

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number 1

DOCUMENT CODE 3

PD-AAU-177

COUNTRY/ENTITY
 SOMALIA

3. PROJECT NUMBER
 649-0132

4. BUREAU/OFFICE

5. PROJECT TITLE (maximum 40 characters)
 Policy Initiatives & Privatization

AFR

06

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
 09 30 90

7. ESTIMATED DATE OF OBLIGATION
 (Under "B" below, enter 1, 2, 3, or 4)

A. Initial FY 83 B. Quarter 4 C. Final FY 89

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY 83			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AD Appropriated Total	600		600	7,000		7,000
(Grant)	(600)		(600)	(7,000)		(7,000)
(Loan)						
Other 1.						
U.S. 2.						
Host Country		200	200		3,036	3,036
Other Donor(s)						
TOTALS		200	800	7,000	3,036	10,036

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESF	994 B	970		2,500		4,500		7,000	
(2)									
(3)									
(4)									
TOTALS				2,500		4,500		7,000	

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

953 955 958 963 965 968

11. SECONDARY PURPOSE CODE
 992

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code RGEN

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To improve the Somali economic climate by: (1) Supporting the development and implementation of improved economic policies, (2) Identifying and testing ways and means of promoting private sector participation in the economy, (3) Improving the Government's budgeting and revenue collection systems.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
 02 89 05 90

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 901 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

- (a) Amend Project Purpose and PACD
- (b) Add Funds

I concur in the methods of implementation and the financial arrangements under this project amendment.

Michael R. Bradley, Controller

17. APPROVED BY

Signature
 Louis A. Cohen

Title
 Director, USAID/Somalia

Date Signed
 MM DD YY
 08 25 86

18. DATE DOCUMENT RECEIVED IN AID/W. OR FOR AID/W. DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

GLOSSARY

CDSS	-	Country Development Strategy Statement
CIP	-	Commodity Import Program
DDD GSDR	-	Domestic Development Department, Ministry of Finance,
ECPR	-	Executive Committee Project Review, AID/Washington
EEC	-	European Economic Commission
ESF	-	Economic Support Fund, U.S. Foreign Assistance Act
FAA	-	Foreign Assistance Act, U.S.A.
FSN	-	Foreign Service National
FSU	-	Field Support Unit
F/X	-	Foreign Exchange
FY	-	Fiscal Year
GDP	-	Gross Domestic Product
GSDR	-	Government of the Somali Democratic Republic
GTZ	-	German Agency for Technical Cooperation, Federal Republic of Germany
IBRD	-	International Bank for Reconstruction and Development (World Bank)
IESC	-	International Executive Service Corps
IFC	-	International Finance Corporation, World Bank
IQC	-	Indefinite Quantity Contract
IMF	-	International Monetary Fund
ISTI	-	International Science and Technology Institute, Inc.
L/C	-	Local Currency
L/COMM	-	Letter of Commitment
LOP	-	Life of Project
L/T	-	Long-term

MOIC - Ministry of Industry and Commerce, GSDR

MOF - Ministry of Finance, GSDR

MONP - Ministry of National Planning, GSDR

MOR - Ministry of Revenue, GSDR

PACD - Project Assistance Completion Date

PIO/C - Project Implementation Order/Commodities

PIO/P - Project Implementation Order/Participants

PIO/T - Project Implementation Order/Technical Services

PIP - Policy Initiatives and Privatization Project (649-0132)

PL-480 - U.S. Public Law 480, The Agricultural Trade, Development and Assistance Act

P/M - Person-Month

PROAG - Project Agreement

PSA - Procurement Services Agent

PSBMS - Private Sector Banking Management Specialist

PSC - Personal Service Contractor/Contract

P/Y - Person-Year

REDSO/
ESA - Regional Economic Development Services Office/East and Southern Africa, AID

RHUDO - Regional Housing and Urban Development Office, AID

RIG/A/W - Regional Inspector General/Audit/Washington

SCC - Somali Chamber of Commerce

SDA - Selected Development Activities Fund, U.S. Foreign Assistance Act

So.Sh. - Somali Shillings

S/T - Short-Term

TA - Technical Assistance

TIPCO - The Information Processing Company, Inc.

SOMALIA

Policy Initiatives and Privatization (PIP)

Project Supplement

(649-0132)

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ACTION MEMORANDUM FOR THE MISSION DIRECTOR

DATE: August 24, 1986

FROM: W. Darkins, PROJ 

SUBJ: Amendment to the Authorization of the Policy Initiatives
and Privatization Project (649-0132)

Issue:

Your approval is required to execute a grant of \$1.0 million from FAA Section 531 (Economic Support Funds) for the Policy Initiatives and Privatization Project (649-0132) and to approve a life-of-project funding of \$7.0 million. Subject to the availability of funds in accordance with the AID OYB/allotment process, it is expected future years funds will come from FAA Section 106.

Background:

The Policy Initiatives and Privatization (PIP) Project was initially obligated on September 29, 1983. At that time, AID obligated \$2.5 million as a grant from FAA Section 531 (Economic Support Funds). The original PACD was March 31, 1987. The new PACD will be September 30, 1990. The Policy Initiatives and Privatization Project Amendment (Supplement) is based on almost 3 years of project implementation experience and the recommendations of an independent project evaluation. The PIP Project Amendment rationale is based on:

- (1) The activities and resources provided by the Project must be maintained as they are critical to the success of other USAID/Somalia programs.

- (2) Additional time and resources are required for the Project to capitalize on Government of Somalia policy changes which have been achieved.
- (3) There is a clear need, and a corresponding opportunity to further increase the role of the private sector in the Somali economy.

This Project is consistent with recent Government of Somalia policy reform and will encourage the continuation of movement of the Somali economy towards a free market orientation and increased reliance on the private sector for sustained economic growth.

Project Description:

The Project will emphasize and encourage a partnership between the public and private sectors in Somalia in formulation and implementation of sound economic policies and activities which will fuel the engine of economic growth and prosperity. During the Project implementation period 1983-85, much of the policy dialogue emphasis was directed toward the private sector. Now the emphasis in the policy dialogue will shift to improving the Government of Somalia revenue collection and budgetary control systems. Nevertheless, the Project will continue to promote greater private sector participation in the economy through previously funded private sector encouragement activities. However, activities funded under the Project Amendment primarily will focus on Government of Somalia policy reform, taxation, and fiscal issues. The Project will finance the technical assistance required to implement some of the reforms. However, USAID will encourage other international donors to provide technical assistance in priority areas of concern beyond USAID's capability.

The goal of the PIP Project is to increase the economic growth of the Somali economy, improve the efficiency of the public sector (particularly with regard to budgetary control and revenue collection), and generate more economic growth within the private sector. The purpose of Project is to improve the Somali economic climate by:

- (1) Supporting the development and implementation of improved economic policies.
- (2) Identifying and testing ways and means of promoting private sector participation in the economy.
- (3) Improving the Government's budgeting and revenue collection systems.

The outputs of the project are:

- (1) A detailed examination of appropriate economic policies and reforms resulting from a more effective, concerted policy dialogue between the GSDR and USAID.
- (2) An expanded dialogue between the GSDR and the Somali private sector on economic and regulatory policies.
- (3) The establishment of private sector banking in Somalia.
- (4) Revised and improved GSDR budgetary and revenue collection systems.

Financial Plan
(\$000 or Equivalent)

	<u>AID</u>	<u>GSDR</u>
Technical Assistance	5,699	728
Study Tours, Seminars, Conferences	228	191
Project Support (Logistics and Commodities)	626	,500
Evaluation	50	-0-
Audit	45	-0-
Contingency/Inflation	<u>352</u>	<u>617</u>
TOTAL:	7,000	3,036

AID will finance the foreign exchange and local currency costs of the Project components listed in the "Financial Plan". This includes funding for technical assistance, training, project support (logistics and commodities), study tours/seminars/conferences, evaluation and audit. The Grantee (GSDR) will finance local currency costs associated with the Project components listed in the "Financial Plan". This includes funding for technical assistance, training (in-country), project support (logistics and commodities) and study tours/seminars/conferences.

Special Considerations:

The USAID/Somalia Project Committee has determined that the Policy Initiatives and Privatization Project's implementation arrangements, monitoring and evaluation plans, and required analyses have been adequately addressed in the PIP Project Paper Amendment, and there are no outstanding issues. The Regional Legal Advisor has reviewed and cleared the Project Paper Amendment, and her comments have been incorporated into the attached PIP Project Paper Amendment (Supplement). The Project Paper Amendment contains a determination (Annex "E") stating that the project meets the categorical exclusion criteria under AID Handbook 3, App.2D, Section 216.2.C for which an Initial Environmental Examination (IEE) is not required. REDSO/RLA clearance has been obtained. Your approval is required. The Congressional Notification's (CN) waiting period expired on August 16, 1986, without objection (STATE 259142). All statutory criteria have been reviewed and satisfied.

The Assistant Administrator for Africa (AA/AFR) has delegated the authority for PIP Project Paper Amendment approval, authorization of new LOP of up to \$7.0 million, and obligation of FY86 ESF \$1.0 million to the Mission Director, USAID/Somalia who shall exercise the ad hoc DOA in accordance with all the terms and conditions of AFR Delegation of Authority (DOA) 140, except for the dollar amount limitation therein (STATE 133265 - Annex "B").

Recommendation:

That you exercise your Ad Hoc Delegation of Authority and sign the attached Project Authorization Amendment and Project Data Sheet, thereby approving life-of-project (LOP) funding of \$7.0 million, authorizing the Project and its FY86 increment of funding.

Attachments:

Project Authorization Amendment
Project Paper Amendment
Project Data Sheet

Clearance:

PROG, L. Waggoner *Now* 8/24/86
YKKCONT, G.R. Barwicke _____
REDSO/ESA, RLA B. Barrington (draft)

Drafter: *W.D.* WDarkins:lam:07/16/86:0951P
Revised:WDarkins:al:8/24/86:0951P

EXECUTIVE SUMMARY AND RECOMMENDATIONS

A. Recommendation

The USAID/Somalia Project Committee has examined all the administrative, social, economic, financial and technical implications of the Project's activities, including the concerns of the AFR/ECPR guidance. It has been determined that all of the contemplated project activities appear feasible and beneficial. Therefore, it is recommended that the level of total authorized AID funding for the Policy Initiatives and Privatization Project be raised to \$7.0 million over the life-of-project (LOP), and the Project Assistance Completion Date (PACD) extended to September 30, 1990. The GSDR contribution to the PIP Project shall be the Somali local currency equivalent of \$3.036 million over the life-of-project. The Grantee shall be the Government of the Somali Democratic Republic (GSDR) represented by the Ministry of Foreign Affairs. The GSDR Ministry of National Planning will be responsible for the coordination and monitoring of implementation of the project's activities in conjunction with the Ministry of Finance and the Ministry of Industry and Commerce.

B. Summary Description of the Project

The goal of the Policy Initiatives and Privatization Project is to increase the economic growth of the Somali economy, improve the efficiency of the public sector (particularly with regard to budgetary control and revenue collection), and generate more economic growth within the Somali private sector. The purpose of the Project is to improve the Somali economic climate by:

1. Supporting the development and implementation of promoting private sector participation in the economy.
2. Identifying and testing ways and means of promoting private sector participation in the economy.

3. Improving the Government's budgeting and revenue collection systems.

The outputs of the project are:

1. A detailed examination of appropriate economic policies and reforms resulting from a more effective concerted policy dialogue between the GSDR and USAID.
2. An expanded dialogue between the GSDR and the Somali private sector on economic and regulatory policies.
3. The establishment of private sector banking in Somalia.
4. Revised and improved GSDR budgetary and revenue collection systems.

C.

Financial Plan
(\$000 or Equivalent)

	<u>AID</u>	<u>GSDR</u>
Technical Assistance	5,699	728
Study, Tours, Seminars, Conferences	228	191
Project Support (Logistics and Commodities)	626	1,500
Evaluation	50	-0-
Audit	45	-0-
Contingency/Inflation	<u>352</u>	<u>617</u>
<u>Total:</u>	<u>7,000</u>	<u>3,036</u>

D. Project Issues

The following list of issues evolved from the AFR/ECPR PID review (STATE 133265):

1. The ECPR requested that the PP Amendment provide for Mission establishment of : (a) a detailed first year implementation plan for studies which are closely tied to Mission's planned policy initiatives, (b) more general out-year plans, with criteria for the selection of future studies, and (c) annual review of these implementation plans. Item 1(a) is described in detail on pp. 53-58 of the PP Amendment. Item 1(b) is included on pp. 53-58, and in Annex "K", "Scopes of Work". Item 1(c) is adequately addressed as a PIP Project Manager responsibility exercised in conjunction with the PIP Project Committee (See pp. 30, 34).

2. To ensure that these studies (macroeconomic and socioeconomic studies) are taken seriously by the GSDR, Mission should formalize GSDR input (and private sector input where relevant) to the extent feasible. Assuming this refers to scope of work input as well as actual implementation of the studies, the Mission Project Committee notes that the GSDR PIP Project Manager is actively involved in the review and approval of all project activities (including studies) and actively participates in the monitoring and debriefing of contractors, setting studies review seminars, and coordinating all PIP activities with other GSDR entities and private sector organizations. See pp. 29-35. In addition to the regular contractor debriefings for USAID and the GSDR, a series of public policy studies seminars will be developed with the Ministry of National Planning, other Somali public and private sector entities. See "Project Implementation Schedules", pp. 53-58. The Ministry of National Planning and USAID are responsible for follow-up, further discussion and implementation of studies recommendations with the appropriate GSDR entity.

3. The ECPR questioned AID providing private banking management technical assistance, as implementation is already so far along with involvement by the EEC, the IFC and a British private bank firm (Samuel Montague). If legislation has already been drafted according to European banking practices, then U.S. banking expertise might not be appropriate.

The Mission does not (and neither does the EEC nor IFC) consider the private banking management technical assistance implementation "already so far along" as the result of the EEC and IFC having financed two banking studies for the GSDR. The GSDR has not enacted private banking legislation, yet. There is a great deal of work to be done to implement such an important commercial activity in a timely manner. Mission has no evidence that the GSDR private banking legislation has already been drafted according to European banking practices. American-owned banking institutions have had considerable experience in the European, African and Middle East private banking sectors, and there is indication they would be interested in participation if the terms and conditions are acceptable. The Mission strongly encourages participation in Somalia of the American business community. The IFC has indicated it is only interested in a small equity participation, if AID would finance appropriate technical assistance for financing establishment of the private sector bank's operations. The Mission expects the technical assistance would be obtained from an interested American banking institution.

4. In the event that an alternative source of funding for the private banking T.A. cannot be identified by the Mission, the PP Amendment and amended Grant should require GSDR enactment of legislation needed to initiate private banking in Somalia as a condition precedent to disbursement of this portion of project funds. This will be done. See p. 62 and section "F" of this executive summary.

5. The PP Amendment should also define AID's relationship to the IFC in the implementation of this activity, at least in terms of the recruitment of the resident advisor, and the definition of his/her scope of work. AID concurrence in the selection of the advisor, at a minimum, should be required. This relationship is adequately addressed on pp. 46-48, and ANNEX "J", "Scope of Work: Private Sector Bank Management Specialist".
6. PP Amendment should contain a detailed budget breakdown for the private banking component. A detailed budget breakdown is included in ANNEX "F", "Financial Data: Detailed Budget/Cost Estimate".
7. The ECPR decided that the Mission should use DA Funds (SDA 106 Account) in FY88 (not FY87) and beyond to pay off remaining project mortgage after obligation of FY86 ESF \$1.5 million. This has been taken into account in the authorization amendment. Future increments of funding will be provided from FAA Section 106 funds.
8. The ECPR recommended that the Mission estimate price contingencies at 5 percent per year, and eliminate any double-counting of this factor within separate budget items. The application of contingency and inflation factors is described on pp. 66-69, and is based on the Mission's field experience.
9. It is recommended that the proposed business credit which could be provided by a private sector loan facility (such as a PVO or the future private bank). This will be required in the scope of work for the study. The small business credit needs assessment

is scheduled for 1/88-7/88 (See p. 57) well after the establishment of the proposed private sector bank and the private sector bank management TA.

10. The PID indicates that the Mission is currently planning to have the rural-urban linkages study focus on the Juba basin. If the study were conducted in the Shabelli basin, however, it would contribute in the near term to AID's Shabelli Water Management Project implementation. The Shabelli Water Management PID had not been approved by AID/W when the PIP Project PID ECPR guidance (STATE 133265) was received by the Mission. Therefore, the Mission did not include the lower Shabelli in the proposed rural-urban linkages study scope of work (SOW) until it was assured the Shabelli Water Management PID had been approved by AID/W. The rural-urban linkage study SOW will include the lower Juba (because of the requirements of Juba Valley Analytical Studies Project) and the lower Shabelli region up to and including Jannale.
11. It is requested that the Mission forward copies of PIP Project Studies to AFR/EA and AFR/PD/EAP for review as part of Mission - Washington dialogue on policy reform and a copy to AFR/PD/IPS (for microfiching). Copies of all completed PIP Project studies have been forwarded to the indicated AID/W addresses. This has become a standard operating procedure of the PIP Project.
12. The Mission's assignment of project management/backstopping responsibility should ensure that the responsible office has adequate staff time and skills needed to fulfill these responsibilities. Overall PIP Project management responsibility is assigned to the Mission's Projects office. The project manager is supported by two subactivity managers, a project committee (with defined responsibilities), and a FSN Project Management Assistant. The PIP project management structure is described in detail on pp. 29-35, 41.

