate employment generation and a general increase in productive activity. This is accomplished primarily through the local currency generations and their expenditure on relevant projects such as industrial estates." David McCloud, *et. al. Mauritius Commodity Import Program Evaluation*. p. 13.

[46]The pace of disbursement was not the only consideration with these two special programs. The one importer/one commodity formula was also dictated in part by the absence of an A.I.D. staff in either country. For example, "The choice of a single commodity and single private sector importer is particularly well suited to the realities of the administration of the CIP in Mauritius. AID has no professional staff based in Mauritius ...." *Mauritius CIPs*. p. 2.

Somalia, and Kenya, efforts were made to increase efficiency and reduce administrative red tape simultaneously by allowing the free market for imports to determine the commodity mix. While the programs in which this alternative was adopted were restricted to the three countries, they proved to be among the most rapidly disbursing of all of the CIPs evaluated.[47] The widespread failure to employ the market as a mechanism for allocating resources, despite its inherent advantages, appears to have been the result of a pervasive belief within the USAIDs that the conditions under which the free and efficient competitive markets of neoclassical economic theory existed were simply not present in sub-Saharan Africa. The authors of the evaluation of Somalia's first CIP (which permitted the free market to determine the allocation of imports) seem to have expressed a common sentiment when they observed that

> "The direction of CIP commodities into particular areas may ... involve some substitution of administrative judgement for the operation of market forces, the guidance of which is in most instances more reliable. Even in the Somali situation market forces are not without merit ... Nevertheless political as well as economic uncertainties ... introduce distortions in favor of consumer goods and others which promise shorter-term pay-backs. Thus the direction of imports through appropriate incentives into equipment and materials required for production, where the returns are slower in coming, is probably justified at this time. Still it would be advisable to move as rapidly as circumstances permit in the direction of market determination".[48]

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[47]Due to one important difference, programs with a private sector should disburse more quickly than those oriented toward public sector entities. Recall our discussion in the previous chapter concerning the fact that private sector participants, unlike government agencies and parastatal enterprises, did not have to go through the time consuming process of soliciting IFBs and posting performance guarantees. Cf. pp. 13 - 14.

The FY 1984 Kenya CIP was initially held up by the slow pace of the GOK's implementation of the policy-based CPs present in the Program Agreement. Once started, however, the above statement concerning rapid disbursment is true.

It is doubtful that all of the success of Zimbabwe's CIPs can be attributed to their reliance on the marketplace. Other factors that contributed include reliance on the GOZ's system of allocating foreign exchange, which was well known to the private sector, the presence of an experienced, full time supply officer in Harare to administer the programs and the recognition that the country's public administration "is probably the most capable and most efficient in Africa." Cohen & Buchmiller. *Evaluation of CIPs in Zimbabwe*. pp. 2, 40.

[48]*Evaluation of the Somalia Commodity Import Program*. pp. 47-48.

The USAIDs' rationale for intervention in the form of administrative decision making that tended to slow disbursements was also buttressed by the fact that commodity eligibility for their CIPs could be more or less custom tailored to support the target groups that had been identified in the long-term development strategies for their respective countries. Among the various CIPs whose commodities were administratively determined, those that emphasized the private sector appear to have come closest to a market-oriented outcome. Since private businessmen are usually found in diverse economic activities, including agriculture, commerce, construction, and manufacturing, the CIPs that were directed toward them were generally characterized by a relatively wide diversity of imported commodities. The specific commodity mix varied by mission and by year, of course. Judging by the lack of data present in the evaluations relating either to the absolute amounts of commodities imported, or their composition, the various missions that utilized CIPs, regardless of their sectoral orientation, do not appear to have gone to a great deal of effort to either employ standard systems of classification or develop their own classification categories more appropriate to their specific programs. Table 5 lists imports by category for two CIPs with a private sector focus for which data were available. Note that the diverse categories employed by each mission do not permit direct comparison of some aspects of their programs.[49] It can be noted, nonetheless, that raw materials for use in processing activities are a conspicuous component in both programs. They accounted for between 25 percent and 30 percent of total imports for each country. Likewise, the agricultural sector also was well represented in both countries. In Zimbabwe, new agricultural equipment alone accounted for more than 15 percent of all imports. In Liberia, on the other hand, "agricultural products" (which is most definitely *not* comparable with "agricultural equipment") accounted for between 29 percent and 36 percent, depending upon whether one is looking at the product imported or the nature of the importers' activities. If one could disaggregate the "raw materials" component of the Zimbabwe program into goods of agricultural and non-agricultural origin, the figures for the two countries could be more comparable than they initially appear.

Most other CIPs placed greater emphasis on administratively determined commodity mixes with a pronounced sectoral orientation. In the agricultural sector, for example, participants could benefit from CIPs through the importation of commodities ranging from trucks, tractors and diesel pumps, to fertilizer, improved varieties of seeds, and small hand tools. While the direct beneficiaries of such programs were, as we have seen, rarely those identified in the CDSSs, considerably wider indirect benefits could nonetheless be reasonably forecast to trickle down toward them. Then too, several of the USAIDs do appear to have selected commodity mixes that did, in fact, come close to producing results that were consistent with their development strategies. Evaluators of the Zambia CIPs, for example, observed that given the country's large number of small farmers who cultivated corn, "There is probably no other single commodity [fertilizer] that could have generated as large an income effect or one with better income

[49]More detailed data on the composition of imports for the various CIPs are available in Annex E.

distribution characteristics".[50] Fertilizer also featured prominently in the CIPs for Kenya, Mozambique, and Zaire. The Mozambique CIPs also appear to have been very successful at achieving their objectives of promoting private sector farming in a country whose economic development strategy previously had been marked by an extreme form of statist direction. The team that evaluated the mission's third CIP noted that "The commodities imported under the ... program are having a significant impact on agricultural production ... Nearly all of these farmers noted an increase in vegetable and maize production."[51]

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[50]Jim Mudge, Jim Harmon, and Bruce Stader. *Zambia. Evaluation of the FY 1983, 1984 and 1985 Commodity Import Programs.* p. iii.

[51]Alfredo Cuellar, Richard Harber, *et. al. Evaluation of the Mozambique Private Sector III Program.* pp. 19-20.

TABLE 6
THE COMPOSITION OF IMPORTS FOR TWO CIPS WITH A PRIVATE SECTOR FOCUS

Category	$ Amount	Percent of Total
I. Zimbabwe (613-K-603)		
Finished Goods - Equipment	34,078,000	68.2
Construction Equipment	11,472,000	
Agricultural Equipment	7,981,000	
Data Processing Equipment	6,323,000	
Heavy Lift Equipment	1,087,000	
Manufacturing Equipment	6,615,000	
Other	600,000	
Intermediate Goods	2,185,000	4.4
Raw Materials	13,737,000	27.4
Total	50,000,000	100.0
II. Liberia (669-0214)		
Capital Goods	935,349	28.8
Spare Parts	384,654	11.8
Agricultural Products	945,680	29.1
Other Raw Materials	970,817	29.9
Bank Fees	13,500	0.4
Totals	3,250,000	100.0
Includes (with overlap among them):		
Small Businesses	505,765	15.6
Liberian Businesses	1,155,928	35.5
Agric./Agribus.	1,162,567	35.8
Outside Monrovia	1,577,412	48.5

Sources: Individual country evaluations for Zimbabwe and Liberia appearing in the Bibliography.

Owing to the general paucity of data appearing in the evaluations, as well as the lack of comparability for the data that are present, it is not possible to be very specific about the commodities that were financed by the CIPs as a group. Given the extent to which programs in the agricultural sector predominated among the CIPs with a sectoral orientation in Table 3, as well as the extent to which imports from the sector featured in the private sector programs as well, it is certainly safe to say that goods related to the activities of the agricultural sector predominated by a comfortable margin. Fertilizer, tractors, pumps, (together with their spares) and improved seeds appear consistently in the overwhelming majority of the programs evaluated. Raw materials and semi processed commodities also were imported with regularity as inputs for agroindustrial enterprises. Then too, a significant proportion of the commodities imported for the transport sector -- including trucks and spare parts -- were also directly related to the marketing of agricultural inputs and outputs. Another of the sector's inputs, petroleum, which was also utilized extensively for electric power generation, may have been, with the possible exception of fertilizer, the single most valuable commodity financed by the CIPs. The evaluations disclose that the CIPs for five countries -- Seychelles, Somalia, Sudan, Zambia, and Zaire -- purchased a total of $84.1 million in petroleum products between 1982 and 1986.[52] As noted in Table 3, the figure represents slightly more than 10 percent of the $791.63 million in CIPs whose evaluations have been reviewed for the present study. In at least three of the countries -- Somalia, Zaire, and Zambia -- the purchases had not been planned initially. Their CIPs' resources were diverted from commodities that served intermediate-term objectives to respond to critical short-term balance of payments problems by forestalling looming shutdowns of major portions of their electric power grids, with significant adverse effects upon income and employment in their respective economies.

It is important to note that program designers and administrators uniformly appear to have done an outstanding job in designating commodities for their CIPs that were not only appropriate for, but complementary with, the economies in which they operated. One searches in vain throughout the group of evaluations reviewed for the usual litany of horror stories about commodities standing idle for lack of spares or complementary inputs with which to operate.[53] The Liberian

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[52]The imports from Code 941 countries were distributed as follows (figures in $s millions):

Seychelles	9.9
Somalia	17.2
Sudan	40.0
Zambia	10.0
Zaire	7.0

Source: Evaluations for the countries cited. Cf. Bibliography.

