SOMALIA

COMMODITY IMPORT PROGRAM II

PROGRAM ASSISTANCE APPROVAL DOCUMENT

(649-0120)

July 1983

CLASSIFICATION: UNCLASSIFIED

AID 1120-1		
PAAD	DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. 649-0120 2. COUNTRY Somali Democratic Republic 3. CATEGORY Commodity Financing - Standard Procedure 4. DATE July 29, 1983

5. TO: Alexander R. Love Acting Assistant Administrator	6. OYB CHANGE NO. Not Applicable
7. FROM: AFR/PD, Norman Cohen for	8. OYB INCREASE None TO BE TAKEN FROM: Not Applicable
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 18,500,000	10. APPROPRIATION - ALLOTMENT ESF - FY 1983

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
☐ LOAN ☒ GRANT	☒ INFORMAL ☐ FORMAL ☐ NONE	Feb. 1984 - May 1985	Grant Approval Date

15. COMMODITIES FINANCED

Commodities declared eligible under the AID Commodity Eligibility Listing will be eligible for AID financing.

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.: $10,000,000
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash:	Other: Non-U.S., Code 941 $8,500,000
Selected Free World: $18,500,000 Code 941	

18. SUMMARY DESCRIPTION

This grant will help the Government of the Somali Democratic Republic overcome a serious balance of payments problem. The grant will provide support for the ongoing IMF Stabilization exercise, support a revitalization of the Somali private sector, and provide the country with access to a portion of the imports it requires to improve its economic performance.

Procurement under this grant will be restricted to commodities related to the agricultural and agro-industrial sectors and to private manufacturing activities, with the specific list to be agreed upon by the GSDR and AID. Procurement will be both for the public sector (approximately 15%) and the private sector (approximately 85%).

A grant to the Government of the Somali Democratic Republic is hereby authorized in the amount of $18,500,000 for financing the items described above, subject to the following terms and conditions.

(continued)

19. CLEARANCES	20. ACTION
AFR/PD/EAP, JHeard AFR/EA, BKline 7/29/83 GC/AFR, TBork AFR/DP, HJohnson SER/COM/ALI, PHagan PPC/PB, RKramer AFR/PD, NCohen for DAA/AFR, GPatterson FM/PAD, ESOwens	☒ APPROVED ☐ DISAPPROVED Alexander R. Love — July 30, 1983 AUTHORIZED SIGNATURE — DATE Acting Assistant Administrator for Africa TITLE

CLASSIFICATION:

Covenants

The FY 83 Grant Agreement for the CIP will contain six special covenants to the GSDR. The formulation of the following conditions is consistent with the purposes of U.S. economic assistance to Somalia. They also reflect the latest assessment of Somalia's political, economic, social, and ideological landscape. The proposed covenants, stated below with a brief discussion of their intent, have been carefully reviewed to ensure that they complement and not conflict with IMF assistance conditions.

(A) IMF Stabilization

Grantee covenants to adhere to the IMF stabilization program and any subsec[illegible] program, such as the forthcoming Extended Fund Facility.

Discu[illegible] this covenant will reaffirm to the GSDR AID's overall support for the IMF [illegible] stabilization objectives. Furthermore, it notifies the GSDR that AID views progress on the IMF's guidelines as important to the success of the U.S. economic assistance strategy to Somalia. USAID/Somalia will continue to support IMF efforts to develop a realistic program by sharing AID's on-the-ground experiences and analyses in order to temper or strengthen IMF program guidelines. GSDR compliance with this covenant will be determined, in large part, by the IMF's evaluation of the government's adherence to the specific program's guidelines.

(B) Reduction of Government Employment

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

Discussion: This new covenant directly addresses the government's excessive wage bill which resulted from being a hirer-of-last-resort for all high school leavers. In 1982, the GSDR kept total Central Government employment the same as the previous year's level. The IMF, under their 1982 agreement included a condition that the government would limit government hiring without establishing strict numerical targets. The government took this very seriously and managed to hold the growth of public sector employment down to less than 1% during 1982. This significant accomplishment should now be built upon by taking the next step toward reducing the number of people on government roles.

(C) Economic Incentives for Technical Personnel

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

Discussion: This covenant is essentially a repeat of the FY 82 Agreement covenant on which little progress was made. A similar review to that which took place during 1977 is envisaged. In 1977, after the review, a new wage structure for technicians was introduced, raising their monthly salary scale by 33 percent. Although a new wage scale announcement is not required by this covenant, the study must be initiated by the end of 1984.

(D) Stimulate Private Savings and Investment

Grantee covenants to continue to liberalize rules and regulations which act as disincentives to private savings and investment in Somalia. As part of this covenant, the Grantee agrees to: (i) initiate a study of the Foreign Investment Code; (ii) initiate a study of the feasibility of an auction system for foreign exchange transactions, and (iii) liberialize the granting of domestic light-industry licenses.

Discussion: Although the GSDR has made some progress towards stimulating private savings and investment to date, USAID/Somalia sees domestic and foreign private sector investment and expansion into small industry being constrained by cumbersome restrictions, in particular those in the Foreign Investment Code and in the limited number of licenses granted for any one industry. An expansion of light industry, with particular emphasis on those which provide forward and backward linkages with the agricultural economy would increase the availability of consumer goods and increase the demand for agriculture production, thereby helping to diversify and restructure the economy.

(E) Efficient Import Procedures

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

Discussion: This covenant is a follow-on to the FY 82 covenant which dealt only with the establishment of a revised procedure for the AID grant. The mission views this as an appropriate area for implementation of the progressive approach to policy change where a small reform is broadened once the GSDR has a concrete example to evaluate. A change in the import licensing policy would permit wider, more immediate access to licenses, in turn encouraging trade. Licensing is so time consuming under the current system that proforma quotations usually expire, and importers must start the procurement process over again.

(F) Parastatals/ State Enterprises:

The grantee covenants to initiate a detailed study of a selected parastatal or state enterprise, agreed to by AID, to identify the preferred sequence of events to increase private participation in that entity.

Discussion: This covenant is a follow-on to the FY 82 covenant on the efficiency of public enterprises and endeavors to focus the efforts more precisely. It also directly supports the IMF condition requiring divestiture of inefficient parastatals.

The mission feels that there is an orderly progression of actions which would normally be required as part of a process of divestiture. This covenant would focus on the definition of the process. It might include beginning with a management contract, moving to a leasing arrangement, then to an equity participation or joint venture activity and finally to majority private participation.

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ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AFR/PD, Norman Cohen

SUBJECT: Somalia Commodity Import Program (649-0120)

Problem: Your approval is requested for a grant to the Government of Somalia (GSDR) in the amount of $18.5 million from Economic Support Funds for the FY 1982 Commodity Import Program (CIP). It is planned that the entire amount will be obligated in the current fiscal year.

Background: Since independence in 1960, economic progress in Somalia has been slow and uneven, with very little development recorded in the first decade. The period 1969-1977 achieved some improvements in social services and education, but economic growth barely kept pace with population increases, and domestic food production declined as imports rose. In 1977 the conflict with Ethiopia resulted in the withdrawal of Soviet credits and the addition of a massive economic and human burden in the form of refugees.

In 1980, Somalia began an IMF stablization program designed to reduce inflationary pressures and improve the balance of payments and foreign exchange position. This program was followed, in 1981, by a second standby agreement with the IMF which emphasized fiscal restraint. The success of this program was demonstrated by the initiation in 1982 of an eighteen-month standby agreement as a predecessor to a longer term Extended Fund Facility planned for early 1984. The IMF mid-term review of the 1982 standby, completed in May 1983, indicates that the government is within all quantitative targets and that the economy is responding well with a rapidly declining inflation rate and increased investor confidence.

The 1982 CIP I grant was a very successful program, acknowledged by the GSDR, the IMF and other donors as the type of directed macroeconomic support program that is crucial to the stabilization effort. The CIP II grant will continue this directed support with increased emphasis on the private sector and on the small manufacturing sector.

Discussion: The ECPR, chaired by DAA Patterson, approved the Somalia CIP II grant for $18.5 million on July 27, 1983. The CIP grant will (1) provide support for the IMF stabilization program, (2) stimulate growth of the Somali private sector, and (3) provide the country with access to a portion of the imports needed to improve economic performance. Although $18.5 million will be authorized at this time in the PAAD, this amount is set by funding limitations rather than program needs. The PAAD includes an alternative program level of $21 million, with the additional $2.5 million to be added, if and when available, by amendments to the PAAD and Grant Agreement. The economic rationale fully supports a level of 21 million.

Procurement under this grant will be restricted to commodities of Code 941 source and origin related to the agricultural and agro-industrial sectors, and to private manufacturing activities, with the specific list to be agreed upon by the GSDR and AID. Approximately 15% of the procurement will be for the public sector and 85% for the private sector. Major items to be financed include:

A. Public Sector - fertilizer, cement and related materials for canal repair, trucks, grain and fertilizer storage facilities, bulldozers, equipment for sugar and cotton plantations, factory and foundry machinery, and spare parts.

B. Private Sector - machinery for manufacture of paint, metal cans, paste, plastics and sanitary productions; machinery for food processing (e.g. citrus juices and edible oils); and agricultural inputs.

Somali local currency generated by public and private imports will accrue to the GSDR for use in priority development areas, including expansion of food production, agricultural research and extension, and improvement of the human resource base through training. Rehabilitation of existing irrigation systems and schemes to open up new lands to production through irrigation are among prospective activities eligible for counterpart financing, especially where a major objective is to enhance the productivity and welfare of refugee populations. Local currency resources will also be used to influence policy change, particularly support to civil service reform and agricultural credit. In addition, local currency requirements related to AID's separate project to repair and rehabilitate the Kismayo Port could be met through counterpart funds generated by the CIP. Based on negotiations with the GSDR, a small share of the local currency proceeds (not more than five percent) may be reserved for use by the USAID Mission.

The PAAD contains several covenants which call for special efforts by the GSDR in key areas of the economy. These are now being negotiated and include:

- Adherence to the IMF stablization program;

- Civil Service Reform including reduction of government employment and increased economic incentives for technical personnel;

- Continued steps toward liberalization of the investment code, investment licenses and foreign exchange allocation to stimulate foreign and domestic savings and investment;

- Streamlining import procedures; and

- Delineation of the sequence of events necessary to increase private participation in a selected parastatal/state enterprise.

The grant will be administered in accordance with AID Regulation 1, using standard commodity financing procedures. The implementing agent for the GSDR will be the Ministry of Planning. However, the Ministry of Finance, in cooperation with the Central Bank, will control the disbursement of funds. The USAID/Somalia officer responsible for the CIP is Gerald LaBombard, the Africa Bureau Project Officer responsible is Satish Shah of AFR/PD/EAP.

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Commodities provided to the private sector will be financed using normal commercial banking procedures. Counterpart funds generated by these sales will be deposited into a special account(s) and used for development purposes, to be jointly agreed upon by USAID/Somalia and the GSDR. Disbursement of the grant will be within a 24 month period from the grant agreement date and will be through standard AID Letter of Commitment/Letter of Credit procedures. The Project Committee is satisfied that implementation arrangements outlined in the PAAD are fully adequate, and no special problems are perceived in the disbursement of the grant.

The PAAD contains an Initial Environmental Examination which determines that this activity qualifies for a categorical exclusion from environmental procedures. This finding is concurred in by the Bureau Environmental Officer.

No waivers are deemed necessary to implement this CIP grant. Since Somalia is recognized as a least developed country, commodities of Code 941 Source and Origin are eligible without waivers.

This activity was included in the FY 1983 Congressional Presentation (Africa Annex, page 189) in the amount of $25 million. No further notification to the Hill is required.

Recommendation: That you sign the attached PAAD, thereby authorizing the proposed CIP grant to Somalia in the amount of $18.5 million.

Clearances

AFR/PD/EAP, JHeard	[signature]	Date	7/29/83
AFR/EA, BKline	(draft)	Date	7/29/83
GC/AFR, TBork	John R. [illegible]	Date	
AFR/DP, HJohnson	[signature]	Date	7-29-83
SER/COM/ALI, PHagan	[signature]	Date	7-29-83
FM/PAD, ESOwens	[signature]	Date	7-29-83
AFR/PD, NCohen	[signature]	Date	7/29/83
DAA/AFR, GPatterson	[signature]	Date	7/29
PPC/PB, HRKramer	(draft)	Date	7/29/83

Drafted:AFR/PD/EAP, GNelson/CPascual:dph:7/28/83

Doc. 382

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SOMALIA FY 83 COMMODITY IMPORT PROGRAM

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LIST OF ANNEXES

8

SOMALIA: COMMODITY IMPORT GRANT

I. SUMMARY AND RECOMMENDATION

A. Problem

Although Somalia achieved independence in 1960, little was accomplished by way of development in the first nine years of independence. Over this period the imbalance between the modern/urban sectors and the agriculture/nomadic sectors not only persisted but deepened. By 1969, the economy and society faced mounting unemployment, inflation and political unrest. On October 21, 1969, a group of senior military officers seized power and the following year proclaimed the Somali Democratic Republic to be a socialist state founded upon scientific principles and Islam.

During the period 1969 to 1977 some progress was made in improving social services and education, and in correcting the economic imbalance between the modern and traditional sectors. Growth performance over the period, however, barely kept pace with population growth and there was little real improvement in incomes or living standards. Domestic food production stagnated, export crop production declined and food imports rose. In 1977, with the withdrawal of Soviet credits, and the massive influx of refugees resulting from the conflict with Ethiopia, the economy of Somalia entered into a period of severe crisis.

The years 1978 and 1979 were difficult ones for Somalia. They were characterized by growing balance of payments difficulties, and by growing budget deficits financed by bank borrowing with severe inflationary results. Over this period, there was a growing realization that the policies followed since the revolution had failed to produce the results expected particularly in terms of incomes, living standards and economic independence.

In 1980, in consultation with the IMF, Somalia took some initial steps to deal with the crisis. The principal aims of this program were to reduce inflationary pressures, and to improve the balance of payments/foreign exchange reserve position by restricting government expenditure and borrowing. While the quantitative limits on expenditure and borrowing eventually were exceeded, the exercise, nonetheless, had a positive impact. Government expenditures rose only slightly compared to previous years with the result that inflationaay pressures moderated significantly.

In 1981, the Government of the Somali Democratic Republis (GSDR), again in concert with the IMF, embarked upon an even more ambitious stabilization exercise. The most important components of this exercise were:

-- abolition of the franco-valuta system[1] and the establishment of a two-tier exchange rate;
-- imposition of quantitative restrictions on government borrowing; commitment to contain government expenditures and to improve tax collections;
-- commitment to raise interest rates to more realistic levels;
-- commitment to review agricultural producer prices as circumstances warrant; and
-- commitment to phase out unprofitable and inefficient public enterprises.

These policy measures stand in sharp contrast to the policies and strategy of the past.

The GDSR has already made substantial progress towards implementing all its commitments. The latest IMF report (February, 1983) gives the GDSR high marks for its performance. Also, the IMF during their May review of the current standby were very pleased with the performance of the GSDR and have indicated that the targets are being adhered to. During this visit, the team leader indicated that the GSDR had made greater progress in undertaking difficult reforms than any other country in Africa. As evidence of the IMF's satisfaction, negotiations for an Extended Fund Facility (EFF) have begun and it is expected that the EFF will follow on after completion of the current 18 month standby arrangement. Other donors are equally pleased with the GDSR's performance. These factors make it likely that the upcoming Consultative Group meeting in October will be successful.

The FY1982 Commodity Import Program (CIP) was signed in May, 1982, to provide support for the on-going IMF/GDSR stablization excercise, support a revitalization of the Somali's private sector, and provide the country with access to a proportion of the imports it requires to improve its economic performance. Implementation of the FY1982 CIP has proceeded along the lines envisaged by the Mission. The IMF in their midterm review of the currnet standby arrangement pointed out that the CIP was precisely the appropriate kind of program for Somalia as it permits carefully directed support for the economy while directly supporting the private sector. Furthermore, the PAAD analysis indicates that the country could make effective use of a follow-on CIP program. The improvements in economic performance and changes in policies, although neccesary, are not yet sufficient to lift Somalia out of its current crisis.

1/ Under the franco-valuta system, importers with access to foreign exchange outside of Somalia were allowed to finance imports. See detailed discussion in the section on exchange rates.

B. U.S. Response

In consideration of the Somali economy's continuing difficulties, the substantial progress made to date by the GDSR in correcting those problems, the GDSR's admirable performance on implementing the FY1982 CIP, and the objectives of U.S. economic assistance to Somalia, A.I.D. proposes to grant the Government of the Somali Democratic Republic $21 million from the Economic Support Fund in Fiscal Year 1983. This grant will again be utilized through a Commodity Import Program (CIP) to provide short-term balance of payments relief through the financing of imports critical to the productivity of the Somalia economy.

The CIP will provide continued support for the IMF stablization exercise. It will do this by providing a portion of the financial support necessary (both in foreign exchange and local counterpart generations) to bridge the resource gap until the new policy measures take effect. The GDSR policies addressed by this program are discussed below (See Terms and Conditions). By focusing upon inputs necessary for increased agricultural productivity, it will also contribute directly to investments in the agriculture sector. This will have a rather immediate economic impact and thus demonstrate the benefits of economic reform.

The CIP also will continue to provide direct support for the private sector. A portion of the CIP will finance private investment projects already submitted to and approved by the Somali Development Bank (SDB), but which lack a foreign exchange resource to finance the required machinery and spare parts. Projects receiving priority consideration are those which will increase the forward and backward linkages with the agricultural sector. Included in this category are small light industry equipment. The GSDR is continuing to look to the private sector to support economic growth. A.I.D. sees this FY1983 CIP follow-on grant as an important tool for providing continued support for this trend.

Finally, the CIP will continue to provide general support for economic growth. Because of the inappropriate policies which eroded export performance and expanded the requirement for food imports, Somalia simply does not have access to the foreign exchange that it requires to improve its economic performance. The IMF prognosis for the future is optimistic but several years of austerity are required to reach sustainable growth. The CIP program will provide essential productive inputs during this period of austerity and policy adjustment.

The CIP will generate courterpart funds which will be deposited in a special account in the Central Bank of Somalia. Their use will be jointly determined by A.I.D. and the GSDR. The majority of such funds will be utilized to support the development projects in the GDSR budget which due to overall fiscal constraints has been severely curtailed. This will provide a much needed, non-inflationary source of financing for GSDR development activities. A portion will be utilized to support the local currency costs of Kismayo Port Rehabilitation, and to strengthen the capacity of the Somali Development Bank to make credit available to the private sector particularly for agricultural investment. Other inovative uses for the local currency are being actively explored by the GSDR and A.I.D.

C. Terms and Conditions

The Government of the Somali Democratic Republic recognizes that the US Government, in recommending this form of program assistance to make financial resources available for investment in the economy:

-- anticipates strict adherence to the IMF stabilization exercise;
-- expects efforts to improve the performance of Government through civil service reform and more appropriate incentives for technical personnel;
-- continued efforts to expand the market economy and encourage investment in the private sector;
-- continued progress on rendering import procedures more efficient; and
-- further progress on developing a strategy for dealing with inefficient parastatals.

The USAID Mission believes the CIP has become an important element of the U.S. economic assistance strategy in Somalia to increase production and productivity in agriculture and agro-industrial enterprises. The mission, in its CDSS which was approved in June, 1983, delineates those areas which are most properly addressed through the CIP program. (See annex VII). The CIP program, through its covenants, directing the dollar funds available, and judicious use of the local currency proceeds, is expected to address cross seectoral policies and macro-economic concerns. More specific sectoral policies are to be addressed by specific sectoral programs particularly the PL-480 Title I/Title III program.

USAID/Somalia has initiated discussions with the GSDR at the Ministerial levels to define performance standards which will be included as covenants under the grant agreement. These performance standards will reflect certain objectives which A.I.D. and the GSDR agree are consistent with and necessary to achieve economic reform and a greater reliance upon market forces and the private sector.

Covenants

-- IMF Stablization. Grantee covenants to adhere to the IMF stablization program and any subsequent IMF program, such as the forthcoming Extended Fund Facility.

-- Reduction of Government Employment. Grantee covenants to reduce the Central Government's staff by replacing only half those employees who leave government employment

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

-- Stimulate Private Savings and Investment. Grantee covenants to continue to liberalize rules and regulations which act as disincentives to private investment and savings in Somalia. As part of this covenant, the Grantee agrees to: initiate a study of the Foreign Investment Code; initiate a study of the feasibility of an auction system for the allocation of foreign exchange; and liberalize the granting of investment licenses.

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

-- Parastatals/ State Enterprizes. Grantee covenants to initiate a detailed study of a selected parastatal or state enterprize, agreed to by AID, to identify the preferred sequence of events to increase private participation in that entity.

D. Grant Administration

The grant will be administered in accordance with A.I.D. Regulation 1, using standard commodity financing procedures, be restricted to Code 941 source and origin procurement, and will strive for disbursement within 24 months. Commodities procured under this grant may not be used in the production for export of palm oil, citrus or sugar products. The grant is expected to have both short and long term beneficial effects on the U.S. balance of payments. All statutory criteria have been met.

E. Recommendation

USAID/Somalia recommends that a twenty-one million dollar (US$21,000,000) grant be authorized to the Government of the Democratic Republic of Somalia for financing the importation of selected commodities and commodity related services primarily to strengthen agricultural production and productivity.1/

II. POLITICAL CONSIDERATIONS

A. Political and Social Overview

Somalia became an independent country in 1960 when the former British Somaliland Protectorate and the UN Trust Territory of Somalia (administered by Italy) were joined together to become the Somali Republic.