13. Ensure that PP Amendment provides the appropriate discussion of the involvement of Gray Amendment entities in PIP Project Phase II. activities. A discussion of Gray Amendment concerns is included on p. 52.

14. PPC/WID noted that the PID proposes collection of private sector baseline data on socio-cultural, economic and regional variables. It is requested that Mission also stratify data samples by gender to document women's private sector activities and constraints which could be addressed in project activities. This guidance will continue to be incorporated into PIP project studies scopes of work (as previously advised by Mission's Program Social Scientist), and the guidance described in A.I.D. Program Design and Evaluation Methodology Report No. 3, "Selecting Data Collection Methods and Preparing Contractor Scopes of Work", will be adhered to as closely as practicable.

E. Major Conditions and Covenants

Conditions Precedent

1. The conditions precedent to the first disbursement under the PIP PROAG (dated September 29, 1983; amended February 5, 1986) have been satisfied by the GSDR.

2. Sub-Activities: "Prior to disbursement for individual activities under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, obtain written approval of A.I.D. of the activities to be financed by the Grant, including approval of procurement and contracting procedures and documentation in the case of host country contracting." This condition precedent will be retained in the PIP PROAG Amendment No. 2.

3. An additional condition precedent will be included in the PIP PROAG Amendment NO. 2:

Private Sector Bank Management Technical Assistance: Prior to disbursement for the private sector bank management technical assistance subactivity under the Grant/ or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID, evidence that:

1. The GSDR has enacted rules, regulations, and legislation which will allow immediate establishment of privately-held, commercial banks in Somalia, and that;
2. A privately-held, commercial bank has been established in Somalia pursuant to such rules, regulations, and legislation.

F. Special Covenants

The "special covenants" which were included in the PIP PROAG will be retained in the PIP PROAG Amendment No. 2.

G. Project Design Team

1. GSDR Counterpart

- Abdullahi Shiekh Mohamed, Director General, Technical Directorate, Ministry of National Planning.

2. USAID/Somalia

- William Darkins, Project Development Officer and Project Manager.
- Loring Waggoner, Program Officer and Studies Coordinator.
- Meredith Scovill, Program Economist.
- Hazel McPerson, Program Social Scientist.

FIRST AMENDMENT TO THE
PROJECT AUTHORIZATION AMENDMENT

Name of Country: Somali Democratic Republic (GSDR)
Name of Project: Policy Initiatives and Privatization
Number of Project: 649-0132

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, the Policy Initiatives and Privatization Project for the Somalia Democratic Republic was authorized on September 28, 1983.

That authorization is hereby amended as follows:

a. The text of paragraph 1 of the Authorization is deleted and the following text substituted therefore:

"Pursuant to Sections 106 and 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Policy Initiatives and Privatization Project involving planned obligations in an amount not to exceed \$7,000,000 in grant funds over a seven year period from date of authorization, subject to the availability of funds in accordance with the AID OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project".

b. The text of paragraph 2 of the Authorization is deleted and the following text substituted therefor:

"The Project is intended to help the GSDR to accomplish its economic recovery program and increase private participation in the economy through collaborative analytical studies of macroeconomic policies affecting national development, supporting the development and implementation of improved economic policies identifying and testing ways and means of promoting private sector participation in the economy and improve the Grantee's budgeting and revenue collection systems."

2. The authorization cited above remains in force except as hereby amended.

Signature: _____

A handwritten signature in black ink, appearing to read 'L. A. Cohen', written over a horizontal line.

Louis A. Cohen

Director, USAID/Somalia

POLICY INITIATIVES AND PRIVATIZATION

I. INTRODUCTION

A. Background

The primary objective of USAID's assistance to the private sector in Somalia is to promote economic growth by incorporating the private sector into the economy as a new source of economic activity and impetus. This growth will result from GSDR (Government of Somali Democratic Republic) policy changes that will allow for more participation in economic activity by Somalis, thereby promoting self-sufficiency and development that will be sustainable in the long run.

The strategy proposed is a result of the experience gained over the last 3 years in working with the GSDR, IMF and other donors. The strategy embodies an assessment of the steps most likely to produce sustainable growth in Somalia by taking into account the local constraints and conditions so that the Somali Government and people can actively participate in the development process.

An initiative that promotes private sector development should recognize that, in practice, the private and public sectors are interdependent. It is also assumed here that the public sector can play a decisive role in determining the scope and vitality of the private sector's contribution to development. Government policies on prices, foreign exchange and trade, taxes, fiscal affairs and the degree of regulation loom large in the ability of the private sector to participate in economic growth and self-sufficiency. In addition, the long-term health of the private sector depends on a healthy, efficient public sector. USAID seeks to help Somalia obtain the advantages of private initiative and market discipline as well as the benefits derived from a more efficient economy, fueled by the private sector. To achieve this, USAID will promote policy reforms by the GSDR so that the economy will function more efficiently and the private sector will be allowed to become an active agent to stimulate and sustain economic growth.

The interdependent relationship between the public and private sectors implies that there are both direct and indirect linkages between the two. For example, pressure to increase Government efficiency has resulted in the need for the Government to reduce the size of the civil service and to pay more equitable salaries. This becomes a sensitive political issue because of the social and economic repercussions of displaced civil servants that can not at present, be absorbed by the economy. If the private sector is allowed to expand, however, it can absorb the unemployed and alleviate not only the pressures currently placed on the public sector, but also the acute socio-economic problems facing the entire country. This is just one example of how a vibrant private sector can play a larger role in carrying the economic burden that the public sector has traditionally borne.

Reform of the tax structure, including an increase in the total revenue collected, will result in a more equitable and economically efficient tax structure which will also enable the Government to perform more efficiently and provide necessary services. Unlike many countries, Somalia has a very low tax revenue to GDP ratio and if the Government is to provide needed services without an inflationary deficit, total tax revenues must increase. When the government makes the necessary policy changes that make its own functioning more efficient and that allows the private sector to participate more in the national economy, a climate for growth and development will emerge.

The overall objective implies that two specific goals should be achieved.

- o First, USAID will seek to promote a policy environment conducive to long-term, self-sustaining growth. It will continue to encourage those government policies that do not distort prices or stifle incentives. In short, AID will seek to promote policies that allow private markets to operate more freely and eliminate those policies that currently prohibit private sector involvement.

- o Second, USAID will seek to help overcome the constraints to growth that are endemic to Somalia's current economic status, including small domestic markets, inadequacies of local inputs, lack of managerial and entrepreneurial skills, incomplete adoption of technology, shortages of investment finance and a rudimentary financial system. The aim is to help create the endowment base within Somalia that can support continued and accelerated growth.

These two points are the key to USAID's private sector strategy in Somalia.

In pursuing these objectives USAID will continue to encourage the GSDR to change its presently restrictive policies toward the private sector, privatize parastatals, remove monopolies, rationalize the tax structure by providing a more equitable and even treatment of tax payers, set up mechanisms which will allow the GSDR to develop and maintain a national budget and accounts system, and take recurrent cost of activities into account. To date, Government discussions on the feasibility of state - owned enterprises have not taken into account recurrent costs. Also, the GSDR has not separated parastatals into: (a) those which could be efficiently operated by the private sector, (b) those which are unnecessary and should be disbanded, and (c) those which remain a proper role of the Government. As a result, the state maintains inefficient operations that should not be subsidized but could be absorbed profitably by the private sector.

USAID's strategy will be directed at improving markets, not at targeting specific industries for development. However, to the extent that projects require selectivity, USAID will focus on labor intensive industries and those sectors which have the potential for earning or saving foreign exchange. Also, USAID will promote investments which maximize the use of existing resources and discourage utilization of scarce resources.

The strategy focuses on indigenous entrepreneurs because the constraints above are too great to expect significant US or other international investment at this time. We will try to assist any US investor to the utmost on a "Target of Opportunity" basis, restricting ourselves to those who are interested in an equity investment.

Finally, several other characteristics will be helpful in promoting self-sustaining growth. More growth is needed in provincial towns and rural areas where the supply of labor is abundant. This will reduce urbanization trends toward the cities where unemployment and socio-economic stress are already high. Such growth can help bring more Somalis into the modern economy. More growth is needed among small and medium size businesses because they are sources of replicable innovation, managerial training and economic diversity. Ownership and management of enterprises by private sector individuals is a positive characteristic and is necessary for private sector growth, because public sector managers are few in number and are too limited to supply the owners and managers needed in the long run. None of these three attributes are exclusive to existing actors: urban, large or public sector firms will continue to play important roles in Somalia's growth (although the latter is expected to decline in importance as the private sector gains momentum). A focus on small, rural or indigenous firms will be emphasized.

USAID expects that Somalia as a whole will benefit from private enterprise programs and projects through faster and steadier economic growth. Improvement in economic growth rates can have multiplier effects, and can spread benefits throughout the nation. One of the most important results of such growth will be additional employment opportunities. This should make it easier for the Government to cut the size of the civil service and begin to pay commensurate wages so that there will be improved efficiency.

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The strategy is diverse enough that it should result in increased employment at a wide variety of skill levels. For example, programs that help develop agribusiness, (a target area) will not only employ factory workers, but also the farmers who produce agricultural products used as inputs. The owners of small scale and informal sector enterprises, especially in rural areas, will also benefit from this program. Finally, if the private sector grows, the potential tax base will increase, thereby providing the Government with much needed sources of revenue for other needs without having to increase tax rates. If Somalia continues to embrace free-market principles and progress is made toward dismantling the parastatals, the Somali Government should be able to lessen its own burden of administration. Thus, the emergence of the private sector can be reviewed as an agent for economic development and growth.

In seeking to address the problems, needs and opportunities identified in the previous sections, USAID must respond with the limited resources available. USAID will direct its assistance towards areas that are both important to Somalia and compatible with its capabilities. At the same time, USAID must acknowledge that the overall levels of assistance it can supply are limited, and are in fact quite small when compared to Somalia's private sector as a whole. This means that USAID must deploy its resources in a manner which will have the greatest effect.

USAID has traditionally sought policy change through program assistance (Economic Support Fund grants), and it will continue to do so, using the policy items outlined above as a framework. In efforts to support structural adjustment in the Somali economy, USAID has worked closely with other donor agencies, including the International Monetary Fund and the World Bank, to establish a coordinated agenda for change. Under USAID's private sector strategy, this process will continue to be a joint effort.

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The policy items in the first part of this paper do not represent a shift in the types of concerns that have dominated policy dialogue in the past; rather, they signify an increased emphasis on private sector issues. The policies outlined above, if implemented fully, would constitute a major realignment of the GSDR towards the private sector. Therefore, it is unrealistic to expect that the GSDR will implement these policies all at once. Steps toward these goals will be negotiated in consultation with the GSDR and other donors. The ability of the economy to absorb change, the GSDR's capacity to implement change, and possible means of donor support for change, will be taken into consideration to arrive at a mutually agreeable agenda. Items that have figured importantly in previous structural adjustment negotiations, and will continue to be important, include the maintenance of a free exchange market, improving import policies, export promotion, increasing private sector participation in agricultural input supply and grain marketing and a more rational taxation system.

To date the economic structural adjustment program has met with mixed success. The record suggests that the GSDR moves slowly when policy changes affect vested interests. One of the most successful policy changes by the GSDR has been the introduction of a free foreign exchange market that allows the market place to allocate foreign exchange to the private sector. Other areas of significant progress in the past five years, include the lifting of price restrictions on agricultural products, the elimination of most of the country's "Tax/Toll" checkpoints and the move toward a reduction in the number of civil service employees combined with reforms in the civil service system. Little progress has been made toward dismantling the state owned parastatals. However, the GSDR has opened many of the previously state controlled monopolies to competition and is moving toward allowing private banks and private insurance companies to operate in the country on a competitive basis.

USAID will provide technical assistance where possible to support the GSDR in implementing improvements that allow for greater participation of the private sector. Policy changes will also be sought through individual USAID projects, for example: privatization of the water sector under the Comprehensive Groundwater project, PL-480 food auction to the private sector, MBA training for private sector on a fee basis under SOMTAD, water use charges under the Shabelli Water Management Project, social marketing under Family Health Services Project, fees for service and fodder supply by the private sector under Livestock Marketing Project, definition of proper government and private roles in urban development with RHUDO, etc. Activities under the Policy Initiatives and Privatization (PIP) project will emphasize policy change as well. Particular attention will be given to priorities already expressed by the GSDR, such as improving government financial system operations and revenue enhancement programs. In sum, the private sector initiative can be viewed as a program that fits into a broader framework that encompasses all aspects of USAID's activities in Somalia.

B. Rationale

The rationale for the PIP Supplement is threefold. First, the activities and resources provided by the PIP Project must be maintained as they are critical to the success of other Mission-funded programs. Second, additional time and funding are required for the Project to capitalize on the investments and positive policy changes achieved so far. Third, there is a clear need, and a corresponding opportunity to further increase the role of the private sector in the economy. In achieving the latter, the Project will include some direct study and TA assistance to private firms through the previously funded ISTI and TIPCO contracts.

Specifically, the Supplement will provide USAID and the GSDR with more solid factual analyses to use in an on-going policy dialogue. During the period 1983-1985, much of the policy dialogue emphasis was directed toward the private sector. Now, the emphasis in the policy dialogue will shift to improving GSDR revenue collection and budgetary control. That is not to say that USAID will ignore the private sector, for previously funded private sector activities will continue. However, activities funded under the Supplement primarily will focus on government policy reform, taxation, and fiscal issues.

C. Status

The Policy Initiatives and Privatization Project (PIP) was obligated on September 29, 1983. AID obligated \$2,500,000 in Economic Support Funds and the GSDR pledged So.Sh 15,000,000 for the project. Subsequently the GSDR added an additional So.Sh 56,987,000 for a total GSDR contribution of So.Sh 71,987,000. The basic thrust of the project is to provide consulting services to the Somali private and public sector and undertake studies of major macroeconomic policies which would lead to policy reform directed toward increasing opportunities for economic growth and for an increased role for the private sector. To date, virtually all funds have been earmarked.

This Supplement is based on almost three years of implementation experience, and the recommendations of an independent evaluation conducted by REDSO/ESA in January, 1986. The project Supplement seeks to continue to strengthen the policy dialogue between the GSDR and USAID/Somalia by funding a series of studies and consultancies which will demonstrate the benefits of selected policy reforms and continued growth of the private sector and will provide the technical assistance required to implement some of these reforms. USAID will provide an additional \$4.5 million in funding over the period 1986 - 1990. The supplement will fund the continuation of the long term technical assistance to the Ministry

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of Finance, which was initiated under the original project. Also the first private commercial bank in Somalia (when established) will be strengthened by provision of banking management and training technical assistance to the bank. In addition, the Supplement will fund studies aimed at rationalizing GSDR's revenue generating capacity. Long-term technical assistance to the Ministry of Industry and Commerce (MOIC) will continue (under the ISTI contract), as well as, assistance to the private sector under the TIPCO contract.

The Government of the Somali Democratic Republic (GSDR) has made significant efforts to abandon its former policy of "scientific socialism" and centralized control of the economy. Through the efforts of the IMF and donor countries, the GSDR is undertaking stabilization programs and has had some success in restraining demand and promoting production. Agricultural prices have been decontrolled but selected monopolies have been maintained. Some Government operated enterprises have been shut down and policies have been instituted to encourage private sector participation in the economy. Currency devaluations and monetary controls have led to improvements in the internal and external financial accounts. Further liberalization has occurred through 1985 with more price deregulation and additional adjustments of the exchange rate towards free market levels. This project is consistent with recent GSDR policy reform and will encourage the continuation of movement of the Somali economy towards a freemarket orientation and increased reliance on the private sector for sustained economic growth.

The United States Agency for International Development (USAID), in collaboration with other international organizations, has been actively involved in a dialogue with the GSDR on the economic policy reforms which are needed to accelerate Somalia's development.* The USAID program for supporting Somalia's economic development, as contained in the FY 1987 CDSS, has three aims: 1) to promote policy

reform; 2) to strengthen the private sector; and, 3) to encourage an outward-looking orientation of the Somali economy. The basic premise of the USAID's policy dialogue is that Government policies should expand economic options available to people and not restrict them. USAID, through its dialogue with the GSDR, is working towards removing restrictions and the consequent excessive costs imposed on the productive groups of the economy. Substantial policy reform has already taken place and this project seeks to promote further reform based on better informed recommendations derived from the series of studies funded under this project. With respect to private sector development, the GSDR has been divesting its state owned enterprises and privatizing selected government-provided activities. This privatization will continue to be promoted under the PIP project by the long-term technical assistance provided to the Ministry of Industry and Commerce. Private sector activities have increased substantially in recent years. Entrepreneurs and businessmen will be assisted through technical consultancies under the TIPCO contract. Through the provision of long-term TA, the project Supplement will assist in the establishment of Somalia's first private bank. Other areas in which Supplement funds will focus are: domestic finance, and regulatory policy. Funds will be reserved for other concerns and targets of opportunity that arise out of the policy dialogue, and through implementation of the Commodity Import Program (CIP).