[53]Madagascar's CIP evaluation does note that that a sizeable proportion of tractor and truck imports during 1987 had remained unsold for months. This was attributed to some very hefty devaluations in the local currency brought about as a result of exchange rate reforms, however,

evaluation attributed the absence of problems of this nature in its CIP partially to the large number of commodities authorized.[54] The team that evaluated Mozambique's Program also praised the foresight of its designers in selecting inputs that proved to be complementary to each other in the cultivation of food crops:

> "Nearly all of these farmers noted an increase in ... production *when supporting inputs accompanied the equipment.* In other words, without seed and fertilizer, there would have been little change in production attributable to the equipment alone".[55]

A final observation is possible from reviewing the evaluations for kinds of commodities that were imported by the CIPs. It is simply the fact that, with the heavy emphasis on raw and intermediate goods, petroleum, and spare parts, the programs' designers were obviously placing considerable stress on having an immediate developmental impact by maintaining existing levels of production, income, and employment in economies that were suffering from severe shortages owing to both short-term imbalances and longer-term structural defects.[56] There was little

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rather than to the lack of availability of complementary inputs. *Evaluation of Imported Commodities under the MARS Project.* pp. 26 - 27.

[54]"It is important to authorize as large a positive list (eligible items) as possible so as to minimize the need for Implementation Letters and amendments to Commodity Procurement Instructions." *Liberia CIP Evaluation.* Executive Summary. p. 1.

[55]*Evaluation of the Mozambique Private Sector III Program.* p. 20. My italics. This is especially impressive given the fact that an earlier evaluation of the program had pointed out a potential problem with serious implications that had apparently been adequately addressed.

> "... the development of a functional private sector in agriculture with many small producers will require a more extensive distribution infrastructure."

Mozambique Private Sector Rehabilitation I Program CIP. p. 17.

[56]"Instead of building new facilities, repair and rehabilitation could often result in a much quicker increase in output and services. Whenever possible existing facilities were repaired or expanded". *Evaluation of the Zimbabwe Commodity Import Program.* p. 24. The decision between supporting the use of existing capacity or providing for new investment in fixed plant and equipment depended on the country's development needs as described in the USAID's CDSS and on the availability of foreign exchange to operate existing plants effectively. The USAID's recommendations, supporting analysis and descriptions of NPA's role in the overall development strategy guided the final mix. As a general rule, "New capital and equipment will only be provided when the host government has adequate resources to finance the additional recurrent costs that result from the investment." *United States Non-Project Assistance (NPA).* p. 6.

emphasis, in other words, on increasing either capacity or production through investments in new capital equipment.[57]

3. Sources and Origins

Determination of the origins and sources of commodities eligible for the CIPs also influenced their rates of disbursement.[58] Given sub-Saharan Africa's geographic location, as well as its prior history of having been partitioned into colonies by various European powers during the 19th Century, most of the recently independent countries there were largely unfamiliar with most U.S. products. Moreover, as we have already observed, the area had been little exposed to U.S. CIPs prior to 1980.[59] Thus, if the pace of disbursement of the CIPs had been the most important criterion to U.S. officials at the time, they would most likely have permitted procurement to be undertaken with the host countries' traditional trading partners, usually from either the Code 935 or 941 countries. The relatively few instances in which such procurement was permitted, however, leaves little doubt that top level decision makers strongly preferred to maintain U.S. procurement, or Code 000, in the CIPs, usually exclusively, even if it was at the expense of rapid disbursement.[60] The only important exception to the "buy America" provision was the *ad hoc*

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[57]"In general, there is a clear priority in most industries for spares and raw materials, reflecting the need to keep existing capacity utilization as high as possible rather than making new investment." *An Evaluation of the Zimbabwe Commodity Import Program.* p. 14. At the same time, however, consideration should be kept in mind that "... a substantial share of the intermediate goods imported by both private and public entities is also used to repair and maintain existing capital items, ... [and] has contributed to the longer run productive capacity of the country." *Sudan CIP Evaluation.* p. 50.

[58]For the administration of the CIPs reviewed, there appears to have been little practical difference between the terms "origin" and "source". Instances in which goods of U.S. origin could be ordered directly from sources closer to the host country, such as in the European countries, while only rarely disapproved, were found to be relatively infrequent. Commodities manufactured by a U.S.-controlled multinational enterprise located outside the U.S., on the other hand, were not considered to be of U.S. origin, even though they might have had a relatively high content of U.S. manufactured components, and were thus only on rare occasions determined to be eligible for import under the CIPs.

[59]Cf. Table 2. Some of the countries whose evaluations were studied, including Kenya and Zambia, had received CIPs prior to 1980. Kenya had received a CIP in 1973 which had been slow in disbursing for a number of reasons. Cf. *Evaluation of the Zimbabwe Commodity Import Program.* p. 16. Zambia, on the other hand, had been receiving a series of successive one year CIPs that had commenced in 1977. *Zambia. Evaluation of the FY 1983, 1984 and 1985 CIPs.* p. 26.

[60]For a listing of the countries contained in the various procurement Codes, see Appendix C, *Zimbabwe's Handbook on Commodity Import Programs.* p. __.

permission extended to five countries to purchase petroleum products to address critical short-term balance of payments problems that was discussed in the preceding section.[61] Once the initial programs were underway, the gradually increasing familiarity on the part of host country nationals with the CIPs' procedures (i.e., the "learning curve") resulted in a growing volume of commercial relations between the U.S. and the host countries.[62] As trade increased, however, other problems that had usually not been anticipated by the programs' designers also arose. While the quality of U.S. commodities was generally praised, for example, the evaluation of the Zimbabwe program revealed a litany of associated problems with U.S. suppliers that was encountered in various degrees in nearly all of the other CIPs.

> "...firms found U.S. imports to be high priced as a result of the overvalued U.S. dollar and the depreciated Zimbabwe dollar. Duly & Company stated that U.S. suppliers often lack export expertise. It had received shipments which were not properly packed. Vitafoam had shipments which were not complete. Mr. Little of Vitafoam said that U.S. suppliers failed to realize the consequent problems for importers, since late shipments are much more difficult to clear through Customs. Berkshire International, along with other participants, had problems with suppliers and the U.S. bank regarding the implementation of letters of

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[61]The Seychelles were permitted to import petroleum because "although there was interest in a limited number of US products ... the quantities which were required were extremely small and of marginal value especially vis-a-vis the management time required to effect their procurement and shipping". *Evaluation of Commodity Import Programs for the Seychelles.* p. 30. Somalia was also permitted to purchase foreign commodities other than petroleum products under its CIPs, but the justification for this unusual departure from the norm was not specified. The first of the two evaluations of the CIPs there does make reference to what may have been a contributing influence. This was the fact that nearly all of the existing capital equipment in the country was of either British or Italian origin. *Evaluation of the Somalia CIP 649-K-602.* p. 15. Finally, Zaire's importers were also permitted to purchase eligible commodities from Code 941 countries under CIP 660-0121 authorized in 1986 after the A.I.D. Administration had signed a blanket source and origin waiver as a means to "facilitate timely disbursement of program funds by increasing the interest of importers in the CIP." *Independent Impact Evaluation of USAID/Kinshasa CIP Grants.* p. 6.

[62]Virtually all of the evaluations reported improvements in administration once past the initial hurdles. For example, "Once a series of AID CIPs have been established and have been operating for a number of years they work much like normal commercial imports. The host government and private importers know how to mesh local government and trade procedures with AID regulations." *Evaluation of the Zimbabwe Commodity Import Program.* p. 16. As an illustrative, though somewhat dramatic, example, of how imports from the U.S. could increase with a CIP, note that trade between Somalia and the U.S. increased from $52.3 million, or 10.8 percent of the country's imports in 1982, to $82.4 million, or 20 percent of imports, in 1984. *Somalia. Evaluation of CIPs.* p. 12.

credit."[63]

Likewise, the evaluation of Kenya's CIPs, which included a survey of end users that specifically requested identification of the most important disadvantages in dealing with the programs there, found that, in addition to the high cost of U.S. goods, participants also complained frequently about the delays in U.S. shipping and the expense of shipping on U.S. flag vessels, the lack of clarity in CIP procedures, and a reluctance on the part of U.S. suppliers to meet A.I.D.'s documentation requirements.[64] The first of the criticisms encountered by the Zimbabwe and Kenya evaluation teams -- the high cost of U.S. goods occasioned in part by the relatively high value of the U.S. dollar during the first half of the decade -- was the single most recurrent criticism of the CIPs encountered in the reports. Simply stated, while the host countries appreciated the U.S. assistance, they found the U.S. commodities to be overpriced relative to what they could have purchased had the assistance not been tied to U.S. procurement.

Some of these problems tended to dissipate with successive CIPs. Once U.S. suppliers were aware of the special needs and requirements of their new clients, they usually moved promptly to satisfy them.[65] Indeed, the great majority of the evaluations, which were usually undertaken several years after the initial program, encountered less dissatisfaction of this sort among importers. Other problems, however, such as the relatively overvalued U.S. currency, proved more intractable. If resolved at all, the pace was certainly far more leisurely. The dollar did not start to decline in relative value until late 1985. Moreover, the use of waivers that exempted recipient countries from the 50/50 U.S. shipping requirement had scarcely gotten underway until the middle of the decade. Others still, that were not even identified as problems in the evaluations just cited, such as the increased use of conditionality to leverage the reform of policies in key areas of concern to the USAIDs and other donors, assumed increasing importance in determining not only the pace of disbursement, but whether or not there would actually be any disbursements under the various programs. It is to an examination of this subject that our discussion now turns.