In 1969, militaty officers seized control of the government and decreed that henceforth the country would be known as the Somali Democratic Republic, vested legislative and executive power in a 24 member Supreme Revolutionary Council (composed of army and police officers) and stated the hope of bringing the enthic Somalis in Ethiopia, Kenya, and Djibouti into association with Somali Democratic Republic under one flag.

Operating under what the Government described as a policy of "Scientific Socialism", it began strengthening its ties with the Soiviet Union. Military assistance to Somalia expanded and in 1974, a treaty of friendship and cooperation was concluded between the two nations.

Tensions with Ethiopia began increasing in the middle of the 1970s when Somalia, which does not recognize the 1963 international boundary endorsed by the Organization of African Unity, set out to liberate the Ogaden area of Ethiopia. Somali government backed insurgencies, which had been occurring since the 1960s, commenced a new in the later part of 1975. In July of 1977, Somalia's regular army invaded and occupied most of the Ogaden.

Subsequently the Soviet Union switched its full support to Ethiopia and supplied massive quantities of military equipment and Cuban troops. It was sufficient to turn the tide and in March of 1978, Somali troops withdrew from the Ogaden.

B. U.S. - Somali Relations

Following the defeat in the Ogaden, Somali President Siad Barre turned to the West for military and economic assistance, and U.S. - Somali relations began to improve. U.S. economic assistance programs were initiated. In August, 1980, a U.S. -

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1/ See Annex V for illustrative list of commodities to be financed.

Somali agreement authorized the U.S. armed forces to use facilities at the air and sea ports of Berbera and Mogadishu. For its part the U.S. agreed to provide Somalia with significant economic aid as well as foreign military sales credits.

C. U.S. Interests and Objectives

1. Political Stability in the Horn of Africa

A negotiated settlement of the Somali - Ethiopian conflict and regional stability are major U.S. foreign policy objectives. Withdrawal of all regular Somali military forces from the Ogaden was a U.S. congressional condition for proceeding with Somalia's military assistance program. Somali officials have stated that they will not send troops back into the Ogaden and President Siad has publicly stated that Somalia has no territorial claims upon any of its neighbors, but has also called for self determination for the people of the Ogaden. No Somali - Ethiopian discussions aimed at obtaining negotiated settlement have been initiated, President Siad has stated his readiness for such discussions but the Ethiopian occupation of Somali territory has been a major obstacle.

On the brighter side, relations between Kenya and Somalia have warmed and reciprocal ministerial level visits have begun.

2. Humanitarian Assistance

Assisting Somalia in meeting the needs of the large numbers of refugees, who have moved into the country to escape political instability, warfare, and drought, is also an important U.S. objective. Accordingly, the U.S. has provided substantial amounts of food aid and other refugee related commodities.

3. Economic Stability and Growth

The development potential of Somalia has not been realized to date due to external factors and recognized weaknesses in the past management of the economy. The Somali Government currently has adopted a pragmatic approach in resolving its economic difficulties in order to move towards self-sustained growth. It has taken a number of politically and economically difficult decisions, including movement toward greater private enterprize and compliance with stringent IMF conditions for standby agreements. Somali success in this effort constitutes an important U.S. objective in both a political and economic sense.

III. OVERVIEW OF U.S. ECONOMIC ASSISTANCE

A. A.I.D. Assistance Strategy

The USAID strategy for Somalia addresses simultaneously the short term macro-economic constraints and the longer term development needs. The strategy consists of a mix of project and non-project assistance, studies and policy dialogue to achieve specific long and short term objectives. (See Annex VIII and the FY 86 CDSS for further details.)

An important element of the strategy is the continued accumulation of data, both through projects and "second generation" studies. In the past three years, USAID has undertaken a series of "first generation" studies to identify sector level constraints and to design preliminary program strategies to address these constraints. (A list of the "second generation" studies are identified in Annex VIII.) A second crosscutting theme in the USAID strategy is the attempt to strengthen the private sector and encourage it to play a more significant role in Somalia's development. The USAID agricultural and rural development program remains concentrated geographically in the Bay and Central Rangeland Regions.

The USAID strategy focuses on three major goals with several specific objectives under each goal and is a constraint oriented approach. The means proposed for overcoming the constraints are separated into three major categories of assistance:

-- (1) projects, which include all the development assistance funded activities;
-- (2) non-project, which includes PL 480, CIP, Counterpart funds, and Consultative Group activities; and
-- (3) the studies program, which will further refine the planning and programming functions.

The three major goals of the AID strategy in Somalia are:

1. Stabilization. In the near term, help stabilize the economy so that the balance of payments position is favorable, the budget deficit is reduced, and inflation brought under control;
2. Structural Adjustment. In the medium term, undertake structural adjustments within the economy to achieve economic growth, and;
3. Improved Quality of Life. In the longer term, improve the quality of life for the people of Somalia.

The Summary Strategy Table (Annex VIII) provides an overview of the strategy including goals, objectives, constraints and the USAID program.

A. STABILIZATION

The USAID strategy for the short term stabilization program focuses on two major goals: improving the balance of payments position and decreasing the budget deficit of the Government. USAID is utilizing the IMF/IBRD structural adjustment program as the platform for on-going discussions with the Government and allowing the pace of progress during these discussions to determine AID assistance levels on the macro-economic front. The CIP and PL 480 Title I programs are AID's primary mechanisms for supporting the stabilization program.

The CIP is the mechanism for providing direct support for general imports and for encouraging the growth of the small industries subsector while the PL 480 program provides critically needed food imports, helps bridge the food supply gap during the period of foreign exchange restrictions, focusing on those commodities in short supply.

The CIP and PL 480 local currency funds are also important to the on-going policy dialogue on economic stabilization by giving the U.S. Government credibility and leverage as a major contributor to the stabilization program. In negotiating the agreements for these programs, USAID will reinforce the IMF "second generation" program with particular emphasis on the following policy concerns:

-- Agricultural price policies which lead to market pricing;
-- Interest rate policy to encourage rates which reflect the real cost of capital;
-- Public sector employment and wage policies which provide performance incentives while holding the line on the total wage bill;
-- Public enterprise policies which encourage divestiture of inappropriate public enterprises;
-- Private sector policies which encourage private entrepreneurs to move into areas previously monopolized by the Government and to increase the activities of small business; and,
-- Tax and customs policy to encourage an equitable and appropriate tax system.

USAID intends to address a limited number of these policies each year to encourage continued progress toward major policy reforms. Often in the early years, the steps taken may be in the form of studies which define the options that are open to the government in policy areas because the lack of data in the country can lead to unexpected impacts of policy change. The initial studies will permit the policy changes that follow to be based on a firm understanding of the implications and likely impacts so that the GSDR is not misled in its approach.

USAID also will continue to support the IMF in the area of fiscal reforms. As discussed in the analysis section (section IV of this paper) the IMF negotiations have been particularly effective in Somalia, and USAID will continue to look to them for leadership in this area.

B. STRUCTURAL ADJUSTMENT

The structural adjustment program is designed to get the economy back into a self-sustaining growth mode. This is a multi-donor initiative supported by all the donors active in Somalia and coordinated by the Consultative Group and the local donor representatives. The objectives under this program are:

-- Maintain a growth rate of 2.5% per annum in the per capita GNP 1/
-- Increase agricultural production by 5% per annum;
-- Maintain incremental increases in agricultural exports; and
-- Develop improved government capacity for planning and implementation.

The first of these objectives forms the essence of the structural adjustment program. In order to accomplish it, the private sector will supported to increase its contribution to the economy. Each of the donors in Somalia is developing programs to contribute to this effort. The IBRD is expected to initiate a structural adjustment loan to provide the core of the effort. AID, through the CIP program, has begun to provide support by making available foreign currency for essential imports.

The donor-GDSR policy dialogue, begun as a result of the 1980/81 IMF stabilization program, will continue under the auspices of the Consultative Group for Somalia.

The Mission is in full concurrence with the Government that agriculture is the key to long term economic stability in Somalia. Therefore, a major emphasis is placed on agriculture in the structural adjustment program and the USAID strategy. The specific objectives of the AID program in the agricultural sector are to increase food production and expand agricultural exports. The Mission is continuing its current emphasis on bringing about production increases through improved dryland farming while developing selected new programs in irrigated agriculture and agriculture research and extension.

1/ GNP is utilized rather than GDP to reflect the remittances from the Gulf states.

The current portfolio of agricultural projects, including the Bay Region Development Project, the Agricultural Delivery Systems project and the Central Range project have been instrumental in delineating the problems of the sector and establishing the institutional and factual base for bringing about increases in agricultural production. These projects are being extended into a second phase, in a leaner form, to test the dryland methodologies and strategies identified in the first phase.

In support of multi-donor coordination in agriculture, the Mission will continue the policy dialogue through the Consultative Group. This dialogue will focus on rationalizing the development and investment plans in the agricultural sector and monitoring the price and taxation policies on agricultural production.

C. IMPROVED QUALITY OF LIFE

The third major goal in the USAID strategy is to help improve the quality of life for the people of Somalia. This goal encompasses objectives in program areas of economic well being, health, population and human resources. AID will not undertake any programs with the sole purpose of promoting equity other than the refugee rehabilitation projects which are already underway. (In the CDSS, a special section is devoted to the Somalia refugee situation.)

In the social sectors, the USAID strategy is one of playing a catalytic role in demonstrating approaches to the provision of social services, coordinating with efforts of other donors, and undertaking "surgical" interventions which address specific constraints in the various sectors.

The AID program is active in the health sector with a primary health care project and in the field of childhood immunizations. Both of these projects are undertaken in close coordination with otherr donors. In the field of population, the AID program has focussed on raising the awareness of the decision makers concerning population policy and is now on the threshhold of initiating a delivery project. In both of these sectors, AID has been emphasizing the appropriate role of the private sector in the provision of social services and this is a route that the mission will continue to emphasize.

The AID approach in the human resources sector is now being defined under the joint AFR/S&T initiative which is undertaking a sector assessment. We anticipate that this program will be focussed on the needs for trained manpower in support of economic development and may spread across many sectors in providing skills and management training.

D. IMPROVEMENT OF GOVERNMENT INSTITUTIONS

Nearly all AID's projects are designed to develop the capabilities of the government institutions by providing training, technical assistance and resources to the institutions and, where appropriate, to reduce the role of goverment by helping the private sector provide the services.

AID also addresses the issue of host country capability on a policy level. A serious constraint at present in achieving performance objectives is the lack of incentives in the civil service system. AID has been discussing some approaches to resolution of this problem with key government officials over the past year. (This topic is discussed in greater detail in this CIP PAAD, section VI.)

IV. SURVEY OF THE SOMALI ECONOMY

A. Structure and Development of the Somali Economy

1. General Characteristics

Somalia is located on the Horn of Africa between the latitudes 11 degrees 30' North and 1 degree 30' South. The length of its coastline is 3,000 kilometers and its area is 63.8 million hectares. Most of the country is arid to semi-arid in which rainfall is not only low, but also irregular to the point where the risk of drought is ever present. The country supports an indigenous population of about 5 million, of whom 60 percent are nomads, 20 percent are settled rural dwellers and 20 percent are urban. In addition, Somalia has a huge refugee population with some 300,000 to 400,000 (mostly women and children) living in camps and an estimated 300,000 to 700,000 living with kinsmen or in the countryside.

The Somali economy is dominated by the agricultural sector. While reliable statistics are difficult to come by, it is estimated that the agricultural sector generates 52 percent of Gross Domestic Product and employes 80 percent of the labor force. It also provides about 80 percent of total foreign exchange earnings. Manufacturing accounts for 6 percent of GDP while government accounts for 10 percent. Other activities such as fisheries, forestry, mining, utilities, construction, transport, trade and financial services account for 32 percent.

Somalia is, however, among the very poorest countries of the world. Per capita income was estimated to be about US$280 in 1981. Health conditions in Somalia are very poor with 60 percent of all deaths attributable to malaria, tuberculosis, shistosomicisis, veneral diseases and mulnutrition. Average life expectancy is only 44 years and infant mortality is high at 150-160 or more per thousand live births. After a crash program in 1973-75 to achieve adult literacy, it was estimated to have reached 60 percent, up from 5 percent in 1972. Primary and secondary school enrollment ratios are only 50 and 7 percent respectively, though the former represents a significant improvement over 1972. At 19, Somalia's Physical Quality of Life Index is among the lowest in the world.

Somalia clearly lacks the development potential of many other counries of Africa such as Sudan, Nigeria, Mozambique and Zaire. At the same time, the country is not without its assets and advantages. It has homogenous ethinic population and a favorable location in relation to affluent Middle Eastern markets, with which it has close cultural and commercial ties. It also has large areas of land which can probably be brought under cultivation and a fisheries potential which is virtually unexplored. Thus, although not abundantly endowed with resources, Somalia still has the potential to provide its population with a standard of living higher than that which they now experience.

2. Economic Potential

Given its resource endownment and geographic location, Somalia's future economic development is firmly tied to the performance of its agricultural sector. Here the prospects look reasonably good.

Some 540,000 hectares now are cultivated under rainfed conditions. Crop yields from these lands are currently well below their potential. With appropriate investments and the provision of improved inputs and agricultural services, their productivity could be increased considerably.

In addition, there are potentially 500,000 to over 1,000,000 hectares of land in rainfall zones that could support more intensive farming systems than are presently practiced. Much depends, however, on whether sufficient water for human and animal consumption can be found in these areas. In any event, development of these lands will require extensive investment in infrastructure, such as access roads and domestic water supplies. Provision would also have to be made for social services, agricultural services and agricultural inputs.

Some 160,000 hectares are presently under controlled and uncontrolled irrigation. As with rainfed land, with appropriate investment in infrastructure, inputs and services, this land could be made more productive. Depending upon the results of land classification studies yet to be undertaken, between 40,000 and 230,000 additional hectares could be brought under controlled irrigation.

Fisheries also have a unexplored potential. The known resources of Somalia are believed capable of sustaining catches of up to 180,000 tons per year through artisanal inshore and commercial off-shore fishing. This compares with a current fish production that fluctuates between 4,000 and 11,000 tons annually.

The livestock sector is, as presently structured, believed to be near its potential in terms of the numbers of individuals who earn their livelihood from it and the number of animals it can support. Presently some 3.0 million nomads earn their living from livestock and, with a growth rate of 2.6 percent, their numbers will increase considerably by the year 2,000. The expected population increases cannot easily be absorbed in this sector without degrading the rangelands such that their productive capacity will decline. Accordingly, new opportunities in rainfed and irrigated agriculture and in fisheries will have to be found for a significant number of the incremental nomadic population. Furthermore, additional investments to improve range management, to increase off-take through better animal health and marketing, and to increase the degree of intergration between animal and crop production will be required if the productivity of the sector is to be maintained or increased without significant damage to the resource base.

3. Productive Sectors

(a) Agriculture (See Annex I, Tables 1-3)

Livestock and bananas, Somalia's most important exports, produce approximately 80 percent of the nation's foreign exchange earnings. Livestock exports increased in terms of value over the period 1972-1981. By 1981, however, only in the case of cattle did export volumes exceed their 1972, pre-drought level. Banana production and exports generally performed poorly over the period 1975-1982, though in 1981, signs of recovery began to become evident. Total production of staples (maize, rice, sorghum and beans) declined from 294 thousand metric tons in 1970 to 277 thousand metric tons in 1980, a decline recorded in the face of population growth estimated at 2.8-3.1 percent. In 1981 however, with good rains, increased producer prices, and liberalized private sector marketing policies, production of staples began to expand dramatically.

(b) Industry

Manufacturing accounts for 6 percent of Gross Domestic Proudct with construction and utilities contributing an additional 4 percent. The composition of this sector reflects the GSDR policy of establishing import substitution industries and export industries based on livestock, fisheries and agricultural products.

The most important import substitution industries are involved in the production of textiles and sugar. An oil refinery opened in February of 1979, closed in the fall of 1980 when war broke out between Iraq and Iran, and reopened in early 1982, as a result of an oil grant from Saudi Arabia. Other import substitution industries include grain processing, the manufacture of edible oil, matches, cigarettes, leather and footwear, packaging materials, aluminum utensils, pharmaceuticals, detergents and electrical fittings.

The main manufactured exports are meat, processed fish and tinned fruits and vegetables. There is scope for expanding such activities, but this is very clearly dependent upon the economy's capacity to expand agricultural production.

While there is some private ownership in the industrial sector, the bulk is publicly owned. As is found in other developing countries, the public enterprises have been plagued by poor management. Both forms of ownership have suffered from input shortages (both domestic and imported) and presently have substantial excess capacity. Accordingly, overall performance of Somali industry has been poor in recent years though the private sector has consistently out performed the public sector.

In the past, most modern private sector activity has been directed toward the import trade, particularly in consumables, through the franco-valuta import system. With the abolition of franco-valuta and the government's growing desire to minimize its involvement in the economy, both as a regulator and producer, new manufacturing opportunities should open for the private sector, provided certain restrictions such as government licensing requirements are eased.

(c) Foreign trade

Somalia's principal exports are livestock and bananas. These accounted for 75 percent and 7 percent respectively of 1982 export earnings. Other exports include hides/skins, frankincense/myrrah, and fuel oil. Major imports (1980) include food, beverages and tobacco (23 percent) and transport equipment (22 percent). Though not reflected fully in the import statistics, petroleum imports are also substantial. Oil imports are estimated to have amounted to US$132 million in 1982 with a Saudi oil grant covering US$65 million of this amout. Principal trading partners are Italy, Saudi Arabia, the United Kingdom, West Germany and the United States (See Annex I, Table 4).

B. Economic Development 1969 - 1977

Somalia's adherence to socialism officially began on October 21, 1970 with President Siad's proclamation of a socialist state. At that time the government proclaimed its ideology to be composed of three elements: The President's conception of community development, a form of socialism based on scientific principles, and Islam.

During the period 1969 to 1977, the GSDR took stern measures to reduce corruption. It reduced civil service salaries and produced for the first time a surplus on the ordinary budget which could be utilized for development. Crash programs were mounted to increase food production, create public works, resist soil erosion and reduce urban unemployment. Also launched and completed were literacy and immunization campaigns. School enrollments increased and more opportunities were made available to women. Finally, the GDSR mobilized to deal with the 1974-1975 drought and provided relief and resettlement to large numbers of nomads.

Growth performance, however, was poor. The nationalized industries suffered from problems related to management, input supply and efficiency. Food production stagnated and banana production declined while food imports rose (See Annex I, Tables 3 and 5). The economy remained overly dependent upon an export base that was subject to climatic and external influences beyond Somali control. The rate of growth in Gross Domestic Product amounted to only about 2.5 percent per annum in real terms over the period 1972 - 1978, a rate below population growth (2.8-3.1%). Even more important, the growth rate amounted to only about one percent per annum in the productive sectors, while services, particularly government employment, grew at 6 to 7 percent per annum.

Expectedly, with the withdrawal of Russian assistance in 1977, and the masive influx of refugees resulting from the conflict with Ethiopia, the economy of Somalia entered into a period of severe crisis.

C. Recent Trends in Economic Performance

1. Recent Growth Trends

In recent years, Somalia's economy has been characterized by large budget deficits, sharply rising prices and balance of payments difficulties which led to a critical loss of foreign exchange reserves and an inability to sustain a level of imports essential to development. It has already been noted that from 1972 to 1978, real growth in Gross Domestic Product, though positive, was less than population growth.

In 1979, the situation worsened with real GDP experiencing a slight decline below the level which had been achieved in 1978.

In 1980, the Somali economy once again expanded, though at a moderate pace, with real GDP rising by about 2.1 percent. In 1981 however, economic activity picked up significantly with real GDP expanding by 4.9 percent. This reflected a considerable recovery in both livestock and crop production as a result of favorable weather conditions and increased financial incentives resulting from GDSR policy reforms. In 1982, with continued favorable weather and expanded financial incentives real growth in GDP accelerated to 9.6 percent.

2. Factors Affecting Recent Economic Performance

(a) Poor Performance in the 1970s

Several factors external to Somalia can be cited as contributing to the poor performance of the economy over the decade of the 1970s. These factors include the rise in petroleum prices over the decade of the 1970s, the severe drought of 1974-1975, the massive influx of refugees resulting from the conflict with Ethiopia, and the inadequate rainfall of the 1979 crop year.

These external factors, however, were imposed upon an economy that was weakening over time as a result of the poor performance of the agricultural sector, both with respect to food crop production and to exports. The poor performance of this sector in quantitative terms has already been reviewed. The reasons behind this poor performance, however, remain to be considered.

It is generally agreed that a key factor was the failure of the GSDR to provide adequate price incentives to producers. In the case of food crops, the GSDR attempted to keep food prices low for the benefit of urban consumers. Accordingly, it held producer prices down and at times (through the Agricultural Development Corporation) resorted to compulsory deliveries. In the case of bananas, producer prices were held low until 1980 in order to mobilize resources for development. This fact, coupled with shortages of inputs and reluctance of expatriate (Italian) farmers to replace or expand their investments led to a rapid decline in production and exports. Only in the case of livestock were prices left to the determination of market forces. This no doubt accounts, in large measure, for the relatively superior performance of this sector vis-a-vis food crops and bananas.

Another key factor in the poor performance of the economy particularly toward the end of the decade, was Somalia's shortage of domestic budgetary resources and foreign exchange. Given its budgetary position, Somalia was and remains dependent upon donors to make available both foreign exchange and local currency contributions for projects, as well as for technical assistance. Likewise, the balance of payments constraint precluded the importation of items critical to increased agricultural productivity. A study undertaken by the Ministry of Agriculture revealed that while Somalia could have productively used over 200,000 tons of fertilizer annually, only about 5,000 tons were imported because of foreign exchange limitations. Other inputs such as agricultural equipment and spares, construction machinery and cement were also in short supply due to foreign exchange shortages.