As acknowledged in the Mission Assessment of December 1985, USAID, in connection with other donors, over the past several years, has conducted a broad ranging and successful policy dialogue. While the dialogue has been focussed on privatization, USAID is now turning to an increasing emphasis on Government fiscal concerns, both on the revenue side and the expenditure side. This project Supplement reflects the transition from one area of emphasis to another with support provided to sustain the gains in privatization as well as to open the doors on the fiscal side. A condensed version of the USAID policy dialogue strategy is as follows:

o Petroleum Importation, Distribution, and Pricing

In 1985 the GSDR announced that private importation of petroleum products would become legal. USAID continues to encourage the GSDR to enact the legislation to legalize private importation of petroleum products, to legalize the private distribution of petroleum products, and to price gasoline and diesel at world market rates and free market established exchange rates. This effort is being supported by the CIP Program and various USAID projects. A secondary issue under the CIP Petroleum Agreement is the provision that sufficient fuel be made available to USAID projects. It should be noted that following AID's introduction of CIP and petroleum imports, five other donors have followed with CIP petroleum programs.

o Private Banking

The GSDR has announced that private banking is legal in Somalia. The implementing legislation has been written with support from the EEC and is awaiting enactment. IFC is now working with a group of Somali and foreign investors to establish a private bank. If the appropriate legislation is enacted and a private bank is established, USAID will support this effort by providing the Somali Private Bank with long-term and short-term technical assistance funded under the PIP Supplement.

o Privatization of Animal Health Services

Under USAID's Livestock Marketing and Health Project (649-0109), the GSDR has been encouraged to privatize the importation and distribution of livestock drugs and vaccines. The decree to finalize this activity is with the President of the Republic for approval. Future steps to be

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taken include enacting the necessary regulatory legislation, expansion of permissible private imports, and privatizing veterinary services.

o . Hides and Skins

Under the PIP project, a feasibility study was completed analyzing the effects of privatizing the hides and skins parastatal. USAID will continue to encourage the GSDR to allow private businessmen to engage in the processing and exportation of skins and hides in open competition with the parastatal.

o Civil Service Reform

A major study has already been completed by USAID on civil service reform. This study has become a focal point of discussion among donors and of high priority between the GSDR and donors. USAID is promoting the implementation of study recommendations by providing a long term advisor to the Ministry of Labor and Sports under the Somali Management Training and Development Project (SOMTAD - 649-0119) and through continued policy dialogue with the GSDR. As a direct result of the Civil Service study, the GSDR terminated 5,000 Government employees in 1985 by encouraging people to quit the Government service by providing them with a plot of land or providing them fishing capabilities. However, the size of the civil service is still approximately 5-10 times what it should be, salaries are about 5-10 times too low, and there is no real job classification system, or civil service code. There is now a donor working group proposal for restructuring the civil service and to consider methods of its financing.

o Agriculture Prices

The GSDR recently liberalized agricultural prices by removing the parastatal ADC as the sole purchaser of grain.

This has brought about a significant increase in grain being marketed and produced. USAID is now encouraging the GSDR to legalize the private importation and distribution of fertilizer and other agricultural inputs.

o Frankincense and Myrrh

USAID continues to seek GSDR approval for private competition with the marketing monopoly in frankincense and myrrh. A feasibility study will be completed on privatizing this Government parastatal.

o Donor Food Aid

In 1986, forty-five percent of the PL480 Title I food aid will be auctioned to the private sector, up from 40% in 1985. AID's auction of donor food aid has encouraged other donors to be concerned with the impact of food aid on farmer incentives, and with correct pricing to avoid distorting consumer preferences or subsidizing urban consumers. Some donors are planning to auction portions of their food aid in 1986. USAID is encouraging the GSDR to use market mechanisms for pricing non-emergency food aid, with the eventual aim of pricing food aid at import parity at free market exchange rates (or otherwise determined shadow prices if the free market is closed). This eventual goal may be a long way off at the present, but the emphasis is to move from donor subsidized food imports to commercial imports of food. USAID is also encouraging the GSDR to begin importing only those foods which the public would be willing to purchase at non-subsidized prices.

o Tax Reform

To address Government deficits and recurrent costs, USAID is funding a PD&S study in 1986 to assess major tax reform and policy issues. Through the SOMTAD Project, a long-term technical advisor is being provided to the Ministry of Revenue. The SOMTAD Project technical advisor's major function will be to improve the overall functioning of the Ministry, and enhance coordination with other Ministries.

The PIP project is expected to play a significant role in the future in analyzing the tax system, both in tax administration and rate structures.

o Fiscal Management

Through the SOMTAD Project, USAID is providing long-term technical assistance to the Ministry of National Planning, Ministry of Finance (MOF), and Ministry of Revenue (MOR). These advisors will encourage: better coordination among ministries, improved management practices, reduced government budgets and personnel levels, and other needed reforms.

o Privatization of Parastatals

Primary responsibility for the Government's divestiture of public enterprises falls within the SOW of the ISTI provided long-term technical advisor to the Ministry of Industry and Commerce (MOIC). This effort will be further supported through the SOMTAD Project, which will provide a long-term technical advisor to the Ministry of Industry and Commerce. The SOW for this advisor includes encouraging the GSDR to continue the divestiture of government parastatals and monopolies. Also under PIP, studies were conducted to show

the benefits of such divestiture of public parastatals and government controlled monopolies. Other selected studies to continue this process will be funded under this Supplement.

NOTE: The Ministry of Industry and Commerce (MOIC) is divided into two distinct sections - The Ministry of Industry which has primary responsibility over all manufacturing industries and parastatals in Somalia, and the Ministry of Commerce which has responsibility over external and internal trade. The SOMTAD project will provide an advisor to the Minister who will focus on public sector policy reform and will support the work of the other two advisors. The ISTI contract will continue to provide the Ministry of Industry a long-term technical advisor who will focus on divestiture of public enterprises and industrial legislation.

o Exchange Rates

USAID supports the GSDR established free exchange market (January 1985). Most transactions now take place at this rate. Though the market is thin and buyers have difficulty purchasing large amounts easily, the GSDR has made no attempt to restrict the market. There is also an over-valued official exchange rate for official government transactions. A third rate (commercial bank rate) is between the other two rates, but is quite artificial. USAID supports the removal of artificial exchange rates and unification of the three existing exchange rates into one rate, if and only if, it is set by the free market. The GSDR has made progress in this area and has signed an agreement with the IMF which includes further devaluation of the Shilling.

o Growth of the Private Sector

The GSDR has made considerable progress in liberalizing its economy and in promoting growth of the private sector. USAID has provided a long-term advisor to the Ministry of Industry and Commerce whose duties include reform of legislation governing the private trade sector. The TIPCO contract, funded under PIP, provides for short term consultancies and studies which can address specific private sector needs as they are identified.

In the area of increased private sector participation, the PIP Project will finance the following:

- (a) Banana Industry: An assessment of the banana industry to determine whether the monopoly status should continue after the current agreement ends, or the industry should be opened up to competition.
- (b) Leather Industry: A study of the Somali leather industry to assess its performance under different systems of management mechanisms for making the industry more viable, potential export value of hides and skins, and technical assistance required to implement certain reforms in the industry.

Generally, the initial PIP Project was expected to do two things: to reform macroeconomic policies thereby enabling the GSDR to accomplish its economic recovery program and, to increase opportunities for the private sector. In relation to policy the dialogue, the Project has provided background information, an analytical database, and a framework for formulating options for economic policies and clarifying roles between the public and private sectors. The studies and technical assistance supported by

the PIP Project has increased the opportunities for discussions between USAID and GSDR officials, and businessmen on a wide variety of policy issues.

The Project has contributed to a number of significant policy shifts. PIP-financed studies have led to the creation of a public budgeting process through the Domestic Development Department (DDD) of the Ministry of Finance, a civil service reform initiative, and steps towards reducing the Government's portfolio of industries and services. In addition, the PIP Project, by assisting in the development and monitoring of the condition precedents and covenants for the CIP and PL 480 Programs, has supported the private sector's access to foreign exchange financing under the CIP; the approval for expanding PL 480 commodity auctions; decontrolling of agricultural prices; the endorsement of private trade associations and financial institutions; and private importation of fuel products. Furthermore, the PIP Project has used a combination of studies and technical assistance to identify and open new opportunities for the private sector including: the eventual privatization of the Somali Chamber of Commerce; the expansion of small agricultural credit at the Somali Development Bank; and the creation of opportunities for private commercial banks, insurance companies, and credit unions.

In summary, the PIP Project performance to date has been impressive in its support for responding to new initiatives arising out of the policy dialogue between USAID and the GSDR and supporting the development of conditionality for USAID's program assistance.

II. PROJECT DESCRIPTION

The project is designed to assist the Government of the Somali Democratic Republic (GSDR) to rationalize its policies toward private sector participation in the development of the Somali economy by providing accurate information and appropriate

recommendations through sound technical assistance and studies. The GSDR has acknowledged that the private sector has a significant role to play in the development of the Somali economy. With the assistance of USAID and other international donors, the GSDR has set out to identify and implement appropriate measures to promote and sustain greater private sector involvement in economic development. In conjunction with other interested donors, e.g. IBRD, GTZ, EEC, UNDP, UK and Sweden, the project will provide the GSDR with a significant amount of technical information and expertise with which to facilitate achievement of its objectives in the private sector, and its interest in fostering a more open economy. The project will emphasize and encourage a partnership between the public and private sectors in Somalia in formulation and implementation of sound economic policies and activities which will fuel the engine of economic growth and prosperity.

The goal of the project is to increase the economic growth of the Somali economy, improve the efficiency of the public sector (particularly with regard to budgeting and revenue collection), and generate more economic growth within the private sector. It is acknowledged that in order for this to occur a supportive environment must exist, e.g. favorable economic incentives, reasonable political stability, relatively stable economic and population growth rates. The Somali private sector has demonstrated its resiliency over the years and its capacity to utilize limited resources in a productive manner. The project successes will depend considerably on the demonstrated ability of the Somali private sector, and the demonstrated commitment of the GSDR in adopting and sustaining policies of promoting the private sector. Modified GSDR economic policies which result in an improved environment for increased investment and output is a key factor in achievement of the project goal. The most logical manner for this to evolve will be through an expanded dialogue between the GSDR and the Somali private sector on key economic issues. Further, there is general

agreement that systematically lowered GSDR budget deficits will impact considerably on the achievement of the project goal, greater confidence of Somali and international investors in Somali economic growth potential, and internal political stability.

The purpose of the project is to improve the Somali economic climate by:

1. Supporting the development and implementation of improved economic policies.
2. Identifying and testing ways and means of promoting private sector participation in the economy.
3. Improving the Government's budgeting and revenue collection systems.

Economic policy changes in Somalia will demonstrate increased fiscal responsibility, be more responsive to market forces, and reflect greater consideration and impact of Somali private sector interests. The logical result of this scenario will be the creation of a significantly improved environment promoting increased investment in the economy and increased productive output in the public and private sectors of the economy. The analytical/conceptual structure developed as a result of the various studies, supportive baseline data and other technical assistance will provide a constructive basis for a productive expanded dialogue between the GSDR, the Somali private sector, international donors, and other potential investors on a range of economic issues, e.g. private sector credit facilities, regulatory practices, taxation, and investment incentives.

Moreover, a modified GSDR budget which incorporates efficient, equitable and consistent revenue generation methods is essential to stimulate private sector growth, and lay the foundation for

a systematic method of producing more balanced government budgets. This is a prerequisite to improved fiscal responsibility, and a positive investment climate.

The specific outputs of the Policy Initiatives and Privatization (PIP) Project are:

1. A detailed examination of appropriate economic policies and reforms resulting from a more effective, concerted policy dialogue between the GSDR and USAID.
2. An expanded dialogue between the GSDR and the Somali private sector on economic and regulatory policies.
3. The establishment of private sector banking in Somalia.
4. Revised and improved GSDR budgetary and revenue collection systems.

The specific project inputs required to produce the preceding project outputs are:

A. Technical Assistance

1. Finance Advisor: The project will provide approximately 36 person/months (P/M) of technical assistance to the Ministry of Finance Budget Directorate and Domestic Development Department with the intent of implementing the following program objectives:
 - (a) To promote responsible and sound GSDR budgeting and accounting procedures.

(b) To facilitate the development of an effective management information system for all project activities.

(c) To facilitate the development of improved administrative and audit capabilities.

By July 1986 the Finance Advisor (a personal services contractor) will have completed 12 P/M of services. With the additional PIP Project funding requested under this Supplement, USAID expects to fully fund the contractor's services for an additional 36 P/M. The Finance Advisor's scope of work is included herein as Annex "M". The duration of this technical assistance is July 1986 - October 1989.

2. Industry Advisor: The Project will provide an additional 12 P/M of technical assistance to the Ministry of Industry and Commerce Private Enterprise Department (MOIC/PED) which will focus on Government policy, legal and regulatory matters in supporting/promoting the development and growth of the Somali Private Industrial Sector. The major program objectives of this technical assistance will be:

a). To promote a more favorable investment climate in Somalia.

b) To promote free entry of new firms (both foreign and domestic) into the Somali manufacturing industry.

The industry advisor is presently on-board, and by January 1987 will have provided 12 P/M of services. The funding under this Supplement will enable the Mission to extend the

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industry advisor's services from February 1987 - February 1988 (an additional 12 P/M). The International Science and Technology Institute Inc. (ISTI) has provided the Industry Advisor for the project. The Industry Advisor is currently funded for one year (January 1986 - January 1987) under the ISTI contract. The scope of work of the Industry Advisor is included herein as Annex "N".

3. Private Sector Banking Management Specialist(s): The project will provide approximately 48 P/M of long-term and short-term (as required) technical assistance and training to the establishment of a chartered commercial bank in the domain of the Somali private sector. The rules and regulations which will permit the establishment of a commercial private sector in Somalia have been prepared by the U.K. private banking firm of Samuel Montague under contract to EEC. Enactment of the rules and regulations is awaiting final approval of the GSDR cabinet and the President of the GSDR. Also, the IFC has prepared a favorable feasibility study of the prospects of establishing private banking facilities in Somalia. The IFC recommended the establishment of such facilities. The GSDR has approved and accepted the IFC's recommendations. The PIP Supplement funded Private Sector Banking Management Specialist(s) will provide managerial assistance to the proposed Somali private bank and assist it in developing a practicable organizational structure, and start-up operations and staff development. It is envisioned that the successful private sector banking management contract proposal will include a mechanism for investing a portion of contract profits in an equity position in the proposed private sector bank.

The technical assistance will also provide staff development for the private sector bank personnel. This is where it is envisioned most of the short-term technical assistance will be involved. In addition, such short-term technical in specialized activities of commercial banking which the long-term advisor may specifically define in the workplan will be provided by the project. Notwithstanding, total technical assistance to this activity will be implemented within the 48 P/M limitation to the extent practicable. The scope of work of the private sector banking management specialist(s) is more fully described herein in Annex "J". It is envisioned that an international commercial banking facility will provide the technical assistance for this activity.

4. Somali Chamber of Commerce: At the present the Somali Chamber of Commerce (SCC) is a quasi-governmental organization in transition to a totally private-controlled organization (expected January 1987). We believe it is deserving of the project's support and encouragement. Most of the project funding for the SCC will be provided from the project's local currency account. The project's foreign exchange (F/X) will be used for such items as office equipment/materials not currently available on the local market, special management assistance, and business/trade outreach programs. TIPCO is providing a Chamber of Commerce organization specialist recommended by the U.S. Chamber of Commerce. He is focussing on administrative and organization developmental tasks of developing a private Chamber of Commerce. TIPCO will also set up an improved accounting system for the Chamber, and sponsor executive development training for key members of the Chamber's Board of Directors.

5. Entrepreneurial Associations: In other countries similar to Somalia, specialized domestic private sector organizations/institutions have been very effective in providing support to certain domestic private enterprises. A modest amount of project F/X funding, and mostly, project local currency funds will be provided to identify and strengthen such organizations, and encourage their support and strengthening. Typical examples: livestock traders associations, private investment council, agricultural export associations, etc. As the need arises, the Information Processing Company Inc. (TIPCO), International Science and Technology Inc. (ISTI), and the International Executive Services Corps. (IESC) will be requested to provide some essential technical services to the Somali Chamber of Commerce and the Somali Entrepreneurial Associations. The TIPCO and ISTI contracts are currently funded by the PIP project. Their scopes of work are sufficiently flexible to accommodate, institutional and individual private firms requests. The project does not currently have a contractual agreement with IESC. However, we maintain regular contact with IESC/Nairobi since they have been used on other USAID/Somalia projects.