D. CONDITIONALITY

As with the other topics previously touched upon in this Chapter, the extent to which conditionality was present in a CIP Program Agreement also affected the speed with which its financial resources could be disbursed. The more conditions present, and the more difficult they

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[63]Cohen & Buchmiller. *Evaluation of CIPs in Zimbabwe.* pp. 14-15.

[64]*Evaluation of the Kenya Commodity Import Program.* p. 20. Note also the failure of U.S. suppliers to provide *pro forma* invoices to importers in Somalia cited in ff. 14 on p. 12.

[65]"... many firms stated that U.S. and Zimbabwe banks and U.S. suppliers were now more familiar with the program and that the CIP operates smoothly from their viewpoint." Cohen and Buchmiller. *Evaluation of CIPs in Zimbabwe.* p. 15.

were for the host government to satisfy, the slower the rate of disbursement, *ceteris paribus*. Review of our country evaluations discloses that the conditioning of CIP disbursements on the successful completion of one or more reforms in economic policy by the host government was employed so infrequently that the missions appear to have been eager to disburse.[66] Indeed, a number of the evaluation teams went on record as opposing the use of conditionality in the CIPs for their country programs. The reason that they cited most frequently was that the programs were so small relative to the size of the macroeconomic aggregates that were involved in the policy dialogue, that they did not believe that there was sufficient leverage to condition our assistance on host government acceptance of substantive policy reforms a worthwhile exercise.[67] Moreover, with few exceptions, the USAIDs that included conditionality in their Program Agreements did so in the comparatively "soft" form of covenants rather than in the tougher form of conditions precedent, or CPs.[68] The five missions that utilized conditionality in their programs were Kenya, Somalia, Sudan, Zambia, and Zaire. Of these, only Ken; ` and, to a more limited extent, Zaire, included policy reforms as CPs. The GOK eventually met the CPs, but there was a delay of five months in disbursement in the process, as we have previously noted elsewhere.[69]

The areas of economic policy in which four of the missions employed their conditionality are summarized in Table 7 on the following page.[70] It is unfortunate that the team that evaluated the only program that attempted "hard" conditionality comprehensively did not include a

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[66]This result is contrary to what one would have expected, simply because policy dialogue and policy reform is frequently considered to be the *raison d'etre* of CIPs in A.I.D. For example, "Policy dialogue and policy reform are central to most CIPs." *Evaluation Guidelines for NonProject Assistance (CIPs) and CIP-Like Activities."* p. 26.

[67]The following statement was the most outspoken in its opposition to the use of conditionality. "OAR/Maputo [should] continue its practice of not utilizing policy-related conditions precedent to disbursement of funds. Compared to the total value of donor assistance provided to Mozambique the amounts provided through the ... CIP are small, and thus the idea that these funds can be used to leverage major policy change is not reasonable." *Evaluation of the Mozambique Private Sector III Program.* p. 43.

[68]With a covenant, the host government formally pledges that it will undertake a specified action. Once the pledge is made, the funds contained in the Program Agreement are then released. After their release, the pledge effectively becomes unenforceable if the host government does not follow through on its pledge. With CPs, on the other hand, the action(s) requested in the agreement must be completed prior to the release of funds.

[69]Cf. pp. 12-13, and ff. 20.

[70]While there may be no relationship whatsoever, it is interesting to note that these four countries also constituted four of the five that were permitted to import petroleum with their CIPs.

discussion of its characteristics in their study.[71] Review of the other countries' areas of concentration for levying conditionality from the vantage point of nearly a decade leads to the conclusion that with the exception of the Zambia program, where the conditionality does exhibit a tighter sectoral focus, a large proportion of the conditionality was oriented toward reform of the very broad macroeconomic aggregates such as the exchange rate, public finances, and the private and parastatal sectors.[72] Like the Zambia Program in the early to mid 1980s, the policy reform programs under the DFA at the present time usually exhibit conditionality that has a pronounced sectoral focus.

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[71]*Evaluation of the Kenya CIP.*

[72]With the advent of the DFA, a sectoral focus for NPA is required by existing legislation. There was no such requirement prior to 1988, however.

TABLE 7

AREAS OF ECONOMIC POLICY IN WHICH CONDITIONALITY WAS EMPLOYED IN THE CIPS

COUNTRY	POLICIES AFFECTED
KENYA	N/A[73]
SOMALIA	1) Close out of parastatals. 2) Stimulate investment. 3) Formation of a Consultative Group (CG). 4) Adherence to IMF Program. 5) Support for private sector. 6) Reduction in GSDR employment.
SUDAN	1) Realistic exchange rate. 2) Public enterprise reform. 3) Private sector development. 4) Reduction of price/wage controls.
ZAMBIA	1) Reduce food subsidies. 2) Eliminate price controls. 3) Raise interest rates. 4) Reduce role of state in marketing. 5) Stimulate agricultural cooperatives.
ZAIRE	1) Reform exchange rate. 2) Reduce price controls. 3) Reduction of tariff protection. 4) Reform of public finances. 5) Reform of rural trade practices.

Sources: Individual CIP evaluations for each country. Cf. Bibliography.

[73]Information not available in the evaluation. The study elsewhere of the Kenya CIP's role as a component of the USAID's broader structural adjustment program led the USAID, which prepared the scope of work for the evaluation, to ignore all discussion of the conditionality present in the CIP. "(With respect to the [CIP] program's success or failure in promoting specific policy reforms through the use of conditions and covenants, this issue is not included in the scope of work for the evaluation. It has been addressed in another document, 'Evaluation of the AID 1983-1984 Structural Adjustment Program in Kenya,' prepared by Elliot Berg, Walter Hecox and James Mudge, and dated October 1985.)" *Evaluation of the Kenya CIP*. p. 13.

E. Summary

The speed with which funds can be disbursed is one of the most important indicators of success in CIPs. Judging from the evaluations examined, some of the key factors that affect the pace of disbursement are summarized in the schematic appearing below. By and large, the factors that tend to accelerate disbursement are those that provide the CIP with characteristics that cause the program to be as much as possible like a cash transfer. Those that tend to slow down disbursement, on the other hand, are those that lend the CIP the characteristics of projectized assistance. The impression conveyed from review of the evaluations is that as the decade of the 1980s progressed, Africa Bureau CIPs tended to assume increasingly the characteristics that slowed disbursement rates.

As the Zambia evaluation pointed out, however, the rate of disbursement is not the only important indicator of the success of a CIP. If disbursement is delayed owing to the host government's adoption of significant policy reforms required in the Program Agreement, the CIP may nonetheless be considered as quite successful.[74]

While it is difficult to generalize from so many diverse CIPs, the evaluations discerned that there was no clear and unequivocal effort to take advantage of the design characteristics of the CIPs to enable them to disburse quickly. Indeed, to the extent that a trend can be detected, it was in the general direction of structuring them in the more "projectized" form of sectoral programs that made it even more difficult for them to disburse quickly. Agency officials, especially those from the Africa Bureau, could not have been unaware of the direction in which CIPs were evolving. Rather, the characteristics of CIPs that enabled them to disburse quickly appear to have been increasingly unattractive and unacceptable to those responsible for making the decisions.

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[74]Cf. ff. 21.

DISBURSEMENT WITH CIPs WILL TEND TO BE FASTER IF THE FOLLOWING ARE PRESENT

1. No administrative restrictions are placed on the commodity mix.

2. Market forces are allowed to determine the commodity mix.

3. In the absence of 1. or 2., only one, or a very limited number of, commodities are eligible for the program.

4. Either a relatively high figure, or no restrictions whatsoever, are placed on the amount that can be imported under any given permit.

5. The CIP is restricted to private sector representatives experienced in importing, or

6. The number of eligible importers under the CIP are minimized insofar as possible.

7. The 50/50 U.S. shipping provision is waved and procurement is permitted from as many sources as possible, including countries from geographic Codes 899, 935, or 941.

8. No policy-based conditionality is present, or it is restricted to conditions in the form of covenants rather than CPs.

DISBURSEMENT WITH CIPs WILL TEND TO BE SLOWER IF THE FOLLOWING ARE PRESENT

1. Administrative restrictions are placed on the commodities imported.

2. The commodity mix is administratively determined.

3. A wide variety of goods is permitted, but eligibility for any specific commodity must be administratively determined.

4. The amount that can be imported under any given permit is restricted to a relatively small amount, i.e., $25,000.

5. The CIP is restricted to public sector procurement.

6. A large number of potential importers are eligible to participate.

7. The 50/50 shipping provision is rigorously enforced and procurement is restricted to Code 000 (U.S.A.) only.

8. Comprehensive conditionality is present in the form of CPs.

CHAPTER III

FINDINGS OF THE CIP EVALUATIONS

The purpose of this chapter is twofold. First, the varied and complex political and economic effects of the CIPs must be isolated and measured insofar as possible. Secondly, the extent to which those effects met the stated objectives of the various programs being examined must be determined. To fully appreciate the programs' successes, however, it will be useful to first review the situation that existed in the host countries at the onset of the programs. Or, in the terminology of evaluation methodology, establish the baseline against which subsequent progress, or the lack thereof, can be measured.