The poor performance of the food crop portion of the agricultural sector coupled with a rapidly increasing population resulted in a growing food import bill. As can be seen in Table 5 (Annex I), non-refugee food imports rose rapidly over the last half of the 1970s. Given the poor performance of the export sector, the rising import bill for such consumables further weakened the balance of payments position and reduced the capacity of the economy to provide imports critical to capital investment in agriculture. Thus, from a balance of payments - food production viewpoint, Somalia was caught, by the end of the 1970s, in a vicious circle, the breaking of which was critical to the country's future prospects for economic development.

A good portion of the responsibility for the economy's poor performance in the 1970's can be assigned to the expanded role played by the government in the economy, both as a regulator and as a producer. Quite simply put, the GSDR had neither the financial or, more importantly, the human resources that would have been required to begin to implement a centrally directed development strategy with any reasonable prospect of success. The attempt, accordingly, resulted in declining agricultural production and in the investment of scarce development resources in agricultural and industrial enterprises of questionable efficiency and productivity. Incomes and living standards declined and the country became more, rather than less, dependent upon external resources for its survival.

(b) Stabilization and Recovery

By the end of the decade of the 1970's Somalia was in the midst of a severe economic crisis exacerbated by the conflict with Ethiopia, by a massive influx of refugees, and by increases in international oil prices. In 1980, realizing that its general development approach was not having the desired effects, the GDSR, in consultation with the IMF, took steps to deal with its problems.

The principal aim of the program was to reduce inflationary pressures, improve the balance of payments and foreign exchange reserves position, and restrict government expenditures and borrowing. Although the Government exceeded the program's restrictions on expenditures and borrowing, the economy's inflationary pressures moderated somewhat, dropping to 44 percent in 1981, as compared to 59 percent in 1980.

In May 1981, the Government, again in concert with the IMF, took further steps to correct the economy's problems. Major components of this program included the abolishment of the franco-valuta system (effective November, 1981), establishment of a two-tier exchange rate (representing a partial devaluation), adjustment of interest rates, review of agricultural producer prices, raising several of them, phasing out of unprofitable and inefficient enterprises, and containment of government financial activities. During the rest of 1981 and the first part of 1982 the Government made progress on implementing all the above measures and abolished three parastatals.

In July 1982, the Government announced further policy reforms. First, the two tier exchange rate system was terminated and replaced by a unitary exchange rate of So.Shs. 15.055 per U.S. dollar (the So.Shs. is tied to the SDR). It now takes 142 percent more Somali Shillings to buy the same U.S. dollar for the lower tier and a 21 percent more for the second tier. Second, interest rates were revised upwards again (increases averaged 70%). Although real interest rates still remain negative, the situation has improved considerably over 1980.

Last, and perhaps most important, the Government significantly altered the role played by its domestic food marketing parastatal, the Agricultural Development Corporation (ADC). Although the law does not state it, the Government is allowing farmers to sell their production at prices determined in the market place while ADC's role has been reduced to a buyer of last resort. It is expected that Government will eventually announce this new position, but politically it is not expedient to to so at the present time.

The GSDR has also indicated a strong interest in reviving the production and exportation of bananas. A banana development unit became operational within the National Banana Board in April of 1980. This unit is seeking to improve administrative and cultivation practices and to promote the more intensive use of fertilizers, pesticides and agricultural machinery. In addition, between April, 1981, and July, 1982, the producer price of bananas was raised in a series of actions from So.Shs.660 per metric ton to So.Shs.2,150 (for export bananas of the highest quality).1/

In addition to the above changes, the Government has begun to liberalize the economy as evidenced more by an ever-increasing number of changes in administrative practices than by formal or legal revisions. While this has made liberalization more difficult to monitor, it does not change the reality that Somalia's economy is, once again, becoming more decentralized with private sector dominance.

Among the less advertised changes are increased leasing of land to private interests (corporations as well as individual farmers); increased support to small (private) farmers through the distribution of government pumps, selling of government tractors, dismantling of government artisanal fishing cooperatives by selling boats to the crews; encouragement of foreign private investment, and, in January 1983, the complete liberalization of import controls and a "bonus" of So.Shs.5.00 per U.S. dollar over the legal exchange rate for all Somalis with foreign exchange abroad.

All indications are that these policy reforms are having a considerable impact. In 1981, the production of maize increased by 42 percent and the production of sorghum increased by 47 percent. The production figures available for the first half of 1982 indicate that production levels for maize and sorghum continued to grow. In addition, in the second half of 1981, banana production began to recover such that provisional estimates now indicate that, in 1982, production expanded by 43 percent and exports by 65 percent. On the macro side, as will be developed more fully in the sections that follow, there is evidence of considerable improvement in the balance of payments, the budgetary positon of the government and inflationary pressures in 1981 and 1982.

3. Balance of Payments, Exchange Rates, Foreign Exchange Reserves and External Debt

(a) Table 6 (Annex I) summarizes Somalia's balance of payments performance over the period 1978 - 1982. Exports expanded over the period. This was due to the recovery

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1/ In July 1982, following the second exchange rate adjustment, the producer price was set at So.Shs.1,850-2,150 depending upon quality. This represented the first time that quality was considered in the pricing process and should constitute on important incentive to producers.

of the national herd from the drought of 1974-1975 and also a result of the policy changes, including two devaluations, announced in 1981 and 1982. The expansion of 1982 is particularly impressive with exports rising by 38 percent as a result of improved marketing arrangements and prices for livestock and bananas. Imports, however, grew at a more rapid rate resulting in an ever increasing trade balance deficit.

A good portion of this growing import bill however, was sustained by external grants and loans in kind. In 1982, fully 55 percent of all imports are estimated to have been so financed, with official foreign exchange imports expanding only modestly in that year, inspite of the elimination of franco valuta in 1981. Indeed, the most striking feature of this balance of payments statement is that it reveals an increasing dependence upon external donors for grants (official transfers) and loans (official capital receipts). As such, Somalia remains a country that does not have access to sufficient foreign exchange of its own to support and sustain its future growth and development.

The balance on current account is expected to continue to improve in 1982 with the deficit declining to US$95 million. The overall deficit is projected to worsen however, primarily as the result of the need to meet a net private outflows amounting to US$45 million.

The out-turn for 1983 is, unfortunately, highly uncertain at the present time as a result of the recently announced Saudi Arabian ban on cattle imports from Somalia and other countries, except Australia. Coming as it did just prior to the normal seasonal peak of such imports, the ban will have the impact of reducing foreign exhange earnings by an estimated US$20 million by the end of the year. Hopefully, the problem can be quickly resolved. If the ban persists, it will allow other suppliers, particularly Australia, to make further inroads into Somalia's most important external market.

(b) Exchange Rate

In the mid-1970s, in an effort to take advantage of the hard currency earnings of the large numbers of Somalis who had migrated to the Middle East in search of higher wages, and the overseas hard currency earnings of livestock exporters, the GSDR allowed the creation of a parallel free market for foreign exchange known as the franco-valuta system. Under this system, traders purchased foreign exchange from workers and livestock exporters at a price determined by supply and demand and then used the foreign currency obtained to finance the importation of certain commodities into Somalia.

As can be seen in Table 6 (Annex I), this system did make substantial amounts of foreign exchange available to the Somali economy over the 1978-1980 period. The system also produced serious problems. First, it divided the economy into a public sector which, functioning at a less favorable official rate of exchange, was starved for hard currency resources and a private trading sector which, while relatively prosperous, was largely consumption oriented. Secondly, the imports financed by the franco-valuta system were largely of a luxury/consumer nature with the result that the developmental potential of these foreign exchange resources was largely lost. Substantial amounts of foreign exchange were also channeled into housing construction and foreign bank accounts rather than being invested in productive enterprises. The majority of the imports were consumption goods because of the unfavorable climate for private investment created by the GDSR. At the same time, public sector investment projects languished unless directly tied to foreign grants or loans. Similarly, private sector foreign exchange requirements for capital investment remained unmet unless commercial or concessional credits could be obtained directly from foreign sources by importers.

As of July 1981, the franco-valuta system was abolished. All imports entering Somalia must now be paid for with an official letter of credit. Simultaneously, a two-tier exchange rate system was established. The first tier operated at the old official rate of So.Shs.6.232 per U.S. dollar and applied only to essential imports. These imports were food, medicines and chemicals, manufacturing raw materials and agricultural inputs, agricultural equipment and parts and spares for industrial machines. The second tier operated at a rate of So.Shs.12.465 per U.S. dollar and applied to non-essential imports, invisibles, workers remittances, and export earnings.

As has already been noted, this two-tier exchange rate was terminated in July, 1982, and replaced by a unitary exchange rate of So.Shs.15.055 per US dollar. It was anticipated that this better exchange rate, coupled with competitive interest rates paid in hard currency would attract increased hard currency remittances from abroad. To date however, this has not been the case. Private remittances through the banking system amounted to only US$4 million in 1981 and US$5 million in 1982.

In January of 1983 a bonus scheme was introduced which provided five additional Somali shillings per US dollar with respect to workers remittances and capital inflows effected by Somali nationals. The import licensing system was also liberalized such that self-financing open general license system was established. However, all indications are that the franco valuta system is continuing on a wide scale.

The bonus and the licensing reforms have had some impact. Inflows from abroad amounted to US$10 million over the first three months of 1983. This is still well below expected levels. It appears that Somalis with access to resources abroad largely continue to lack confidence in the sustainability of the GSDR's policy reforms and in the operations of the state owned commercial banking monopoly, whose performance continues to be below even minimum international standards. Continued donor support for the GSDR's policy reforms is thus critical, as are the ongoing efforts to allow a private commercial bank to begin operations.

(c) Foreign Exchange Reserves

Gross foreign assets of the banking system increased in 1981 as the result of significant drawings from the IMF and the Arab Monetary Fund. At the end of the year these assets amounted to US$109 million, an amount sufficient to cover 26 weeks of imports. By the end of September, 1982, they had declined to US$84 million or 16 weeks of imports. They were projected, however, to rise to a level equivalent to 27 weeks of imports by the end of the year, a level that is minimally appropriate for an economy such as Somalia's. (Although, the Saudi ban on cattle imports from Somalia may rapidly deplete these reserves).

(d) External Debt

Somalia's disbursed external debt rose from US$597 million at end of 1979, to US$ 720 million at end of 1980 and to US$ 902 million at end of 1981. It is estimated to have risen to US$1,040 million at end of 1982. These data refer to public and publicly guaranteed debt of an initial maturinty greater than one year. The debt consists mainly of long-term concessional loans by foreign governments and international organizations. At end of 1981, about two-thirds of the debt was owed to foreign governments. Major creditor countries in order of importance were: Saudi Arabia, U.S.S.R, China, U.A.E. (Abud Dhabi), and the United States. Among international organizations, the major creditors were IDA, the Arab Fund for Social and Economic Development, the IMF and the Arab Monetary Fund. Although most of the debt is on concessional terms, Somalia recently raised some loans on non-concessional terms, particularly an export credit of U.S.$59.5 million contracted in 1981 in connection with a urea project.

Debt service payments amountd to U.S. US$27.6 million, or 13.6 per cent of exports of goods and services in 1981 and an estimated U.S.$20.0 million, or 8.9 percent of export receipts in 1982. These relatively low debt service ratios, however, reflect accumulation of arrears, reschedulings (primarily by the Islamic Development Bank), and some debt cancellations. External debt service payments arrears, which had amounted to US$45 million at end of 1980 and U.S.$16 million at the end of 1981, were eliminated by the end of 1982 through rescheduling and payments. In the absence of these reschedulings, the debt service ratio in 1982 would have been about 30 percent. Clearly the economic situation in Somalia remains such that the country should seek its external resources on the most concessional terms possible.

4. Central Government Budget

Table 7 (Annex I) summarizes the position of the central government budget from 1979 to 1982. It indicates a continuous improvement in budgetary performance since 1979, a year when the overall deficit reached 45 percent of total expenditure and domestic bank borrowing financed 64 percent of the total deficit.

Tax revenues improved considerably over the period rising from 1,314.8 million Somali shillings in 1979 to 2,448.5 million Somali shillings, an annual growth rate of 23 percent. This resulted primarily from increased receipts from import duties (following devaluation and the establishment of improved collection procedures), the imposition of a 25 percent tax on livestock exports and improved administration of the overall Somali tax system. Non tax revenues also expanded considerably, particularly in 1982 due to increased output of the sugar and oil refineries. The local currency counterpart of the Saudi petroleum grant contributed considerably as well, providing 16 percent of total receipts in 1982. As a result of the above total recipts increased from 1,796.6 million Somalia shillings in 1979 to 3,678.7 million Somali shillings in 1982, an annual increase of 27 percent.

As a result of a determined effort on the part of the GSDR to contain total expenditures, these increased at an annual rate of about 15 percent from 1979 to 1982. As this rate was well below the rate of inflation, government expenditures fell in real terms.

The overall deficit in 1982 was only slightly less in absolute terms than the deficit in 1979. Given the rate of inflation, however, it was considerably less in real terms. It was also less as a percentage of total expenditure, amounting to 26 percent in 1982 as opposed to 45 percent in 1979. Most significantly, sufficient foreign financing was available in 1982 such that no domestic borrowing was required to finance the deficit.

The budgetary out-turn for 1983 (See Annex I, Table 8) is problematic at the present time. It was clear at the outset that the abolition of the Khat trade (estimated to reduce available revenues by So.Shs.300 million an amount equal to 12 percent of tax and non-tax revenues) and an effort to rationalize the tax burden on public enterprises might well create problems in terms of compliance with IMF targets for domestic borrowing. With the recently announced ban by Saudia Arabia of cattle imports, the situation has become very serious indeed. At best the GSDR faces hard choices with respect to defense and civil service employment. At worst, the on-going stabilization exercise could be seriously threatened.

5. Money, Credit and Prices

Broad money (M3) rose by 31 percent in 1981 as opposed to 20 percent in 1980. Over the period January - September, 1982, broad money rose by only 14 percent, less than half the increase recorded during the same period in 1981. Given the rate of inflation, domestic liquidity clearly declined over the period 1979 to 1982.

Over the last few years, the GSDR has on several occasions, revised the domestic interest rate stucture upward. Currently the central bank discount rate is 8 percent, interest rates on savings and time deposits range between 8 and 11 percent and the commercial bank's lending rates are between 12 and 14.5 percent. These latest increases averaged some 70 percent. While still negative in real terms, the present rates represent a considerable improvement over those which prevailed in 1980.

The GSDR has attempted to channel credit into productive and export related activities. Over the period 1979-1982, however, credit to government and to public enterprises claimed the lions share of available credit with the proportion of total credit so allocated each year ranging from 83 to 89 percent. Also, with respect to credit made available to public enterprises and the private sector in support of economic activities, trade (public sector dominated) received on allocation ranging from 61 to 46 percent of the total each year from 1979 to 1982. Agriculture, the most important sector of the Somali economy has, in terms of actual credit allocations, generally received a low priority. From 1979 to 1982 it received between 8 to 14 percent of the total credit available to the economy each year. As of 1981 and 1982 however, there were indications that its share was on an increasing trend.

The Mogadishu consumer price index rose by an estimated 24 percent in 1982. This represents considerable improvement over the increases of 59 and 44 percent which prevailed in 1980 and 1981 respectively. Clearly improved supply conditions for food stuffs and restraint on the part of the Government are having a positive impact upon inflation in the Somali economy.

6. Government Objectives and Investment Plans

The Government's basic objectives are threefold: to raise the standard of living of its people; to provide opportunities for gainfull employment for all, and to create a society based on social justice and individual freedom within a socialist framework. Additional objectives the Government seeks to achieve include reduction of urban and rural disparities in income and social services, protection of the environment and a reversal of the deterioration of croplands and rangelands to improve their productivity, and greater self-reliance and popular participation in the development effort. In the short term, the strategy is to stabilize the economy, restore productive capacity and restrain capital expenditure.

The Government projects the growth of the economy at 4.8 percent annually from 1982 to 1986. Given the low quality of data, however, these projections cannot be taken too seriously.

Two documents summarize the Government;s objectives and investment plans: the Five Year Development Plan, 1982 - 1986 (FYDP), and the Development Strategy and Programme, 1982-1986 (DSP). A revision of the later which was prepared for the upcoming Consultative Group Meeting is currently being prepared. This revision is evaluating the public investment program with the purpose of reducing the levels of investment required. Four differences mark the two documents: the DSP is in current prices whereas the FYDP uses the abandoned two tier exchange system; the DSP includes certain food aid, balance of payments, and relief projects not included in the Plan; and, finally, the DSP concentrates on large projects and does not provide the same level of detail as the FYDP, since it is more concerned with financing than with development planning. On the whole, the DSP is the more informative document. It is divided into a core funding request and other funding requests. Within the DSP, The Public Investment Programme (PIP) forms the centerpiece of the Government strategy. Priority is given to short term productive activities with a potential for improving the utilization of the country's existing capacity; increasing food production, export marketing and import substitution. A number of Government programs are aimed at completing on-going donor-supported projects and assessing whether any of them should be halted. Priority is also given to activities which will help ease the shortage of skilled labour and personnel with technical and managerial skills. Continued efforts are also planned to increase the efficiency of public sector activities; to increase private sector participation, including that of Somalis living abroad, and to increase foreign investment. The current revision of the DSP is focussing investment to a greater extent on financing for ongoing projects and essential rehabilitation programs particularly in Agriculture. The IBRD has been in close consultation with the GSDR on the DSP and the mission feels that it will be a more realistic plan which is presented to the Consultative Group in October.

The DSP outlines domestic and external funding requirements totalling over US$ 5.0 billion. However, the core funding request is for US$ 2.24 billion of external assistance, of which US$ 1.85 billion is for the PIP and the remainder is for the balance of payments support program. The current revision is now in the under $2 billion range for three years of investment under the PIP and further savings may be identified prior to the Consultative Group meeting in October. The majority of these savings have come from delaying investments or totally eliminating many of the larger "prestige" projects. As of December 1982, the balance remaining to be funded from external sources totalled US$643 million, of which US$511 million was for the PIP. The amount remaining to be funded from domestic sources is US$72 million, all of it for the PIP. The total projected cost of the 1982-1986 PIP is US$2,308 million. The upcoming Consultative Group meeting in October 1983 should help clarify the funding picture.

Two areas will frustrate the Government's efforts to implement its development strategy. First, many of the interventions are still channeled through public sector institutions. Unless the Government's employment and incentive system is radically revised in the next year or two, the system's present problems will continue and seriously hamper the DSP's development effort. Already about 65 percent of the projects in the new strategy are carryovers from previous years.

Next, the Government also has an absorption problem, partially stemming from its incentive structure, but also from the sheer volume of assistance. The Government has a low disbursement history, 64 percent during 1974-1978, and 47 percent for 1979 (1980-1981 figures are not available). An annual average of US$ 140 million was disbursed during 1977-1978 and about US$ 230 million in 1979. During 1982-1986 annual disbursement are projected to increase to an annual average of over US$460 million, a particularly tough task given the present environment.

Realizing that the DSP is still an overly optimistic plan, the GDSR and the IBRD have started (May, 1983) to reduce it to a more realistic statement of what the GSDR hopes to acheive during the next four years. This reduced-DSP document will also aid donors at the CG in identifying priorities for funding.

7. The Somalia Economy and the Commodity Import Program

From the foregoing it is clear that the GSDR's efforts to stabilize the economy have been successful through 1982. Growth performance is up, inflation is down and the directions of the policy reform continues to move in favor of the private sector and an expanded role for market forces.

The FY 1982 Commodity Import Program clearly played a role in supporting these favorable developments, both in terms of the moral support it provided GSDR policy makers and the resources it provided to the economy, in particular to the private sector. The FY 1983 Commodity Import Program thus represents an important continuation of support for a process that will lead to an improved standard of living for Somalia's population.

The Government views the CIP program as one of the most meaningful and successful programs in Somalia. It has stimulated greatly increased interest in the private sector, provided essential balance of payments support and, through local currency generations, permitted continuation of essential development projects. Other donors have also applauded the program as the most appropriate for Somalia at this point in their economic recovery.

The importance of the FY 83 program has been heightened considerably by the recently announced Saudi ban on cattle imports. As a result of this ban, Somalia maybe made more dependent upon external donors than ever before both for access to foreign exchange and to local currency resources for budgetary support. A failure of the donor community provide this support could jeopardize the ongoing stabilization exercise and the long term results it is capable of achieving.

The policy reforms to be supported by the 1983 program are more critical than ever as well. Excessive wage bills, the need for improved fiscal and foreign exchange management and improved performance with respect to remittances are all issues which will have to be addressed in order to create a solid foundation upon which balanced economic growth can proceed.

V. GDSR PERFORMANCE ON THE FY82 CIP PROGRAM

A. Overview of the FY82 Program

On May 20, 1982, the GSDR and AID signed a CIP grant agreement for US$ 15 million. This agreement was amended on September 20, 1982 in order to increase the total value of the program to US$ 18.5 million. The overall objective of the program was to provide short-term balance of payments relief through the financing of imports critical to the productivity of the Somali economy.

More specifically, the grant was to provide support for the on-going IMF stabilization exercise, support a revitalization of the Somalia private sector, and provide the country with access to a portion of the imports it requires to improve its economic performance. Eight covenants were negotiated and included in the Agreement. The GDSR's performance towards satisfying each of the covenants is reviewed below.

