THE AID COMMERCIAL IMPORT PROGRAM

FOR

VIET-NAM

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C/POB/CIP/ADCCA
October 1970

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Introduction

The AID program for Viet-Nam has four basic objectives: (1) Economic Stabilization, (2) War Support and Relief, (3) Pacification, and (4) National Development. Of the four, Economic Stabilization is first in priority and involves the largest expenditure of funds. The goal of the Economic Stabilization program is to control powerful inflationary pressures within the Vietnamese economy. These pressures are the result of increasing expenditures for local goods and services with an accompanying increase in the local supply of money. This increased purchasing power puts heavy pressure on the price of commodities normally imported. Joint U.S. and Vietnamese Government programs and policies are aimed at reducing inflation to manageable levels, while supplying the economy with most of the resources needed to meet GVN civilian and military requirements. On the part of AID, the major element of the economic stabilization effort is the Commercial Import Program.

Objectives of the Commercial Import Program

The primary objective of the Commercial Import Program (CIP) is the assurance that adequate supplies of basic commodities are maintained in the market to meet requirements. By providing the foreign exchange needed to fill the gap between the increased level of imports required and the level which the Government of Viet-Nam is able to finance with its own foreign exchange, the CIP helps curb inflationary price increases and reduces the possibility of shortages and price speculation.

In addition to providing imports to satisfy these requirements, the Commercial Import Program makes another significant contribution to the Vietnamese economy. The piasters which the Vietnamese importer pays to his local bank to cover the cost of the AID financed commodities are deposited into a special counterpart account with the National Bank of Viet-Nam. They are then used to support the Vietnamese military and civilian budgets.

In addition to imports financed through the Commercial Import Program and through Vietnamese foreign exchange reserves, there is a third category of imports which contribute to the economic stabilization effort, namely the PL 480 Title I program. Commodities imported under Title I are paid for in local currency, generating funds for U.S. needs and the Vietnamese budget. Title I commodities include rice, wheat flour, corn, cotton, tobacco, dried milk, and other dairy products. To date, rice has been by far the most important item. Of a total of $116 million of Title I sales in FY 1969, $69 million was for rice (approximately 380,000 tons).

While the control of inflation must continue to receive high level attention and a large share of AID's resources, a sufficient degree of price stability has been attained to permit the Vietnamese Government, with the help of AID, to devote increased attention to the development of local production. The Commercial Import Program has been instrumental in helping expand local manufacturing by financing the importation of industrial machinery and essential raw materials.

The Scope of the Commercial Import Program

The funding level for the CIP has varied considerably in recent years from a high of $398 million in FY 1966 to the present rate of around $195 million. This is due primarily to the increase in the foreign exchange reserves of the Vietnamese Government resulting from the purchase of piasters by the U.S. military to cover local currency expenditures. This increase in foreign exchange has permitted the Vietnamese Government to finance a larger share of the total import requirements. This increase can be seen in the following chart with the Government of Viet-Nam share of total import licensing increasing from 26% in FY 1966 to 55% in FY 1970.

Import Licensing by Source of Financing

	FY 1966		FY 1967		FY 1968		FY 1969		FY 1970	
	U.S. $ Million	%	U.S. $ Million	%	U.S. $ Million	%	U.S. $ Million	%	U.S. $ Million	%
CIP	$345	60%	$155	25%	$ 89	18%	$205	28%	$195	28%
FFF (Title I)	81	14%	153	26%	146	30%	73	10%	116	17%
Total U.S.	$426	74%	$308	51%	$235	48%	$278	38%	$311	45%
GVN	149	26%	306	49%	248	52%	463	62%	378	55%
Grand Total	$575	100%	$614	100%	$483	100%	$741	100%	$689	100%

The types of imports financed under the Commercial Import Program are limited to those commodities which AID considers essential for the economy of a developing country. Excluded from AID financing are commodities which are considered luxury goods or commodities of stratetic military value. The list of commodities normally financed through the Commercial Import Program includes such things as chemicals, textiles, iron and steel, electrical equipment, industrial machinery, and transportation equipment.

In fiscal year 1970, for example, iron and steel products accounted for 20%. Chemical products and raw materials for plastica totaled 18% of the program, industrial machinery and equipment 21%, fertilizer 25%, transportation equipment 4%, and textile goods 12%. During fiscal year 1970 petroleum products, sugar and cement were financed by the GVN using its own foreign exchange.

CIP-financed commodities are usually limited to U.S. source but, as shown in the table below, some commodities are currently permitted from other sources to the extent consistent with their availability and price competiveness. In those cases where offshore procurement is necessary, special financing arrangements are made to offset the dollar outflow and minimize the effect on the U.S. balance of payments.