B. Macroeconomic and Socioeconomic Policy Studies:

The project will provide financing for approximately 80 P/M of macroeconomic and socioeconomic policy studies. The PIP Project Studies Committee will identify the studies topics, and develop specific scopes of work for each study. The Committee will also determine the preferred contracting mode using such criteria as: specific topic, complexity, support needed, and project management requirements. It is anticipated the AID Indefinite Quantity

Contracts (IQCs), PSC's and AID/W "buy-in" arrangements will be used where practicable. Since PIP project has used qualified, responsible Somali consulting firms (so have other donors) in the past, we will encourage the use of such firms in a collaborative arrangement where practicable, as well as, the resources of the Somali National University and the Somali Academy of Arts and Sciences.

C. Logistical Support:

1. In-country logistical support to the project funded U.S. contractors will be provided and charged on a prorated basis by the USAID/Somalia Field Support Unit (FSU). The FSU was established in 1984 as a mechanism to provide consistent, cost effective logistical support and maintenance services to AID - funded projects and contractors. The basic concept of the Field Support Unit is to centralize support operations to USAID projects in a single entity of sufficient size to create a critical mass of staff, equipment and management skills to provide a wide range of required support services in a timely and efficient manner. FSU maintains facilities in several locations in Mogadishu, e.g. an office, warehouse, and garage/maintenance shop. With the minor exception of a few O/E funded personal services contractors (PSC's), all of FSU's funding comes directly from the budgets of the individual projects which it serves. FSU has no income generating capability of its own. All projects started since FSU's inception in 1984 are required by USAID policy to participate.

FSU provides the following services: (1) housing, (2) shipment of effects, (3) travel, (4) guest house (for TDYers), (5) procurement, (6) warehousing and inventory management, and (7) project vehicle maintenance.

2. The project will finance the full time position of a PIP Project Management Assistant for the life-of-project. The Project Management Assistant will be a Somali national with an advanced university degree in business and/or economics. The individual will function as USAID contract employee, and will operate out of the USAID Mission. The Project Management Assistant will report directly to the USAID PIP Project Manager, and will assist and facilitate the USAID Project Manager's duties and responsibilities for monitoring and follow-up, and overall management of the PIP project.

D. Commodity Procurement:

The project will finance a modest amount of imported commodities which will be required to effectively support the Project's planned activities during the Supplement period, e.g. microcomputers, photocopiers, vehicles (2), etc. In addition, the Project will finance various administrative support materials, and expendable supplies. On an annual basis each manager of sub-activities included in the PIP Project Supplement will be required to submit a detailed workplan/schedule which, inter alia, will include an updated commodity procurement plan/schedule. Procurement of required commodities will not proceed until USAID and the GS DR PIP Project Manager have formally approved the workplans. To the extent practicable,

report printing costs (and translations) required for dissemination of approved studies and reports within AID (AID/W and REDSO), the GSDR, and key Somali private sector entities will be financed by the project.

E. Study Tours and Conferences/Seminars:

Study tours, conference, seminars and other seminar events will be financed under the project for key GSDR decision makers and representatives of selected Somali private sector entities. These events will be developed and scheduled through advance planning with TIPCO, ISTI, AID centrally funded contractors, and/or within USAID. The project will favor events which have been planned in such a manner which involve other developing countries whose experiences could be of significant benefit to Somalia. The project is in the process of establishing links with creditable domestic/international private sector organizations in Kenya, Mauritius, Mali, Egypt and the United States. In June 1986, TIPCO completed its first two-day business development conference in Mogadishu. The purpose of the conference was to acquaint the Somali business community and key GSDR officials, and the Somali Chamber of Commerce with the business planning, improvement and development for the Somali private sector. The conference was quite successful. Approximately 56 applications for assistance from the Somali private sector were submitted as a result of the conference. A profile of each client firm will be prepared, and a priority list for assistance will be developed. At two points during 1987, another such conference will be held in Hargeisa (in the North), and Kismayo (in the South).

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F. Project Evaluations and Financial/Compliance Audits:

1. An interim project evaluation will be scheduled to be performed within 18 months (O/A 2/88) of approval of the PI: Project Supplement. This evaluation will be conducted by REDSO/ESA and AID/W staff where practicable. The final project evaluation will also be conducted by REDSO/ESA and AID/W staff, and will be performed in FY90. The project will finance any contractors required to manage or supplement the evaluation staffs.
2. The Regional Inspector General for Audit/Washington (RIG/A/W) is responsible for arranging financial and compliance audits of U.S. based contractors and grantees. The RIG/A/W Office does not conduct many of these audits themselves. Other federal audit resources may be used, or in the case of non-federal audits, CPA firms and PSC's are used. A non-federal audit is anticipated during the course of implementation of this project, and the Project will fund its costs.

G. GSDR Inputs/Contribution:

The GSDR has agreed to provide funding to the project during the Supplement period to finance local currency costs of technical assistance, modest commodity procurement, fuel and logistical support services. In addition, the GSDR has agreed to provide appropriate office space, office furniture (when available) and counterpart staff of sufficient qualifications on an "in-kind" basis. Transportation will be provided by the GSDR whether on a rental or purchase basis. It is expected that the local currency financing will be provided by the CIP/PL-480 local currency receipts which are programmed for development projects in Somalia through mutual consent of the GSDR Ministry of Finance and the USAID Director.

III. PROJECT STRUCTURE AND IMPLEMENTATION PLAN:

The Policy Initiatives and Privatization (PIP) Project will have two tiers: (a) the "project" structure, and (b) the "activity" structure. The project structure will provide for overall coordination and management of specific/sectoral activities within USAID, and between USAID and the GSDR. The activity structures will vary according to the purpose and scope of the sub-activities, and the level at which day - to - day monitoring and other AID Handbook 3 responsibilities will be exercised.

A. Project Level:

The PIP Project is based upon the GSDR/USAID agreement that the GSDR "principal operating counterpart" is the Ministry of National Planning. Within the context of AID Handbook 3 descriptions, the project does not have "implementing agency" responsibilities vested in a single entity. The implementing agency requirements of the GSDR are delegated to specific GSDR Governmental entities (e.g. MOF, MOIC) by the Ministry of Planning. The ad hoc delegations enable these ministries to effectively implement the AID financed activities under their aegis. Past PIP Project experience has demonstrated the ability of these ministries to negotiate effective working arrangements amongst themselves, and with USAID. They have successfully negotiated their foreign exchange (F/X) and local currency (L/C) allocations under the project, as well as, substantive workplans which are prerequisites for financial allocations. The GSDR PIP Project Manager is the Director General, Technical Directorate, Ministry of National Planning.

Within USAID, management of the PIP Project is assigned to the Projects Office headed by the Supervisory Project Development officer (SPDO). The Project Development Officer which reports to the SPDO is the PIP Project Manager and Chairman of the PIP Project Committee. The PIP USAID Project Committee consists of:

1. Project Manager and Chairman
2. Program Officer/Studies Coordinator
3. Program Economist
4. Program Social Scientist
5. Commodity Management Officer
6. Financial Analyst

The Project Manager's role will be to:

1. Serve as Chairman of the Project Committee.
2. Develop and implement procedures which will ensure the effective flow of information amongst the PIP GSDR and USAID sub-activity managers, and Somali private sector clients of the sub-activities (within the context of AID Handbook 3 guidance, and USAID policy and procedures).
3. Serve as the manager of the overall PIP project in matters regarding the operation of the project as distinct from PIP project sub-activities (e.g. inter-activity funds transfers, review of project financial status, observance of project deadlines, and project agreement and project paper amendments). The project manager will clear all scopes of work and earmarking/sub-obligating documents (e.g. PIO/T'S, PIO/P'S, PIO/C'S, Contracts, etc.), and ensure conformity with the overall intent and objectives of the PIP project.

4. In conjunction with the PIP Project Committee (and on an annual basis and other times as required), review and update the Project's implementation schedules (pp. 53-58) and the contractors work plans.
5. Review, clear and /or approve all project activities as appropriate which are not specifically reserved to the Mission Director or other Mission Officers under USAID/Somalia Policy and Procedures.

The PIP USAID Project Committee will be responsible for ensuring free and full information flows amongst the PIP subactivities. The exercise of these responsibilities will involve, interalia:

1. Regularly scheduled project coordination meetings (with appropriate GSDR representatives invited as the agenda dictates).
2. Systematic exchange of reporting documents amongst the committee members.
3. Development of agreed sectoral and subsectoral priorities for the PIP subactivities.
4. Development of procedures for a common data base for the PIP subactivities, and their respective contractors.
5. Coordination of the PIP Project evaluation process.
6. Developing proposed mechanisms for interrelating Somali public and private sector coordination amongst the sub-activities to assure the most effective linkages.

7. Regular meetings amongst the PIP project contractors.
8. Systematic exchange of reporting documents amongst the sub-activity contractors.
9. Conferences, meetings or seminars involving the Somali private sector client entities involved in the PIP project sub-activities.
10. Systematic referral procedures to direct clients of one sub-activity to another sub-activity as appropriate.
11. Review and approve: (a) clarifications/modifications to the macroeconomic and socioeconomic studies selection criteria, (b) approval of future PIP Project studies, and (c) review of project implementation schedules, and contractors' work plans, at least on an annual basis.

B. Subactivity Level

- (1) USAID: Each sub-activity will be managed and monitored by an "activity manager" designated by the Mission Director. Presently, these designations are as follows:
 - (a) Policy Studies and Domestic Finance - USAID Program Officer
 - (b) Private Sector Development Initiatives - USAID Commodity Management Officer.

These sub-activity management designations can be reassigned at the discretion of the Mission Director, as appropriate. The sub-activity manager normally will be responsible for the following:

- (a) Prepare (or arranges for preparation of) of PIO/T's, and related scopes of work, PIO/C's, and ensures its appropriate clearance and issuance to initiate the contracting process.
- (b) Participates in the process of selecting the contractor(s) for the sub-activity.
- (c) Maintains personal liaison with the contractor(s) and their respective GSDR counterparts.
- (d) Monitors the substantive and technical performance of the contractor(s).
- (e) Ensures compliance by the contractor(s) with the terms of their respective contracts, and arranges for corrective action for specific deficiencies.
- (f) Reviews, analyzes and comments upon reports required from the contractor(s) and/or the GSDR, and ensures their circulation to the PIP Project Committee and other contractors, as appropriate.
- (g) Clears contractor(s) vouchers submitted for payment, and submits the same for the PIP Project Manager's administrative approval.
- (h) In consultation with the PIP Project Manager, USAID Contracts Officer, and USAID Controller, assures that scopes of work, PIO/T's and contractor work plan are revised as necessary to reflect agreed upon changes in contract implementation.

- (i) Prepare a written evaluation of the performance of the contractor(s) on at least an annual basis in accordance with AID policy and procedures.
- (j) Participates with the USAID evaluation staff and/or contractor, in the project/sub-activity evaluation process, including the preparation/clearance of the Project Evaluation Summary (PES), in those areas relating to a specific sub-activity.
- (k) Ensures that all documents and correspondence relevant to the specific sub-activity are maintained in a specific location within the Mission, and in accordance with pertinent AID file maintenance procedures.
- (l) Makes periodic visits to the site(s) of the sub-activity, and prepares site visit reports as appropriate, and in accordance with USAID policy and procedures.
- (m) Serves on the PIP Project Committee
- (n) Participates in sectoral activities sanctioned by the PIP Project Committee, e.g. seminars, meetings, and joint reporting efforts which involve the contractors and counterparts of other PIP project sub-activities.
- (o) Ensures that the PIP Project Manager is fully and regularly apprised of substantive matters of the PIP project sub-activity.

- (2) GSDR: The PIP Project Agreement (PROAG) will be signed by the Minister of Foreign Affairs, GSDR in his capacity as official liaison with the international donor community. The PROAG must receive the concurrence of the Ministry of National Planning (principal operating counterpart agency for the PIP Project) and Ministry of Finance prior to review and signing by the Ministry of Foreign Affairs. The Policy Initiatives and Privatization (PIP) Project level implementation responsibility for achieving overall project objectives will be shared between two operating GSDR ministries, e.g. the Ministry of Finance and the Ministry of Industry and Commerce. All of the PIP Project funding is tied to specific project sub-activities. In addition, the assigned sub-activities coincide with the specific GSDR implementation responsibilities of the designated ministries.

C. Policy Studies and Domestic Finance Subactivity

Objectives: Detailed Examination of Appropriate Economic Policies Resulting in Changes in Policy and Greater Efficiency in Public and Private Sectors.

- (1) This sub-activity will be responsible for the selection of a series of focussed macroeconomic and socioeconomic studies affecting national policy issues. These studies and assessments will be based upon the strategy and priorities described in the Mission Policy Action Program. It will be the responsibility of the USAID PIP Project Committee to ensure preparation of definitive scopes of work, and active participation of selected GSDR representatives at critical stages of implementation of the studies/assessments. Typical stages of implementation which may require GSDR input and substantive discussion are:

- (a) Preparation of the scopes of work.

- (b) Submission of PIO/T and identification of the contractor to perform the study.
- (c) Review and approval of the contractor's workplan for performing the study.
- (d) Review of contractor's preliminary or interim report.
- (e) Review of contractor's draft final report.
- (f) Review of Somali/Italian translations of the "executive summary" of the final report.
- (g) Dissemination and discussion of contractor's final report with selected GSDR representatives and PIP Project Committee.
- (h) Follow-up report recommendations with the appropriate GSDR agency.
- (i) Review of all proposed macroeconomic and socioeconomic studies for consistency with the criteria as set forth in Annex "K", Scopes of Work: Macroeconomic and Socioeconomic Studies".
- (j) Periodically review the criteria for macroeconomic and socioeconomic studies for consistency with the focus of the USAID policy dialogue.

The PIP GSDR Project Manager will be the key contact in the GSDR for coordination, review and dissemination of PIP Project sponsored studies.

- (2) At least twelve (12) major policy studies will be conducted during the PIP Supplement period, within the following illustrative areas:

(a) Domestic Finance: The PIP Project will undertake an assessment of administrative procedures for assessing, collecting, and enforcing both direct and indirect taxes. A portion of the assessment will be financed under FY86 PD&S project. This will be a study of recurrent costs financing options for agriculture development projects. The major foci of analysis in the area of domestic finance will be:

- (1) Administrative procedures for indirect and direct taxes (separate activities).
- (2) Examination of the impact of export taxes and the export surrender requirements.
- (3) Rationalization of the customs rate structure.
- (4) GSDR budgetary processes and expenditure controls.
- (5) Examination of recurrent cost problems, implications and options.
- (6) Assessment of the overall tax structure to recommend the appropriate direction of long-term reform.

The recommendations of these studies will be structured in the format of an action agenda with time frames and intermediate steps required to achieve each of the recommendations. Any technical assistance required to assist the GSDR in achieving each recommendation will be clearly described. An order-of-magnitude cost of such technical assistance will be included. In consultation with the GSDR, the recommendations will be prioritized. When the GSDR has indicated its highest priorities, the international donor private sector initiatives coordination committee will be convened to discuss means of assisting the GSDR in implementing its action agenda. Dependent upon the availability of PIP Project Supplement funds at that

time, the PIP project will assist the GSDR in implementing those priorities which are consistent with the Mission's Policy Action Programme. It is not within the scope of the PIP Project Supplement to assist the GSDR in implementing every identified domestic finance reform priority. It is envisioned the PIP Project will facilitate and encourage the participation of other interested international donors, e.g. IBRD, GTZ, EEC, UNDP, UK and Sweden in financing implementation of some of the priority recommendations of the studies.

(b) Divestiture of Public Enterprises: Although the GSDR has agreed "in principle" to divest itself of inefficient public enterprises, the process for accomplishing such divestiture has not been fully investigated and developed. Through its on-going policy dialogue with the GSDR, USAID will continue to encourage and support divestiture of public enterprises. However, other than the technical assistance for such which is included within the scope of work of the Industrial Promotion Advisor, there are no funds specifically indentified in the PIP Project Supplement to follow-up this activity. Nevertheless, there appears sufficient flexibility within existing PIP Project implementation arrangements to respond to a timely request from the GSDR for modest follow-up technical assistance. Presently, the Industrial Promotion Advisor is preparing a listing (at the request of MOIC) of probable candidate public enterprises identified for divestiture.

There are two macroeconomic studies currently planned in this area:

- (1) An assessment of the banana industry, to determine whether the monopoly status should continue after the current agreement expires, or the industry should be opened up to competition.