B. GSDR Performance on Covenants

1. IMF Stablization Program - Grantee Covenants to adhere to the IMF Stabilization programs to reduce government expenditures and borrowing, establish a more realistic exchange rate, and align prices and interest rates to realistic market rates.

Discussion: The GSDR's performance on implementing the agreed to policy reforms and adjustments has been very good. The latest IMF report (February, 1983) gives the GSDR high marks for adhering to the guidelines in the 1981 and 1982 agreements. Annex IX, Exhibit (1) summarizes the GSDR's performance on each of the twenty-five program guidelines. Among the more significant reforms and adjustments were:

(a) devaluing two times, which amounted to a 59 percent decline in the value of the Somali Shilling against the U.S. dollar 1/;
(b) allowing agricultural producer prices to be market-determined and maintaining official prices as minimum guaranteed prices;
(c) increasing interest rates by an average of five percentage points which amounted to actual increases of 17-100 percent;
(d) abolishing three public enterprises;
(e) liberalizing the import licensing system;
(f) reducing the GSDR budgeting deficit; and
(g) limiting the GSDR wages bill by limiting government hiring and taking steps to eliminate the practice of providing automatic employment for all high school graduates.

USAID/Somalia is satisfied that the GSDR has adhered to the intent of this covenant. Although further reforms and adjustments are necessary, the IMF benchmarks were, for the most part, achieved by the GSDR.

1/ The converse is that it now costs 142 percent more in terms of Somali Shillings to purchase the same U.S. dollar.

2. Efficiency of Public Enterprises - Grantee covenants t review the management of public enterprises in the agricultur and agro-industrial sectors in order to determine ways to improve efficiency in operations, and investment policy decisions; and where indicated by such reviews, and where considered necessary to achieve development objectives, the Grantee Covenants to phase out inefficient public enterprices with first priority on the agricultural sector, which is vita to economic growth.

Discussion: This covenant is, in large part, the sa as two IMF/GSDR program guidelines which call for the abolishment of non-viable public enterprises and the creation of a Public Investment Evaluation Unit whose function is to review public enterprises. However, it is important to note that the GSDR has moved to abolish, curtail or improve the activities of various public agricultural and agro-industrial enterprises. Among the changes were: curtailing the Agricultural Development Corporation's (ADC) role from the major marketing parastatal to a buyer-of-last-resort and ENC's(the state food importing parastatal) role from monopoly food importer to the handler of food assistance and imports f several government bodies; abolishing the Livestock Developme Agency and Somolfish, dismantling of government artisanal fishing cooperatives by selling off 100 motorized boots to fishing crews; selling roughly 380 government tractors to private farmers; and distributing about 40 government pumps (which had been lying idle) to farmers in order to help clear irrigation canals. In addition to these changes, two non-agricultural parastatals were abolished.1/

USAID/Somalia also is pleased the Public Investment Evaluation Unit, whose purpose is to review the roles of publi enterprises, has been set up and several reviews planned. Support to the Unit may be provided from the CIP's local currency generations, if necessary.

3. Foreign Investment - Grantee covenants to take initial steps towards investment code reform and other policy measures in order to encourage foreign and domestic private investment in developing the economy, particularly agriculture

Discussion: Although there were no formally announced changes in the investment code, the GSDR has demonstrated pragmatism in attracting new foreign investment. This is evidenced by its encouragement of oil exploration, the recent establishment of a joint GSDR-private Italian company venture (valued at US$83 million) to produce livestock and meat products, and statements made by senior Somalia officials including President Siad.

1/ The Agency for Building Materials and the Agency for Textiles and Household Appliances.

By the same token, the recent devaluations, liberalization of the import licensing system and foreign exchange restrictions (Somalia citizens now can hold domestic foreign exchange accounts), and decontrol for agricultural producer pricing, all contribute towards making investment in Somalia more attractive. However, the steps taken to date are not sufficient as evidenced by the low level of remittances which come through official channels. During the January-March 1983 period roughly US$ 10 million flowed into the new foreign exchange accounts announced early in 1983, while the potential amount has been estimated at over US$150 million per year.1/

In sum, while USAID/Somalia would like to have seen greater progress, it realizes that the initial steps have been taken. Over the last twenty months, the trend of government openness to private activities has accelerated. This trend, although fitful, uneven, and, at times, inconsistent, is real. The fundamental change in the GSDR's orientation of production from public to private has taken place and the trend is gaining momentum.2/ For these reasons, USAID/Somalia believes the covenant has been satisfied.

4. Technical Personnel - Grantee covenants to increase emphasis on management and technical programs and to establish economic incentives to encourage retention of technically qualified personnel in agriculture and related industries.

Discussion: Given the number of donor activities in Somalia, the majority of which have training elements, it becomes difficult to judge whether or not the emphasis on management and technical training has actually increased. There has been no preceptible change of government attitude towards training, it has always been a high priority.3/

With respect to the GSDR establishing economic incentives to encourage the retention of qualified personnel, no real across-the-board progress had been made since May 1977, when a new wage structure for technicians was introduced. A development levy on the wages of government employees was abolished in 1982. The removal of this levy increased take-home pay, but since there was no selectivity in who received the benefits of its repel, it can not be considered as satisfying the intent of the covenant.
However, the Mission realizes that a wide ranging reform of the civil service is required. This reform effort will take time

1/ PAAD team discussions with Central Bank.
2/ Berg, Elliot, "Encouraging the Private Sector," Sept., 1983.
3/ REDSO/ESA, "Economic Analysis of Somalia," January, 1983.

and will probably be implemented in stages. (See CDSS for summary of the dialogue process.) As a first step, the GSDR has restricted Central Government employment. While government employment rose by 10 percent to 53,866 in 1980, it increased by less than 0.5 percent in 1981. Central Government employment is reported not to have increased in 1982.[1/] This is viewed by the Mission as the first step towards arresting the massive deterioration of morale and decline in productivity in government. A second step would be to reduce Central Government employment and selectively distribute the savings to the remaining employees. The GSDR's position and commitment on this step is presently being formulated.

USAID/Somalia does believe progress has been made in satisfying this covenant, but much more needs to be initiated. Realizing the long time frame involved in achieving policy reform in this sensitive area, the Mission will continue work in coordination with other donors for further changes.

5. <u>Private Savings and Investment</u> - Grantee covenants to undertake a review of government policy reforms necessary to encourage increased private savings and investment.

<u>Discussion</u>: This covenant has been achieved by the GSDR's adherence to the IMF programs. As noted earlier, interest rates have risen, external accounts denominated in U.S. dollars for Somalia workers and exporters have been created, and various other changes have been made. (See Annex IX, Exhibit 1). Because there are no clear benchmarks or performance objectives related specifically to this covenant, USAID/Somalia accepts significant progress has been made, but also believes more is required. For example, further progress (e.g, liberalization) could be made in the opening of private commercial banks, granting of small light industry licenses to Somalis. The present government controlled banking system still appears to be inefficient in handling normal business, while the licensing system appears to be constraining entry into various industrial and agro-processing activities. Also, additional interest rate adjustments are required, since inflation continues to make GSDR interest rates negative in real terms.

6. <u>Efficient Import Procedures</u> - Grantee covenants to undertake measures necessary to assure that its foreign exchange allocation and import licensing systems work efficiently and enable private importers, including small value importers, to participate fully as beneficiaries of the Agreement.

<u>Discussion</u>: There has been substantial progress made in devising a streamlined procedure for the AID financed procurements under the CIP program. First, the Commercial and Savings Bank of Somalia (CSBS) now has about 20 technicians

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1/ IMF, SM/83/27 (February 7, 1983), p.20.

studying English (at an American Embassy funded program) in order to raise their competency in dealing with international business affairs. Also, negotiations with an American Bank are underway to establish a training program. These efforts address directly the low average skill and communication capabilities in the CSBS.

Second, the GSDR is negotiating with two private banks to open joint-owned branches in Somalia. One bank (from U.A.E) is in the final stages of negotiation, while a Saudi Arabian bank has just begun. The opening of these banks will end officially the monopoly held by CSBS, and, thereby, stimulate competition in banking. Third, the GSDR is using the FY82 CIP Agreement to develop and test a faster procedure for approving and issuing letters of credit. This, however, is discussed in greater detail below(See Section V.c). USAID/Somalia is satisfied with the system that has been established for the AID program in satisfying this covenant. However, the mission intends to continue to devote effort to the area of procedures to try and expand the use of the system developed to non-AID financed imports as well..

7. <u>Formation of Consultative Group</u> - Grantee covenants to pursue with the World Bank the objective of establishing a consultative group under World Bank auspicies.

<u>Discussion</u>: The consultative group has been formally established and the first meeting has been scheduled for October, 1983. Even though it might be delayed, the amount of effort the GSDR has expended in preparing for the meeting clearly indicates that it will achieve the objective of convening a consultative group1/. This covenant has been satisfied.

8. <u>Periodic Consultations</u> - Grantee and AID agree to meet periodically, but no less than every six (6) months, to discuss the status of the economy, associated economic issues, and the relationship of the AID program to these matters.

<u>Discussion</u>: This covenant was included to assure AID access to the GSDR. It has, however, proved to be a needless measure since there have been no problems. In fact, the USAID Director has informal meetings monthly with the Ministries of Finance, Commerce, and Plan. As a result, this special covenant will be deleted from future agreements.

1/ The GDSR's "Development Strategy and Programme for 1982-82" was developed specifically for the CG. The IBRD and the GSDR are currently (May, 1983) reviewing this document to make it more concise and clarify its objectives.

9. Conclusions - On balance, USAID/Somalia believes the GSDR's performance satisfies the overall intent of the special covenants. Substantial progress was made on all the covenants except the one concerned with increasing economic incentives for the government's technical personnel. As can be concluded from this review of the FY82 CIP and Section IV (Survey of the Economy) more progress is still required, since the economy is by no means out of its crisis.

Other than for the first covenant (adherence to IMF Standbys) there were no specifically defined benchmarks or performance criteria against which the GSDR and AID could measure progress. This reflected the stage of the AID/GSDR policy dialogue. The process of initiating studies to establish a sound intellectual foundation for any reform measures was underway, but few of the studies were complete when the agreement was being negotiated. Thus, the Mission, based on the analyses available, agreed that the IMF measures were in the correct direction and worthy of U.S. support. However, not having the additional detailed information necessary to develop realistic performance criteria, the Mission focused on covenants with the intent of increasing the GSDR's policy reform momentum. Now that additional Mission studies and evaluations have been completed, the CIP can become a more specific tool in the policy dialogue process.1/

C. Specific Policy Reforms Attributable to the CIP

In addition to the general policy reforms and adjustments the GSDR has pursued as a result of the covenants, the CIP program has brought about three substantive changes in he governnent's policies and operating procedures which have the effect of directly stimulating the private sector and promoting efficiency in various GSDR ministries and agencies.

First, the GSDR agreed to allow the government and the private sector to compete for the Commodity Import Program's foreign exchange resources on equal terms. In addition to meeting the standard requirements for obtaining the Commodity Import Program's foreign exchange, all applicants must place 100 percent of the local currency equivalent of the foreign exchange requested in a special counterpart account before the letter of credit is issued. As a result, government bodies not used to fiscal planning or control are finding themselves

1/ Among the studies completed are an agricultural sector assessment (Hogan) a sociological and institutional profile (Hoben, Harris, and Aronson), a private sector study (Berg), manpower and training recommendations (Thorton) a livestock marketing appraisal (Holtzman), the Juba Valley study (Stephenson, Zalla, Gunn), and a macro-economic appraisal (Callison and Dijkerman). For a list of additional studies planned by the Mission, See Annex VIII.

unable to apply for the program's foreign exchange, while the private sector seems to have little difficulty in meeting the deposit requirement. The Ministry of Finance has held firm that it wouild not release extra resources to other ministries or agencies to pay the local currency counterpart. It has stated repeatedly that the local currency must come out of the ministries' existing budget allocations. In the future, if the ministries would like access to the programs resources, they will have to institute better budgeting and planning practices.

Second, the GSDR has changed its regulations requiring that all insurance purchased in connection with the program must be bought from the State Insurance Company. Now, suppliers may obtain CIF quotations and insure the goods with insurance companies outside Somalia. As a result of the increased competition, the cost of insurance has declined an average of two percent. Just as important, importers are now reimbursed for lost goods in a hard currency versus Somali Shillings.

Finally, the GSDR/AID Commodity Import Program implementation team has simplified Somali procurement procedures. The turnaround time of Commodity Import Program documents in GSDR offices (Commercial and Savings Bank) now is two to three weeks as opposed to the normal average of four months. Presently, this system, which took six months to develop, is only being utilized for the Commodity Import Program. However, it eventually may be expanded to become the Commercial and Savings Bank's "modus operandi" for processing documents for imports.

D. Disbursement Performance

1. Foreign Exchange. While the drawdown of the grant was initially slow, the pace has quickened as procedures have been established and familiarity with the program increased. As of the end of May, 1983, roughly US$ 12.7 million or almost 70 percent of the total has been committed. Another US$ 5.3 million (29%) has been earmarked to GSDR ministries, thus, only US$0.5 million is unearmarked. If the GSDR ministries are unable to excercise their option to utilize the CIP's foreign exchange resources, then Ministry of Finance has said the money will be made available to the private sector. Presently there are over US$ 13 million of applications from the private sector for that money. In any case, it is expected that the grant will be fully committed by September, 1983, and fully disbursed by March, 1984.

A preliminary analysis of the impact of the CIP suggests that the program is saving Somalia upwards of US$ 3.0 million or 16 percent of the value of the program. The analysis (See Annex IV, Exhibit 4) compared the cost of importing from Somalia's traditional trading partners to the cost from new trading partners identified as a result of this program. Cost comparisons (pro-formas) by the importers are a requirement of the program and were made much easier to obtain as a result of the commercial library created by GSDR/AID. This library is enabling Somali importers to make a wider range of cost comparisons than previously possible. In the past Somalia's single largest trading partner was Italy, which accounts for 36 percent (1979-80) of all visible imports. Great Britain is the next largest with about 11 percent. The composition of CIP source countries is world wide, including the U.S., Chile, Brazil, and Korea. Per unit savings ranged from 17 to 63 percent. The savings estimated in this comparison is underestimated because the quotes from traditional sources were C&F while the CIP sources were CIF. The Mission expects that this will result in more careful cost comparison by Somalia importers in the future, thus enabling Somalia to get more goods per unit of foreign exchange.

End-use checking of the commodities is planned by the Ministry of Finance and USAID. To date, only a few commodities (tires and seeds) have arrived, while the bulk will arrive by the end of 1983.

Roughly 20 percent of the CIP's monies went to Code 000, while 80 percent was purchased in Code 935, of which 75 percent was from Code 941 countries. This program has created trade with Korea, Chile, and Brazil, which were previously negligible (See Annex IX, Exhibits 4,5, and 6 for details).

Of the commodities purchased (See Annex IX, Exhibit 7), almost US$ 7.0 million or 55 percent has been for spares and other imports needed to increase the utilization of existing capacity in the economy. The remainder has gone towards importing small light industry equipment to expand the country's capacity to produce goods domestically. To date, the emphasis has been on equipment which, directly or indirectly, contributes to the development of the agricultural sector. Included in this category an portable water pumps, knapsack sprayers, discs, plows, trailers, road grading equipment, drilling rigs, and electric generators.

If during the end-use checking process the Ministry of Finance and AID determine the importation of spares had been sufficient for the time being, then the FY83 program ought to be directed to a greater degree towards importing equipment for small light industry.

A preliminary attempt to determine the importance of the FY 82 CIP was undertaken using unofficial Central Bank estimates for 1982. Although the GSDR estimated that US$400 million of foreign exchange would have satisfied the country's import needs, only about US$185 million was available.1/ Of

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1/ This figure does not include grants in kind or loans in kind (See Annex I, Table 6).

this total, US$40 million went to finance oil imports, US$30 million went to GSDR-supported industrial production activities, US$20 million financed commercial food imports; US$20 million was spent on invisibles, and US$25 million went to GSDR Ministries. The remaining US$ 55 million was allocated to private sector importers. The CIP program's US$ 18.5 million is not included in the import data since most of the disbursements have taken place after 1982. Thus, for rough comparison purposes, the FY82 CIP is equilivent to some 34 percent of the amount available to private sector importers--a substantial figure.

These estimates do not include imports moving into the country through the abolished Franco Valuta system, which according to most sources appears to be continuing.1/ Private sector importers argue that the government's private sector allocation was much less than US$ 55 million. In any case, the CIP has probably provided substantial direct support to the private sector in Somalia. By the same token, the FY 83 Program also can be expected to contribute substantially to development of the private sector since the basic problem of the lack of foreign exchange will continue in 1983-84 (See Section IV for details).

The GSDR is very pleased with the CIP program (which is the only one of its kind in Somalia) and hopes other donors may become involved in similar efforts. The West Germans and the IBRD have noted an interest, but any concrete programs will, in all likelihood, not be agreed to until after the consultative group. Finally, as discussed earlier, the IMF feels that the CIP represents one of the best programs in support of the stabilization program.

2. Local Currency

All local currency generated by CIP and PL 480 programs in Somalia are disbursed through a special structure created by the GSDR and USAID. This structure consists of two entities: the Generated Shillings Proceeds (GSP) committee, which provides general oversight, direction and guidance on the enactment of the agreed to disbursement guidelines, and the CIPL Unit,2/ which functions as the day-to-day manager and end-use auditor.

1/ The steady supply of goods on the shelves appears to confirm this view. Franco Valuta imports used to account for about US$ 50 - 60 million annually. Thus, since its abolishment, one would have expected a decrease in the availability of goods, but this has not occurred.
2/ The acronomy is taken from the first two letters of CIP and PL 480.

The operating procedures of this structure are in the process of being finalized.[1/] A consultant (Coopers and Lybrand) has worked with the CIPL Unit and prepared a "CIPL Project Control and Accounting Manual", which will guide the use and monitoring of local currency funds. With respect to the CIP, the local currency is generated and deposited into a special account when the letters of credit are issued. One hundred percent of the Somalia Shilling value of the letter of credit is be deposited before the letter of credit is issued. This practice has proved satisfactory to the GSDR and USAID, and, thus, will continue.

A preliminary activity plan for the use of the FY 82 CIP local currency has been agreed to and is attached (See Annex IX, Exhibit 3). This list is illustrative. The majority of the local currency will be granted toward project assistance, including, for example, the local currency costs of capital projects such as the Kismayo port rehabilitation effort. However, the GSDR and AID have realized that, in order to utilize the large amounts of local currency generated by this program, new approaches will have to be identified to enable broader participation in the programming and accounting for the projects to be undertaken with the local currency. This could range from loans through the established banking system, grants to ministries for "generic" projects which would then be the responsibility of the ministry to define, to grants through the private sector (PVO type) for self help in rural areas. This approach will be refined and expanded during the coming year.

The first disbursement of FY 82 CIP local currency has gone to the Somalia Development Bank. The Ministry of Finance loaned 50 million shillings to SDB, who will, in turn, loan the money to the private sector under negotiated criteria for eligibility for the loans. The SDB will charge the prevailing interest rates and follow normal procedures for its customers. Annex IX, Exhibit 2 outlines the negotiated criteria for the SDB's loan.

The loan to the SDB will increase the credit available to agro-industrial activities. It is also the first step in USAID's strategy of becoming involved with interest rate and credit reform. The local currency will provide the necessary leverage and resources to initiate a general review of lending and interest rate policies and implement the recommended changes.

The FY 82 CIP program will generate roughly So.Shs.278 million, which is equivalent to almost five percent of the total GSDR budget for 1983. When the Defence allotment is

1/ Although the CIPL is already in operation, its procedures are still being refined.

deducted from the budget, the CIP local currency increases to about six percent of the estimated budget expenditure. The So. Shs. 278 million is slightly larger than either the GSDR development budget or their recurrent (ordinary) budget for economic services (Agriculture, Transport, Finance, Fisheries, etc.). This is a substantial amount of money and explains, in part why the GSDR is moving rapidly to finalize the CIPL Unit's operating procedures.

As with the foreign exchange side of the CIP operation, the Mission fully expects disbursements to increase as the system becomes established and familiarity with the program increases.

E. Conclusions and Recommendations

The FY82 CIP has proceeded along the lines envisaged by the Mission. Although improvements in the GSDR's policies have been made, the economy still could use effectively a follow-on program and the GSDR still needs further assistance in helping the economy adjust. Since USAID's analyses and experiences in Somalia have increased, a further focusing of the CIP program in FY 83 appears to be justified. Particular emphasis ought to be on the FY 82 covenants where further reforms or adjustment are required. Finally, if it appears that the need for spare parts has been eased, then a shift in emphasis to small light industries imports would be justifiable.

VI. THE PROPOSED FY83 GRANT

A. The Proposed Grant and Rationale

In consideration of the Somali economy's continuing difficulties; the substantial progress made to date by the GSDR in correcting those problems; the GSDR's admirable performance in implementing the FY82 Commodity Import Program; and the objectives of the U.S. economic assistance program to Somalia, as demonstrated in the various sections above, USAID/Somalia proposes that a second grant be made to the Government of the Somalia Democratic Republic for US$ 21,000,000 from the Economic Support Fund in US Fiscal Year 1983.

The initial obligation would be limited to US$ 16,000,000 thereby maintaining a reserve of US$ 5,000,000 for funding the Kismayo Port Project later in the fiscal year. Once a final desicion is made regarding the Kismayo project, all the remaining reserve monies will be transferred to this Economic Support Fund grant.

B. Objectives

The proposed grant's objectives are:

-- to provide support to the GSDR for continued and sustained policy reform critical to the restructuring and rehabilitation of the economy;
-- to provide essential balance of payments support during the stabilization period; and
-- to provide additional support for an enhanced role for the private sector.