Commercial Import Program Licensing by Major Source

	FY 1966 U.S. $ Million	%	FY 1967 U.S. $ Million	%	FY 1968 U.S. $ Million	%	FY 1969 U.S. $ Million	%	FY 1970 U.S. $ Million	%
U.S.A.	$176.0	51.0	$ 99.9	64.5	$52.5	59.0	$128.3	62.7	$158.6	81.3
Taiwan	77.3	22.0	39.8	25.7	19.5	21.8	37.6	18.4	21.9	11.2
Korea	16.4	5.0	1.6	1.0	.2	--	3.9	1.9	11.3	5.8
Singapore	None	--	6.4	4.2	13.4	15.1	22.6	11.0	0.4	0.2
All Others	75.3	22.0	7.3	4.6	3.4	4.1	12.0	6.0	2.8	1.5
Total	$345.0	100.0	$155.0	100.0	$89.0	100.0	$204.4	100.0	$195.0	100.0

In those cases where offshore procurement is used, the source is limited to selected less developed countries who agree to payment in the form of a tied letter of credit from a U.S. bank.

Under this arrangement, the supplier receives payment in his local currency while the central monetary authority of the country receives a dollar letter of credit usable only for financing imports from the U.S.

In the only other case of offshore procurement, that of urea fertilizer, payment is effected by means of a barter arrangement. In this case a U.S. firm, under contract with the Department of Agriculture, provides the dollars to cover the offshore procurement and receives reimbursement in the form of surplus agricultural commodities which he sells offshore to offset the initial dollar outflow. AID then reimburses the Department of Agriculture for the cost of the surplus commodities.

Through these special offshore procurement arrangements, AID through the Commercial Import Program, is able to insure the flexibility necessary to meet the demands of the Vietnamese economy while at the same time minimizing the adverse effect on the U.S. balance of payments position.

The Operation of the Commercial Import Program

Commodities imported under the Commercial Import Program are financed with funds authorized by Congress in the Foreign Assistance Act and the accompanying appropriations bill under the category of Supporting Assistance. AID then obligates these funds upon signature of a Program Assistance Grant Agreement. Copies of the document are given to the Directorate of Commercial Aid and the National Bank of Viet-Nam.

A Commodity Procurement Instruction is issued under the agreement and includes provisions which stipulate the initial contracting and terminal disbursement dates; the commodities eligible for financing under it identified by reference to the USAID/Viet-Nam Positive List; the amount of money available to finance these commodities; and any special instructions that may be required by AID regulations. Then a Financing Request is submitted which includes the name of the U.S. bank designated by the National Bank of Viet-Nam to receive the AID Letter of Commitment, and cites specific categories of commodities in specific dollar amounts to be financed thereunder.

A letter of commitment is issued by AID/Washington for each Financing Request received from the Government of Viet-Nam which contains the applicable provisions governing the subsequent commodity transactions. The letter of commitment obligates AID to reimburse the designated U.S. bank for payments to suppliers under the applicable letters of credit opened by the importers through the local Vietnamese commercial banks.

Under the Commercial Import Program, procurement of the commodities involved is carried out almost entirely through regular commercial channels. The Vietnamese importer makes a decision on the types and amounts of commodities which he wishes to purchase. He then solicits offers from suppliers, selects the best offer, and applies to his government for an import license (an allocation of foreign exchange). When he receives approval on his license application, he opens a letter of credit in favor of the selected supplier. The supplier prepares and ships the order and submits the required documents to the U.S. bank which confirmed the letter of credit to receive payment. When the goods arrive in Viet-Nam, the importer, who has already paid the piaster cost of the commodities plus the transportation, pays the applicable customs taxes and duties and takes delivery.

Although the Program operates through normal commercial channels, AID and the Government of Viet-Nam have established a management system including controls, to insure that the funds made available for financing imports are effectively and properly utilized. The following is a description of the major elements of this management system.

Planning and Evaluation

The single most important aspect of management control in the CIP is rational planning of commodity needs for the Viet-Nam economy, supported by continuing evaluation of the program's past performance. Because of problems relating to the identification of overall commodity needs, CIP instituted for Fiscal Year 1969, a series of reports in designated commodity areas.

For each commodity category, the commodity analysis staff of the CIP developed a Market Survey/Commodity Analysis Report. This report documents the nature, scope, functioning and history of the commercial community buying U.S. financed goods, and reviews the past history of specific commodity purchases, evaluates their relative significance in the import economy and documents the continued need for these goods. These reports and their supporting documentation provides CIP with an improved basis for managing this commodity program. These reports are kept current at all times by each analyst through his day-to-day working knowledge of his specialized field.