- (2) A study of the leather industry to assess the performance under different systems of management mechanisms for making the industry more viable, potential export value of hides and skins, and technical assistance required to implement certain reforms in the industry.
- (c) Regulatory Policy: The Somali private sector is already actively involved in trade and commerce. However, the impact of Government regulation on trade and commerce in Somalia has not been adequately addressed. During the PIP Supplement period, the Project will finance a study of current GSDR trade and commerce regulations, and the rationale for their existence. GSDR policy legal and regulations constraints which have a considerable affect on Somali private economic activity will be identified for all major sectors of the economy. Another special area of attention will be the GSDR Labor Code. The Project will finance an assessment of the existing GSDR Labor Code and its impact upon the generation of productive employment benefits to the individual and the Somali economy. The studies' results will be presented to the GSDR in the form of an action agenda, with recommended steps toward implementation of the agenda. The Mission and the GSDR will negotiate a set of priorities which are reasonably implementable within the near future. Dependent upon the availability of PIP Supplement funding at that time, the project will finance selected follow-up actions which result from recommendations of the studies.
- (d) Further Policy Studies Concerns: To the extent practicable, the Project will maintain its flexibility to respond to a rapidly changing Somali economic environment. The Project will allow for a limited number of as yet unspecified studies which are responsive to priority areas of opportunity for intervention consistent with the

parameters set by PIP Project Committee, and the Mission Policy Dialogue Plan. The following are illustrative areas of possible investigation:

- o A study of rural-urban linkages in the Lower Juba and Lower Shabelli regions. The study will examine the production, inputs, marketing, and use of revenues generated from livestock, bananas, maize, and locally produced non-agricultural goods and services. The study's importance is supported through its extremely valuable linkage with planned agricultural development in the region, the rehabilitation of the Port of Kismayo, Shabelli Water Management Project and the Juba Valley Development Master Plan. It is anticipated the study will be conducted by the Human Settlement and Natural Resources Systems Analysis (SARSA) Cooperative Agreement with AID.

- o Studies of the export potential of selected industries. Somalia must increase exports or reduce imports if it expects to reverse the continuing trade imbalance. The industrial base in Somalia is very small. The major export is livestock, followed by bananas. Somalia needs to broaden its markets for livestock exports to avoid problems such as those encountered in 1983 when livestock imports from Somalia were banned by Saudi Arabia. Also, Somalia needs a wider industrial base. The country does not have the energy resources to experiment in a diverse number of areas. Any significant new export industry must be the type which requires few imported components, and must have sufficient potential demand in neighboring countries. Similarly, new markets for livestock, and possibly the introduction of canning or freezing operations need to be introduced in the country. Following a brief assessment to identify target areas, the PIP Project will examine a few selected industries to determine market potential and domestic impact of production.

- Underlying the PIP Project's program of socioeconomic research is the recognition that encouragement of the private sector in Somalia will require sound analysis of the socioeconomic and sociocultural determinants/impacts of increased private sector participation in economic activities. The PIP Project's studies program will result in policy-related, program-oriented baseline data required for a better understanding of the key elements involved in the transition of the Somali economy to a more liberalized and "open" economy.
- (3) Ministry of National Planning: As the GSDR "principal operating counterpart" for the PIP Project, and the overall coordinating GSDR Ministry for the purpose of this Project, the Ministry of National Planning (MONP) will play an increasing active role in the GSDR's efforts to promote greater participation of the private sector in the development of the Somali economy. Through its Technical Directorate, the Ministry of National Planning will:
- o Make arrangements for the participation of GSDR representatives in the approval, review and monitoring of PIP Project studies and evaluations.
 - o Monitor the implementation of approved recommendations resulting from the completed studies.

The Director General of the Technical Directorate is the GSDR PIP Project Manager. He will be responsible for monitoring the implementation of PIP Project-funded assistance to the GSDR "implementing agencies", e.g. the Ministry of Finance, and Ministry of Industry and Commerce. The MONP controls the GSDR Public Investment Program, and is responsible for general

coordination of development efforts in Somalia. The Public Investment Program is occasionally adjusted to account for additions/deletions of activities, but the cumulative total should not exceed that which has been approved by the IBRD Consultive Group meeting for Somalia.

Under the USAID - financed SOMTAD Project (649-0119), a long-term advisor will be provided to the Ministry of National Planning (MONP) to assist it in developing and maintaining an integrated system of manpower supply/demand data as a planning, policy and decision-making tool for the MONP.

(4) Strengthening the Ministry of Finance:

The Ministry of Finance (MOF) is responsible for the development and management of the GSDR budget(s), and the instruments of budgetary control. The USAID CIP/PL-480 generated local currency (counterpart funds) are deposited in special accounts managed by the Ministry of Finance (MOF). All allocations of USAID Counterpart funds must be approved by the Minister of Finance and the USAID Mission Director. The GSDR Development Budget, inter alia, comprises the Public Investment Program (PIP) as approved by the Somalia Consultative Group Meetings, GSDR contribution to USAID, and its contributions to other international donor development projects. The Budget Directorate in the Ministry of Finance is responsible for the management of all AID and non-AID counterpart funds. The PIP Project-funded Domestic Finance Advisor will continue working out of the MOF/DDD for an additional 36 P/M. The Domestic Finance Advisor will assist the MOF in developing appropriate national accounts data, and provide support to the recently formed Standardized Budgetary Procedures Committee which will be

used for developing national system of budget, and accounting procedures. In addition, under the USAID-financed Somalia Management Training and Development (SOMTAD) Project, a long-term public finance advisor will be provided to the MOF Permanent Secretary.

D. Private Sector Development Initiatives Subactivity:

o Objectives:

- (i) Increased Information Available to the GSDR and Somali Private Sector Regarding Investment Opportunities, Public Policy, and Operating Conditions.
- (ii) Identify Viable New Enterprises, and Support Private Sector Assistance Programs which Improve Technical and Management Practices of Existing Enterprises.
- (1) Information generated under the PIP Project studies and various consultancies have a potentially wide audience. While policy studies are used primarily by GSDR, many of the sector assessments and specific technical and management consultancies are of considerable value to the private sector. An objective of the PIP Project will be to ensure that policy studies and sector assessments are adequately distributed within the GSDR by the Technical Directorate in the Ministry of National Planning. In addition, the Supplement will support the distribution of technical, marketing, and management information to the private sector through the Ministry of Industry and Commerce, Somali Chamber of Commerce and private trade associations as they are established. This will be accomplished to the extent practicable by the use of workshops, seminars, and conferences on issues and dissemination of recommendations made by the various studies.

o Publications:

Written publications will provide one opportunity for disseminating information. In terms of the PIP Project, it is anticipated that at least five of the policy studies and comparative assessments will be published for general circulation. Recognizing the importance of publishing in the Somali language, these documents (e.g. executive summary) will be translated where and when it is feasible to do so. The technical, marketing, and management information will be published on a case by case basis.

o Seminars and Workshops:

Seminars and workshops offer another mechanism for disseminating information related to economic policy and privatization initiatives, and also offer an added advantage of providing discussions between participants. In the case of policy studies, most of studies contractors will be expected to provide a brief exit seminar on their preliminary findings for USAID, GSDR and where appropriate, private sector representatives.

(2) Strengthening the Ministry of Industry and Commerce: The Ministry of Industry of Commerce is responsible for the GSDR's regulation and support of the private sector. In this respect, it is affected by the policy studies and direct assistance to the private sector proposed under the PIP Project. Two long-term MOIC advisors have been supported under the original PIP Project to assist MOIC privatize the public sector parastatals, strengthen the dialogue between the Government and private sector, and develop independent business organizations. These advisors are expected to assist the GSDR relax business regulations and encourage increased private sector investment. The Private Sector Advisor's services to MOIC will terminate by September 30, 1986.

However, the Industrial Promotion Advisor's Services will be extended an additional 12 P/M for technical assistance to the MOIC Private Enterprise Department. The advisor's primary focus will continue to be policy, legal, and regulatory matters, with the major program objectives of:

- o Promoting a favorable investment climate in Somalia.
- o Promoting free entry of new firms (both domestic and foreign) into the Somali manufacturing industry.

It is expected the Industrial Promotion Advisor will remain in place until February 1988. This will allow sufficient overlap with the long-term advisor which will be provided to MOIC under the SOMTAD Project.

- (3) Through the use of PIP studies, and the continuation of the TIPCO and ISTI contracts, USAID will continue to develop and refine its Private Sector Strategy by further defining appropriate interventions in the following areas: Somali investment base, open competition, streamlined regulations, services sector, and technical advice and consultancies.

In the original PIP Project Paper, direct assistance to the private sector was anticipated but confined primarily to management consultancies. The specific output was "Management Consultancies for Entrepreneurs". Although the project will continue to provide local currency and some F/X support to the Somali Chamber of Commerce and entrepreneurial associations, based upon project experience to date, and the decision of the CDSS to look for other promising targets of opportunities in the private sector, primary private sector focus for the PIP Project Supplement will be technical assistance to support the establishment/strengthening of a private commercial banking in Somalia.

- (4) Establishment of A Private Sector Banking Facility: A major new sub-activity included in this PIP Project Supplement is direct support for the establishment of private sector banking in Somalia. The recommendation to establish private banking in Somalia has been a major issue in the GSDR's policy dialogue both with USAID and other international donor organizations and financial institutions over the past few years. The GSDR has agreed that private banking is desirable as part of the national economic system. As a covenant to the last USAID CIP, the GSDR has agreed that it will enact the rules and regulations which will permit private banking to be established. These regulations have been drafted by the British private banking firm of Samuel Montague under an EEC contract and await enactment by the GSDR.

In July 1985, the GSDR asked the International Finance Corporation (IFC) to provide consultative services in order to determine the feasibility of establishing private banking facilities in Somalia. The IFC completed its analysis of Somalia's banking laws and presented a summary report to the GSDR. In addition, Samuel Montague Company began an analysis of Somalia's banking laws and presented its findings to the Government. Both IFC's and Montague's reports were formally accepted by the GSDR on October 10, 1985. IFC returned to Somalia in November 1985 for follow-up studies and final recommendations. IFC in the formal report to the GSDR recommended the establishment of private banking facilities in Somalia. The recommendations included the need for external assistance during the bank's initial start-up phase. The assistance recommended would include technical services and training. The GSDR received the report warmly and on December 3rd telexed to IFC their approval and acceptance of the recommendations. The GSDR is expected to issue a private banking license to a group of private sector businessmen. IFC has informally told USAID that both Somali and Kenyan investment

will be included. IFC will have a \$500,000 equity participation, provided USAID will fund a TA managerial contract with a international commercial bank. Tentative expressions of interest in such a contract have been received from three American Banks. In support of the GSDR's decision to establish private banking, the Supplement will provide managerial assistance to the newly established banking institution in order to assist it to organize and begin functioning effectively.

This will be in the form of approximately four (4) person years of technical assistance and staff development for bank personnel. It is envisioned as the bank develops and grows, interest from external international banks will also grow and assistance from those banks (possibly involving an equity option in the bank) will be forthcoming. However, the situation is still too fluid to accurately predict the final outcome.

The establishment of private banking facilities will provide Somalia with its first private bank since the GSDR ended its experiment with socialism. Credit facilities will be available to the private sector and banking credibility will grow. With this it is envisioned that other banks will start, and a measure of competition will develop. It is expected that a free banking system will eventually replace the present inefficient government controlled system.

The scope of work of the Private Sector Bank Management Specialist is fully described herein as Annex "J". The Private Sector Bank Management Specialist (PSBMS) will be provided under an contract with a qualified American international banking institution. The Request for Technical Proposals (RFTPs) will be developed in collaboration with the International Finance Corporation, Board of Directors of the private sector bank, GSDR Ministry of Finance,

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USAID Contracts Officer, and specialized assistance from AID/W or REDSO/ESA. The successful proposer will conclude an AID Direct Contract. Oversight and administration of TA contract will be the responsibility of USAID. The PSBMS will work directly with the Chief Executive Officer (CEO) of the private sector bank, and shall maintain an office and day-to-day presence in the facility. The specialist will be expected to prepare a detailed workplan with short-term and long-term implementation targets/objectives. Before the Specialist shall begin implementation of the workplan, the Board of Directors of the private sector bank shall state in writing that the targets and objectives of the workplan are agreeable to them, and they warrant to the GSDR and AID that the program will be supported by them and implemented in the manner stipulated in the workplan. The GSDR, IFC and AID will formally monitor progress in implementing the workplan on an annual basis. If sufficient progress has not been made by the bank to implement the program and sustain the efficient operations of the facility, AID shall reserve the right to suspend or terminate support of the PSBMS technical assistance and training program. Conditions for granting and maintaining technical support will be a condition precedent to disbursement in the PIP Project Agreement Amendment, and included in an aide-memoire with the private sector bank's Board of Directors, USAID and the GSDR. In consultation with the IFC and AID/W, the aide-memoire shall describe the quality of technical operations, level of capitalization, and debit/equity ratio etc. which must be maintained to ensure continued AID support and viability of the bank.

The PIP Project Agreement (PROAG) amendment shall include a Condition Precedent (CP) to the disbursement of PIP Project funds for the private sector banking activity. The text of the CP is included in section VI A., p. 59.

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- (5) The Somalia Chamber of Commerce: A prerequisite for an improved economic climate in Somalia is the creation of private institutions which can support and nourish private enterprise. In this respect, private businessman's association, most notably an active private Chamber of Commerce, is needed to act as an independent voice of private sector concerns to Government and as a conduit to deliver training, information, and other types of services to private enterprises. The establishment of an independent and active Chamber of Commerce has been a continuing topic in the policy dialogue between USAID and the GSDR over the last two years. The GSDR's endorsement of the covenant included in the recent CIP Agreement to allow the establishment of private trade associations for the purposes of promoting economic, commercial and industrial progress represents a step forward in the process of setting up a functional, privatized Chamber of Commerce. To be functional, for the purposes of this Project, the Chamber of Commerce must be under the direction of a freely elected board, meet regularly, and include in its membership a broad and active representation from the business community. The first step towards an effective private Chamber of Commerce has been taken. The Ministry of Commerce has relinquished control of the Chamber and an interim Board has been appointed by the President of the GSDR. The Board will function until the Chamber is self-supporting and elections by the paid-up members can provide an independent elected Board. In support of this objective, the PIP Project proposes to finance (through the use of local currency and a modest amount of F/X) budget and management assistance, business outreach programs, and limited administrative support materials, once the preceding basic conditions have been met. It should also be noted that a local Young Presidents Club is in the process of being formed by local businessmen and the U.S. organization. In addition, a Somali-American Business Council has been formed in Washington, D.C and Somalia.

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The objectives of the Chamber of Commerce are:

- (a) To present and safeguard the interests of the businessmen, manufacturers, farmers, livestock breeders, fishermen and craftsmen and to promote their activities relating to trade and economy.
- (b) To collect, coordinate and publish business information, references and data concerning commerce, industry, agriculture, livestock, fisheries and handicrafts.
- (c) To register the business persons, manufacturers, farmers, livestock (breeders) traders, fishermen and craftsmen, putting them into different categories according to their respective professions.
- (d) To explore and record the business trends prevailing in the Somali Democratic Republic and abroad.
- (e) To identify, record and promote goods and commodities available for import and export.
- (f) To identify the problems facing the commerce in the country in consultation with a special committee consisting of experts in the fields of the problems in question.
- (g) To encourage all activities that promote the economic development of the country.
- (h) To organize the participation in trade fairs within the country and abroad.
- (i) To maintain the Register of the Board of Directors, determination of the activities of experts in commerce,

industry, agriculture, livestock, fisheries and handicrafts, evaluation experts, brokers and maintain a Register of exporters and researchers.

(j) To maintain in consultation with the concerned ministries, delegations and individuals to participate in international meetings and conferences dealing with matters within the competence of the Chamber.

(k) To organize trade markets.

(l) To cooperate and affiliate with other international Chambers of Commerce, when it is in its interests to develop such relationships.

The Somali Chamber of Commerce is open to anyone (having juridical personality) who has been awarded a permit to do business in manufacturing, farming, livestock (breeding) trading, fishing, and crafting, who has been registered by the Chamber, and has paid the fees prescribed by the Chamber.

(6) Entrepreneurial Associations: In other developing countries, smaller and more specialized private sector organizations/institutions have been considerably effective in providing supportive services to privately-held enterprises. The PIP Project expects to identify and encourage such entrepreneurial associations in Somalia as they are established. The Project's support will be based upon USAID determination that evidence exists which will support the potential effective role such associations would play in providing economically valuable services/benefits to their memberships. Typical entrepreneurial associations which probably will be established, and receive the Project's conditional support are:

- o Agricultural Exporters Associations.
- o Business and Trades Association.
- o Livestock Traders Associations.
- o Private Investment Council.

It is expected that most of the financial support provided by the PIP Project to entrepreneurial associations' activities will be in the form of local currency allocated to the Project. However, where there are demonstrative opportunities to provide foreign exchange support (through consultancies) which will have a considerable impact on the success of these associations, the PIP Project will provide such through the existing TIPCO and ISTI consultancies, ISEC, or others on a modest fee basis, on "ability to pay", an in local currency.