As noted previously, CIPs had seldom been employed by A.I.D. in sub-Saharan Africa prior to the 1980s. Thus, few countries there had been exposed to the U.S. version of the CIP beforehand.[71] As a consequence, the traditional target groups for such programs were unfamiliar with their procedures. Given the many logistical arrangements that had to be first negotiated with the various host governments and then conveyed to eligible beneficiaries, the task facing Africa Bureau personnel, both in A.I.D./W and in the field, in starting up such programs were formidable indeed. This is especially true when one recalls that the implementation of CIPs had been previously restricted, in general, to countries in Europe, Asia, and Latin America that were at a significantly more advanced level of economic and commercial development than was true in Africa. Infrastructure, both physical and human, with which the CIP designers and administrators had to work, was spread relatively much thinner there than in the other areas where the programs had been successfully undertaken previously. Likewise, private sector businesses and commercial institutions, including the banks, were generally weaker than had been the case elsewhere.

Then too, in contrast to previous CIPs implemented in other geographic areas, the target countries had established relatively few ties with the U.S. on any level other than diplomatic relations. Perhaps of greatest importance from the standpoint of getting a CIP off the ground, there had been little U.S. foreign investment there, and, consequently, there was very little capital equipment of U.S. origin installed. Moreover, there were few established commercial ties or direct trade links, including shipping and airline routes, between the U.S. and the African countries. Thus, even in the unlikely event that an African enterprise had acquired equipment of U.S. origin, it generally could obtain access to spare parts or authorized repair facilities only with great difficulty, if at all. Then too, enterprises in the former colonial powers, such as the

[71]Other major donors with programs in sub-Saharan Africa, including the U.K., France, and the IBRD, had their own versions of the CIP. Thus, while receipient countries may not have been familiar with the U.S. version, they may well have been exposed to similar programs earlier.

U.K., France, Belgium, and Italy were generally aggressive in protecting their existing commercial trade and markets from encroachment by others.

Finally, as a latecomer in implementing CIPs, the Africa Bureau itself was, at least initially, relatively inexperienced with the programs. Key personnel, including economists and commodity management specialists, who were also fluent in the host countries' languages, such as French and Portuguese, were in very short supply, both in Washington and in the USAIDs. The situation did not improve appreciably prior to the middle of the decade.

In combination, these obstacles forced the Bureau to be relatively flexible in adapting CIPs to the region. The previous dearth of information concerning the prior use of CIPs in the Agency leads us to be cautious in arriving at conclusions about just how innovative the Bureau was in the process. Based upon the author's conversations with officials who have worked with the programs over a period of several decades, however, it appears that many of the efforts made to adapt CIPs to the realities of sub-Saharan Africa were either new, or had seldom been tried in precisely the same way previously. Many of the innovations have already been referred to. It will be useful to review them together, however.

-- New programs were started up and sustained in two countries -- the Seychelles and Mauritius -- where there were no A.I.D. offices from beginning to end.

-- The Seychelles and Mauritius programs were also unique from the point of view that each was limited to a single commodity and each restricted importer eligibility to a single enterprise -- a private vegetable oil processor in Mauritius and a parastatal electric power company in the Seychelles.

-- CIPs were undertaken in two Sahalian West African countries -- Niger and Senegal -- that had freely convertible exchange rates. (Both were FY 1983 obligations and there is no record in A.I.D./W to indicate that either was ever evaluated).

-- A limited number of CIPs, including those for the Seychelles, Somalia, Sudan, Zambia, and Zaire permitted procurement from sources outside the United States. Some, such as Somalia, even permitted Code 935 procurement (i.e., all "free world" countries, including Japan and those of Western Europe).

-- The 50/50 shipping requirement for U.S. bottoms was increasingly waived after 1985 for CIP recipients. Owing to the nature of the sole commodity eligible for import in the Seychelles, it was never imposed there.

- A limited number of the programs -- Kenya, Somalia, and Zimbabwe -- permitted the marketplace to allocate their imports. Except for Kenya, where disbursement was temporarily stalled to permit the GOK to meet policy-based CPs, the programs were among the most rapidly disbursing of those surveyed. In addition, the teams that subsequently evaluated their respective programs found the commodities that were imported to be "entirely appropriate" for the economies of those countries.

- Private sector operators were allowed to import in all of the CIPs reviewed except the Seychelles, where eligibility was restricted to a single parastatal enterprise. In a few cases, *only* private sector participants were allowed to import (Kenya, Mauritius, and Zaire). In all but a few instances, the majority of the available funds were allocated to the sector. The exceptions, in which, public sector importers predominated, were in some of the CIPs for Madagascar, Mozambique, Somalia, Sudan, and Zambia. Even in those cases, however, the end users of the products imported were predominantly from the private sector.

It is also useful to mention at this point that the evaluations, with the exception of the three that were written prior to the appearance of A.I.D.'s *Evaluation Guidelines for NonProject Assistance (CIPs) and CIP-Like Activities* in August of 1985 (for Zimbabwe, Somalia, and Sudan), were heavily influenced by its publication and the simultaneous appearance of a series of criteria in the Foreign Assistance Act for FY 1986 by which the Congress requested that CIPs be evaluated. Thus, what the reader can expect to find in the evaluations concerning political and economic impact was written with either of two publications, or both of them, in mind. The subjects that they emphasized are summarized briefly below.

The A.I.D. issued *Evaluation Guidelines*, which have been cited frequently as a reference in this study, focussed on four areas of concern: (1) how well the program had been managed; (2) to what degree it had met its documented objectives; (3) what had been its impact within the recipient country; and (4) what lessons had been learned. Based upon the Agency's four initial CIP evaluations carried out in 1984, including the first Somalia and Zimbabwe evaluations which are included in the present study, it is replete with practical, pragmatic advice gleaned from experience. In fact, one of the authors of the 1984 evaluation of the Zimbabwe CIP, and a leading A.I.D. authority on CIPs, was Joseph Lieberson, who also participated in the drafting of *Evaluation Guidelines.*

The provisions for evaluation that appeared in the FY 1986 Foreign Assistance Act, which are also referred to as *FAA Section 801 requirements*, directed that all CIP and sector programs obligated during FYs 1986 and 1987 be evaluated. Further, they also set forth the following criteria by which imports from both types of programs were to be used to meet recipient countries' long-term development needs:

(1) Spare parts were to be allocated on the basis of evaluations of the ability of recipients to use them in a "maximally productive, employment generating, and cost effective way."

(2) Imports were to be coordinated with investments "in accordance with the recipient country's plans to determine whether they will effectively promote economic development."

(3) Emphasis was to be placed on imports for the agricultural sector, especially those that increased agricultural productivity for export or import substitution.

(4) Emphasis was also to be placed on "a distribution of imports having a broad development impact in terms of economic sectors and geographic regions."

(5) To enhance the likelihood that the commodities would be additional to others normally imported, consideration was to be given to historical patterns of foreign exchange uses.

(6) Seventy-five percent of local currency generations under the programs were to be deposited in a special bank account, the uses of which were to be mutually determined by the USAID and the host government.[72]

A. POLITICAL IMPACT

ODA, especially when provided by a bilateral donor, is seldom completely devoid of political objectives or overtones. As noted previously, given their ESF funding source, the political rationale for undertaking CIPs was far more explicit than was typically the case with projectized ODA. A.I.D. specifically recognized this facet of CIPs in its publication *Evaluation Guidelines* and included a number of practical hints and suggestions for evaluating the programs' performance in achieving their political objectives. The recommendations were largely ignored, however. Despite the legitimacy of evaluating the political dimension of "the bang for the buck" derived from the CIP programs in sub-Saharan Africa during the 1980s, the subject was de-emphasized considerably in the evaluations of the programs reviewed. To the extent that the subject was dealt with at all, it was usually in the form of acknowledgement that there was indeed a political dimension to the program. Three of the evaluations, or 20 percent of those studied, articulated a political rationale for their CIP(s). Thus, for example, the program in the Seychelles was described in the following terms:

> "Since 1963 the USG has operated a U.S. Air Force Satellite Tracking Station in the Seychelles. This facility, the most visible and important of the U.S. interests

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[72]Cf. Appendix A, pp.__.

in the Seychelles, provides the U.S. with a strategically located, land based operation while also creating employment and incomes for the Seychelles economy. Were it not for this relationship, there would probably not be an AID program for the Seychelles since its per capita income is above the range of other countries receiving US assistance."[73]

The political basis for the Somali program was described in similar terms. After noting the GSDR's once close relations with the Soviet Union and the latter country's support for Ethiopia in the aftermath of a Somali invasion, the evaluation notes that

> "Thereafter Somali President Siad Barre turned for military and economic assistance to the West, including the United States. An August 1980 agreement authorized the U.S. military to use facilities at Berbera and Mogadishu, and the U.S. undertook to provide Somalia with significant economic aid as well as FMS credits."[74]

In the third, Zimbabwe, the U.S.'s political interests were defined somewhat differently from those in the other two countries.

> "The U.S. government [sic] became active in the search for a negotiated settlement to the Rhodesian conflict in 1976 ... the United States ... pledge[d] substantial financial assistance to the new GOZ if its inception was the result of a negotiated settlement ... A politically stable and economically dynamic Zimbabwe was recognized as essential to the peace and stability of the entire southern Africa region ... U.S. interests in southern Africa rest heavily upon Zimbabwe's success."[75]

Another study, that of Mozambique's first CIP, did not examine U.S. political objectives for the program, but did discuss the beneficial political impact that it was having on relations between the two countries.[76] While a number of the other evaluations set forth briefly the U.S. interests

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[73]*Evaluation of Commodity Import Programs for the Seychelles.* p. 3.