This grant will, again, be utilized through a Commodity Import Program (CIP) to provide short-term balance of payments relief through the financing of imports which will increase the output and productivity of the economy. The local currency generated by this grant will be directed to supporting GSDR efforts to implement needed policy reforms and to implement AID bilateral and other worthwhile projects by the GSDR and the donor community.

C. Constraints Addressed

The constraints addressed directly or indirectly by this program are most of the macro-economic constraints outlined in the CDSS (p.7) as factors delaying economic stability in the medium term. These are:

(a) an excessive wage bill resulting from a large government which, despite low salaries, places an extreme burden on the domestic budget;
(b) excessive government participation in manufacturing, agriculture, and service sectors;
(c) weak government fiscal management with inadequate budgets and controls over ministerial obligations;
(d) weak foreign exchange control with imports administratively allocated but not directed toward the most productive sectors; and,
(e) low level of remittances moving into Somalia through official channels from the workers in the Arab states.

This CIP, however, will focus primarily on the constraints of the excessive goverment wage bill and the excessive government participation in the manufacturing, agriculture and service sectors of the economy. The second level of emphasis will be through studies regarding foreign exchange allocation. Matters of fiscal management are left primarily for the IMF to address, with our support, as a multilateral activity.

Progress toward achieving the program's objectives through alleviation of these major constraints will be pursued by the use of covenants in the Agreement, and the program's foreign exchange and local currency.

1. Covenants

The draft FY 83 Agreement will propose six special covenants to the GSDR.

The formulation of the following conditions is consistent with the purposes of U.S. economic assistance to Somalia. They also reflect the latest assessment of Somalia's political, economic, social, and ideological landscape prior to deciding whether to set conditions and which specific conditions to include.

The performance criteria should, ideally, be both necessary and sufficient for the achievement of the policy and economic objectives. The proposed convenants, however, are necessary, but not sufficient. They will assist in achieving the stated objectives, but in and of themselves, they will not be sufficient. For this reason, AID assistance is closely linked and coordinated with other donor efforts.

The number of conditions proposed for the FY 83 program has been reduced from eight to six. Two covenants were dropped from the 1983 proposal:

the requirement for establishing a Consultative Group because it was already accomplished; and

the requirement for regular consultations because it has proven to be totally unnecessary.

The remaining covenants from the 1982 agreement have been retained but given a slightly different slant to accomplish the next steps in the policy dialogue. The mission has avoided trying to force an excessive number of covenants and has tried to restrict the scope of the covenants to be reasonable and to accomplish necessary actions in the process. The proposed covenants have been carefully reviewed to be certain that they are complimentary to the IMF conditions not in conflict with them. They are designed to carry out specific actions in support of the overall thrust of the IMF conditions.

The proposed covenants for the FY83 CIP are:

(a) IMF Stabilization

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

Discussion: This covenant will reaffirm to the GSDR AID's overall support for the IMF's stabilization objectives. Furthermore, it notifies the GSDR that AID views progress on the IMF's guidelines as important to the success of the U.S.

economic assistance strategy to Somalia. USAID/Somalia will continue to support IMF efforts to develop a realistic program by sharing AID's on-the-ground experiences and analyses in order to temper or strengthen IMF program guidelines.

The IMF program under the EFF has not yet been fully defined or negotiated. However, the mission has discussed the potential conditions of the EFF with the Government and the IMF and, as in the past, the IMF program can be expected to include some specific quantified targets relating to public fiscal policy -- permissable deficit, expansion of net domestic credit -- and foreign exchange policies -- limits on foreign borrowing and debt arrears. It will also contain numerous more qualitative measures in the areas of fiscal policy --taxation, public sector payroll expenditures, and control of budgetary process --, monetary policy -- banking arrangements, interest rate adjustments --, price policy -- producer prices, price controls in the retail and wholesale markets --, public enterprises -- divestiture analysis and actions --, and foreign exchange policy -- liberalizing import licensing, foreign exchange allocation procedures.

USAID recommends adaption of all current conditions (see annex IX, exhibit 1) and all future conditions of upcoming agreements. We are in regular communication with the IMF through their survey teams and feel confident that we will be able to maintain this close working relation so that there will not be controversy between us.

GSDR compliance with this covenant will be determined, in large part, by the IMF's evaluation of the government's adherence to the specific program's guidelines.

(b) Reduction of Government Employment

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

Discussion: This is a new covenant which addresses directly the major constraint of the government's excessive wage bill which resulted from being a hirer-of-last-resort for all high school leavers. In 1982, the GSDR has managed to keep total Central Government employment the same as the previous year's level. Now the next step of reducing total employment must be commenced.1/

The IMF, under their 1982 agreement included a condition that the government would limit government hiring without establishing strict numerical targets. The government took this very seriously and managed to hold the growth of public sector employment down to less than 1% during 1982. We

1/ Employment of people in the Ministry of Defense will not be included for political reasons.

feel that this significant accomplishment should now be built upon by taking the next step to actuallu reducing the number of people on government roles.

In light of the progress made to date by the GDSR on the employment issue and the seriousness of the problem, USAID believes that this covenant is achievable and necessary. GSDR compliance would be determined by a report from the Ministry of Labour's Office of Personnel, who maintain these statistics.

(c) Economic Incentives for Technical Personnel

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

Discussion: This covenant is essentially a repeat of the FY 82 Agreement covenant on which little progress was made. A similar review to that which took place during 1977 is envisaged. In 1977, after the review, a new wage structure for technicians was introduced, raising their monthly salary scale by 33 percent. Although a new wage scale announcement is not required by this covenant, the study must be initiated by the end of 1984.

Several reviews of the civil service have been in the planning stage for a number of years. This covenent is included to assure that such a review is finally initiated.

(d) Stimulate Private Savings and Investment

Grantee covenants to continue to liberalize rules and regulations which are determined to be acting as disincentives to private savings and investment in Somalia. As part of this covenant, the Grantee agrees to: (i) initiate a study of the Foreign Investment Code; (ii) initiate a study of the feasibility of an auction system for foreign exchange transactions, and (iii) liberialize the granting of domestic small light industry licenses.

Discussion: Although the GSDR has made some progress towards stimulating private savings and investment to date, USAID/Somalia sees domestic and foreign private sector investment and expansion into small industry being constrained by cumbersome restrictions, in particular those in the Foreign Investment Code and in the limited number of licenses granted for any one industry. An expansion of light industry, with particular emphasis on those which provide forward and backward linkages with the agricultural economy would certainly increase the availability of consumer goods and increase the demand for agriculture production, thereby helping to diversify and restructure the economy.

The inclusion of a revised system for foreign exchange transactions (the auction system which has proven effective in Asia and is being tried in Uganda now) is a move to attract foreign remittances (estimated at ove $60 million per year) while simultaneously addressing the problems of foreign exchange allocation by using the market forces to allocate the resource.

GSDR compliance of this covenant may be determined by examining the increase level of domestic and foreign investment and the number of requests for licenses that have been rejected. The initiation of the required studies will be verified by the mission.

(e) Efficient Import Procedures

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

Discussion: This covenant is a follow on to the FY 82 covenant which dealt only with the establishment of a revised procedure for the AID grant. The mission views this as an appropriate area for implementation of the progressive approach to policy change where we first make a small change and then subsequently broaden applicability after the GSDR has a concrete example to evaluate.

We feel that a review of the procedure in respect to broadening the applicability is the right approach because all the implications of such a change must be evaluated before such a broad change is implemented. Requiring the change itself in this agreement could be lead to the initiation of a policy change which is not appropriate. This approach furthers our basic policy dialogue methodology which includes a demonstration of the policy, evaluation of the likely impacts and effects of the policy change and finally implementing the policy in the broad sense.

A change in the policy regarding import licensing would permit wider, more immediate access to the license which in turn would encourage trade. The current system is so cumbersome that even once an importer has the foreign exchange allocation, the licensing is so time consuming that the proforma quotation is no longer valid and he must start the process over again based on an increased foreign exchange allocation.

GSDR progress on this covenant would be measured by the submission of the report on feasibility.

(f) Parastatals/ State Enterprises:

The grantee covenants to initiate a detailed study of a selected parastatal or state enterprise, agreed to by AID, to identify the preferred sequence of events to increase private participation in that entity.

Discussion: This covenant is a follow on to the FY 82 covenant on the efficiency of public enterprises and endeavors to focus the efforts more precisely. It also directly supports the IMF condition requiring divestiture of inefficient parastatals.

The mission feels that "divestiture" has become a buzz word which is not as clearly defined as it may appear. We feel that there is an orderly progression of actions which would normally be required as part of a process of divestiture. This covenant would focus on the definition of the process. It might include beginning with a management contract, moving to a leasing arrangement, then to an equity participation or joint venture activity and finally to majority private participation.

A requirement for AID agreement with the parastatal to be studied is to assure that an appropriate entity is selected which will provide lessons to be applied to a significant number of other parastatals. We anticipate that the Government will identify several possibilities of which we would jointly choose one for the detailed study.

Compliance with this covenant would be determined by the existance of the contract for the study.

2. Foreign Exchange

The CIP's foreign exchange will be used to support directly the Somalia private sector. In the FY 83 CIP, 15% of the total amount will be reserved for the use of the public sector for necessary spare parts to be directly procured by the GSDR Ministries. The remaining 85% of the funds will be available for both the private and public sectors in full competition. The 15% set aside for the public sector is necessary because past experience has shown that the public sector is unable to allocate sufficient shillings to make the deposits to the CIP account as quickly as the private sector and therefor must have a reservation if there are to be any funds remaining for them to utilize. The Ministry of Finance and USAID/Somalia will approve acceptable private sector applications on a first-come, first-serve basis. Now that the system has been established, it is likely that the FY 1983 CIP foreign exchange resources can be committted within 12 months after signing.

As with the previous agreement, procurement under the grant will be restricted to commodities related to the agricultural or agro-industrial sectors, and to private manufacturing activities identified by the Somalia Development Bank. It is anticipated that the grant funds will be used to finance spare parts to a lesser degree than the FY 82 program and finance to a greater degree the importation of equipment and machinery for small light industrial activities. (See Annex V for an illustrative list.)

Although it might appear desirable to require the CIP's foreign exchange to be additional to what the GSDR is planning to budget for the private sector in 1984, it is not practical for several reasons. First, the GSDR appears to be sincere, as judged by its actions, in stimulating the private sector, thus AID ought to focus its efforts on supporting GSDR reform in areas where additional government commitment is needed, such as government employment policies and civil service reform. Second, the projection of foreign exchange availabilities is particularly hazardous in Somalia where data and statistics are revised frequently and radically. Thus, reliance on an uncertain set of numbers may result in non-compliance as a result of factors beyond the government's control. Finally, it would probably take one or two years after the money was used to confirm compliance of such a covenant. This could needlessly delay implementation of any subsequent program.

3. Local Currency

As noted earlier, the local currency will be used to assist in the implementation of policy reforms, AID bilateral, GSDR, and other donor activities requiring local currency support.

Policy reform initiatives take many forms in the use of local currency. In some cases, the use of local currency for certain purposes may be subject to conditions which can leverage a policy change. For example, we might agree to permit the use of funds for competancy bonuses for key ministry staff if the GSDR undertakes significant civil service and employment reforms. Increased lending to the private sector via commercial banks can affect the allocation of investments and thus accomplish policy change. Studies to review the excessive government participation in production and services, financial procedures, etc. can serve to help establish the information base for further policy changes.

The majority of the local currency funds, however, will be granted to project support, particularly those impacting on the agricultural sector. Some of this support may be to AID and other donor projects (Kismayo Port, possibly some EEC road programs) and some maybe direct to GSDR projects as defined in the Consultative Group meetings. Also under analysis by the CIPL Unit is the feasibility of using the local currency to pay private sector entrepreneurs to undertake activities normally left to government, such as road maintenance, port administration, rural health delivery, etc. The CIPL Unit will have the responsibility of assuring that the local currency is used as effectively as possible.

D. Expected Impact of the FY 83 CIP

The Mission has no illusions that this program alone will enable Somalia to achieve self-sustained growth. However, this program, and subsequent programs will help give the GSDR the resolve to continue the difficult task of restructuring and rehabilitating the economy. AID support will contribute directly to maintaining the GSDR's private sector emphasis. It will also require the government to take firmer action towards redressing the excessive role government has in Somalia. The success of this program may also provide impetus for other donors to grant similar commodity support.

As can be seen from the above, this program also is supportive of IMF and other donor efforts in Somalia. Together with other donor efforts, this program will measurably help Somalia achieve economic stability in the medium term.

VII. GRANT ADMINISTRATION AND IMPLEMENTATION

A. Administrative Entities

1. GSDR

The overall administrative responsibility for the grant, which will include preparation of all reports as well as assuring compliance with A.I.D. requirements, will rest with the Ministry of Finance. The Ministry of Finance allocates the disbursement of funds through the issuance of a Financing Request to A.I.D.

2. A.I.D.

The administration of the program by A.I.D. will be through a Supply Management Officer under the direction of the USAID Director, with support from REDSO/ESA and AID/Washington. The Supply Management Officer will be the responsible agent for all matters pertaining to policy, procedures and implementation of the Commodity Import Program. All guidance and advising host government officials and private businessmen on A.I.D. regulations and proper use of Commodity Import Program funds will be the responsibility of the Supply Management Officer.

B. A.I.D. Import Procedures

1. Procurement and Financing Procedures

A.I.D.'s Standard Procurement and Financing Procedures, as set forth in A.I.D. Regulation 1, will be followed by this CIP grant. GSDR purchasing practices indicate that public sector procurement will include a mixture of formal competitive bidding, negotiated solicitations, and proprietary procurement. For private sector procurement, normal commercial trade practices will be used similar to the negotiated procurement provisions of A.I.D. Regulation 1. Financing of all goods and related services will be carried out through a single bank Letter of Commitment (L/COM). The selected U.S. bank will be authorized by the Approved Applicant (Commercial and Savings Bank of Somalia) to issue Letters of Credits on their behalf.

2. Commodities to be financed

Commodities eligible under the A.I.D. Commodity Eligibility Listing (1981 as revised) will be eligible for A.I.D. financing and will be included in all Commodity Procurement Instructions. However, utilization of the resources made available under this grant will be more restricted. Public sector purchasing will be limited to spare parts for on-hand machinery and vehicles and raw materials. The GSDR will give priority to private sector (importers) applications for commodities which relate to the development of agriculture, agro-industrial sector and private manufacturing activities, particularly those which will increase the forward and backward linkage with the agricultural economy. For example, the private sector will purchase pharmaceuticals for livestock, machinery and raw materials for small light industry, such as plastics, paints, orange juice, bakery equipment, spare parts for on-hand machinery and vehicles, etc. It is anticipated that the majority of the grant funds will be used to develop the economy through increased private sector involvement.

3. Procurement Restrictions/Limitations

This grant will be restricted to Code 941 source and origin for commodities and related services, except for spare parts for on-hand machinery, heavy equipment and vehicles. Therefore, it will be necessary to issue a source/origin waiver with a value of up to US$1.6 million to permit procurement of spare parts on a proprietary basis from Code 899 countries. The dollar value of the waiver was agreed to in discussions with the Ministry of Finance.

Local agents are not required by Somalia regulations. Thus, there is no conflict with A.I.D. Regulation 1 requirements that U.S. suppliers may sell directly to the importers. All provisions of A.I.D. Regulation 1 regarding commodity eligibility review, price eligibility, and both prior review and post audit will apply to all transactions.

C. Disbursement Period

The proceeds of the grant are expected to be disbursed within a 24 months period after the grant is signed. The terminal disbursement date, therefore, will be set 24 months from the grant agreement date and the terminal date for requesting disbursement authorizations will be set at 18 months from the grant agreement date.

The method of disbursement will be through A.I.D.'s standard Letter of Commitment/Letter of Credit procedures, and the approved applicant for the Letter of Commitment will be the Commercial and Savings Bank of Somalia, which is wholly owned by the GSDR.

D. Port Clearance and Inland Transportation

There is periodic congestion at Somalia's ports of Mogadishu and Berbera when vessels arrive back-to-back to deliver refugee commodities. In addition, the limited availability of diesel and petrol for port's equipment exacerbates the congestion problem. These problems have ameliorated with the decline in refugee emergency assistance. Presently, the majority of the vessels obtain berthing space for off-loading within a few days after arrival, off-load their goods within the laytime allowed, and the off-loaded goods clear the port areas within a few weeks. The standard A.I.D. 90 days port clearance and the 12 months utilization period requirements will apply. There will be continuous follow-up by USAID and the host government with the buyers to assure compliance with these requirements.

E. Arrival Accounting and End-Use Monitoring

Since 1974, the Somalia Shipping Agency has been appointed by the GSDR to handle the monitoring and accounting of all imported goods. It is the agency's responsibility to notify the public and private importers when their goods arrive, as well as provide notifications as to quantities and types of goods. After the importers have been notified, it is their responsibility to arrange for clearances and movement of goods out of the port. Public sector importers normally have their own vehicles and manpower to expedite their goods. The private importers use either their own resources or hire a freight forwarder to clear and move the goods.

There has not been a need under the previous CIP grant to establish additional GSDR capability. The importers under FY 82 CIP have been receiving and clearing their goods with no significant difficulties.

F. Commodity Import Procedures

1. Licensing System

At present, all private and publicly owned industries in Somalia are subject to import licence control; whereas Government Ministries are not. Applications by public corporations and government agencies are reviewed for technical (price, quality) adequacy by the National Purchasing Agency. Import licenses can be obtained by any private corporation or individual if they can meet GSDR requirements. To obtain an import/export license, private importers must have total assets valued at So.Shs.500,000.00 (US$ 33,300) or more, of which at least So.Shs.300,000.00 (US$ 20,000 must be in real property and So.Shs.3200,000.00 (US$ 13,300) must be in cash. They submit documentation to the Inland Revenue and Financial Investigators. After receipt of approval as an importer/exporter the private or public importer can apply to the Director of Licensing and Hard Currency control, Ministry of Commerce, for approval of the requested imports. This application is reviewed for technical (price, quality) accuracy. If everything is in order, the application is approved.

2. Import Controls

Once the application is approved, the importer requests a Letter of Credit from the Commercial and Savings Bank of Somalia. Depending upon the amount of foreign exchange made available by the Central Bank and the priority of the imports requested, the Commercial Bank either opens a Letter of Credit, or places the application higher or lower in the Letter of Credit pending queue. At present a high priority is being given to petroleum, pharmaceuticals and foodstuffs, in the utilization of Somalia's own foreign exchange. Other critical needs are largely going unmet due to the scarcity of foreign exchange.

G. GSDR Allocation and Control of CIP Funds

The Ministry of Finance will specify a single dollar amount (equivilent to 15% of the grant) for public sector use to import spare parts for on-hand vehicles and machinery. The remaining dollar amount will be for private sector imports which will help increase the capacity or utilization of current capacity in the economy. The Ministry of Finance and the

Central Bank of Somalia will control A.I.D. foreign exchange accounts. Goods financed under the CIP will be licensed in accordance with GSDR procedures and requirements.

The actual disbursement of any funds will be dependent upon the suppliers providing a full set of payment documents. This will include both Form 11 (Commodity Eligibility Approval) approved by A.I.D. (SER/COM) and A.I.D. Form 282 (Supplier's Certificate and Agreement) which attest to compliance with A.I.D. Regulation 1, and provide evidence of shipment. Follow-up (including end-use check) by USAID and the Ministry of Finance will assure that goods are received and being utilized.

H. Implementation Schedule and Pipeline Analysis

1. Implementation Schedule

July 83: Agreement Signed
August 83: Conditions Precedent Met
September 83: Letter of Commitment Issued
November 83: First shipment made (Port of Exit)
December 84: Grant fully committed
April 85: Probable final shipment
May 85: Probable final disbursement

2. Pipeline Analysis

Presented below is a tentative cumulative Commitment/Disbursement Schedule.

	Dec. 83	March 84	June 84	Sept. 84	Dec. 84	March 85	May 85
Commitments	4	10	15	18	21		
Disbursements	2	6	10	14	18	20	21

VIII. OTHER CONSIDERATIONS

A. Impact on U.S. Balance of Payments

The short-term impact of this grant on the U.S. balance of payment position will be minimal. In the medium to long term, the CIP may assist U.S. exporters to re-establish their former markets in Somalia and other developing countries (i.e., Korea) to establish new market positions. The majority of goods to be imported will be from Code 941 countries except for spare parts for on-hand equipment which will be from Code 899 countries such as Italy, U.K, and West Germany.

B. Counterpart Generation

The Somalia Shilling counterpart generated by private and public exporters will accrue to the GSDR for allocation to develop activities such as improvement and expansion of the present irrigation system, loan to the Somalia Development Bank, improvement of the agricultural research, improvement of livestock breeding, and human resources.

The loans to the Somalia Development Bank will be used to stimulate the private sector in the development of agriculture, small, light industry, and distribution of agriculture inputs.

The U.S. is now engaged in the effort to repair the Kismayo port facility, initially constructed under A.I.D. financing in the mid-1960's. Local currency cost for the rehabilitation of Kismayo port will be from local currency counterpart generated from the CIP. Some of the counterparts may also be programmed for A.I.D. use.

The GSDR will have all local currency counterpart generated under the CIP deposited into the CIP Special Account in the Commercial and Savings Bank of Somalia. Deposit in full of the local currency equivilent of each procurement will be made prior to the issuance of a Letter of Credit for either a public sector or private sector importer.

C. Internal Financial Effects

The counterpart expenditures should not have a significant inflationary impact upon the economy as they will largely be spent for items already in the GSDR development budget. Indeed, the impact could be deflationary to the degree that they finance expenditures which would otherwise have been deficit financed.