- E. Gray Amendment Concerns: Qualified minority and/or Gray Amendment entities have been utilized in the PIP Project since its inception in 1983. Two such entities (ISTI and TIPCO) have contractual arrangements with the Project which will continue for a substantial part of the PIP Project Supplement period. It is expected that several minority or Gray Amendment personal services contractors (PSC's) will be participating individually and/or in collaboration with qualified Somali consulting firms in implementing a substantial number of the PIP Project Supplement macroeconomic and socioeconomic studies. It is expected that the remainder of the PIP Project policy studies will be implemented utilizing AID/W and REDSO/ESA IQC's. The PIP Project Finance Advisor is a minority (e.g. women) personal services contractor.

IV. PROJECT IMPLEMENTATION SCHEDULES

1/ A. Schedule of Major Project Implementation Activities.

<u>Activity</u>	<u>Period</u>	<u>Responsibility</u>
1. PIP Project Supplement Approved	7/86	USAID
2. TIPCO Business Development Conference Convened	6/86-7/86	USAID, TIPCO, MONP
3. Private Enterprise Productivity and Development Short-term Consultancies	7/86-9/88	USAID, TIPCO
4. PIP PROAG Amendment Signed	8/86	USAID, GSDR
5. TA to Somali Chamber of Commerce for organization/Development Privatization)	7/86	TIPCO, Somali Chamber of Commerce
6. Women in the Somali Economy(Study)	7/86-12/86	USAID, MONP
7. Scopes for MOF & MOIC Advisors Updated	7/86	USAID, MOF, MOIC, PSC, ISTI
8. Attitudes & Mgt Practices of Somali Business Persons(Study)	7/86-12/86	USAID, MONP
9. Tentative Plan for Future Use of TIPCO and ISTI Completed	9/86	USAID, TIPCO, ISTI

<u>Activity</u>	<u>Period</u>	<u>Responsibility</u>
10. TIPCO and ISTI Contracts' Amendment Approved/Ordered	9/86	USAID, TIPCO, ISTI, SBA
11. Assessment of Private Sector Entreneurial Needs	8/86-10/86	USAID, TIPCO, MONP
12. International Conference/ Study Tour	8/86	USAID
13. Interrelationship of Pastoralists & Livestock Traders (Study)	8/86-2/87	USAID, MONP
14. Socioeconomic Impact of Male Migration Overseas (Study)	8/86-2/87	USAID, MONP
15. Regional Domestic Income Distribution (Study)	8/86-2/87	USAID, MONP
16. FSN Project Management Assistant Hired	9/86	USAID
17. Hides and Skins Industry Assessment	9/86-12/86	USAID
18. Diagnostic Evaluation of Strategic Business Development and Implementation Plan	10/86-1/87	USAID, MONP
19. Fertility, Childbearing, Family Size, & Economic Development Study	11/86-5/87	USAID, MONP

<u>Activity</u>	<u>Period</u>	<u>Responsibility</u>
20. Study of Rural-Urban Linkages	11/86-12/87	USAID, SARSA, MONP
21. Polygamy and Its Impact on Economic Development Savings and Growth (Study)	11/86-9/87	USAID, MONP
22. Study of Direct Tax Administration Procedures	11/86-9/87	USAID, MONP, MOR
23. Survey of Attitudes Toward Certain Occupations (Study)	12/86-3/87	USAID, MONP
24. Private Sector Strategy Action Program Steering Committee Established	12/86	USAID, MONP, MOIC
25. International Conference/ Study Tour	12/86	USAID
26. Somali Investment Code Enacted	1/87	GSDR
27. Private Sector Banking and Insurance Laws Enacted	1/87	GSDR
28. Export Development Strategy and Comparative Advantage (Study)	2/87-9/87	USAID, MONP
29. Public Sector Recurrent Costs Financing/Revenue Generation Options (Study)	2/87-9/87	USAID, MONP, MOR
30. Private Sector Bank Established	3/87	Private Investors, GSDR

<u>Activity</u>	<u>Period</u>	<u>Responsibility</u>
31. Private Sector Business Development Conference	3/87	USAID, MONP, TIPCO
32. International Conference/ Study Tour	5/87	USAID
33. Private Sector Banking Management Specialist RFTP Approved/ Issued	6/87	USAID, MOF, IFC Somali Private Bank Board of Directors, MONP
34. Socioeconomic/Policy Studies Seminar	6/87	USAID, MONP
35. Assessment of Customs Rate Structure	6/87	USAID, MONP
36. Somali Chamber of Commerce Fully Privatized	7/87	GSDR, Chamber of Commerce
37. Assessment of the Leather Industry	7/87	USAID, MONP
38. Assessment and Rationalization of Somali Labor Laws (Study)	9/87-4/88	USAID, MONP, Ministry Labor, Youth & Sports
39. Impact Assessment of export taxes and export surrender requirements	9.87	USAID, MONP
40. Private Sector Banking TA Contract Executed	9/87	USAID, Successful Proposer
41. International Conference/ Study Tour	9/87	USAID

<u>Activity</u>	<u>Period</u>	<u>Responsibility</u>
42. Private Sector Business Development Seminar	11/87	USAID, MONP, TIPCO
43. Assessment of the Banana Industry	11/87	USAID, MONP
44. Private Sector Banking TA Advisor Mobilized	11/87	Successful Propose USAID
45. Small Business Credit Needs Assessment (Study)	1/88-7/88	USAID, Somali Priv. Sector Bank, MONP
46. GSDR/Private Sector Strategy Action Program Developed	2/88	MONP and other GSDR entities
47. Interim Project Evaluation	2/88	USAID, MONP
48. Hides and Skins Monopoly Lifted	2/88	GSDR
49. ISTI Contract Terminates	2/88	USAID, MONP, MOIC
50. TIPCO Contract Terminates	2/88	USAID, MONP
51. Study of Indirect Tax Adminis- tration Procedures	2/88	USAID, MONP
52. International Conference/ Study Tour	2/88	USAID
53. Socioeconomic/Policy Studies Seminar	6/88	USAID, MONP
54. GSDR/Private Sector Strategy Action Program Implementation	8/88-10/90	MONP, and other GSDR entities

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<u>Activity</u>	<u>Period</u>	<u>Responsibility</u>
55. Improved Budgetary & Fiscal Control System Established & Implemented	10/88	MOF
56. Socioeconomic/Policy Studies Seminar	6/89	USAID, MONP
57. Improved Revenue Collection System Established and Implemented	10/89	Ministry of Revenue
58. MOF Finance Advisor's Contract Terminates	10/89	USAID, MOF
59. Final Project Evaluation	5/90	USAID, MONP
60. Socioeconomic/Policy Studies Seminar	6/90	USAID, MONP
61. Private Sector Banking TA Contract Terminates	9/90	USAID, MONP, MOF Somali Private Sector Bank
62. Project Assistance Completion Date (PACD)	9/30/90	USAID

1/ Note: This schedule will be further detailed and refined in accordance with approved annual/multi-year USAID/GSDR and contractor workplans and formative evaluations recommendations.

2/ B. Schedule of Implementation and Financing Methods

<u>Component</u>	<u>Method of Implementation</u>	<u>Financing Method</u>	<u>Amount</u>
<u>1. Technical Assistance:</u>			
- L/T Advisors (MOF & MOC)	Direct AID Contracts	Direct Reimbursement	\$ 727
- L/T Advisor MI (ISTI)	Direct AID Contract	Direct Reimbursement	583
- L/T Advisor, Banking Mgmt	Direct AID Contract	Direct Reimbursement	1,500
- S/T TA (Studies), & S/T Librarian (MOIC)	Direct Aid Contract (e.g. IQC's) and PSC's	Direct Reimbursement	2,290
- S/T TA Private Sector Assistance (TIPCO)	Direct Aid Contract	Direct Reimbursement	900
<u>2. Study Tours, Seminars, and Conferences</u>			
	Direct AID Contracts	Direct Reimbursement	240
<u>3. Project Support:</u>			
- Logistics	USAID Contracts Through FSU, Direct AID Contracts	Direct Reimbursement	510
- Commodities	Host Country PSA Contracts	Direct Reimbursement, and/or Direct L/COM	150
<u>4. Evaluation/Audit</u>			
	Direct AID Contracts	Direct Reimbursements	<u>100</u>
		TOTAL	\$7,000 .

2/ Note: All amounts include contingencies and inflation amounts associated with supplemental funding.

V. EVALUATION PLAN

- A. In accordance with the "Special Covenants" section of the Policy Initiatives and Privatization (PIP) Project Agreement (PROAG), PIP Project Evaluations will be scheduled at a minimum of two (2) points during the Supplement period.
- o An interim project evaluation will be conducted by February, 1988. This would be approximately 22 months following execution of the PIP PROAG Amendment No. 2 to obligate the PIP Supplemental funding. It is expected this would allow a reasonable time frame to re-assess the probability of achieving the objectives of the Project by the Project Assistance Completion Date (PACD). In addition, this would be an opportunity to test the validity of the project design methodology, and make any required mid-course corrections.
 - o The final project evaluation will be conducted by May 1990. This would be within 24 months of the "interim" project evaluation, and approximately five (5) months before the PACD (September 30, 1990). The final project evaluation will be (to the extent practicable) an overall assessment of implementation progress toward achievement of the PIP project objectives, and development impact attributable to the Project. In addition, the final project evaluation will examine the appropriateness and type of any follow on assistance.
- B. The evaluation process will emphasize, inter alia:
- o The extent to which the macroeconomic and socioeconomic and policy studies/assessments have been performed, and their probable impact on the effectiveness of the GSDR/USAID Policy Dialogue.

- o The utility of evaluations as an integral part of the project monitoring process.
 - o The appropriateness and effectiveness of the implementation methodology used for the Project.
 - o The importance of the substantive involvement of the USAID and GSDR PIP Project Managers, and the PIP Project Committee in the on-going evaluation process.
- C. The evaluation team will consist of REDSO/ESA and/or AID/W staff, as appropriate. If neither are available, an AID IQC will be used. The Chairperson of the USAID evaluation committee will be the USAID PIP Project Manager. The GSDR Project Manager, and the USAID PIP Sub-activity Managers will be represented on the evaluation committee.

VI. CONDITIONS PRECEDENT AND COVENANTS

A. Conditions Precedent

1. The conditions precedent to the first disbursement under the PIP PROAG (dated September 29, 1983; amended February 5, 1986) have been satisfied by the GSDR.
2. Sub-Activities: "Prior to disbursement for individual activities under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, obtain written approval of A.I.D. of the activities to be financed by the Grant, including approval of procurement and contracting procedures and documentation in the case of host country contracting." This condition precedent will be retained in PIP PROAG Amendment No. 2.

3. An additional condition precedent will be included in PIP PROAG Amendment No. 2:

Private Sector Bank Management Technical Assistance: Prior to disbursement for the private sector bank management technical assistance sub-activity under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the parties may otherwise agree in writing, to furnish to AID in form and substance satisfactory to AID, evidence that:

- (1) The Government of the Somali Democratic Republic (GSDR) has enacted rules, regulations, and legislation which will allow immediate establishment of a privately-held, commercial bank in Somalia, and that;
- (2) A privately-held, commercial bank has been established in Somalia pursuant to such rules, regulations, and legislation.

B. Special Covenants

The "special" covenants which are included in the PIP PROAG are indicated below, and will be retained in PIP PROAG Amendment No. 2:

1. Project Evaluation. The parties agree to establish an evaluation program as part of the Project. Except as the Parties may otherwise agree in writing, the program will include, during the implementation of the Project an at one or more points thereafter:

- (a) Evaluation of progress toward attainment of the objective of the Project;
 - (b) Identification and evaluation of problem areas or constraints which may inhibit such attainment;
 - (c) Assessment of how such information may be used to help overcome such problems; and
 - (d) Evaluation, to the degree feasible, of the overall development impact of the Project.
2. Studies and Technical Assistance Counterparts. The Grantee agrees to name and assign qualified Counterparts for the A.I.D. sponsored technicians for the studies and technical assistance activities to be undertaken, in a timely manner.
3. Availability of Information. The Parties agree that the Grantee and A.I.D. may brief and de-brief all contractors funded by the Grant and that appropriate records, both financial and non-financial, will be maintained and available to the Parties, and that all reports will be furnished to all Parties of the Agreement and Sub-Agreement.

VII. FINANCIAL PLAN

A. Existing Project Funds

The amount of \$2.5 million was obligated on September 29, 1983 from Economic Support Funds (ESF). The GSDR pledged So.Sh. 15 million at that time for the support of the Project's activities. Subsequently, by PIP PROAG Amendment No. 2, the GSDR added So.Sh 56.987 million to their pledge. Presently, the GSDR pledge is approximately So.Sh 71.987 million.

Table I

Summary of Existing (F/Y) Project Funds

(U.S. \$000 or Equivalent)

<u>AID</u>	<u>Amount</u>
1. Long-Term Technical Assistance	\$1,144
2. Short-Term Technical Assistance	\$1,050
3. Study Tours	51
4. Logistics/Support	<u>255</u>
	\$2,500

B. Sources of Local Currency

The principal sources of the supply of local currency (L/C or Somali Shillings) is as follows:

- (1) CIPL: Local currency generated by the USAID Commodity Import Program (CIP) and PL-480 programs are deposited in a special account in the GSDR. Ministry of Finance. These funds are subsequently allotted to USAID project and other activities by mutual agreement of USAID and the GSDR.
- (2) Trust Funds: A negotiated portion of the PL-480 Title I. L/C receipts are deposited in a special account which is used by USAID to cover contractors; house rental, guards, utilities and occasionally project vehicle operation expenses.
- (3) GSDR Operating Expenses Budget: The GSDR ministries receive a standard yearly operating expenses budget allocation from the GSDR, Ministry of Finance. This allocation is principally used for non-PIP project activities of the ministries.

C. PIP Supplement Funding

- (1) It has been estimated that approximately \$4.5 million additional AID funds will be required to fully implement the objectives of PIP Project in a timely manner as set forth in this supplemental document. The allocation of supplemental funds amongst the Project components is set forth in Table IV. The AID contribution for "technical assistance" is approximately 78 percent of total AID supplemental funds. The GSDR contribution to this component is approximately 25 percent.

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With the additional funding from AID and the GSDR, total estimated LOP AID funding would be \$7.0 million, and total estimated LOP GSDR funding would be \$3.036 million (equivalent). The GSDR total LOP contribution would be approximately 30 percent of total F/X and L/C LOP costs. The GSDR "official exchange rate" of So.Sh 78.0 = 1 \$ U.S. was used for conversion.

- (2) The contingency factors applied against F/X costs for FY87-FY90 inclusive were: 1%, 3%, 4%, and 6%, respectively. The inflation factors applied against foreign exchange (F/X) costs for the same period were: 1%, 7%, 9%, and 12%, respectively. For the period FY87-FY90 inclusive, the contingency factors applied against local currency (L/C) costs were: 5%, 6%, 9%, and 21%, respectively. Similarly, the inflation factors of : 9%, 20%, 29%, and 95%, were applied for fiscal years (F/Y) 87 - 90, respectively.

Contingency and inflation factors were not applied against FY84-86 F/X or L/C costs. These costs are rather firmly estimated at this time.

- (3) The GSDR is in the throes of an IMF - mandated economic austerity program which requires gradual devaluation of the Somali "official" exchange rate over the long-term. This situation has created considerable anxiety amongst GSDR officials, businessmen, and other agencies doing business in Somalia. The adjustments to the GSDR contribution to the PIP Project must include significant allowances for changes in the domestic market conditions, vis-a-vis, the current monetary devaluation process. Budgetary flexibility must be maintained in this respect through a very difficult transitional period for the GSDR.