[74]*An Evaluation of the Somalia Commodity Import Program.* p. 1.

[75]Cohen and Buchmiller. *Evaluation of CIPs in Zimbabwe.* pp. 1-2.

[76]"... the evaluation team found a clear and positive public perception of the contribution made by this program. Private and family farmers were very much aware of the source of the inputs ... During the September, 1985 visit of Mozambican President Machel to the U.S., the value of AID's private sector CIP and technical assistance project was cited ... The Minister of Agriculture ... emphasized that the quick provision of AID-financed inputs ... greatly enhanced the credibility of the Ministry of Agriculture and reinforced the GPRM's liberalization policies." *Mozambique Private Sector Rehabilitation I Program CIP.* pp. 16 - 17.

in their respective countries -- emphasizing size and geographic location, the presence of valuable minerals, and so forth -- none of them went as far as the above in identifying the political basis or effects of their CIPs. The majority of the evaluations did not even acknowledge the geopolitical component of their programs.

The Seychelles was the only country that, having set forth the U.S. Government's political objectives, and noting that "the U.S. political relationship with the Seychelles is largely determined by factors outside of its development assistance program,"[77] then went on to examine the effects of the CIPs on those goals. From the GOS perspective, the evaluation noted that the CIP was viewed as a "reciprocal arrangement for U.S. access and utilization of facilities in the Seychelles,"[78] and as a "measure of long term commitiment to the Seychelles and the Indian Ocean region in general."[79] The GOS's satisfaction with the CIPs to date "must be interpreted as having a favorable political impact on their part."[80] From the U.S. perspective, on the other hand, the delivery of its ODA through an economic development program was consistent with its position that long-term growth and prosperity based upon market mechanisms and private initiative best served its interests there. In addition, the evaluation pointed out that:

> "... the CIP Program has allowed the U.S. to enter into a collaborative relationship with the GOS in steering its development assistance program which looks at long-term issues as well as current problems. Furthermore, the CIP provides a mechanism for demonstrating to the GOS the value the U.S. places on it keeping its non-aligned position. Based upon these factors the Commodity Import Program would appear to have a politically satisfactory impact on U.S. relations."[81]

The failure of other missions to evaluate more completely and fully the extent to which the CIPs' political objectives were satisfied is attributable to a number of factors. They can best be appreciated in the following context.

-- The political objectives of the U.S. in any given country are defined by persons, institutions, and events that are largely extraneous to the foreign assistance program and those who administer it. This is especially true when matters of foreign policy and national security are involved.

-- The process through which the political objectives are translated into

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[77]*Evaluation of CIPs for the Seychelles FY 1982 - FY 1986.* pp. 29 -30.

[78]*Evaluation of CIPs for the Seychelles FY 1982 - FY 1986.* p. 29.

[79]*Evaluation of CIPS for the Seychelles FY 1982 - FY 1986.* p. 29.

[80]*Evaluation of CIPs for the Seychelles FY 1982 - FY 1986.* p. 29.

[81]*Evaluation of CIPs for the Seychelles FY 1982 - FY 1986.* p. 30.

various forms of ODA, including CIPs is sufficiently complex to be thoroughly understood by relatively few. For our purposes, however, they need not be detailed here. Rather, what is important to know is that to those assigned the task of designing and implementing the CIP the objectives of the program may be perceived from a far different perspective. Thus, a CIP for Mauritius in the early 1980s may well have been perceived by a Congressman as material support for a friendly country that had made its strategically situated ports available to U.S. naval vessels. From the perspective of the Commodity Management Officer stationed in the REDSO/ESA office in Nairobi, however the program in Mauritius that he was managing (there were no A.I.D. personnel working on the island) was really about balance of payments assistance to support the A.I.D. development strategy of supporting agricultural diversification, promoting private sector development, and the provision of potable water to the poor.

-- The practical consequence of the lack of direct interaction between those who formulate the U.S.'s political objectives in any given country and those who design and implement the CIP that it is intended to support, is that all too frequently there is a failure to integrate properly the political and developmental objectives. While the USAID's CDSS, or CPSP, or other strategy paper, is supposed to identify the USG's political objectives in the host country and design its program there to support those objectives, it frequently falls short of the task. It may be outdated vis a vis current political realities in the country, or it may have been released in an unclassified version that describes our country's political objectives there with so much circumspection that host government officials, together with most of the USAID's local staff, including some American contractors, may not fully comprehend them. The lack of understanding may even extend into the ranks of some of the FSNs and DH American personnel with clearance to read the classified version who may not have had the time or the inclination to do so. Consequently, the political objectives of the CIP may not be sufficiently accurate or explicit to permit a full and unbiased assessment of the CIPs success in achieving them.

-- Yet another consequence of the separate and mostly independent formulation of political and developmental objectives for the host country is the fact that the political objectives, unlike the economic objectives, are not integrated into the program's logical framework exercise that develops indicators, both quantitative and qualitative, that assist evaluators in measuring and determining subsequently the extent to which the objectives were met. As a result, those who evaluate the program's progress will be unable to measure the extent of success on

> the political front. This is especially true when account is taken of the composition of the typical evaluation team. Usually included are a project development or program officer, an economist, and a supply management specialist. They are likely to have had some prior exposure to and knowledge of economic development and A.I.D. operations, but are unlikely to be professional political scientists with specialized knowledge of the methodologies for evaluating the achievement of political objectives. This is unfortunate since the analyst unskilled in the nuances of political successes and failures may well assume that the mere continuation of political relations indicates that the U.S.'s political objectives were fully achieved.

Given the above, the lack of serious analysis of the degree of political success (or failure) of the CIPs, while disappointing, is certainly understandable. The failure does nonetheless point to a major shortcoming in the way in which NPA programs that have more explicit political objectives than other types of ODA are conceived, designed, and evaluated. It seems altogether fitting and proper that those who must decide on such matters should have some idea of the effectiveness of the diverse forms of ODA in achieving their legitimate political objectives.

B. ECONOMIC EFFECTS

As we have already noted, the *Evaluation Guidelines*, together with the Congress's Section 801 requirements, suggested a methodological approach to evaluating the impacts of CIPs that was followed, to greater or lesser degree, by nearly all of the evaluations that were performed after their appearance in August, 1985.[82] As a matter of fact, our review of the economic effects of the CIPs found in the evaluations discerned an approach to the subject that was so similar that it could only have been achieved by relatively close adherence to the recommendations set forth in the two works, especially the former. Inasmuch as the results were presented in nearly the same sequence in the great majority of the evaluations, it will be useful for us to follow that same methodological approach. Before proceeding, however, we shall adopt one of the most commonplace of the conventions of the evaluations by separating these effects into shorter-term "economic" impacts and longer-term "development" impacts.[83]

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[82]The only important exception was the evaluation of Madagascar's CIP, which was performed by a locally-hired team of consultants with the assistance of a REDSO/ESA employee working under contract (Carolyn Barnes). While not without merit, the evaluation concentrated on the socio-economic effects of the CIP's imports on recipients. Cf. *Evaluation of the Use and Socio-Economic Profitability of Imported Commodities Under the MARS Project.*

[83]The distinction was made in *Evaluation Guidelines for Nonproject Assistance; Commodity Import Programs (CIPs) and CIP-Like Activities.* pp. 26 - 41, 46 - 48.

1. SHORT-TERM ECONOMIC EFFECTS

a. **Background.** The evaluations almost invariably began with a review of the macroeconomic circumstances that had provided the *raison d'etre* for the existence of the program. These background pieces, were usually summaries of the analytic work presented previously during the development phase of the program. They were country-specific variants of the conditions that were reviewed at the beginning of Chapter II. They detailed idiosyncratic combinations of poor economic policies, declining terms of trade, declining capital inflows, falling export revenues, rising public sector deficits, and mounting external indebtedness that had resulted in such severe declines in economic activity that the country's political stability was perceived as threatened.[84]

b. **Short-Term Economic Effects. An Aggregated Approach.** While the short-term objective(s) of the CIP(s) were not systematically set forth at the outset of the analyses, evaluation of the short-term economic effects of the CIPs almost invariably began with a summary of the impacts of the program on the balance of payments.[85] In one form or another, most of the evaluations emphasized that regardless of how large the amount of funding provided with the CIPs, the levels were relatively small in comparison with the major macroeconomic variables that they were supposed to affect favorably. Only four of the studies presented specific data to substantiate this point, however. Those data, from the Seychelles, Somalia, Sudan, and Zimbabwe, are certainly consistent with such a conclusion. Although there were variations from year to year, the full amount of the CIPs ranged between two and five percent of the total value of imports *for the year in which they were obligated.* The only exception was found in Zimbabwe, where the obligation levels averaged seven percent between 1982 and 1986, and rose to ten percent in both 1984 and 1985. As a percent of the annual trade deficit, the figures ranged between three percent in both Somalia and Sudan to 12 percent in the Seychelles. The fact that the CIPs could only disburse fully the obligated funds over a period of several years -- thus making the CIP's actual percentage contribution to total imports even smaller, at least initially -- was also stressed. Overall, the CIP(s) contribution to imports, and the foreign exchange shortfall, was considered to be so small that virtually none of the evaluations even attempted to

[84]The discussion led one of the reviewers of an early draft of this study to quip that the CIPs were "rewards for poor economic performance."