Management Staff and Organization

The improvement in our ability to manage the CIP is a direct result of improvement in the staffing and organization responsible for administering the program.

Until early 1966, the CIP staff seldom exceeded 5 Americans with few of them experienced in AID commodity management policies and procedures. Today, the program is staffed with 18 positions. Further, the Commodity Analysts, all with substantial industrial experience but new to the Agency, have now had up to four years experience grappling with the problems of the CIP. The improvement is evident in more efficient CIP management and in achieving improved day-to-day operations.

In addition to increases in the staff, a careful study of the organization and functioning of the Program was carried out in late 1967. In April of 1968 the CIP was completely reorganized around the flow of program documents. Experience with the reorganization to date has shown an improvement in our ability to more accurately control CIP-financed transactions.

Commodity Analysis Function

The Commodity Analysis function (a new Agency occupation within the context of the CIP) was conceived in response to AID's need to insure minimum waste of the sudden and massive inputs of CIP resources, while protecting its traditional posture of non-interference in commercial business channels. This function was designed to allow USAID to constructively interfere with clearly ill-advised proposed transactions. Specifically, it anticipates that by analyzing historic and current commodity procurement and inventory levels, the Commodity Analyst is able to advise local importers on the soundness of proposed transactions and thereby head off excessive purchasing.

The Commodity Analysts, in conjunction with a two man surveillance staff, review OSB notices for accuracy of specifications, commodity eligibility; import license applications (and amendments) for eligibility of commodity, importer, and supplier, reasonableness of price, and general conformity to AID regulations; prepare requests and justifications for CIP obligations; and review all requests for extensions in delivery dates for transactions in his commodity area.

During the past four years, concurrent with and giving support to the commodity analysis function, a number of operational changes have been made. Most of the new activities have been instituted in direct response to the need for tighter control over CIP-financed transactions.

OSB Notice Requirement

Section 602 of the Foreign Assistance Act of 1961, as amended, requires that, insofar as practicable and to the extent consistent with the accomplishment of the purposes of the Act, AID shall provide advance information to U.S. suppliers with regard to proposed purchases of commodities and services which are financed by AID. The purpose of Section 602 is to insure that: (1) U.S. suppliers (particularly small businesses which do not have representation overseas) may be aware of these business possibilitities; and (2) U.S. suppliers may have an opportunity to participate equitably in the furnishing of AID-financed goods and services.

To carry out the statutory requirements, AID Regulation I prescribes two sets of procurement procedures, both of which are subject to the Office of Small Business (OSB) notification process: the formal competitive bid procedures and an informal bid procedure. Virtually all private sector commercial procurement is carried out under the informal procedure.

Under informal procurement procedures, adherence to the publication rule is all that is required of the importer. The regulations do not require he accept the lowest offer. In contrast to the formal competitive bid procedures, the informal procurement arrangement affords the commercial importer a greater degree of flexibility in selecting a locally marketable commodity.

Included in the Program's management procedures are several measures to assure that acceptance of offers is carried out in accordance with the criteria for informal procurement. First, the requirement that a copy of all offers in response to the Small Business Circular notification be received by USAID provides the price and specifications information necessary to conduct a sound review of the import license application. Secondly, even though AID regulations do not formally require a justification for acceptance of other than the lowest offer, the Government of Viet-Nam Directorate of Commercial Aid and USAID require the import license application be supported by an abstract of offers received and a statement of reasons for placing orders with other than the prospective supplier submitting the lowest bid. Thirdly, USAID Commodity Analysts are knowledgeable in their respective commodity area, thus permitting pricing judgments to be carried out efficiently and without the delay normally associated with the review of formal procurements.

Until July 15, 1967, USAID required the submission of notices on proposed purchases to the Office of Small Business only on transactions valued at more than $10,000. On that date, however, $5,000 was established as the minimum value for all CIP transactions, and the OSB notice procedure (except as otherwise authorized in AID Regulation I) became a requirement for those transactions. All OSB notices are subjected to a thorough review by the CIP staff before being sent to Washington for publication.

While OSB publication of proposed purchases lessens the chance for collusion between supplier and importer, as well as providing U.S. business the opportunity to bid on the purchases, the 60 days or so of lead time added to delivery periods increases the importer's difficulties in calculating future requirements.

Import License Review

After the Office of Small Business Requirements have been met, the importer files an import license application with his local Vietnamese bank. The license application is accompanied by a complete description of the proposed procurement and its cost, including ocean transportation. The local bank is free to accept or reject the application.