D. Use of U.S. Government Excess Property

A.I.D. will review the possibility of financing of excess property under the grant. However, it is unlikely that such property will be appropriate given the nature of the commodities to be purchased.

E. Relationship to Overseas Private Investment Corporation (OPIC) and U.S. Export-Import Bank Activities

Neither institution currently supports any activities in Somalia. To the extent that it contributes to a revitalization of the Somalia economy, the CIP will be supportive of their future involvement.

F. Use of Procurement Consultant

The grant agreement provides that grant proceeds may be used to finance the services and support of a U.S. Individual or firm to assist the GSDR in the preparation and issuance of IFBs, the analysis of awards, the preparation and execution of supply contracts, etc. Although the GSDR has no current plans for utilization of a procurement consultant, A.I.D. will encourage the GSDR to do so if appropriate.

Annex I
List of Tables

62

Annex I
Table 1

Somalia: Number and Value of Livestock Exports, 1972-81

	Sheep ('000)	Goats ('000)	Cattle ('000)	Camels ('000)	Total Livestock ('000)	Total value, f.o.b (millions So.Shs.)[1]
1972	816	819	81	22	1,738	162.0
1973	709	679	68	29	1,485	157.2
1974	663	575	31	24	1,293	222.5
1975	793	743	40	34	1,610	364.4
1976	385	381	58	34	858	301.8
1977	465	461	55	33	1,014	299.5
1978	739	715	77	22	1,553	570.4
1979	717	705	68	13	1,503	474.1
1980	745	736	143	17	1,641	639.5
1981	719	714	120	15	1,568[2]	983.2[2]

1/ Exchange transaction records.
2/ Estimates based on balance of payments data.

Source: IMF, "Somalia, Recent Economic Developments", February 1983.

63

Annex I
Table 2

Somalia: Production and Export of Bananas, 1975-82

	Area cultivated[1/] (thousand hectares) Total area	Producing area	Production (thousand metric tons)	Yield (metric tons per producing hectares)	Export volume (thousand metric tons)	Value of exports, f.o.b. (millions of So. Shs.)	Export unit value, f.o.b. (So.Shs. per metric ton)
1975	8.3	6.1	106.0	17.4	81.8	80.9	989
1976	7.4	5.3	96.6	18.2	72.5	88.2	1,217
1977	7.1	5.2	65.2	12.5	53.2	64.7	1,216
1978	6.8	5.1	69.7	13.7	57.5	70.2	1,221
1979	6.0	5.8	72.2	12.5	55.5	68.5	1,234
1980	4.6	2.6	60.4	23.2	35.4	46.6	1,316
1981	3.6	2.9	59.0	20.3	32.7	66.2	2,024
1982/ 9mths.	4.1	2.7	59.1	21.9	37.7	125.9	3,339

Source: IMF, *ibid*.

64

Annex I
Table 3

Somalia: Production of Main Agricultural Crops, 1976-82
(In thousands of metric tons)

	1970	1976	1977	1978	1979	1980	1981	1982 First half
Maize	122.1	107.6	111.3	107.7	108.2	110.5	157.3	113.1
Rice	2.9	5.4	8.4	12.1	13.4	16.7	7.8	7.8
Sorghum	158.1	139.3	145.1	141.1	140.1	140.5	206.9	166.1
Beans	10.9	9.3	10.2	10.1	8.2	9.3	2.5	4.8
Staples (total)	294.0	261.6	275.0	271.0	269.9	277.0	374.5	291.8
Sesame	43.4	38.8	40.6	40.0	40.6	38.4	27.1	17.3
Groundnuts	3.0	2.7	2.8	2.8	2.8	2.9	0.8	2.1
Vegetables	28.8	25.7	26.9	26.5	26.6	27.2	20.3	52.5
Cotton	3.5	3.1	3.3	3.2	3.3	3.3	1.6	3.4
Sugarcane	450.4	333.3	320.0	311.5	365.0	419.5	378.2	535.1

Source: IMF, ibid.

Annex I
Table 4.

Somalia: Imports and Exports

MILLIONS OF U.S. DOLLARS

	Code	Exports 1975	Exports 1976	Exports 1977	Exports 1978	Exports 1979	Exports 1980	Exports 1981	Imports 1975	Imports 1976	Imports 1977	Imports 1978	Imports 1979	Imports 1980	Imports 1981
IFS Total		88.58	94.61	62.99	106.56	110.85	141.03	199.81	154.68	155.65	227.61	241.30	236.67	275.47	199.06
World	001	88.58	94.28	62.03	106.56	132.09	158.56	133.12	162.42	155.66	227.39	241.34	417.15	524.66	405.26
Industrial Countries	110	6.78	28.65	11.11	9.51	33.31	24.69	13.13	72.08	67.25	125.94	153.31	301.77	405.73	296.97
United States	111	.08	.04	.02	.23	.09•	.36•	.18•	3.73	....	1.84	6.13	35.53•	61.27•	64.68•
Canada	156	....	....	....	....	....	.01•	.19•	....	.25	.05	.66	1.03•	1.30•	1.73•
Australia	193	....	....	....	....	....	.02•	....	....	.23	2.02	.16	.53•	.52•	1.46•
Japan	158	....	....	....	....	.81•	....	.08•	.92	10.75	2.06	6.22	3.02•	5.67•	6.10•
New Zealand	196	....	....	....	....	....	....	....	....	....	....	....	....	....	.11•
Austria	122	....	....	....	.01	....	.01•	....	....	1.72	.89	.09	.94•	5.30•	2.25•
Belgium	124	....	.15	....	....	.45•	1.25•	.23•	....	1.24	2.91	.58	8.66•	17.73•	23.53•
Denmark	128	....	....	.02	.01	....	....	.07•	....	....	1.48	.29	2.84•	1.24•	1.75•
Finland	172	....	....	....	....	.01•	.03•	....	....	2.20	....	.04	.91•	.08•	1.89•
France	132	....	.35	.05	.02	3.46•	1.22•	1.05•	....	3.89	2.90	1.62	8.05•	30.34•	12.11•
Germany	134	.65	.11	.02	.03	.80•	1.23•	.16•	9.54	1.84	11.81	25.37	20.90•	27.45•	32.20•
Ireland	178	....	....	....	....	.04•	.03•	....	....	....	....	.01	.09•	.52•	.38•
Italy	136	5.79	27.39	9.16	8.80	26.59•	20.18•	8.85•	49.50	39.98	64.49	73.02	148.84•	199.89•	99.81•
Netherlands	138	....	....	....	.36	.49•	.04•	.71•	....	....	4.45	12.58	13.79•	9.96•	10.43•
Norway	142	....	....	....	....	.05•	....	....	....	....	.02	....	.02•	.04•	3.35•
Spain	184	....	....	....	....	.25•	.07•	.08•	....	....	.02	.03	2.61•	1.12•	1.32•
Sweden	144	....	.01	....	....	.09•	....	....	....	2.32	8.24	1.18	2.80•	4.71•	2.59•
Switzerland	146	....	.34	.55	....	....	.02•	.01•	....	2.84	1.79	2.52	2.18•	2.54•	1.45•
United Kingdom	112	.27	.26	1.29	.04	.19•	.24•	1.52•	8.39	....	20.99	23.32	49.02•	36.07•	29.76•
Developing Countries															
Oil Exporting Countries	999	56.80	53.79	45.28	94.90	87.31	106.08	101.01	7.41	31.64	6.42	25.32	34.72	44.58	37.50
Algeria	612	....	....	....	....	....	....	....	....	....	.01	....	....	....	....
Indonesia	536	....	....	....	....	....	....	....	....	.01	.04	.03	.03•	.04•	.03X
Iran	429	....	.98	.16	....	....	....	....	.91	2.31	.07	.18	.14X	.26X	.23X
Iraq	433	....	.21	.01	....	....	....	....	5.14	....	.61	11.45	17.19X	20.63X	8.25X
Kuwait	443	....	.12	.18	.21	.13•	....	....	....	....	3.07	.14	.19•	....	....
Libya	672	....	....	.01	....	....	....	....	....	....	....	....	....	....	....
Nigeria	694	....	.01	.01	....	....	....	....	....	....	....	.02	.02X	.03X	.03X
Oman	449	....	.09	.05	....	.13•	.28•	.28X	....	....	....	....	....	....	....
Saudi Arabia	456	56.80	48.93	42.23	91.01	86.36•	105.70•	100.63•	1.36	26.06	2.31	9.46	13.38•	20.13•	25.82•
United Arab Emirates	466	....	3.46	2.64	3.67	.69•	.09•	.09X	....	3.26	.32	4.04	3.76•	3.49X	3.14X
Venezuela	299	....	....	....	....	....	....	....	....	....	....	.01	....	....	....
Non-Oil Developing Countries	201	15.16	2.77	2.47	2.09	11.43	27.74	18.93	48.09	24.92	64.01	60.13	79.52	72.59	68.58
Africa	605	2.47	1.24	1.66	.77	.90	1.05	1.02	11.32	12.63	15.56	25.24	23.60	29.69	22.30
Djibouti	611	1.47	.24	.09	.29	.49X	.69X	.69X	....	....	2.54	5.63	8.71X	11.80X	11.80X
Ethiopia	644	.02	.03	....	....	....	....	....	2.08	.13	5.73	4.30	....	....	....
Ivory Coast	662	....	....	....	....	....	....	....	....	....	.02	....	....	....	....
Kenya	664	.97	.75	.26	.47	.17•	.11•	.08Y	8.90	11.38	6.86	11.21	7.88•	11.53•	4.15Y
Liberia	668	....	....	....	....	....	....	....	....	....	....	....	....	.01•	.01X
Mauritania	682	....	....	....	....	....	....	....	....	....	....	.01	.02X	.03X	.03X
Mauritius	684	....	....	....	....	.01•	....	....	....	....	....	....	....	....	....
Sudan	732	....	.10	....	....	.03•	.05X	.05X	....	....	.01	.01	.34•	.66X	.66X
Tanzania	738	....	.03	.22	.01	.19•	.19•	.19X	....	.96	.14	2.46	4.68•	2.83•	2.83X
Uganda	746	....	.08	1.08	....	....	....	....	....	.10	.24	1.10	1.96X	2.83X	2.83X
Zambia	754	....	....	....	....	....	....	....	....	.01	.02	.03	....	....	....
Africa not specified	799	.01	....	....	....	....	....	....	.34	....	....	....	....	....	....
Asia	505	5.80	.02	.30	.98	1.76	11.17	2.79	28.53	9.78	45.02	26.18	47.59	30.09	33.88
Bangladesh	513	....	....	....	....	....	....	....	....	....	....	....	....	.44•	.18•
China, People's Rep.	924	2.51	....	.27	.96	1.65X	2.33X	2.33X	9.60	....	14.87	8.05	1.23X	....	....
Hong Kong	532	....	....	....	.01	.12•	.10•	.42•	.88	1.78	5.47	2.27	4.35•	2.57•	1.73•
India	534	....	....	....	.01	....	....	....	.54	.40	2.44	4.54	10.44•	17.78Y	17.78X
Korea	542	....	....	....	....	....	....	....	....	.02	.01	.21	.16•	.51•	.23Y
Malaysia	548	....	....	....	....	....	....	.04•	....	....	....	....	....	.05•	.05•
Pakistan	564	....	.02	.03	.01	....	....	....	....	....	.67	4.08	12.31•	7.07•	3.54•
Philippines	566	....	....	....	....	....	....	....	....	....	....	.02	.01•	.22•	.05Y
Singapore	576	....	....	....	....	....	....	....	4.66	1.15	11.54	6.23	....	....	....
Sri Lanka	524	....	....	....	....	....	8.73•	....	.02	....	.01	.78	1.18•	.60•	.08Y
Thailand	578	....	....	....	....	....	....	....	11.35	6.42	10.00	....	17.89•	.74•	10.21Y
Viet Nam	582	....	....	....	....	....	....	....	....	....	....	.01	.02X	.03X	.03X
Asia not specified	598	3.29	....	....	....	....	....	....	1.51	....	....	....	....	....	....
Europe	170	.53	.48	.05	....	.44	.44	.11	5.13	....	1.42	.95	6.67	11.83	10.70
Greece	174	....	.48	....	....	.44•	.29•	.10•	....	....	.60	.36	.60•	6.73•	8.74•
Hungary	944	....	....	....	....	....	....	....	....	....	....	.04	....	....	....
Malta	181	....	....	....	....	....	....	....	....	....	....	....	.07•	.33•	.53Y
Portugal	182	....	....	....	....	.01•	....	....	....	....	....	.01	.01•	.10•	.28•
Romania	968	....	....	....	....	....	....	....	....	....	.12	.42	....	....	1.03X
Turkey	186	....	....	....	....	....	....	.01•	....	....	....	....	....	....	.02•
Yugoslavia	188	....	....	.05	....	....	.15•	....	....	....	.70	.11	6.00•	4.66•	.10•
Europe not specified	884	.58	....	....	....	....	....	....	5.13	....	....	....	....	....	....
Middle East	405	6.32	1.02	.47	.34	7.70	15.00	15.00	2.58	2.51	2.02	1.69	1.65	.92	1.70
Bahrain	419	....	....	....	....	.01•	....	....	....	....	....	....	.42•	....	.75X
Egypt	469	.05	.01	.01	....	....	....	....	1.27	1.18	.07	.26	.17•	.01•	.04•
Jordan	439	....	....	....	....	.03•	....	....	....	....	....	....	....	....	....
Lebanon	446	....	....	....	....	....	.01X	.01X	....	....	....	.01	.02X	.02X	.02X

Exports 1975	Exports 1976	Exports 1977	Exports 1978	Exports 1979	Exports 1980	Exports 1981	Imports 1975	Imports 1976	Imports 1977	Imports 1978	Imports 1979	Imports 1980	Imports 1981	
EXPORTS							MILLIONS OF U.S. DOLLARS				IMPORTS			
....	.04	....	....	....	....	....	....	....	....	....	....	....	....	Syrian Arab Rep. 463
....	.52	.05	.31	7.65*	14.99X	14.99X	....	.20	....	.06	....	.17X	.17X	Yemen Arab Rep. 473
1.97	.45	.41	.03	....	....	....	1.31	1.13	1.68	1.37	1.05X	.73X	.73X	Yemen, P.D. Rep. 459
4.30	....	....	....	....	....	....	....	....	.26	....	....	....	....	Middle East not spec 489
....	....	....	....	.63	.09	.01	....	....	....	6.07	.01	.06	....	Western Hemisphere 205
....	....	....	....	.01*	....	....	....	....	....	....	....	....	....	Argentina 213
....	....	....	....	....	.01*	....	....	....	....	....	.01*	.02*	....	Barbados 316
....	....	....	....	....	.01X	.01X	....	....	....	....	....	....	....	Bermuda 319
....	....	....	....	....	....	....	....	....	....	6.07	....	....	....	Brazil 223
....	....	....	....	.61*	.08*	....	....	....	....	....	....	.04*	....	Trinidad and Tobago 369
4.88	6.64	2.22	.04	.04	.05	.05	12.09	20.04	31.03	2.03	.58	.87	.87	USSR, Eastern Europe, etc. 910
....	....	....	....	.01X	.01X	.01X	....	.25	.32	....	....	....	....	Bulgaria 918
....	....	....	....	....	....	....	....	.70	....	....	....	....	....	Cuba 928
....	....	.01	....	....	....	....	.08	.08	.93	.05	....	....	....	Czechoslovakia 934
....	.02	.01	.02	.03X	.04X	.04X	....	....	2.82	.23	....	....	....	Eastern Germany 938
....	....	....	....	....	....	....	....	....	....	.28	.56X	.84X	.84X	North Korea 954
....	....	....	....	....	....	....	....	....	....	.01	.02X	.03X	.03X	Poland 964
4.88	6.61	2.21	.02	....	....	....	11.81	19.01	26.96	1.46	....	....	....	USSR 974
....	....	....	....	....	....	....	.21	....	....	....	....	....	....	USSR,East.Europe, ns 978
4.95	....	.54	....	....	....	....	22.76	.44	....	....	....	....	....	Countries not spec. 898
....	.05	.41	.02	....	....	....	....	....	....	....	....	....	....	Special Categories 899
														Addendum
6.70	28.74	10.54	9.27	32.46	24.47	12.69	67.42	46.95	109.52	137.15	252.79	329.92	218.79	EEC 998
														PER CENT DISTRIBUTION
7.7	30.4	17.9	8.9	25.2	15.6	9.9	44.4	43.2	55.4	63.7	72.3	77.3	73.3	Industrial Countries 110
64.1	57.1	73.0	89.1	66.1	66.9	75.9	4.6	20.3	2.8	10.5	8.3	8.5	9.3	Oil Exporting Countries 999
17.1	2.9	4.0	2.0	8.6	17.5	14.2	29.6	16.0	28.1	24.9	19.1	13.8	16.9	Non-Oil Developing Countries 201
2.8	1.3	2.7	.7	.7	.7	.8	7.3	8.1	6.9	10.5	5.7	5.7	5.5	Africa 605
6.5	....	.5	.9	1.3	7.0	2.1	17.6	6.3	19.8	10.8	11.4	5.7	8.4	Asia 505
.7	.5	.1	....	.3	.3	.1	3.2	....	.6	.4	1.6	2.3	2.6	Europe 170
7.1	1.1	.8	.3	5.8	9.5	11.3	1.6	1.6	.9	.7	.4	.2	.4	Middle East 405
....	....	....	....	.5	.1	....	....	....	....	2.5	....	....	....	Western Hemisphere 205
5.5	7.0	3.6	....	....	....	....	7.4	12.9	13.6	.8	.1	.2	.2	USSR, Eastern Europe, etc. 910
														ANNUAL PER CENT CHANGE
42.8	6.4	-34.2	71.8	24.0	20.0	-16.0	25.5	-4.2	46.1	6.1	72.9	25.8	-22.8	World 001
1.5	322.3	-61.2	-14.3	250.1	-25.9	-46.8	28.4	-6.7	87.3	22.1	96.2	34.4	-26.0	Industrial Countries 110
61.4	-5.3	-15.8	109.6	-8.0	21.5	-4.8	105.9	327.2	-79.7	294.7	37.1	23.4	-15.9	Oil Exporting Countries 999
-8.7	-81.7	-10.8	-15.2	445.6	142.3	-31.8	2.7	-43.2	156.8	-6.1	32.2	-8.7	-5.5	Non-Oil Developing Countries 201
165.4	-49.7	33.4	-53.3	16.4	16.2	-2.7	25.0	6.9	23.1	62.3	-6.5	25.8	-24.0	Africa 605
-21.3	-99.6	....	231.8	79.5	533.5	-75.0	7.6	-65.7	360.2	-41.8	81.8	-36.8	12.6	Asia 505
-61.2	-17.0	-90.6	....	....	....	-75.1	-30.1	-100.0	....	-33.2	604.5	77.3	-9.5	Europe 170
-7.4	-83.9	-53.8	-28.2	....	94.9	....	-25.5	-2.9	-19.4	-16.3	-2.5	-44.0	84.3	Middle East 405
....	....	....	....	....	-85.3	-91.3	....	....	....	....	-99.8	398.3	-96.4	Western Hemisphere 205
44.5	36.1	-66.5	-98.3	-5.4	37.1	....	-32.9	65.7	54.9	-93.4	-71.6	50.0	....	USSR, Eastern Europe, etc. 910

Source: IMF,"Direction of Trade Yearbook for 1982", pp328-329.

Annex I
Table 5

Somalia: Quantity, Value, and Prices of the Main Food Imports by ENC, 1976-81[1]

(In metric tons and thousands of somali shillings)

	1976	1977	1978	1979	1980	1981
Wheat flour						
Quantity	42,752	23,923	28,881	47,606	50,459	55,321
Value	58,218	32,446	33,931	66,973	94,677	103,849
Unit price	1.36	1.36	1.17	1.41	1.88	1.88
Retail price[2]	2.00	2.00	2.00	2.80	3.20	3.10
Rice						
Quantity	18,500	29,321	27,633	50,021	60,610	41,244
Value	31,374	58,364	60,133	103,753	123,660	112,583
Unit price	1.70	1.99	2.18	2.07	2.04	2.73
Retail price[2]	4.85	4.85	4.85	5.25	5.25	6.10
Sugar						
Quantity	24,479	23,203	--	15,677	15,040	1,000
Value	57,854	42,867	--	59,970	60,169	3,410
Unit price[2]	2.36	1.55	--	3.83	4.00	3.41
Retail price	4.60	4.60	6.00	6.00	6.20	.....
Tea						
Quantity	2,707	1,828	2,267	3,582	--	--
Value	15,122	17,037	21,431	5,373	--	--
Unit price	5.59	9.32	9.45	1.50	--	--
Retail price[2]	14.70	14.70	28.00	28.00	30.25	34.00
Edible oil (coconut)						
Quantity	9,521	11,974	14,533	23,211	19,277	12,382
Value	36,759	58,362	82,458	166,538	101,401	64,242
Unit price	3.86	4.87	5.67	7.17	5.26	5.19
Retail price[2]	9.00	9.00	12.15	12.15	13.75	16.95

1/ Does not include imports through the franco valuta market.
2/ Price paid by the consumer.

Source: IMF, "Somalia - Recent Economic Developments," February, 1983.