[85]As noted previously, the specific objectives set forth for each CIP are summarized in the Project Data Sheets appearing in Appendix B. Almost invariably, the relatively few CIPs obligated at the beginning of the decade list their program's ultimate objective, which is described as the "goal" in the logical framework, as the provision of foreign exchange for ameliorating severe balance of payments disequilibria. More specific targets, such as a reduction in the BOP deficit as a quantified percentage of export earnings, or an increase in the GDP, or a reduction in unemployment were seldom present. As the decade progressed, however, the goals increasingly became more specific, usually with a sectoral orientation. The author attributes the change to the appearance of *Evaluation Guidelines* in late 1985. Virtually none of the later CIPs included in our study listed balance of payments relief as the program goal.

estimate the effect on GDP, and only one evaluation -- Zimbabwe, 1984 -- made a preliminary estimate of the direct effect on employment in the industrial sector.[86]

c. Short-Term Economic Effects. A Disaggregated Approach. While the aggregate data presented above suggest that the CIPs' contributions to overall balance of payments support via the financing of imports were relatively modest, other methods for considering the nature of their impacts were also pursued. Unable to demonstrate significant macroeconomic impacts conclusively, most of the evaluations opted for a more disaggregated approach. There were two distinct efforts made to disaggregate. In the first, the available data were broken down by economic function such as industrial classification or sector in which the imports would be used. Import data in these forms provided the evaluation teams with a sense of who benefitted from the kinds of goods that were imported and the sector (i.e., public versus private) for which they were intended. In the second, knowledgeable government officials, bankers, private sector spokesmen, and end users were simply surveyed for their assessments of the CIPs' impact(s).

The task of summarizing the results of these exercises is not an easy one. As already noted, the various studies varied considerably in the amount of quantitative data that they presented in their evaluations of the programs' effects. Then too, the failure of the USAIDs that were implementing CIPs to adhere to standardized industrial categories for classifying their imports on an annual basis also made the task of aggregation and comparison beyond the country level very difficult. Despite the problems, however, some interesting data were encountered in the evaluations that do assist in arriving at informed conclusions concerning their impacts. Import data for the private sector portions of the CIPs in Liberia and Zimbabwe appeared previously in Table 6. Others follow in Tables 8A, 8B and 9.

As we noted previously in our discussion of the composition of imports on page 32, raw materials for processing and goods for the agricultural sector featured prominently in the programs for both Liberia and Zimbabwe. Table 8A provides similar details regarding the structure of imports financed by means of the relatively large CIPs in Sudan between 1980 and 1984. These data were unique in the sense that they were virtually the only figures presented by any of the numerous evaluations examined that are disagregated by the year that the imports

[86]"The ... CIP provided employment for 2,200 to 4,800 industrial workers -- between 1.2 and 2.7 percent of the manufacturing workforce." *An Evaluation of the Zimbabwe CIP*. p. 1. At the same time, however, the authors do not appear to have been comfortable with the estimates. "The CIP should be characterized as a "fire-fighting" operation rather than a carefully-planned, well coordinated operation. The GOZ used the CIP to ease intense pressures on resources in particular industries at specific periods of time. In essence the employment effects were to maintain employment at higher levels than would otherwise have been the case. Precise quantification is not possible and resort to imputed national plan coefficients would give a spurious sense of precision and accuracy which simply doesn't exist." *An Evaluation of the Zimbabwe CIP*. p. 15.

were received. They thus permit an examination of the timing of the imports into the country. Note that the structure of the country's imports was similar to those for the other two countries. Raw materials, predominantly tallow, accounted for 20 percent of imports and agricultural machinery and goods for packaging the sector's exports accounted for more or less an equal share. Note also that about two-thirds of the $150 million of CIP-financed imports over the FY 1980 - Fy 1984 period arrived in FYs 1982 and 1983 (i.e., years three and four of the program there). In addition, during the first two years, FYs 1980 and 1981, consumption goods in the form of foodstuffs were the principle items imported. Capital goods such as machinery (agricultural implements) and equipment and other finished products such as tools began to enter in volume in FY 1982. Transport equipment and related spare parts of all types, were relatively under represented throughout. Finally, intermediate goods such as jute bags and baling hoops, necessary for the packaging for export of cotton and other agricultural commodities, and industrial chemicals and spare parts received greater emphasis toward the latter years of the period. In 1984 these import categories comprised up to two-thirds of all imports financed via the CIPs.[87]

The team that evaluated Somalia's first two CIPs also noted an evolution in the types of goods imported and provided an explanation that also may have been valid, to some extent, for Sudan as well. Their observation also provides an interesting insight into the somewhat limited ability of the programs' designers to direct private sector imports toward areas that they considered to be of high priority.

> "Under both the first and the second CIPs, priority has been given to commodities required for agriculture, agro-industry, and small-scale light industry, in that order. In view of the initial unfamiliarity of Somali importers with the CIP and their consequent need to import commodities that were readily salable, these priorities were not so clearly reflected in the commodities brought in under the first agreement. To a considerable extent these consisted of cement, batteries, and tires, for which there were also urgent needs, in construction and transportation. Commodities brought in under the second agreement should conform more closely with the CIP priorities, as indicated ... by the nature of applications from importers so far received."[88]

In Zaire's CIPs, which were more narrowly focussed on the agricultural and transport sectors, one also notes a similar trend. As noted in the tables for Zaire's CIPs appearing in Appendix E, the FY 1983 program heavily emphasized raw materials and spare parts. There was a similar emphasis the following year, but materials of use in packaging agricultural exports such as polypropene for use in making bags and liner board for use in making boxes also began to

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[87] *Sudan CIP Evaluation.* pp. 44, 46.

[88] *An Evaluation of the Somalia CIP.* p. 47. Imports by broad category by the private sector under Somalia's CIP II and CIP III are also available in Appendix E.

TABLE 9

ESTIMATED PRIVATE SECTOR CIP IMPORTS, 1980 - 1987
($s Millions)

COUNTRY	TOTAL OBLIGATIONS AMOUNTS	TOTAL PRIVATE SECTOR IMPORTS	TOTAL PRIVATE SECTOR IMPORTS (%)
KENYA	39.0	33.15	85.0*
LIBERIA	5.0	3.25	65.0**
MADAGASCAR	14.2	9.25	65.0*
MAURITIUS	11.9	11.91	100.0
MOZAMBIQUE	15.5	15.50	100.0
SEYCHELLES	9.9	0.00	0.0
SOMALIA	61.5	32.39	52.7
SUDAN	402.5	106.20	26.4
ZAIRE	35.0	35.0	100.0
ZAMBIA	40.0	5.0	12.5
ZIMBABWE	157.0	125.60	80.0
TOTALS	792.6	377.25	47.6

* Estimated
** Projected

appear. In FY 1985, there were relatively few imports of raw materials (other than petroleum) and spare parts but considerably larger imports of packaging materials and chemicals for use in processing indigenous agricultural products such as palm oil.[89]

Table 9 presents data that estimate the private/public sector breakdown for imports under all of the CIPs evaluated. It should be noted that the total amount of nearly $380 million estimated as going to the private sector is deliberately intended to be a conservative figure. There are a number of reasons why this is so. First, it was impossible to determine the public/private sector composition of imports for the full $402.5 amount obligated for the large program in Sudan. The CIPs there were relatively slow disbursing, and only $152.8 million worth of commodities had actually entered the country by the end of 1984. Of that amount, the private sector accounted for an impressive 69.5 percent. While at least some of the imports thereafter undoubtedly went to the private sector as well, it was deemed inappropriate to assume that the same relatively high average percentage was representative of what was likely to continue. As noted in Table 8B, the private sector share of imports there had declined to under 30 percent by 1984 and for a number of reasons, the evaluation noted that "In Sudan the policy constraints under which [private] sector firms operate are considerable and appear to be growing" and did "not bode well for a vibrant private sector"[90] in the future. Second, whenever an evaluation provided an estimated range for the private sector's share of imports, the lowest figure was always chosen. Thus, for example, when Madagascar's CIP was estimated to have resulted in between 65 percent and 75 percent of all trucks and tractors being purchased by private sector entities, it is the 65 percent figure that was employed.[91] Finally, our system of classification of imported commodities, although the most convenient that we could readily devise, resulted in many commodities being counted as public sector imports even though the private sector was the primary end user of the goods. The reason for this is that the convention that was adopted in determining whether the CIPs were "private" or "public" rested on the extent to which the importers added value to their goods through further processing. Such a determination permitted some imports to be counted as pertaining to the private sector even though the firms that actually did the importing were public or parastatal entities. Thus, for example, the majority of the vehicles imported into Mozambique for the Agricultural Sector Rehabilitation Program were imported by parastatal commercial houses simply because there were very few private traders with sufficient capital to engage in the business. The firms added no appreciable additional value to the vehicles, however. They were sold directly to private farmers in the program's targeted areas. The parastatal imports there were thus considered to be private sector imports. Likewise, the Ministry of Commerce in Sudan imported large quantities of wheat in both 1980 and 1982. The evaluation of the program there thus classified the imports as pertaining to the public sector. Since the overwhelming majority of the wheat was sold to private millers and bakers, however, they were counted as private sector

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[89] *Independent Impact Evaluation of USAID/Kinshasa CIP Grants.* Tables 6, 7, & 8. pp. 43 - 46.