Since acceptance of a license application makes the bank financially responsible for the entire transaction, the bank treats the application as a credit matter. If the application meets the local bank requirements, it is forwarded to the National Bank of Viet-Nam for registration and thence to the DCA.

In mid-1967, the USAID review of import licenses was intensified and now includes license amendments as well. The license (or amendment) is subjected to complete scrutiny covering the eligibility of the commodity, importer, sales agent, and supplier as well as prices and the volume of the commodity already under license. The license, if approved, is duly stamped and signed by the Commodity Analyst. Subsequently, copies of the licenses approved by the GVN and issued by the National Bank of Viet-Nam are returned to the CIP for comparison with the license copy approved by the Commodity Analyst.

Suspension Procedures

USAID suspension of importers was originally based on the recommendation of a committee established to review suspect actions by importers, sales agents, and other parties dealing in the CIP. The experience gained from this initial effort pointed to the need for full time staffing of this review function. Today, an Assistant to the Director (DA) carries out this function. USAID Policy and Procedures Order 130.5 (dated May 9, 1969) prescribes the actions of the Inspection and Investigation Staff prior to suspension action by the DA.

USAID action for the suspension of local firms and individuals having access to AID-financed transactions, particularly importers and sales agents, are invoked following recommendation by the DA and approved by the Director, or upon USAID's receipt of advice of such suspension by the GVN. The CIP maintains and distributes the suspension listings under the title "Ineligible Importers, Suppliers and Agents". This list includes those local suspensions directed or concurred in by the DA, as well as all suspensions and debarments initiated by AID/W.

As additional experience was gained and controls on the program tightened, the need for a special review of proposed transactions by certain importers became clear. These importers and their agents are ones who display questionable practices without actually violating the suspension criteria. Consequently, the CIP initiated a system of "Prior Review of Transactions" for use of the CIP staff. As capability to safeguard the integrity of the program increased, this earlier system was further refined and titled "CIP Watch List No. 1", effective September 9, 1968. This system is the means by which those analysts who review the transactions are alerted to all of the known irregularities of past performance of individual importers, suppliers or agents. The list consistently includes the AID/W Prior Review Listings in its periodically issued supplements. This list was later revised and reissued on June 10, 1969 as "CIP Watch List No. 2". This revision includes further explanation of the specific irregularities which are involved, and is regularly amended with additions and deletions. The individual transaction files are annotated with reference to this list, thereby enabling the analysts to keep aware of firms whose actions have been irregular, yet not sufficiently so as to warrant suspension.

Central Commercial Control Files

In mid-1967 a program was started to accumulate background information on all importers. Policy and Procedures Order No. 130.6 issued in November 1967 established a Central Importer File for the maintenance of this data by the CIP, for USAID use. This file was further expanded by amendment to the Order on August 31, 1968, under the above file title.

The individual files contain information such as suspensions and debarments, AID/W Prior Review actions, Importer Data Sheets prepared by CIP commodity analysts, summaries prepared by CIP of ADFM Audit Reports, data runs on licensing and OSB activities of importers, U.S. Customs Advisory Team reports, copies of Importer Questionnaires and World Trade Reports (which resulted from a joint task force operation by USAID and Embassy's Commercial Office personnel), and copies of pertinent correspondence. Effort is directed to the accumulation of as much useful data as is feasible, in one location. The CIP constant review, and the daily use of these files provides a valuable tool in lending useful guidance whenever an investigation of a given firm is undertaken.

In May, 1970, the accumulation of data relating to importer activity for the CCC Files was expanded to cover information available from all USAID sources. This "crash program" initially will cover only the largest importers in dollar volume (over $500,000) during fiscal 1969 and 1970 (62). Once the survey of the largest importers is complete, the program will be expanded to include at least the importers within the $200,000 to $500,000 dollar volume level. In this manner, it is expected the CCC Files will contain all the available information related to importer activity under AID financing in Viet-Nam.

Positive List of Commodities

In order to obtain a more useful statistical base and consequently a greater degree of commodity control, USAID developed a positive list of specific commodities eligible for AID financing. The key features of this list are: All commodity categories are much more narrowly defined than theretofore; the list is tied to the Department of Commerce Schedule B commodity schedule, expanded to employ a ten digit code; the positive list is the key control in determining commodity eligibility for USAID financing under the Commercial Import Program; and commodities not listed thereon are not eligible. Further, the Positive List is an integral part of the Program Assistance Grant Agreement and its subordinate documents, the Commodity Procurement Instruction and the Financing Request which control by limitation both the category of commodity imported and funds available for expenditure thereunder.