68

Annex I
Table 6
Somalia: Balance of Payments, 1978-82
(In millions of U.S. Dollars)

	1978	1979	1980	1980	Prel. est. 1982
Goods and services	-171	-300	-336	-313	-323
Exports, f.o.b.	109	106	133	121	167
Livestock	91	75	102	105	125
Bananas	9	12	8	6	12
Imports, c.i.f.	-275	-394	-461	-453	-510
Official Foreign Exch.	-116	-289	-276	-176	-227
Franco valuta	- 76	- 34	- 55	- 60	--
Grants and loans in kind	- 83	- 71	-130	-217	-283
Trade balance	-166	-288	-328	-332	-343
Services, net	- 5	- 12	- 8	19	20
Transfers	106	94	200	212	228
Private	78	36	57	64	50
Official	26	58	143	148	178
Current account	- 65	-206	-136	-101	- 95
Capital account	79	88	87	73	58
Private, net	--	4	--	--	- 45
Official, net	79	84	87	73	103
Receipts	(84)	(87)	(97)	(93)	(113)
Payments	(-5)	(-3)	(-10)	(-20)	(-10)
Errors and omissions	7	19	22	16	--
Overall balance	21	-99	-28	-13	-37
Financing	-21	99	28	13	37
Cental bank, net	- 8	85	43	33	37
Commercial bank, net	-13	14	-16	-20	--

Source: IMF, *ibid*.

64

Annex I
Table 7

Somalia: Budget at a Glance, 1979-82
(In millions of Somali shillings)

	1979	1980	1981	Revised Estimate 1982
Total receipts	1,796.6	1,884.4	2,359.6	3,678.7
Revenue	(1,526.0)	(1,421.4)	(2,250.6)	(2,999.2)
Tax	(1,314.8)	(1,192.6)	(2,001.9)	(2,448.5)
Nontax	(211.2)	(228.8)	(248.7)	(550.7)
Tranformers from local authorities	...	...	12.2	16.5
Grants 1/	270.6	463.0	96.7	63.0
Oil grant	--	--	--	600.0
Total expenditure	3,243.9	3,072.5	3,381.9	4,980.2
Budgetary expenditure	1,797.3	1,832.0	3,081.0	3,666.0
Ordinary	(1,573.1)	(1,670.0)	(2,795.2)	(.....)
Development	(224.2)	(162.0)	(285.8)	(.....)
Transfers to local authorities	--	132.0	---	--
Other expenditure 2/	1,446.6	1,108.5	300.9	1,314.2
Overall surplus/ deficit (-)	-1,447.3	-1,188.1	-1,022.4	-1,301.5
Financing				
Foreign (net)	527.0	504.1	680.7	1,431.5
Domestic	920.3	684.0	341.7	-130.0
Banking system (net)	(920.3)	(671.0)	(347.2)	(-135.0)
Cash balances	(--)	(13.0)	(-5.5)	(5.0)
Memorandum items (in percent)				
Overall deficit/total expenditure	44.6	38.7	30.2	26.1
Foreign financing/ overall deficit	36.4	42.4	66.5	110.0
Bank financing/ overall deficit	63.6	56.5	34.0	-10.3

1/ Excluding grants in kind, principally food aid.
2/ Residual item, including other foreign financed capital expenditure, other extrabudgetary expenditure and net lending to public enterprises.
Source: IMF, *ibid*.

10

Table I. Somalia: Central Government Operations, 1980-83

(In millions of Somali shillings)

	1980	1981	1982		1983	
	Actual	Actual	Revised program	Revised outturn	Program	Staff estimates
Total revenue and grants	1,884	2,360	4,130	3,679	4,825	4,392
Revenue	1,421	2,251	3,325	2,999	4,000	3,557
Tax	(1,192)	(2,002)	(...)	(...)	(...)	(...)
Nontax	(229)	(249)	(...)	(...)	(...)	(...)
Transfers from local authorities	--	12	--	17	--	10
Grants 1/	463	97	205	63	225	225
Oil grant	--	--	600	600	600	600
Total expenditure	3,072	3,382	5,100	4,980	5,800	5,258
Budgetary expenditure	1,832	3,081	3,765	3,666	4,350	4,158
Ordinary	(1,670)	(2,795)	(...)	(...)	(...)	(...)
Development	(162)	(286)	(...)	(...)	(...)	(...)
Other expenditure 2/	1,108	301	1,310	1,314	1,425	1,100
Transfers to local authorities	132	--	25	--	25	--
Overall deficit (-)	-1,188	-1,022	-970	-1,301	-975	-866
Financing	1,188	1,022	970	1,301	975	866
Foreign (net) 3/	504	681	1,105	1,431	1,200	1,141
Domestic	684	341	-135	-130	-225	-275
Banking system	(671)	(347)	(-135)	(-135)	(-225)	(-275)
Cash balances 4/	(13)	(-6)	(--)	(5)	(--)	(--)
Memorandum item						
Overall surplus/deficit (excluding loans in kind)	-802	-307	-210	158	-150	655
Overall deficit/total expenditure (in per cent)						
(i) Including loans in kind						
Including grants	38.7	30.2	19.0	26.1	16.8	16.5
Excluding grants	53.7	33.1	34.8	39.4	31.0	32.2
(ii) Excluding loans in kind						
Including grants	29.9	11.5	4.8	-4.5	3.0	-17.5
Excluding grants	47.1	15.1	23.4	14.3	19.6	4.5

Sources: Data provided by the Somali authorities; and staff estimates.

1/ Excluding grants in kind.
2/ Obtained as a residual; includes errors and omissions.
3/ Includes loans in kind.
4/ Includes net deposits, advances, and remittances.

Annex II

Statutory Checklist

3A(1) -COUNTRY CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Funds and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

A. GENERAL CRITERIA FOR COUNTRY

1. FAA Sec. 481; Second CR FY 83 Sec, 133. Has it been determined that the government of recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully? — No.

2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government? — No.

3. FAA Sec. 602(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control or property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligation toward such citizens or entities? — No.

4. FAA Sec. 620(f); FY 82 App. Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia, or Laos? — No.

1V

5.	FAA Sec. 602(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action of U.S. property?	No.
6.	FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID past year considered denying assistance to such government for this reason?	No.
7.	FAA Sec. 620(o): Fishermen's Protective Act, Sec. 5 If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters, a. has any deduction required by Fishermen's Protective Act been made? b. has complete denial of assistance been considered by AID Administrator?	Somalia has taken no such actions.
8.	FAA Sec. 620(q): FY 82 App. Act Sec. 517. (a) Is the recipient country in default for more than six months on interest or principal of any AID loan to that country? (b) Is country more than one year in default on interest or principal on any U.S. loan made pursuant to program for which the appropriation bill appropriates funds?	(a) No. (b) No.
9.	FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? Has the Administrator taken into consideration the amount of foreign exchange or other resources which the country has spent on military equipment?	Somalia spent of its recurrent expenditures on defense in 1982. Little is known about the amount of foreign exchange spent on military equipment.

73

10.	<u>FAA Sec. 620(t)</u>. Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	No.
11.	<u>FAA Sec. 620(u)</u>. What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget?	Current
12.	<u>FAA Sec. 620A; FY 82 App. Act Sec. 520</u>. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism? Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?	No.
13.	<u>FAA Sec. 669, 670</u>. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or techology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977?	No.
14.	<u>ISDCA of 1981, Sec. 720</u>. Was the country represented at the meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account?	The position of the GDSR on this matter

74

B. FUNDING CRITERIA FOR COUNTRY

1. Economic Support Fund Assistance Country Criteria.

a. FAA Sec. 502B. Has the Department of State made findings which indicate that the country has engaged in a consistent pattern of gross violations of international recognized human rights? If so, is program in accordance with policy of this Section? — No.

b. FAA Sec. 531. Is the Assistance to be furnished to a friendly country, organization, or body eligible to receive assistance? — Yes.

c. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? — Yes.

2. Development Assistance Country Criteria

a. FAA Sec. 102(c), (d). Have criteria been established, and taken into account, to assess commitment and progress of country in effectively involving the poor in development, on such indexes as: (1) small-farm labor intensive agriculture, (2) reduced infant mortality, (3) population growth, (4) equality of income distribution, and (5) unemployment. — Yes.

b. FAA Sec. 116. Can it be demonstrated that contemplated assistance will directly benefit the needy? If not, has the Department of State made findings which indicate that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? — Yes.

75

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

The criteria listed in Part A are applicable generally to FAA funds, and should be used irrespective of the program's funding source. In Part B a distinction is made between the criteria applicable to Economic Support Funds and the criteria applicable to Development Assistance. Selection of the appropriate criteria will depend on the funding source for the program.

CROSS-REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? IDENTIFY.
HAS STANDARD ITEM CHECKLIST BEEN REVIEWED?

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 82 Approp. Act Sec. 523, FAA Sec. 634A, Sec. 653(b); Second CR FY 83, Sec. 101(b)(1).

a. Describe how Committees on Appropriations of Senate and House have been or will be notified concerning the non-project assistance;	This program included in the FY 83 CP at page
b. Is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that amount)?	Yes.
c. If the proposed assistance is to a new country program or will exceed or cause the total assistance level for the country to exceed amounts provided to such country in FY 82, has notification been provided to Congress?	N/A
d. If proposed assistance is from the $85 million in ESF funds transferred to A.I.D. under the second CR for FY 83, for "economic development assistance projects", has the notification required by Sec. 101(b)(1) of the Second CR for FY 83 been made?	N/A

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient counry, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?	No legislation is required.

76

3. FAA Sec. 209, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral plans to the maximum extent appropriate?

The assistance cannot be more effeciently and effectively provided through international organizations.

4. FAA Sec. 601(a); (and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade;(b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce, and (f) strengthen free labor unions.

Yes to all sections

5. FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

The commodities financed will contribute to a revitalization of the Somali economy. This, plus the purchase of U.S commodities as a requirement of the program should lead to further trade with the U.S.

6. FAA Sec. 612(b), Sec. 636(h); FY 82. Approp. Act Sec. 507. Described steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services in lieu of dollars.

Local currencies generated by this program will be used to finance development activities in the Somalia.

7.	FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?	No.
8.	Faa Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	Yes.
9.	FY 82 Approp. Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative and is such assistance likely to cause substantial injury to U.S. producers of the same or similar competing commodity?	The assistance is for the agricutural export production and the necessary waivers have been inclued in the PAAD
10.	FAA 118(c) and (d). Does the program comply with the environmental procedures set forth in AID Regulation 16? Does the program take into consideration the problem of the destruction of tropical rain forests?	Pursuant to AID Reg 16 the program was determined to be categorically excluded from detailed environmental analysis. This determination was approved by the Bureau Environmental Officer (STATE).

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Funds.

a. FAA Sec. 531(a). Will this assistance support promote economic or political stability? To the extent possible, does it reflect the policy directions of FAA Section 102?	Yes.
b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?	No.

19

c. FAA Sec. 534. Will ESF funds be used to finance the construction or the operation of maintanance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives?

No.

d. Second CR FY 83, Sec. 101(b)(1). If ESF funds to be utilized are part of the $85 million transferred to A.I.D. under the Second CR for FY 83 for "economic development assistance projects", will such funds be used for such projects and not for non-development activities including balance of payments support, commodity imports, sector loans, and program loans?

N/A

2. Nonproject Criteria for Development Assistance.

a. FAA Secs. 102(c), 111, 113, Sec. 281(a). Extent to which activity will (1) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production, spreading investment out from cities to small towns and rural areas; and (2) help develop cooperatives, assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local government institutions?

This program will help Somalis at all levels participate more fully in the country's development by providing foreign to purchase critically needed imports.

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: [include only applicable paragraph -- e.g, a, b, etc. -- which corresponds to sources of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source].

N/A

19

(1) [103] for agriculture, rural development or nutrition; if so, extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, is full account taken of needs of small farmers; N/A

(2) [104] for population planning or health; if so, extent to which activity extends low-cost, integrated delivery systems to provide health and family planning services, especially to rural areas and poor; extent to which assistance gives attention to interrelationship between (A) population growth and (B) development and overall improvement in living standards in developing countries. N/A Is activity designed to build motivation for small families in programs such as education in and out of school, agriculture production, rural development, and assistance to urban poor? N/A

(3) [105] for education, public administration, or human resources development; if so, extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development; N/A

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:

(a) to help alleviate energy problem;

(b) reconstruction after natural or manmade disaster;

(c) for special development problem, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance; N/A

(d) for programs of urban development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

(5) [107] by grants for coordinated private effort to develop and disseminate intermediate technologies appropriate for developing countries.

c. FAA Sec. 113. Extent to which assistance reflects appropriate emphasis on integrating women into the recipient country's national economy. N/A

d. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth? N/A

e. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government. N/A

3. <u>Nonproject Criteria for Development Assistance (Loans only).</u>

a. <u>FAA Sec. 122(b).</u> Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest. N/A

b. <u>FAA Sec. 620(d).</u> If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan? N/A

c. <u>Second CR FY 83, Sec. 134.</u> If the recipient country has an annual per capita gross national product greater than $795 but less than $1285, will the loan be repayable within 25 years following the date on which funds are initially made available? If it has an annual per capita GNP greater than or equal to $1285 within 20 years? N/A

3A(3) .- STANDARD ITEM CHECKLIST

Listed below are statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by exclusion (as where certain users of funds are permitted, but other uses not).

These items are arranged under the general headings of (A) Procurement and (B) Other Restrictions.

A. PROCUREMENT

1.	FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of goods and services financed?	This procurement is suitable for small business participation. AID Regulation 1 will apply.
2.	FAA Sec. 604(a). Will all commodity procurement financed be from the United States except as otherwise determined by the President or under delegation from him?	Yes, including code 941 countries.
3.	FAA Sec. 604(b). Will all commodities in bulk be purchased at prices no higher than the market price prevailing in the United States at time of purchase?	Yes, AID Regulation 1 will apply.
4.	FAA Sec. 604(c). Will all agricultural commodities available for disposition under the Agricultural Trade Development & Assistance Act of 1954, as amended, be procured in the United States unless they are not available in the United States in sufficient quantities to supply emergency requirements of recipients?	N/A
5.	FAA Sec. 604(d). If the cooperating country discriminates against U.S marine insurance companies, will agreement require that marine insurance be placed in the United States on commodities financed?	Yes.

6. FAA Sec. 604(e) ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? — N/A

7. FAA Sec. 604(f). Are there arrangements whereby a supplier will not receive payment under the commodity import program unless he/she has certified to such information as the Agency by regulation has prescribed? — Yes.

8. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items? — Yes.

9. MMA Sec. 901(b). Sec. 603, FAA. (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates. — Yes.

10. International Air Transport and Fair Competitive Practices Act, 1974.

    If air transportation of persons or property is financed on grant basis, will provision be made that U.S.-flag carriers will be utilized to the extent such service is available? — Yes.

11. FY 82 Approp. Act, Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

    The U.S. Government will not be a party to augment procurement contract under this program.

12. FAA Sec. 621. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

    This project will not finance technical assistance.

B. OTHER RESTRICTIONS

1. FAA Sec. 620(h). Do arrangements preclude promoting or assisting the foreign aid projects or activities of communist-bloc countries contrary to the best interests of the United States?

   Yes.

2. FAA Sec. 636(i). Is financing prohibited from use, without waiver, for purchase, long-term lease, exchange, or guaranty of sale of motor vehicle manufactured outside the United States?

   Yes.

3. FAA SEc. 122(b). If development loan funds, is interest rate at least 2% per annum during grace period and at least 3% per annum thereafter?

   N/A

4. Will arrangements preclude use of financing:

   a. FAA Sec. 114, 104(f), FY 82 Approp Act Sec. 525. to pay for performance of abortions or involuntary sterilization or to motivate or coerce persons

45

to practice abortions? to pay for performance of involuntary sterilizations as method of family planning or to coerce or provide any financial incentive to any person to practice sterilizations? or to lobby for abortions? — Yes.

b. FAA Sec. 620(g). to compensate owners for expropriated nationalized property? — Yes.

c. FAA Sec. 660. to finance police training or other law enfocement assistance, except for narcotics programs? — Yes.

d. FAA Sec. 662. for CIA activities? — Yes.

e. FY 82 Approp. Act. Sec. 503. to pay pensions, etc., for military personnel? — Yes.

f. FY 82 Approp. Act. Sec. 506. to pay U.N. assessments? — Yes.

g. App. Sec. 107. to carry out provisions of FAA Sections 209(d) and 251(h)? (transfer to multilateral organization for lending). — Yes.

h. FY 82 Approp. Act, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? — Yes.

i. FY 82 Approp. Act Sec. 511. To aid the efforts of the government to express the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? — Yes.

k. FY 82 Approp. Act. Sec. 515. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? — Yes.

86

RECEIVED
7/10/83

Jamhuuriyadda Dimoqraadiga Soomaaliya
WASAARADDA QORSHEYNTA QARANKA
MUQDISHO (Somalia)

«0»

10 ... 1983

Somali Democratic Republic
Ministry of National Planning
P. O. Box 1742
MOGADISHO (Somalia)
Telex 715 SPC MOGA

MINISTRY/ الوزير
WASIIRKA

جمهورية الصومال الديمقراطية
وزارة التخطيط الوطني
ص. ب. ١٧٤٢
مقديشو — صوماليا
تلكس ٧١٥

Tix/Ref : BLA/82/ [illegible] /83

Ujeeddo/Subject : Request for Assistance under C I P

Dear Mr. Kelly,

I wish to inform you that this country is still facing some financial difficulties. The availability of foreign exchange for imports is still a bottleneck for the recovery programme.

The twenty million dollar assistance we received from the US Government under the Commodity Import Programme has enabled us obtain from the US essential capital goods and spare parts for developmental activities undertaken by both the public and private sectors. Such assistance is still required for our development programme in agriculture, industry and similar activities carried out by the private sector.

Therefore, the Government of the Somali Democratic Republic would highly appreciate, if you would kindly convey our request for assistance of US$ 30 million under the CIP to your Government and obtain their approval.

Yours Sincerely,

(Brig. General Ahmed Suleiman Abdalla)
Minister

Mr. Jim Kelly
Director
U S A I D , Mogdisho

cc: Minister of Finance , Mogdisho
: Minister of Foreign Affairs, Mogdisho

TELEPHONE: N. 80334/7 — 80634 تليفون : ٨٠٣٣٤/٧ — ٨٠٦٣٤

87

Annex IV

INITIAL ENVIRONMENTAL EXAMINATION

Project Country:	Somalia
Project Title:	Commodity Import Grant
Funding:	21 Million Dollars
Period of Funding	FY 83
IEE Prepared by:	Dirk Dijkerman, REDSO/ESA
Environmental Action Recommended:	Categorical Exclusion under Regulation 216.2 (c) (2) (IX).

Concurrence:

Date:

Bureau Environmental Officer's Decision:

Approved:

Disapproved:

Date:

Clearance: GC/AFR

Examination of Nature, Scope & Magnitude of Envireonmental Impact

I. Description of the Project

The project proposes to provide a commodity import grant of US$21 million to the Government of the Somali Democratic Republic (GSDR) from Economic Support Funds on standard A.I.D. terms. The primary purpose of the grant is to provide balance of payments assistance by financing raw materials, spare parts, fertilizer, and capital equipment required by the agriculture/livestock sector.

Commodities will be selected from the list of eligible commodities (Handbook 15, App.B). No pesticides will be be imported under the proposed project and the Mission will inform GSDR of any potentially hazardous materials or uses once these become known.

II Recommended Environment Action

In accordance with A.I.D. Regulation 16 Section 216.2 (c) (IX) assistance under a Commodity Import Program is eligible for categorical exclusion from environmental procedures when, "prior to approval, A.I.D. does not have knowledge of the specific commodities to be financed and when the objective in furnishing such assistance required neither knowledge, at the time the assitance is authorized, nor control, during implementation, of the commodities or their use in hose country."

As the subject assistance fulfills both the qualifications cited above it should be granted a categorical exclusion and be exempt form any further environmental procedures.

ANNEX V

ILLUSTRATIVE LIST OF COMMODITIES TO BE FINANCED

PUBLIC SECTOR PROCUREMENT	Value $ Million
A. Agriculture Sector	
Spare parts for on-hand vehicles and heavy equipment	0.8
B. Agro-Industrial Sector	
Spare parts for on-hand equipment for the sugar industries	1.5
C. Industrial Sector	
Raw Materials	1.0
PRIVATE SECTOR PROCUREMENT	
Machinery for making paints	0.1
Machinery fof making Metal Cans	0.1
Machinery for making pasta	0.9
Machinery for making plastic bags	0.5
Machinery for processing citrus juices	0.5
Bakery equipment	0.7
Machinery for processing edible oils	0.5
Machinery for sanitary products	0.5
Agriculture tractors Implements	1.5
Vegetables seeds	0.4
Water pumps and pipes	0.4
Tractor Crawlers	1.5
Machinery for feed	0.3
Animal drugs	2.5
Cement	1.0

Raw Materials	Value $ Million
Steel rebar	0.3
Lumber	0.2
Spare parts for on-hand vehicles (source/origin: Japan, U.K., Italy)	0.8
Duram Wheat Cocount oil Palm oil Soap pigments and other materials for making of adhesives, vinyl glue emulsion and gloss paint	2.5
Utility Vehicles/Spares	0.5

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SOMALIA
SUMMARY STRATEGY

GOALS	OBJECTIVES	CONSTRAINTS	PROJECTS	USAID STRATEGY NON-PROJECT	STUDIES
STABILIZATION -1-5 YEARS -1981-1985	IMPROVED BAL OF PAYMENTS	LOW REMITTANCES			MIGRATION
		FRAGILE EXPORT BASE			EXPORT PROMOTION
		UNCONTROLLED IMPORTS		CIP PL-480 TITLE I	
		HIGH ENERGY COSTS	ENERGY ADVISOR		
	REDUCE PUBLIC DEFICIT	HIGH GOV'T PAYROLL COSTS		COUNTERPART	
		UNRESTRICTED SPENDING		CG DIALOGUE	
		INEFFICIENT PUBLIC ENTERPRISE		CG DIALOGUE	DIVESTITURE STUDY
		MILITARY SPENDING			
STRUCTURAL ADJUSTMENT -10 YEARS 1981-1991	GNP GROWTH RATE OF 6.0 % BY 19[illegible]	STYMIED PRIVATE SECTOR	EXPORT PROMOTION	CIP	EXPORT PROMOTION
		LACK OF FOREIGN CAPITAL		SUPPORT FOR IMF CIP	MIGRATION EXTERNAL EMPLOY.
		HIGH POP. GROWTH	FAMILY PLANNING	CENTRAL COMMODITY	
	5% PER ANNUM INCREASE IN FOOD PRODUCTION BY 1989	TECHNOLOGY GAPS	AG DELIVERY 0113 BAY REGION 0112 PROD. PLAN & RESCH IRRIG. REHAB &DEV	CG DIALOGUE	AG. RESEARCH STRATEGY (ISNAR)
		PRICE POLICY		CG DIALOGUE	DIVESTITURE STUDY
		LABOR AVAIL.	PROD. PLAN & RESCH		INTERNAL LABOR
		INPUT COSTS		CIP	
		DROUGHT VULNERABILITY	IRRIG. REHAB & DEV		SHABELLI VALLEY JUBA VALLEY
	INCREASE AGRIC. EXPORTS	THREAT TO MARKETS	EXPORT MARKETING		EXPORT POTENTIAL
		DROUGHT VULNERABILITY	CENTRAL RANGE BAY REGION COMP. GRND. WATER		

continued..