[90] *Sudan CIP Evaluation.* p. 49.

[91] *Evaluation of the Madagascar CIP.* p.

imports. This convention fell short of conveying the full beneficial effects of the programs on the private sector in other respects, however. In Zambia, for example, large quantities of raw materials were imported for a parastatal enterprise that processed them into fertilizer which in turn was sold to literally thousands of the country's small farmers. Since the materials were not only imported by a parastatal, but then further processed by the same enterprise, they were not considered to be imports for the private sector. Likewise, the substantial amount of petroleum products that were imported, although utilized primarily to generate power that directly benefitted the private sector, were also counted as public sector imports since the public utilities that received them had to "process" them into electric power.

While the share of commodities going to the private sector in the various countries was quite respectable, particularly given the relatively weak political and economic status of businessmen and women on the continent, it is nonetheless important to note that the initial allocations of commodities targeted for private operators were occasionally missed. This was particularly true in the CIPs for Sudan, Somalia, and Zambia.[92] In the latter two countries the reasons for redirecting CIP resources away from intermediate-term assistance toward short-term balance of payments support in the form of petroleum imports was in large part a direct result of the success of the policy dialogue in bringing the official exchange rate into a rough parity with the parallel market rate.[93]

Before closing this section, a particularly innovative approach to disaggregation was adopted by one of the evaluations that deserves special notice here. In it, the authors of Sudan's CIP evaluation sought to locate an up-to-date version of an input-output table for the country's economy. The table is an analytic device for use in determining the direct and indirect effects of various resource allocation decisions. It would be especially useful for analytic work associated with CIPs for tracing through the entire economy the set of direct and indirect effects of the importation of the commodities financed through the programs. Subsequently, the analysis could be extended to define the optimal set of imported commodities and the use of local currency counterpart funds.

In Sudan's case, however, the necessary data either could not be located or was out of date. Undaunted, the team's members applied the input-output coefficients for a number of other countries including Tanzania, Nigeria, and Kenya. While the structures of their economies

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[92]Both CIP II and CIP III in Somalia, for example, initially targeted 85 percent of their resources for the private sector. According to the 1987 evaluation of the Somalia programs, however, only an average of 48 percent was achieved for the two programs together. *Evaluation of CIPs in Somalia.* p. 13. In Sudan, the result was much the same. The evaluation noted that "even in its own CIP, AID was not able to allocate targeted percentages of the CIP to the private sector as it planned to in the PAADs. In all years the differences between planned and actual allocations is considerable." *Sudan CIP Evaluation.* p. 31.

[93]Cf. p. __.

undoubtedly differed in complexity with one another as well as with Sudan's in 1984, the team nonetheless believed that their input-output coefficients "probably provide a reasonable range of the likely economic effects of the CIP program."[94] As a result of the exercise, the team was able to draw some tentative conclusions concerning the most dramatic impacts of the CIPs on the output that would have been foregone in their absence. Foremost among these was the importation of electrical power generating and distribution equipment.

> "If these commodities had not been imported and installed in Sudan during the 1982-1984 period, using the input-output coefficients for Tanzania in 1961 where a large share of the economy was characterized by small holder rainfed agriculture, over 75 percent of the economic output of Sudan would have been adversely affected for as long as these repairs would have not been made."[95]

The study also concluded that the importation of commodities such as jute bags and baling hoops were especially valuable since they "contribute value added to exports, increase domestic employment, create backward linkages in the economy and utilize scarce export transport capacity more efficiently."[96] While the country would have undoubtedly allocated some additional foreign exchange to these important activities in the absence of the CIPs, the evaluation team believed that, overall, "the empirical evidence is rather pervasive in support of the case for additionality."[97]

d. Short-Term Economic Effects. The Exchange Rate. The exchange rate at which the CIP's dollars were converted into local currency proved to be an important determinant of the program's potential success in disbursing its resources. Initially, the official exchange rate was almost always overvalued, frequently by a significant margin. With foreign exchange at the official rate artificially inexpensive, the practical effect within the recipient country was a shortage of foreign exchange that usually resulted in its being rationed. If a prospective individual's or firm's application for permission to import through a CIP at the official rate of exchange were approved under such circumstances, a windfall profit, or subsidy, resulted that could be considerable. In effect, the importer paid for the foreign goods in local currency at artificially low prices that did not reflect their true value at world market prices. The problem was so pervasive and so serious that *Evaluation Guidelines* identified it as one of four "major issues" emerging from the pilot evaluations of CIPs that the Agency conducted in 1984.[98] The

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[94] *Sudan CIP Evaluation.* p. 54.

[95] *Sudan CIP Evaluation.* p. 54.

[96] *Sudan CIP Evaluation.* p. 57.

[97] *Sudan CIP Evaluation.* p. 58.

[98] *Evaluation Guidelines.* p. 26. The remaining three issues were policy reform, targeting: commodities and beneficiaries, and local currency programming.

document also recommended that if the spread between the official and free market rates was wide, the USAID should consider employing policy conditionality to narrow it. Alternatively, it was also suggested that the USAID could insist on an exchange rate closer to the free market rate for converting local currency generated in payment of the imported goods. The experience of the sub-Saharan African countries embodied in our collection of evaluations makes it clear, however, that CIPs did not perform well in the absence of at least some divergence between the two rates. Indeed, the success of policy reforms in eliminating such disparities had very profound consequences for the operation of the private sector components of the CIPs in their countries.

Review of the evaluations discloses considerable variation in the extent to which the official and free market exchange rates differed. In extreme cases, such as Zambia in 1985, the free market rate for the kwacha was 8 per dollar as compared to an official rate of 2 per dollar. In other cases, such as the Seychelles, the disparity was 33 percent in 1986. In others still, such as Mauritius in 1983 and Somalia in 1985, hefty devaluations had succeeded in almost unifying the two rates.

Despite the potential to realize enormous profits from importing commodities financed by U.S. CIPs when significant exchange rate disparities were present, the USAIDs seldom tried to interfere administratively to remove, or even reduce, such windfall gains. Virtually the only effort to largely eliminate the windfall profits cited in the evaluations occurred in Mozambique. There, the mission imposed surcharges on importers on high value finished capital goods such as trucks and tractors. During the first CIP in FY 1984, the rates varied from 25 percent to 65 percent. Rates on the same goods during the follow on program increased to between 100 percent and 150 percent. Following the early 1987 devaluation of the metical, however, the surcharges were eliminated.[99]

Then too, several of the studies provide evidence indicating that importers often may not have taken full advantage of the implicit subsidy that they had received from their CIP imports. Private sector operators in Liberia, Somalia, and Zambia were specifically cited as having acted with a sense of civic responsibility with the commodities they received through the program. In the case of Somalia, the reason given was the "concentration on quick turnover ... [they] ... considered it foolhardy to hold out for higher prices, particularly when the public was aware that the commodities had been imported at the official rate."[100] Liberia and Zambia both stressed the publicity that the programs had received in their respective countries and the importance to the importers of their established relationships with their clients.

> "In interviews dealers indicated ... that they were careful not to charge high prices because of their long-standing relationships with their customers ... Their

[99]*An Evaluation of the Mozambique Private Sector Rehabilitation III Program.* p. 34.

[100]*An Evaluation of the Somalia CIP.* pp. 9 - 10.

> customers were knowledgeable and dealers could be expected to be concerned about making sales in the future ... so a portion of the windfall may have been passed on to farmers."[101]

It should also be noted that the windfall profits from the exchange rate differentials, when they existed, served to offset the very real costs to private sector operators associated with participation in the CIP. These costs have already been mentioned previously. They included higher prices of U.S. goods, the higher cost of U.S. shipping, additional costs in time and money including more paperwork, compliance with U.S procurement regulations (including three separate price quotations and a justification for the supplier selected) and more frequent and lengthy delays for arrival of goods.

Overall, costs of this nature were estimated by the Liberia mission to result in importers paying 20 percent to 25 percent more for their goods than would otherwise have been the case.[102] The fact that they were of pivotal concern to private sector operators in deciding whether or not to participate in the program is evidenced by the fact that in several instances, USAID influence, together with that of other donors such as the IMF and IBRD, in getting host governments to devalue their official exchange rates, effectively eliminated the incentive to participate in the program altogether. In Somalia, for example, it was noted that

> "... the GSDR introduced a free basic exchange market in 1985 ... *The difference between it 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.* 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 [donors'] CIPs ..."[103]

In Zambia, the effect was similar, but affected the public sector as well as the private sector. The evaluation of the programs there summed up the situation eloquently

> "The three-year series of CIPs clearly demonstrates the impact of the economic policy framework on the performance of CIPs. Rising real prices, decreasing subsidies for fertilizers, movement to positive real interest rates and to a market-determined exchange rate over the period, revamped the Zambian economic

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[101] *Zambia. Evaluation of the FY 1983, 1984, and 1985 CIPs.* p. 17.

[102] *Evaluation of the Liberia CIP.* p. 15.

[103] *Somalia. Evaluation of CIPs.* pp. 10 - 11. My italics.