Substantial advantages accrue to USAID through the much improved statistical control which the list provides. Historical import data is being accumulated in specific commodity categories. This provides the Commodity Analysts with meaningful information for calculating current and future import requirements of specific commodities. In addition, the list aids the local import community by simplifying the question of which commodities are eligible for USAID financing and which are not.

This list has been developed over a period of about three years by Commercial Import Program personnel. A draft copy was first transmitted to the Vietnamese Ministry of Economy on September 8, 1967. Subsequent revisions have been made, including the change to the Schedule B Code, and the latest revised list was forwarded to the Ministry of Economy in January 1970. USAID Commodity Analysts use the list in making commodity eligibility determinations on license applications and OSB notices.

<u>10-Digit Code</u>

One of the basic controls needed to implement the Positive List was a simple but specific commodity identification number. The code, as defined, had to be specific enough to positively identify the item so numbered, but had to be sufficiently general that maintenance by CIP and use by the importers would not require technical expertise.

On July 1, 1968, the Department of Commerce Schedule B Commodity classification system was adopted by AID for use in coding commodities authorized under AID world-wide programs and projects. While the Schedule B code meets most AID requirements, USAID Viet-Nam determined a need for greater specificity. Accordingly, another three digits were added as a suffix to each code number, so that detailed ten digit coding is used for CIP imports into Viet-Nam, and is basic to the Positive List.

The use of this commodity code tied to the Schedule B:

A. Permits precise designation of those commodities eligible for AID financing;

B. Eliminates errors formerly occuring when cross-referencing Schedule B to AID codes in U.S. export statistical reporting;

C. Permits cross-referencing with the Standard International Trade Classification (S.T.T.C.) and the Brussels Tariff Nomenclature (B.T.N.) and assists in the overall program planning process; and

D. Permits more precise correlation between AID financing statistics and Government of Viet-Nam customs statistics.

Until such time as importers are fully familiar with the new code, classification numbers are, as needed, inserted by CIP personnel on license and Office of Small Business Applications. The 10-digit commodity code has been automatically integrated into the USAID Automatic Data Processing System, and licenses since FY 1967 have been amended to reflect the new code. This provides USAID with a broader statistical base for commodity planning.

Automatic Data Processing (ADP) - CIP Management & Information System

In accordance with AID's policy objective of "developing commodity pipeline data under agreements," USAID has been developing an integrated CIP Management Information System, which includes two basic ADP sub-systems: (1) The CIP Import License System; and (2) the Commodity Accounting System. These Systems are designed to meet a wide range of general information needs of USAID management and to provide readily accessible, reliable, and timely data in the detail necessary to meet the functional requirements of middle management and operating personnel.

Data Input

The Systems gather data at various points in a CIP Import License transaction: License stages (CIP Import License System); and the in-transit, arrival, and customs release stages (Commodity Accounting System). Responsibility for the data collection is divided between ADCCA/CIP (CIP Import License System) and ADFM/CAB (Commodity Accounting System).

Information Output

The information requirements to be met by the System vary depending upon the level of management and the functions of the responsible office. From the overall System, top management will receive information regarding the aggregate CIP pipeline of commodites ordered (licenses); shipped (in-transit) and received in country (customs release) by volume and by dollar value. Such reports will tend to influence USAID decisions regarding import planning and evaluation, and methods for maximum commodity utilization in country. The information retrieval ability of the Systems is one of its principal assets in that comprehensive data can be obtained on specific CIP transactions and the suppliers, importers, commodities, prices, and quantities related thereto.

Management utilizes the two sub-systems to assist in their program planning, implementation, evaluation, and control functions. On a regular basis, CIP managers receive aggregate and detailed information concerning proposed procurement of commodities. Such data assists in programming of funds in accordance with selection of commodities to be financed and license approval procedures. Whenever commodity shortages seem apparent, shipping data can provide estimates of future arrivals of that commodity to determine the seriousness of the shortage. Further, the System can show the degree of U.S. supplier competitiveness with PD-31 countries in specific ten-digit Schedule B commodities, and can also facilitate document flow studies, identifying personnel workload requirements.

The Commodity Accounting Branch can trace AID-financed shipments from the agreement stage through shipment, arrival in country and release from GVN customs as derived from bills of lading, ship manifests, suppliers invoices, stevadore outturn reports, warehouse tally sheets, and customs declarations. This Branch could determine the quantity and conditions of commodities for which payment was made by AID; which commodities have entered the economy; amount and nature of distressed cargo, and possibility of refund claims.

In summary, the CIP Management Information System will, when fully implemented, provide full and precise detail re AID-financed CIP import transactions.