SOMALIA
SUMMARY STRATEGY

GOALS	OBJECTIVES	CONSTRAINTS	PROJECTS	USAID STRATEGY NON-PROJECT	STUDIES
IMPROVED QUALITY OF LIFE 1981-1991	INCREASE INCOMES BY 2.5% PER ANNUM	SEE STABILIZATION SEE STRUCT ADJ.	SEE STABILIZATION SEE STRUCT ADJ.	SEE STABILIZATION SEE STRUCT ADJ.	SEE STABILIZATION SEE STRUCT ADJ.
	RAISE LIFE EXPECT TO YEARS [1]	CURATIVE ORIENT.	BASIC RURAL HEALTH REGIONAL PROJECTS		
		LACK OF RURAL FACIL	BASIC RURAL HEALTH		
		LACK OF DRUGS		DIALOGUE	PRIVATE SECTOR
	DECREASE CHILD MORT. TO /1000 [1]	ENDEMIC DISEASES	EPI BASIC RURAL HEALTH		
		LACK OF KNOWLEDGE	BASIC RURAL HEALTH		
		HIGH POP GROWTH	FAMILY PLANNING	DIALOGUE	
		LACK OF DRUGS		DIALOGUE	PRIVATE SECTOR
	DECREASE FERTILITY BY 7%	LACK OF KNOWLEDGE	FAMILY PLANNING		DEMOGRAPHIC & PREVELANCE STUDY
		LACK OF POLICY		DIALOGUE	
		LACK OF CONTRACEP.	REGIONAL FAMILY PLANNING		PRIVATE SECTOR
	IMPROVE MANPOWER CAPABILITY	LACK OF TRAINING	RURAL DEV. MGMT. AMDP ALL PROJECTS		HRD ASSESSMENT
IMPROVE GOVERNMENT INSTITUTIONS	DEVELOP ESSENTIAL GOV'T CAPACITY FOR PLANNING & IMPL.	LACK OF INCENTIVES		COUNTERPART	
		LACK OF TRAINING	RURAL DEV. MGMT. ALL PROJECTS		HRD ASSESSMENT
		LACK OF DATA	STUDIES PROGRAM		ALL ABOVE

1. TARGETS TO BE DEFINED BASED ON CURRENT STUDY UNDER FAMILY HEALTH INITIATIVES PROJECT.

ANNEX IX

Exhibits	Title
1.	IMF Evaluation of GSDR Performance on 1981-82 GSDR/IMF Financial Programs.
2.	Example of the Format for Disbursing Local Currency from the Special Account.
3.	Activity Plan for the Use of Local Currency generated by Grant No. 649-K-602 (FY82 CIP).
4.	Price Comparison of Commodities Supplied by CIP Sources and Traditional Sources.
5.	Comparsion of Orgins of CIP Commodities and Value Traditionally Imported from Those Countries
6.	CIP Geographic Code Comparison as of April 25, 1983
7.	Present Commodity Allocation of the FY82 CIP.

ANNEX IX

EXHIBIT 1

IMF EVALUATION OF GSDR PERFORMANCE ON 1981-1982 GSDR/IMF FINANCIAL PROGRAMS

Program	Current Status of Implementation
1. Fiscal measures	
(a). Reduce budgetary deficit, including loans in kind, to 28 percent of expenditure in 1981 and 19 percent of expenditure in 1982. Excluding loans in kind, reduce the deficit to 19 per cent in 1981 and 5 percent in 1982.	Budgetary deficit, including loans in kind, reduced to 30 percent of and 26 percent in 1982. Budgetary deficit, excluding loans in kind, reduced to 12 percent in 1981 and a budgetary surplus of 5 percent of expenditure in 1982.
(b) Limit expansion in net domestic credit to the Government to 18 percent in 1981 and reduce net credit to Government by 6 percent in 1982.	Implemented in 1981 and 1982.
(c) Improve collection rates by enact.-ment of more stringent penalties for tax evasion and failure to file a return. Eliminate the concordato procedure. (Introduce a 25 percent ad valorem tax on livestock exports). Abolish the exemptions on import duties some public and private enterprises enjoy. Convert specific to ad valorem import and export duties. Levy import ad valorem taxes on the basis of letters of credit.	All enacted. The 25 percent ad valorem tax on livestock exports was levied on a price which was lower than the actual export price. Exemptions of import duties were limited to infant industries.
(d) Consider implementing long-term improvements in the tax system recommended 1980 IMF Tax Survey, i.e., simplification of import tax structure, rationalization of income tax structure for individuals, conversion of specific domestic excise taxes into ad valorem taxes, restructuring the tax system for public enterprises, and development of a domestic sales tax.	Preparations undertaken to introduce a general sales tax, convert in the specific excises to an ad valorem basis, and restructure the tax system of public enterprises.
(e) Grant no cost of living increase in the public sector in the second half of 1981 and in 1982.	Implemented. In 1982, however, the development levy on the wages of government employees was abolished.
(f) Limit the wage bill by limiting government hiring.	Implemented

95

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96

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1. Fiscal measures	
(a). Reduce budgetary deficit, including loans in kind, to 28 percent of expenditure in 1981 and 19 percent of expenditure in 1982. Excluding loans in kind, reduce the deficit to 19 per cent in 1981 and 5 percent in 1982.	Budgetary deficit, including loans in kind, reduced to 30 percent of and 26 percent in 1982. Budgetary deficit, excluding loans in kind, reduced to 12 percent in 1981 and a budgetary surplus of 5 percent of expenditure in 1982.
(b) Limit expansion in net domestic credit to the Government to 18 percent in 1981 and reduce net credit to Government by 6 percent in 1982.	Implemented in 1981 and 1982.
(c) Improve collection rates by enact.-ment of more stringent penalties for tax evasion and failure to file a return. Eliminate the concordato procedure. (Introduce a 25 percent ad valorem tax on livestock exports). Abolish the exemptions on import duties some public and private enterprises enjoy. Convert specific to ad valorem import and export duties. Levy import ad valorem taxes on the basis of letters of credit.	All enacted. The 25 percent ad valorem tax on livestock exports was levied on a price which was lower than the actual export price. Exemptions of import duties were limited to infant industries.
(d) Consider implementing long-term improvements in the tax system recommended 1980 IMF Tax Survey, i.e., simplification of import tax structure, rationalization of income tax structure for individuals, conversion of specific domestic excise taxes into ad valorem taxes, restructuring the tax system for public enterprises, and development of a domestic sales tax.	Preparations undertaken to introduce a general sales tax, convert in the specific excises to an ad valorem basis, and restructure the tax system of public enterprises.
(e) Grant no cost of living increase in the public sector in the second half of 1981 and in 1982.	Implemented. In 1982, however, the development levy on the wages of government employees was abolished.
(f) Limit the wage bill by limiting government hiring.	Implemented

97

ANNEX IX

EXHIBIT 2

Example of the Format for Disbursing Local Currency from the Special Account

His Excellency Abdullahi Ahmed Addow
Ministry of Finance
Ministry of Finance
Mogadishu

Dear Mr. Minister:

With respect to the Somali Development Bank request for the allocation of CIP-generated local currency, we are prepared to concur in a loan to SDB subject to your advice and agreement.

I recommend that we consider the transfer of 50.0 million Somali Shillings to the Somali Development Bank to establish a credit window for the private agricultural and agro-industrial sectors. Incooperation with the SDB staff, my staff has developed a set of criteria and conditions to be used for such loands. The criteria and conditions are as follows:

Suggested Criteria for SDB loans:

- The loans under this credit window will be used to finance agricultural inputs to farmers, and to finance equipment, raw materials, and spare parts to private agricultural industries.
- The loans will not be used to finance the importation of goods under USAID's Commodity Import Program.
- The interest rate charged by SDB for the loans under this credit window will not be less than the GSDR-established interest rates for agricultural sector and non-agricultural sector financing.
- The SDB loan will finance not more than 75% of the total activity cost.
- In order to focus on small and medium entrepreneurs, a ceiling of Somali Shillings 4 million per loan will be established. Only one loan at a time will be made to any individual, business, or project.
- The period of the loan will vary depending on specific purpose of the loan, but it will not exceed 60 months.
- Only Somali citizens will qualify for loans under this credit window.
- Individuals employed by the Government of Somalia will not qualify for loans under this credit window.

98

Conditions of the transfer:

- Fifty million Somali shillings will be loaned to the SDB from the special CIP account.
- The interest rate charged by the MOF should not exceed 5%.
- The SDB will submit to the MOF and USAID quarterly reports on loan implementation.
- SDB will repay the loan to MOF seven years following the transfer date.

Should you concur with these criteria, Mr. Minister, I would be pleased to discuss with you the next appropriate steps.

Yours Sincerely,

Jim Kelly
Mission Director
USAID/Mogadishu

Clearance: G. Nelson, D/DIR

Drafted by: PROG: A. Martinez:dja:5/4/83.

ANNEX IX
EXHIBIT 3

ACTIVITY PLAN*
FOR THE USE OF LOCAL CURRENCY
GENERATED BY GRANT NUMBER 649-K-602 (FY82 CIP)

I. Activities to be Financed

During the next twenty-four months the Government of the Somali [illegible]cratic Republic anticipates that the local currency gener[illegible] the AID financed Commodity Import Program will be used [illegible] following Ministries and Agencies for the following types [illegible] activities. All activities will be completed within twenty-four months.

Entity	Amount (Somalia Shs. millions)
A. Ministry of Agriculture -	
Irrigation rehabilitation, reservoir construction, flood control and agricultural education.	25.0
B. Ministry of Livestock, Forestry and Range -	
Animal health initiatives, range and forestry education, fodder improvement/ production and livestock marketing.	40.0
C. Ministry of Health -	
Preventive medicine and rural health delivery.	20.0
D. Water Development Agency -	
Development of water supplies for human and animal consumption.	30.0
E. Settlement Development Agency -	
Construction of housing, schools, clinics, water supply and roads and support for agricultural developoment.	20.0

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*developed August - September 1982 by Ministry of Finance and USAID/Somalia.

100

F. Ministry of Marine Transport and Ports -

Local costs associated with Kismayo port rehabilitation.	30.0

G. Ministry of Public Works -

Road rehabilitation and maintenance.	20.0

H. Somali Development Bank -

Loans to private enterpreneurs.	28.0

I. CIPL -
(See policy and procedures below)

Office expenses.	1.5

J. USAID -

U.S. local currency costs.	11.3
Grand Total	225.8

II. General Procedures for Programming Generated Proceeds Under the CIP and PL 480 Title I Agreement.

The purpose of these procedures is to guide all concerned parties in the use of local currency generated under the Commodity Import Program (CIP) and the PL 480 Title I Program.

B. Policy:

The funds derived from the issuance of Letters of Credit under the CIP program and the sale of food commodities under the Title I program will be used to finance activities which contribute to Somalia's development. The determination as to which specific activities qualify for financing under these provisions will be a joint GSDR - USAID determination.

The bulk of the generated local currency proceeds will be used to finance activities designed to increase agricultural, health, manpower and private sector developmental objectives. Some proceeds will also be used in support of special endeavors (e.g., family planning, development of alternative forms of anergy, etc.) which fall within the program parameters spelled out in the USAID CDSS* strategy.

C. Procedures and Responsibilities:

1. Collection of Proceeds:

The Ministry of Finance (i.e., CIP Special Committee of the Ministry of Finance) will be responsible for

*Country Development Strategy Statement is an annual program plan submitted by USAID/Somalia to AID/W.

101

insuring that required local currency amounts are deposited in the special GSP** account by private and public sector agents prior to the issuance of letters of credit in connection with the importing of CIP commodities and material. The Ministry of Finance (i.e., the Director General's Office) will be also responsible for insuring that required local currency amounts are deposited in the special GSP** account by those entities entrusted by the government with the local sales of Title I food commodities.

2. Programming Proceeds:

Two special entities will be established to insure that generated proceeds are programmed in conformity with the policy stated in B above. The first, the GSP Committee, will provide general oversight direction and guidance in the enactment of the policy guidelines. The second, the CIPL Unit***, will function as the day-to-day guarantor that policy objectives are being met.

D. The GSP Committee:

The GSP Committee serves as the reviewing authority for use of proceeds generated under the commodity import and the Title I programs. The Committee weill consist of two officials of the Government of Somalia and two officials from the USAID Mission. The Committee will prepare its recommendations for the joint approval of the Minisster of Finance and the USAID Director. Normally the Committee will meet twice a year: once at the beginning of the program year to review the annual program budget plan presented by the CIPL Unit; and once at mid-year to review the special adjusted schedule which will be drawn up by the CIPL Unit to reflect previous approvals which should be de-obligated and new urgent requirements which should be considered. The Committee will also meet on an adhoc basis as required.

Before recommending approval to the Minister of Finance and the USAID Director, the Committee will make certain that requested funds will:

- Directly contribute to the development of Somalia;

- Support GSDR and USAID development priorities as spelled out in the Government's Five Year Plan and USAID's CDSS Strategy;

** The acronym is derived from Generated Shillings Proceeds.

*** The Unit's acronym is derived from the first two letters of the Commodity Import and PL 480 Programs.

- Be programmed in accord with stipulations laid out in the governing PL 480 and CIP agreements; and

- Not duplicate requests already budgeted for under other agreements.

E. The CIPL Unit:

The CIPL Unit is the special office in the Ministry of Finance which serves as the staff arm of the Generated Proceeds Committee (GSP). The CIPL Unit has three principal functions:

- To prepare annual program plans and accompanying budgets which spell out areas and activities in which CIP and PL 480 proceeds will be utilized;

- To monitor the expenditure of generated proceeds by carrying out, on a selective basis, field inspections and audits of activities receiving GSP Committee authorized funds; and,

- To perform formative and terminal evaluations of GSP activities to determine what impact they have had and what lessons should be drawn for use in drafting the annual CIPL Program Plan. The CIPL Unut will have a three person staff: a budget planner; an implementation monitor officer and an evalution officer. In its day-to-day functioning, the Unit will come under the direct supervision of the Director General of the Ministry of Finance. For policy guidance and activity approvals the CIPL Unit will report to the GSP Committee.

In addition to the annual program plan, the CIPL Unit will prepare special monitoring reports for each activity approved during the program year as well as a minimum of four activity evaluation reports each year.

F. Allocation of Funds to Project/Activity Account:

1. Following submission of the GSP Committe's written recommendations to the Minister of Finance and the USAID Director, and if approved byt these principals, the Ministry of Finance will release the approved amount of funds to each project's numbered account.

2. Receiving agencies will be required to obtain approval of the GSP Committee for any changes, above 15 percent, made between approved budgetary line items.

G. Audit of Activities:

A semi-annual audit of all CIPL Unit functions will be carried out by an independent audit firm selected by the

Minister of Finance and the USAID Director. This audit will not confine itself to fiscal and budget entries but cover the programming functions of the CIPL Unit including field activity monitoring and evaluation. The audit will be prepared in four copies and circulated to the Minister of Finance, the USAID Director, the GSP Committee and the CIPL Unit.

III. Specific Procedures for Programming Generated Proceeds Under the CIP

Under the General Procedures outlined above, a Generated Shilling Proceeds (GSP) Committee will be established to review specific project proposals falling within the categories outlined in Section I. It will consist of two officials of the Government of Somalia and two officials from the USAID Mission. The Committee will prepare funding recommendations for the joint approval of the Minister of finance and the USAID Director.

A CIPL Unit will be established within the Ministry of Finance to serve as the staff arm of the GSP Committee. This Unit will have three principal functions:

--To prepare annual program plans and budgets for review by the Committee and to prepare quarterly deposit and withdrawal reports;

--To monitor expenditures of generated proceeds and prepare monitoring reports which include: (a) project name; (b) funding level; (c) percentage of completion; (d) quarterly project expenditures; (e) cumulative project expenditures. Unless otherwise directed by the GSP Committee, such reports will be prepared quarterly; and

--To perform formative and terminal evaluations of funded activities to determine what impact they have had and what lessons can be drawn for use in drafting future programs. At least two such evaluations will be performed each year.

ANNEX IX
EXHIBIT 4

PRICE COMPARISON OF COMMODITIES SUPPLIED BY CIP AND BY TRADITIONAL SOURCES

Commodity	(1) Traditional Source	(2) CIP Source	(3) Traditional Source Price C & F 1/	(4) CIP Source Price C.I.F. 1/	(5) Difference (3) - (4)	(6) Percentage Saved (5) (3) x 10
			---------in U.S. $		--------	--%--
Per Unit Comparison (Unit)						
Vegetable seeds (kg)	Kenya	USA	41	31	10	24
Agricultural traders (1)	Italy	Brazil	17,000	13,000	4,000	24
Portable water pums (1)	Italy	USA	140	100	40	29
Vehicle batteries (one)	Italy	Korea	75	28	47	63
Lumber (m^3)	Italy	Chile	220	150	70	32
Truck tires (one) 2/	Italy	Korea	155	102	53	34
Portaland Cement (MT)	Kenya	Korea	76	63	13	17
Total CIP Comparison (number of Units)						
Vegetable seeds	(1,400 kgs.)		57,400	43,300	14,000	
Agricultural tractors	(30)		510,000	390,000	120,000	
Portable water pumps	(100)		14,000	10,000	4,000	
Vehicle batteries	(12,000)		900,000	336,000	564,000	
Lumber	(3,000 M^3)		660,000	450,000	210,000	
Truck tires	(37,200)		5,766,000	3,800,000	2,604,000	
Portland Cement	(32,600mt)		2,478,000	2,054,000	424,000	
Total of Sample			10,385,000	7,474,000	2,911,000	16%

NB: Sample value as percent of CIP total committed as of May 1983: 83%.

1/ Traditional source price taken from rejected proforma, while CIP price taken from accepted proforma. Also note that CIP price is CIP not only C&F.

2/ Korea price also includes tubes, while Italy quote does not. Tubes can cost $12-15$ per unit.

Source: USAID/Somalia/SMO records, May 1983.

REDSO/ESA, DDijkerman, May 24, 1983.

ANNEX IX
EXHIBIT 5

Comparison of Origin of CIP Commodities and Value Traditionally Importers from those Origins

Country	1979-81 average	Imports Financed by FY 82 CIP
	---------------US$ 000-------------	
Korea	300	7,610
India	15,333	243
Kenya	7,853	220
Pakistan	7,637	703
Brazil	0	466
Chile	0	450

Source: IMF, "Direction of Trade Statistics Yearbook, 1982"; LaBombard - Kelly memo of April 25, 1983; and USAID/Somalia SMO files.

106

ANNEX IX
EXHIBIT 6

CIP Geographic Code Comparison as of April 25, 1983

Geographic Code	Number of Letters of Credit	Total Value (US$ 000)	Percent of total value Committed
000	15	2,426.5	20%
935	42	9,875.3	80%
941	25	9,241.9	75%

Source: calculated from LaBombard to Kelly memo of April 25, 1983.

107

Annex IX
Exhibit 7
Present Commodity Allocation of FY82 CIP

Items	Amount	Status
Spare parts for heavy Equip., vehicles, and machinery	2.0 million	Purchased
Water pumps	0.35	Purchased
Tractors	0.37	Purchased
Tractor implements	0.1	Purchased
Tires/Tubes	3.8	Purchased
Well Drilling Bits	0.2	Purchased
Veg. seeds	0.05	Purchased
Cement	2.8	Purchased
Vehicle batteries	0.9	Purchased
10km steem rails & Eccess.	0.7	Purchased
Utility Vehicles	0.5	Purchased
Raw materials for Manufac.	0.35	Purchased
Gabions	0.04	Purchased
Knapsak sprayers	0.06	Purchased
Machinery for oxygen gas	0.3	Purchased
Heavy equipment	2.4	in progress
Sugar plant spares	1.0	in progress
Telecommunication spare parts	0.59	in progress
Heavy equipment tires	0.04	in progress
Steel bars, plates, etc.	0.1	in progress
Lumber and various other items	1.85	in progress
Total	18.5 Million	