> environment. *As economic reforms reduced the degree of economic distortion in the economy, the CIP reached a point where it could not operate.* In the case of the initial design of the 1985 CIP, the CIP virtually lost its underpinning. The implicit subsidy gained from importing goods at the undervalued official exchange rate disappeared, removing the offset to the Regulation One price premium and other changes occurred which diminished excess demand for inputs."[104]

The fact that CIPs do not generally appear to work well in countries that do not exhibit significant disparities between the official and free market exchange rates is evidenced by the fact that the USAID in Niger, a country whose CFA franc provides it with a freely convertible exchange rate, also had great difficulty in disbursing a relatively small $5 million CIP in FY 1983. While the program there was never evaluated, the author spoke with Abbe Fessenden who was the program officer with the USAID at the time. She confirmed that the combination of a freely convertible currency and the absence of commercial ties in most respects between the two countries made it very difficult to disburse the funds in the CIP. The program was changed to a cash transfer the following year.

e. Short-Term Economic Effects. Fungibility. The problems associated with attributing resource transfers in any given mode, including CIPs, with the actual end use of those resources and in comparison with the hypothetical outcome that would have resulted from their absence, are particularly difficult for evaluators to determine. This was certainly true in the case of the CIPs being examined. Indeed, while recognized as a problem in one form or another in about half of the evaluations, the majority of them made no serious attempt to deal with the phenomenon. The exceptions were provided in a form recommended in the *Evaluation Guidelines*. The approach suggests that A.I.D.'s commodities be reviewed to determine whether or not they are additional to those that would have been imported into the recipient country anyway. If so, "then the evaluation can properly focus on the effects of such increments on the sectors affected."[105] If, on the other hand, the U.S. resources provided have simply substituted for commodities that would have been imported anyway, then the real effect to the U.S. CIP is to "free up" the foreign exchange that would have been spent on those imports and permit it to be spent on other imports whose economic effects would be extremely difficult to verify and measure.[106]

Employing this criterion, the following country programs were evaluated as having provided

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[104]*Zambia. Evaluation of the FY 1983, 1984, and 1985 CIPs.* p. 40. My italics.

[105]*Evaluation Guidelines.* p. 29.

[106]Congress, as we have already observed, was sufficiently impressed with the concept to include it in the FY 1985 FAA: "In order to maximize the likelihood that the imports financed by the United States ... are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses." P.L 99-83 - August 8, 1985. Section 801 (a)(5). Cf. Appendix A, p. __.

substantial additional resources through the U.S. CIPs:

Liberia
Sudan
Zambia

CIPs that were identified as clearly having provided little to no additional resources, on the other hand, included:

Mauritius
Seychelles

Only the Liberia evaluation provided a precise quantitative estimate of the extent of additionality present in its CIP -- 58 percent. Most of the additionality -- 48 percent -- was attributed to the private sector portion of the program. The figure's plausibility was enhanced by the fact that the evaluation actually described step by step how it had arrived at the overall estimate.[107] The methodology employed merits review by anyone interested in undertaking a similar exercise or in understanding how the estimates were derived.

In addition to the above, it was also conceded that the large CIPs in Zimbabwe may have replaced normal imports in that country.[108] Evaluations in the other CIP-recipient countries did not examine the possibility either pro or con. The practical consequence of many of the evaluation's failure to address this important issue is that even if *ex post facto* audits verified that commodities intended for support for a specific sector or activity were in fact used as planned in that activity, it cannot be inferred without further information that the CIP(s) was the unique basis for increased resource availability in that sector or activity. After all, the host government or another donor may also have been expected to supply additional resources to the very sectors supported by A.I.D.'s CIP(s). The CIPs may, in this case, simply have been used to free resources that would otherwise have been used in the sector or activity for use elsewhere.

C. THE POLICY ENVIRONMENT AND THE LONG-TERM DEVELOPMENTAL EFFECTS

1. POLICY REFORM CONDITIONALITY.

If the USAID was using the CIP to engage in a policy dialogue with the host country, the next step for evaluators was usually to discuss the evolution of the reform program from the outset.

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[107] *Evaluation of the Liberia CIP.* pp. 15 - 17.

[108] "It is possible that the CIP ... replaced normal Zimbabwe imports ..." Cohen & Buchmiller. *Evaluation of CIPs in Zimbabwe.* p. 34.

The discussion usually took the form of comparing the reforms set forth in the relevant editions of the Program Grant Agreement(s), either in the form of conditions precedent or covenants, with the measures undertaken as of that date by the host governments to meet them. To the extent that the pertinent data were available, the missions' assessment of the impact of the reforms to date was also discussed. The current reform agenda, together with the host government's progress in implementing reforms as of the date that the evaluation was drafted, was also described in detail.

The use of the CIP to further the policy dialogue usually had mixed results. Somalia, Sudan, Zaire, and Zambia all reported initial successes with the implementation of reforms in policies that were significant. The typical pattern of some initial successes followed by growing frustration in maintaining the momentum in the dialogue is reflected in the Somali evaluations. The 1984 study noted that

> "Policy changes of major importance, relating to budgetary performance, domestic credit, and government employment levels, have been accomplished. Substantial progress has been made towards liberalization of agricultural prices, elimination of inefficient public enterprises, and improvement of import licensing procedures at least so far as the CIP is concerned. Areas where progress to date has been less adequate include adjustment of exchange and interest rates, stimulation of private investment and savings, and incentives for retention of technically qualified government personnel."[109]

By 1987, however, the assessment of progress was more somber.

> "In retrospect, the policy dialogue agenda attached to the CIPs was too ambitious. [although] the CIPs have promoted economic reform in Somalia, ... in some areas, the pace of reform has not proceeded as rapidly as anticipated ... 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,...and (c) the establishment of private trade organizations. More modest gains were achieved in encouraging stabilization 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 ..., and (c) the establishment of a private bank."[110]

In addition, the evaluation also noted the "general poor performance in achieving policy reforms

[109] *An Evaluation of the Somalia CIP*. p. 34.

[110] *An Evaluation of the Somalia CIP*. pp. 1, 38.

related to the private sector."[111]

The policy dialogue in Sudan, the country that absorbed singlehandedly more than half of all CIP resources in sub-Saharan Africa during the years of the present study, followed a somewhat different route than that of Somalia. It ultimately led to much the same result, however. During 1980 and 1981, the first two years that CIPs were employed there, the USAID's "level of dialogue was minimal and the covenants reflected little policy initiative."[112] It was only in 1982 that CIP conditionality began to address significant macroeconomic policy issues. The USAID's initial foray, however, was largely one of supporting the IMF's efforts to obtain policy changes via the conditions embodied in the annual Standby Agreements. Those conditions included the restriction of demand, the expansion of exports and limiting the public sector budget deficit. Finally, in 1984 the mission began to take a more independent position in the policy dialogue area. Based upon a much improved capability to perform its own analytic work, the USAID began to concentrate on the more limited, but also more central policy concerning foreign exchange. Success came when the GOS approved a modification in the formula by which foreign exchange was converted into local currency. However, in another major area of dialogue, the private sector policy initiative, the USAID was less successful. Efforts to bolster the private sector through the development of a new private sector investment code proved to be unproductive. So much so, in fact, that the evaluation team was led to conclude that "there are strong indications that the anti-private sector biases of the GOS are becoming stronger."[113]

From the perspective of using the CIPs for policy dialogue, Sudan's evaluation team was troubled by the way in which the evolution in conditionality resulted in an "inconsistency of purpose or strategy signal embodied in the annual variance of which items appear and the amounts allocated to them."[114] The team noted that although "flexibility in programming is important ... one of the important lessons learned from the policy dialogue process ... is that program consistency and policy change consistency is crucial for long term policy change success."[115] In addition, the evaluation did not find the CIP's commodity mixes to be appropriate for the USAID's avowed strategy emphasis on rainfed agriculture.[116]

In Zaire, only the most recent CIP evaluated, that associated with the Structural Adjustment

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[111]*An Evaluation of the Somalia CIP*. p. 39.

[112]*Sudan CIP Evaluation*. p. 35.

[113]*Sudan CIP Evaluation*. p. 37.

[114]*Sudan CIP Evaluation*. p. 74.

[115]*Sudan Cip Evaluation*. p. 76.

[116]*Sudan CIP Evaluation*. p. 64.

Support Grant in 1986, contained policy-based conditionality. It focussed on the private sector and provided explicit endorsement of the IMF and World Bank policy reform programs. The Program Agreement contained a CP requiring that the GOZ reduce import duties to the extent that none of them exceeded 60 percent of the *ad valorem* value of the item. There was also a covenant requiring that the GOZ permit direct private sector importation of refined petroleum products and full cost pricing of the fuel. While the GOZ was in nominal compliance with this provision, the evaluation cautioned that "This covenant should continue to be carefully monitored."[117]

In Zambia, covenants in the Program Agreements for the 1983, 1984, and 1985 programs were a continuation of discussions from preceding years' programs related to the mission's strategy of diversifying the country's economy away from mining in favor of the agricultural sector. The evaluation identified no fewer than 16 covenants scattered among the three programs. Emphasis during the period was shifting from agricultural pricing policies at the producer level to reform of marketing and related downstream processes. The shift in emphasis was deliberate, based on the willingness of the GRZ to adopt the earlier conditionality associated with increases in agricultural producer prices.[118]

2. DEVELOPMENT PROJECTS FINANCED FROM LOCAL CURRENCY COUNTERPART FUNDS

[117] *Independent Impact Evaluation of USAID/Kinshasa CIP Grants*. p. 10.

[118] *Zambia. Evaluation of the CIPs*. pp. 18 - 19.