Table II

Summary Cost Estimate and Financial Plan
(U.S. \$000 or Equivalent)

	<u>AID</u>	<u>Amount</u>
1.	<u>Technical Assistance</u>	<u>5,699</u>
	A. Long-term (L/T) (120 P/M)	2,699
	B. Short-term (S/T) (143 P/M)	3,000
2.	<u>Study Tours, Seminars, Conferences</u>	<u>228</u>
3.	<u>Project Support</u>	<u>626</u>
	A. Logistics	484
	B. Commodities	142
4.	<u>Evaluation</u>	<u>50</u>
5.	Audit	<u>45</u>
6.	<u>Sub-Total</u>	<u>6,648</u>
7.	<u>Contingency/Inflation</u>	<u>352</u>
8.	<u>TOTAL</u>	<u>\$7,000</u>
	<u>GSDR</u>	<u>Amount</u>
1.	<u>Technical Assistance Operations</u>	<u>728</u>
2.	<u>Study Tours, Seminars, Conferences</u>	<u>191</u>
3.	<u>Project Support</u>	<u>1,500</u>
	- Logistics	1,000
	- Commodities	500
4.	<u>Sub-Total</u>	<u>2,419</u>
5.	<u>Contingency/Inflation</u>	<u>617</u>
6.	<u>Total</u>	<u>\$3,036</u>
	- <u>Total Project Costs</u> -	<u>\$10,036</u>

Table III

Projection of Expenditures By Fiscal Year

<u>AID</u>	<u>FY84-85</u>	<u>FY86</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>	<u>FY90</u>	<u>TOTAL</u>
1. Technical Assistance	436	1,912	1,272	783	781	515	5,699
2. Study Tours, Seminars and Conferences	39	85	44	27	33	-0-	228
3. Project Support	8	251	152	82	74	59	626
4. Evaluation/Audit	-0-	-0-	-0-	17	-0-	78	95
5. Contingencies	-0-	-0-	20	31	34	39	124
6. Inflation	<u>-0-</u>	<u>-0-</u>	<u>12</u>	<u>60</u>	<u>78</u>	<u>78</u>	<u>228</u>
<u>TOTAL</u>	<u>483</u>	<u>2,248</u>	<u>1,500</u>	<u>1,000</u>	<u>1,000</u>	<u>769</u>	<u>7,000</u>

<u>GSDR</u>	<u>FY84-85</u>	<u>FY86</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>	<u>FY90</u>	<u>TOTAL</u>
1. Technical Assistance Operations	22	132	145	180	177	72	728
2. Study Tours, Seminars and Conferences	-0-	36	52	52	51	-0-	191
3. Project Support	15	529	359	359	178	60	1,500
4. Contingencies	-0-	-0-	59	37	35	28	159
5. Inflation	<u>-0-</u>	<u>-0-</u>	<u>96</u>	<u>117</u>	<u>119</u>	<u>126</u>	<u>458</u>
<u>TOTAL</u>	<u>37</u>	<u>697</u>	<u>711</u>	<u>745</u>	<u>560</u>	<u>286</u>	<u>3,036</u>

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Table IV

Summary Cost Estimate and Financial Plan.
(U.S. \$000 or Equivalent)
PIP Project Supplemental Costs

<u>AID</u>	<u>AMOUNT</u>
1. Technical Assistance	3,505
2. Study Tours, Seminars, Conferences	177
3. Project Support	371
4. Evaluation/Audit	95
5. Contingencies	124
6. Inflation	<u>228</u>
<u>TOTAL</u>	<u>4,500</u>

<u>GSDR</u>	<u>AMOUNT</u>
1. Technical Assistance Operations	574
2. Study Tours, Seminars, Conferences	155
3. Project Support	956
4. Contingencies	159
5. Inflation	<u>458</u>
<u>TOTAL</u>	<u>2,302</u>

- Total Project Supplemental Costs 6,802

ANNEXES

- A. Initial Project Authorization
- B. ECPR Guidance Cables
- C. GSDR Request for Assistance
- D. Logical Framework Matrix
- E. Environmental Clearance
- F. Financial Data: Detailed Budget/Cost Estimates
- G. Organizational Chart: Ministry of National Planning
- H. Organizational Chart: Ministry of Finance
- I. Organizational Chart: Ministry of Industry and Trade
- J. Scope of Work: Private Sector Bank Management Specialist
- K. Scopes of Work: Macroeconomic and Socioeconomic Policy Studies
- L. International Donors Sector Committee Studies
- M. Scope of Work: MCF Finance Advisor
- N. Scope of Work: MOIC Industrial Promotion Advisor
- O. Congressional Notification
- P. Statutory Criteria: 5C(2) Project Checklist

ANNEX A

Attachment A

PROJECT AUTHORIZATION

Name of Entity : Somali Democratic Republic (GSDR)
Name of Project : Policy Initiatives/Privatization
Number of Project : 649-0132

1. Pursuant to Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Policy Initiatives/Privatization Project involving planned obligations in an amount not to exceed \$2,500.000 in grant funds over a three year period from the date of authorization, subject to the availability of funds in accordance with the AID OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project.
2. The Project is intended to help the GSDR accomplish its economic recovery program and increase private participation in the economy through collaborative analytical studies of macroeconomic policies affecting national development and efforts to increase private sector involvement in the economy. To carry out the objectives of the Project, AID will provide financing for technical assistance, study and observation tours and miscellaneous support and logistic costs.
3. The Project Agreement which may be negotiated and executed by the officer(s) to whom such authority is delegated in accordance with AID regulations and Delegations of Authority shall be subject to the following essential terms and covenants and major conditions, together with such other terms and conditions as A.I.D. may deem appropriate:
 - a. Source and Origin of Goods and Services

Goods and services, including ocean shipping financed by A.I.D. under the project shall have their source and origin in the United States, other Code 941 countries or in Somalia, except as A.I.D. may otherwise agree in writing.
 - b. Conditions Precedent to Disbursement

Prior to first disbursements under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursements will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.

 - (1) An opinion of counsel acceptable to A.I.D. that

the Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms.

(2) A statement of the names of the persons holding or acting in the offices of the Grantee specified as authorized representatives, and a specimen signature of each person specified in such statements.

c. Covenants

The Project Agreement shall contain covenants providing in substance as follows:

i. Evaluation:

The Parties agree to establish an evaluation program as part of the project. Except as the Parties may otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter:

- a) Evaluation of progress towards attainment of the objective of the project;
- b) Identification and evaluation of problem areas or constraints which may inhibit such attainment;
- c) Assessment of how such information may be used to help overcome such problems; and
- d) Evaluation, to the degree feasible, of the overall development impact of the Project.

ii. Studies and Technical Assistance Counterparts

The Grantee agrees to name and assign qualified Counterparts for the A.I.D. sponsored technicians for the studies and technical assistance activities to be undertaken, in a timely manner.

iii. Availability of Information

The Parties agree that the Grantee and A.I.D. may brief and de-brief all contractors funded by the Grant and that appropriate records, both financial and non-financial, will be maintained and available to the Parties, and that all reports will be furnished to all Parties of the Agreement and Sub-Agreements.

Date: 9/28/83

Harry Nelson
Director, USAID/Somalia

Signing Authority:

State 238554 ECPR PID Approval Cable

Clearances:

PROG :A.Martinez AM
PROG :F.Witthans FW
CON :C.Combs CC
RLA/REDSO:K.Hansen KH

Drafter: MP Leifert:lpc:9/21/83

ACTION: AID INFO: AMB DCM ECON

~~SECRET~~

3265/01

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VZCZCMG0545
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DE RUEHC #3265/01 1192028
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Action taken:

Action necessary:

[Handwritten signature and date 5/2/86]

LOC: 654
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CN: 49751
CHRG: AID
DIST: AID

FM SECSTATE WASHDC
TO RUEHMG/AMEMBASSY MOGADISHU PRIORITY 4545
INFO RUEHNR/AMEMBASSY NAIROBI 99#2

BT
UNCLAS SECTION 01 OF 02 STATE 133265

AIDAC, NAIROBI FOR REDSO RLA

E.O. 12356: N/A

TAGS:
SUBJECT: SOMALIA - POLICY INITIATIVES AND PRIVATIZATION
AMENDMENT (649-0132)- ECPR GUIDANCE ON PID

REF: STATE 117223

1. SUMMARY: ECPR CHAIRED 4/15 BY DAA LARRY SAIIERS WAS ATTENDED BY AFR/PRE, AFR/EA, PD, DP, PPC AND PRE/PD. AA/AFR HAS ACCEPTED ECPR RECOMMENDATION (REPORTED REE TEL), AND HEREBY DELEGATES AUTHORITY FOR PP AMENDMENT APPROVAL, AUTHORIZATION OF NEW LOP OF UP TO DOLS 7 MILLION, AND OBLIGATION OF FY 86 ESF DOLS 1.5 MILLION TO THE FIELD. IF FUNDS REQUESTED FOR TECHNICAL ASSISTANCE FOR PRIVATE BANKING CAN BE SUPPLIED BY IFC, OTHER DONORS, OR FOREIGN COMMERCIAL BANKS (AS SUGGESTED REE TEL PARA 3), LEVEL SHOULD BE NO MORE THAN DOLS 5.5 MILLION. FURTHER ECPR REPORTING AND GUIDANCE FOLLOWS. END SUMMARY.

2. CONTRIBUTION OF PROJECT-FUNDED STUDIES TO CONDITIONALITY FOR OTHER PROGRAMS AND PROJECTS: THE ECPR COMMENDED THE MISSION FOR THE THOROUGH AND OBJECTIVE REDSO EVALUATION WHICH HAS RESULTED IN A MUCH MORE FOCUSSED NEW PID AND PROJECT REDESIGN. GIVEN FINDINGS OF THIS EVALUATION (PP. 15-18 PID ANNEX B), THE ECPR SAW THE NEED FOR A MORE FOCUSSED GSDR-MISSION DIALOGUE ON POLICY REFORM DURING PHASE II, FACILITATED BY AN IN-DEPTH SERIES OF STUDIES ON A NARROWER RANGE OF TOPICS, DIRECTLY SUPPORTIVE OF MISSION'S POLICY AGENDA. THUS, THE ECPR REQUESTS THAT THE PP AMENDMENT PROVIDE FOR MISSION ESTABLISHMENT OF: (1) A DETAILED FIRST YEAR IMPLEMENTATION PLAN FOR STUDIES WHICH ARE CLOSELY TIED TO MISSION'S PLANNED POLICY INITIATIVES; (2) MORE GENERAL OUT-YEAR PLANS, WITH CRITERIA FOR THE SELECTION OF FUTURE STUDIES; AND (3) ANNUAL REVIEW OF THESE IMPLEMENTATION PLANS. WHEN MISSION HAS FINALIZED THESE PLANS, PLEASE SEND INFO COPY TO AID/W. TO ENSURE THAT THESE STUDIES ARE TAKEN SERIOUSLY BY THE GSDR, MISSION SHOULD FORMALIZE GSDR INPUT (AND PRIVATE SECTOR INPUT WHERE RELEVANT) TO THE EXTENT FEASIBLE. AS STATED REE TEL PARA 4, MAY PROGRAM WEEK WILL PROVIDE A FORUM FOR DISCUSSION OF MISSION'S POLICY REFORM AGENDA.

3. PRIVATE BANKING COMPONENT: THE ECPR QUESTIONED AID PROVIDING THIS TECHNICAL ASSISTANCE, AS IMPLEMENTATION IS ALREADY SO FAR ALONG WITH INVOLVEMENT BY THE EEC, THE IFC, AND A BRITISH PRIVATE BANKING FIRM (SAMUEL MONTAGUE). IF LEGISLATION HAS ALREADY BEEN DRAFTED ACCORDING TO EUROPEAN BANKING PRACTICES, THEN U.S. BANKING EXPERTISE MIGHT NOT BE APPROPRIATE. THE ECPR RECOMMENDED THAT THE MISSION EXPLORE ALTERNATIVE SOURCES OF FUNDING FOR THIS TECHNICAL ASSISTANCE THROUGH DIALOGUE WITH IFC, OTHER DONORS, AND FOREIGN COMMERCIAL BANKS. IF MISSION REQUIRES AID/W ASSISTANCE IN EXPLORING THIS OPTION WITH IFC, PLEASE ADVISE.

IN THE EVENT THAT AN ALTERNATIVE SOURCE OF FUNDING FOR THIS T.A. CAN NOT BE IDENTIFIED BY MISSION, PP AMENDMENT AND AMENDED GRANT SHOULD REQUIRE GSDR ENACTMENT OF LEGISLATION NEEDED TO INITIATE PRIVATE BANKING IN SOMALIA AS A CONDITION PRECEDENT TO DISBURSEMENT OF THIS PORTION OF PROJECT FUNDS. THE PP AMENDMENT SHOULD ALSO DEFINE AID'S RELATIONSHIP TO IFC IN THE IMPLEMENTATION OF THIS ACTIVITY, AT LEAST IN TERMS OF THE RECRUITMENT OF THE RESIDENT ADVISOR, AND THE DEFINITION OF HIS OR HER SCOPE OF WORK. AID CONCURRENCE IN THE SELECTION OF THE ADVISOR, AT A MINIMUM, SHOULD BE REQUIRED. FURTHER, THE

PP AMENDMENT SHOULD CONTAIN A DETAILED BUDGET BREAKDOWN FOR THIS SUBACTIVITY. THE REQUESTED DOLS 1.5 MILLION SEEMS HIGH, SINCE PROVISION OF ONE ADVISOR FOR FOUR YEARS IS PROPOSED AS THE MAIN ACTIVITY.

IF LOP FUNDS CAN BE SAVED THROUGH ELIMINATING THE NEED FOR AID FINANCING OF THIS TECHNICAL ASSISTANCE, THE ECPR DECIDED THAT LOP FUNDING SHOULD BE REDUCED BY DOLS 1.5 MILLION IN THE PP AMENDMENT TO AN LOP LEVEL OF DOLS 5.5 MILLION.

4. FUNDING ACCOUNT: THE ECPR DECIDED THAT THE MISSION SHOULD USE DA FUNDS (SDA 106 ACCOUNT) IN FY 88 (NOT FY 87 PER REFTEL) AND BEYOND TO PAY OFF REMAINING PROJECT MORTGAGE AFTER OBLIGATION OF FY 86 ESF DOLS 1.5 MILLION. THIS REDUCES CLAIMS ON FUTURE ESF LEVELS. AMOUNT NEEDED FROM THIS ACCOUNT IN FUTURE YEARS SHOULD BE INCLUDED IN MISSION'S FY 88 ABS. SOURCE OF ANY PROJECT FUNDS NEEDED FOR FY 87 OBLIGATION CAN BE DISCUSSED AT ABS REVIEW.

5. CONCERNS:

(A) BUDGETED SUMS FOR INFLATION AND CONTINGENCY: THE ECPR RECOMMENDS THAT THE MISSION ESTIMATE PRICE CONTINGENCIES AT 5 PERCENT PER YEAR, AND ELIMINATE ANY DOUBLE-COUNTING OF THIS FACTOR WITHIN SEPARATE BUDGET

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ITEMS. IT WAS NOT CLEAR IN THE PID ECW MUCH HAD BEEN BUDGETED TO COVER INFLATION AND CONTINGENCY THROUGH PACD. THE BUDGET NARRATIVE (PID P. 17) INDICATED THAT INFLATION HAD BEEN BUILT INTO EACH BUDGET LINE, IN ADDITION TO THE DOLS 400,000 SEPARATELY EARMARKED FOR CONTINGENCY/INFLATION. IN A STUDY PROJECT LIKE THIS, THERE IS NO NEED TO ESTIMATE PHYSICAL CONTINGENCIES. ANY BUDGET SAVINGS GAINED FROM CORRECTIONS TO THESE COST CALCULATIONS SHOULD BE REFLECTED IN A REDUCTION TO LOP FUNDING LEVEL.

(B) PROPOSED SMALL BUSINESS CREDIT SURVEY: IT IS RECOMMENDED THAT THIS SURVEY EMPHASIZE CREDIT WHICH COULD BE PROVIDED BY A PRIVATE SECTOR LOAN FACILITY (SUCH AS A PVO OR THE FUTURE PRIVATE BANK).

(C) GEOGRAPHIC FOCUS FOR RURAL-URBAN LINKAGES STUDY: WE UNDERSTAND THAT THIS STUDY WILL FOCUS ON THE ROLE OF REGIONAL MARKET TOWNS IN FACILITATING RURAL AG PRODUCTION, INPUT DISTRIBUTION, AND MARKETING. THE PID INDICATES THAT THE MISSION IS CURRENTLY PLANNING TO HAVE THIS STUDY FOCUS ON THE JUBA BASIN. IF THE STUDY WERE CONDUCTED IN THE SHEBELLE BASIN, HOWEVER, IT WOULD

CONTRIBUTE IN THE NEAR TERM TO AID'S SHEBELLE WATER MANAGEMENT PROJECT IMPLEMENTATION. THIS WOULD BE CONSISTENT WITH THE JANUARY 1986 BUREAU DECISION TO CONFINE AGRICULTURAL PRODUCTION ASSISTANCE TO THE SHEBELLE BASIN DURING THE NEXT DECADE.

(D) DISTRIBUTION AND REVIEW OF FUTURE STUDIES IN WASHINGTON: IT IS REQUESTED THAT THE MISSION FORWARD COPIES OF PROJECT STUDIES TO AFR/EA AND AFR/PD/EAP FOR REVIEW AS PART OF MISSION-WASHINGTON DIALOGUE ON POLICY REFORM, AND A COPY TO AFR/PD/IPS (FOR MICROFICHING).

(E) PROVISION OF PRIVATE SECTOR EXPERTISE FOR PP AMENDMENT DESIGN AND/OR PROJECT IMPLEMENTATION: AFR/PRE AND PRE ARE PREPARED TO ASSIST THE MISSION TO OBTAIN SPECIALIZED IQC EXPERTISE, AS NEEDED, FOR PP AMENDMENT DESIGN AND PROJECT IMPLEMENTATION.

(F) ASSIGNMENT OF PROJECT MANAGEMENT RESPONSIBILITY WITHIN THE MISSION: THE ISSUES MEETING SUPPORTED THE REDSO EVALUATION AND PID RECOMMENDATIONS THAT MISSION PROJECT MANAGEMENT BE STRENGTHENED, SINCE MANAGEMENT OF THIS PROJECT WILL BECOME EVEN MORE TIME-CONSUMING DURING PHASE II. THE MISSION'S ASSIGNMENT OF BACKSTOPPING RESPONSIBILITY SHOULD ENSURE THAT THE RESPONSIBLE OFFICE HAS ADEQUATE STAFF TIME AND SKILLS NEEDED TO FULFILL THESE RESPONSIBILITIES.

(G) GREY AMENDMENT: THE ECPR NOTED THAT THE PID DID NOT CONTAIN THE REQUIRED DISCUSSION ON POTENTIAL FOR INVOLVING GREY AMENDMENT ENTITIES IN PHASE II ACTIVITIES. PLEASE ENSURE THAT PP AMENDMENT PROVIDES THE APPROPRIATE DISCUSSION ON THE INVOLVEMENT OF GREY AMENDMENT ENTITIES IN PHASE II PROCUREMENT ACTIVITIES,

AND ADVISE AID/W OF MISSION'S INTENTIONS.

(E) SPECIFIC ATTENTION TO WOMEN: PPC/WID NOTED THAT THE PID PROPOSES COLLECTION OF PRIVATE SECTOR BASELINE DATA ON SOCIO-CULTURAL, ECONOMIC AND REGIONAL VARIABLES. IT IS REQUESTED THAT MISSION ALSO STRATIFY DATA SAMPLES BY GENDER, TO DOCUMENT WOMEN'S PRIVATE SECTOR ACTIVITIES AND CONSTRAINTS (MORE EXTENSIVE THAN CONSTRAINTS ON MALES, IN MOST SOCIETIES) WHICH COULD BE ADDRESSED IN PROJECT ACTIVITIES. FOR EXAMPLE, IN THE PLANNED URBAN-RURAL LINKAGES STUDY ALREADY IDENTIFIED BY THE MISSION, THE INPUTS WOMEN RECEIVE, THEIR MARKETING CAPABILITIES, AND THEIR USE OF REVENUES GENERATED SHOULD BE A CENTRAL PART OF THE RESEARCH.

AD HOC DELEGATION OF AUTHORITY CONTAINED IN PARA 1 ABOVE SHALL BE EXERCISED IN ACCORDANCE WITH ALL THE TERMS AND CONDITIONS OF DOA 140 EXCEPT FOR THE DOLLAR AMOUNT LIMITATION THEREIN. WHITEHEAD

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OFFICE	INFO	ACTION
DIR		
DD		
PI/OG	✓	✓
PROJ	✓	
ENG		
RD/RA		
S/MO		
CON	✓	
MGT	✓	
AGD		



ANNEX C

Jamhuuriyadda Dimoqraadiga Soomaaliya
WASAARADDA QORSHEYNTA QARANKA
MUQDISHO (Soomaaliya)
—«0»—

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

جمهورية الصومال الديمقراطية
وزارة التخطيط الوطني
ص. ب. ١٧٤٢
مقديشو - صومالييا
تلكسي ٧١٥

Tix / Ref. : TD/PIP/2030/86

Ujeeddo / Subject : REQUEST FOR FINA

Mr. Louis A. Cohen
Director USAID Mission
Mogadishu - Somalia

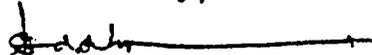
Dear Mr. Cohen,

The Government of the Somali Democratic Republic requests financial assistance of approximately US \$ 4.5 million over a four-year period. The funds will finance macroeconomic studies, technical assistance and promotion of private sector participation in the economy.

The Government attaches high priority to undertaking the above activities in order to implement appropriate economic policy reforms.

We look forward to receiving a favourable response to our request.

Yours sincerely,


Huseein Elabe Fahiye

Permanent Secretary
Ministry of National Planning,

TELEPHONE : N. 80384/7 — 80634

تلفون : ٧/٨.٢٨٤ — ٨.٦٣٤

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Life of Project: 7 Years
 From FY 1983 to FY 1990
 Total U.S. \$ Funding: \$7.0 Million

ANNEX D

PROJECT DESIGN SUMMARY

LOGICAL FRAMEWORK MATRIX

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
<u>GOAL</u>			
To increase the economic growth of the Somali economy, improve the efficiency of the public sector (particularly with regard to budgetary control and revenue collection) and generate more economic growth within the private sector.	<ul style="list-style-type: none"> - Increased Per Capita GDP. - Lower Budget Deficits. - Larger Private Sector Share of an increased GDP 	<ul style="list-style-type: none"> - GSDR Statistics - International Statistics. - IMF reports. - IBRD reports - National Income statistics. 	<ul style="list-style-type: none"> - Economic Incentives remain favorable. - Stable population growth. - Political Stability. - Stable or improving world the economy. - Private Sector is capable of productively using resources.
<u>PURPOSE</u>	<u>END OF PROJECT STATUS</u>		
To improve the Somali economic climate by: 1) supporting the development & implementation of improved economic policies, 2) identifying & testing ways & means of promoting private sector participation in the economy, 3) improving the GSDR budgeting and revenue collection systems.	<ul style="list-style-type: none"> - Modified economic policies resulting in improved environment for increased investment and output - Expanded dialogue between GSDR and the private sector on economic issues. - Lowered GSDR deficits. 	<ul style="list-style-type: none"> - Private business records. - Project Evaluation. - AID monitoring of GSDR/Private Sector dialogue. 	<ul style="list-style-type: none"> - GSDR continues to support increased private sector participation. - Sufficient numbers of Somali entrepreneurs are available/interested in participation. - GSDR willing to improve and revise budgetary and revenue collection systems.

9/10

<u>OUTPUTS</u>	<u>MAGNITUDE OF OUTPUTS</u>		
1. Detailed examination of appropriate economic policies and reforms resulting from a more effective, concerted policy dialogue between the GSDR and USAID.	- 6-10 major policy studies with seminars to review recommendations.	- Project evaluation.	- GSDR is willing to participate in reviews of studies and seriously consider recommendations.
2. Expanded dialogue between the GSDR and Somali private sector on economic and regulatory policies.	- 2 ministries strengthened (MOP, MOIC)	- AID Participation in seminars.	- GSDR willing to allow establishment of private bank, and enact appropriate legislation.
3. Establishment of private sector banking in Somalia.	- 6-10 Seminars/Workshops	- AID monitoring and site visits.	- GSDR and private sector willing to work together in discussing and formulating economic policy.
4. Revised and improved GSDR budgetary and revenue collection systems.	- 1 Private Bank operational - 1 Budgetary system improved. - 1 Revenue Collection system improved.	- Contractors' Progress Reports. - GSDR records	- Private bank will adhere to accepted interational commercial banking standards.
		- Project evaluation. - AID monitoring, site visits, contractor progress reports, & GSDR records.	

<u>INPUTS</u>					
<u>ITEMS</u>	<u>AID</u>	<u>GSDR</u>			
TA (263 P/M)	5,699	728	- L/T TA (120 P/M) (MOP,MOIC, Private Bank).	- GSDR records.	- GSDR provides TA support and cooperation in a timely manner.
Study Tours/Conference	228	191	- S/T TA (143 P/M) (Private Bank, SCC, Entrepreneurial Assoc., Various Private Sector clients, Macroeconomic/socioeconomic studies).	- AID Quarterly reports..	- AID funding of Project is timely.
Project Support	626	1,500	- L/T FSN Asst. Project Mgr.	- Site Visits.	- GSDR is willing to participate and consider economic policy and fiscal reform.
Evaluation	50	- 0 -	- POL, Project Vehicles, FSU costs, materials, supplies.	- Contractor(s) Progress Reports.	
Audit	45	- 0 -	- In-country and int'l travel.	- Contract Documents.	
Contingency/Inflation	352	617			
Total	7,000	3,036			

ANNEX "E"

INITIAL ENVIRONMENTAL EXAMINATION

Project Country: Somalia
Project Title and Number: Policy Initiatives and Privatization
649-0132
Funding: \$7.0 million
Life of Project: FY83-90
IEE Prepared by: William Darkins *WD*
Project Development Office.

Environmental Actions Recommended: (1) Categorical Exclusion

This project meets the categorical exclusion criterion under HB 3, App 2D, Section 216.2.c for which an Initial Environmental Examination is not required. Activities funded by this project will not have an effect on the natural or physical environment. Further, the project is not subject to the procedures set forth in section 216.3 since the activities are "analyses, studies, academic or research workshops and meetings" (Section 216.2.c.2.iii).

Concurrence:

Mission Director's Decision

Approved: *[Signature]*

Date: 1 AUG 25 1985

Clearance: REDSO/ESA, RLA, B. Barrington (Nairobi 29343)

B. Identification and Evaluation of Environmental Impacts

Since this project will only provide technical assistance in the form of long term technical advisors and short term TA for banking management assistance, conducting studies, analyses, workshops, and seminars, there will be no impact on the physical or natural environment. The technical assistance which will be provided to industries and businesses will involve strictly advisory services on the business and/or financial aspects of the firms. The technical assistance provided clearly will not be of the type which would directly lead to industrial manufacturing processes or facility alterations which might have environmental impacts. This project meets the categorical exclusion criterion under HB 3, App 2D, Section 216.2.c for which an Initial Environmental Examination is not required. Activities funded by this project will not have an effect on the natural or physical environment. Further, the project is not subject to the procedures set forth in Section 216.3 since the activities are "analyses, studies, academic or research workshops and meetings" (Section 216.2.c.iii).

II. RECOMMENDATION FOR ENVIRONMENTAL ACTION

A categorical exclusion from the requirements for an Initial Environmental Examination, Environmental Assessment, and Environmental Impact Statement is recommended for this project.

ANNEX "F"

TABLE F.1

Summary Cost Estimate and Financial Plan
(U.S. \$000 or Equivalent)

	<u>AID</u>	<u>Amount</u>
1.	<u>Technical Assistance</u>	<u>5,699</u>
	A. Long-term (L/T) (120 P/M)	2,699
	B. Short-term (S/T) (143 P/M)	3,000
2.	<u>Study Tours, Seminars, Conferences</u>	<u>228</u>
3.	<u>Project Support</u>	<u>626</u>
	A. Logistics	484
	B. Commodities	142
4.	<u>Evaluation</u>	<u>50</u>
5.	<u>Audit</u>	<u>45</u>
6.	<u>Sub-total</u>	<u>6,648</u>
7.	<u>Contingency/Inflation</u>	<u>352</u>
8.	<u>TOTAL</u>	<u>\$7,000</u>
	<u>GSDR</u>	<u>Amount</u>
1.	<u>Technical Assistance Operations</u>	<u>728</u>
2.	<u>Study Tours, Seminars, Conferences</u>	<u>191</u>
3.	<u>Project Support</u>	<u>1,500</u>
	- Logistics	1,000
	- Commodities	500
4.	<u>Sub-Total</u>	<u>2,419</u>
5.	<u>Contingency/Inflation</u>	<u>617</u>
6.	<u>Total</u>	<u>\$3,036</u>
	<u>Total Project Costs</u>	<u>\$10,036</u>

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TABLE F.2

Summary Cost Estimate and Financial Plan
(U.S. \$000 or Equivalent)

PIP Project Supplemental Costs

	<u>AID</u>	<u>Amount</u>
1.	Technical Assistance	3,505
2.	Study Tours, Seminars, Conference:	177
3.	Project Support	371
4.	Evaluation/Audit	95
5.	Contingencies	124
6.	Inflation	<u>228</u>
	Total	4,500

	<u>GSDR</u>	<u>Amounts</u>
1.	Technical Assistance Operations	574
2.	Study Tours, Seminars, Conferences	155
3.	Project Support	956
4.	Contingencies	159
5.	Inflation	<u>458</u>
	Total	2,302
-	Total Project Supplemental Costs	<u>\$6,802</u>

TABLE F.3

Summary of Existing (F/X) Project funds
(U.S. \$000 or Equivalent)
As of June 30, 1986

	<u>Obligated</u> <u>Actual</u>	<u>Earmarked</u>	<u>Expenditure</u>
Long-Term TA	1,144	1,144	451
Short-term TA	1,050	1,050	694
Study & Observation Tours	51	48	39
Logistics & Support	<u>255</u>	<u>255</u>	<u>177</u>
Total	2,500	2,497	1,361

TABLE F.4Projection of Expenditures by Fiscal Year

<u>AID</u>	<u>FY84-85</u>	<u>FY86</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>	<u>FY90</u>	<u>TOTAL</u>
1. Technical Assistance	436	1,912	1,272	783	781	515	5,699
2. Study Tours, Seminars and Conferences	39	85	44	27	33	-0-	288
3. Project Support	8	251	152	82	74	59	626
4. Evaluation/Support	-0-	-0-	-0-	17	-0-	78	95
5. Contingencies	-0-	-0-	20	31	34	39	124
6. Inflation	<u>-0-</u>	<u>-0-</u>	<u>12</u>	<u>60</u>	<u>78</u>	<u>78</u>	<u>228</u>
Total	483	2,248	1,500	1,000	1,000	769	7,000

<u>GSDR</u>	<u>FY84-85</u>	<u>FY86</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>	<u>FY90</u>	<u>TOTAL</u>
1. Technical Assistance Operations	22	132	145	180	177	72	728
2. Study Tours, Seminars and Conferences	-0-	36	52	52	51	-0-	191
3. Project Support	15	529	359	359	178	60	1,500
4. Contingencies	-0-	-0-	59	37	35	28	159
5. Inflation	<u>-0-</u>	<u>-0-</u>	<u>96</u>	<u>117</u>	<u>119</u>	<u>126</u>	<u>458</u>
Total	37	697	711	745	560	286	3,036

TABLE F.5

Long-Term Technical Assistance
(per Year)

(Supplemental Period)

	<u>Industry Advisor</u>	<u>Banking Management Specialist</u>	
1. Base Salary	45,000	65,000	45,000
- Post Diff (25% of 1.)	11,250	16,250	11,250
- Sundry Diff. (5% of 1.)	<u>2,250</u>	<u>3,250</u>	<u>2,250</u>
2. Total Salary	58,500	84,500	58,500
- Fringe Benefits (% of No. 1)	(42%) 18,900	(50%) 32,500	(25%) 11,250
3. Total Salary and Fringe	77,400	117,000	69,750
- DBAI (2.25% of 2)	1,316	1,901	1,316
- Travel/Per Diem/ Shipping	30,000	30,000	24,000
- Emergency Travel	2,500	2,500	2,500
- Miscellaneous	1,000	1,000	1,000
4. Total Direct	112,216	152,401	98,566
- G & A (% of 4)	(12%) 13,466	(30%) 45,720	-0-
- Overhead (% of 4)	(48%) 53,864	(130%) 198,121	-0-
5. Total Direct and Indirect	179,546	396,242	98,566
6. Profit (10% of 2)	<u>5,850</u>	<u>8,450</u>	<u>-0-</u>
7. Sub Total Costs	185,396	404,692	98,566
8. Corporate Backstop and monitoring (Inc. S/T TA).	42,247	8,832	-0-
9. <u>Grand Total</u>	<u>227,643</u>	<u>413,524</u>	<u>98,566</u>

1/ Note: PSC employed by USAID, no overhead, G & A nor profit included in calculations.

TABLE F.6

Short-Term Technical Assistance
(Person-Month)
(Supplemental Period)

1.	Base Salary (\$240 x 6 day week)	\$6,240
2.	Fringe Benefits (35% of 1)	<u>2,184</u>
3.	Salary and Fringe	8,424
4.	DBAI (2.25% of 1)	140
5.	Travel	2,700
6.	Per Diem (\$44 x 30 days)	1,320
7.	Miscellaneous	<u>500</u>
8.	Total Direct	13,084
9.	G & A (20% of 3)	1,685
10.	Overhead (90% of 3)	<u>7,582</u>
11.	Total Direct & Indirect	22,351
12.	Profit (10% of 1)	<u>624</u>
13.	Total Costs	\$22,975

TABLE F.7

Support Data - Phase II

<u>1/</u>	<u>Technical Assistance</u>	
	(1) Industry Advisor (L/T)	\$228,000 (1 P/Y)
	(2) Finance Advisor (L/T)	249,000 (3 P/Y)
	(3) Banking Management Specialist (L/T)	1,194,000 (3 P/Y)
	(4) Banking Management (S/T)	276,000 (12 P/M)
	(5) Studies & Private Sector Consultancies (S/T)	<u>1,558,000</u> (80 P/M)
		3,505,000 (176 P/M or 15 P/Y)
<u>2/</u>	Study Tours, Conferences, Seminars	177,000
<u>3/</u>	Project Support	371,000
<u>4/</u>	Evaluation/Audit	<u>95,000</u>
	Sub-Total	4,148,000
	Contingency/Inflation	<u>352,000</u>
	Total	\$4,500,000

Notes:

1/ Technical Assistance:

- Cross-reference Tables F.2, F.5 and F.6
- Travel/Transportation costs only counted for first P/Y for L/T TA.
- Finance Advisor is USAID Personal Services Contractor (PSC)
- (L/T) = long-term, (S/T) = short-term
- The majority of studies and private sector consultancies will be with "for profit" firms.

2/ Study Tours, Conferences, Seminars

\$2,700 (RTRP International Tkt) + \$2,000 (per dien) + \$5,000 (Miscell. = \$5,200 x 34 persons.

3/ Project Support

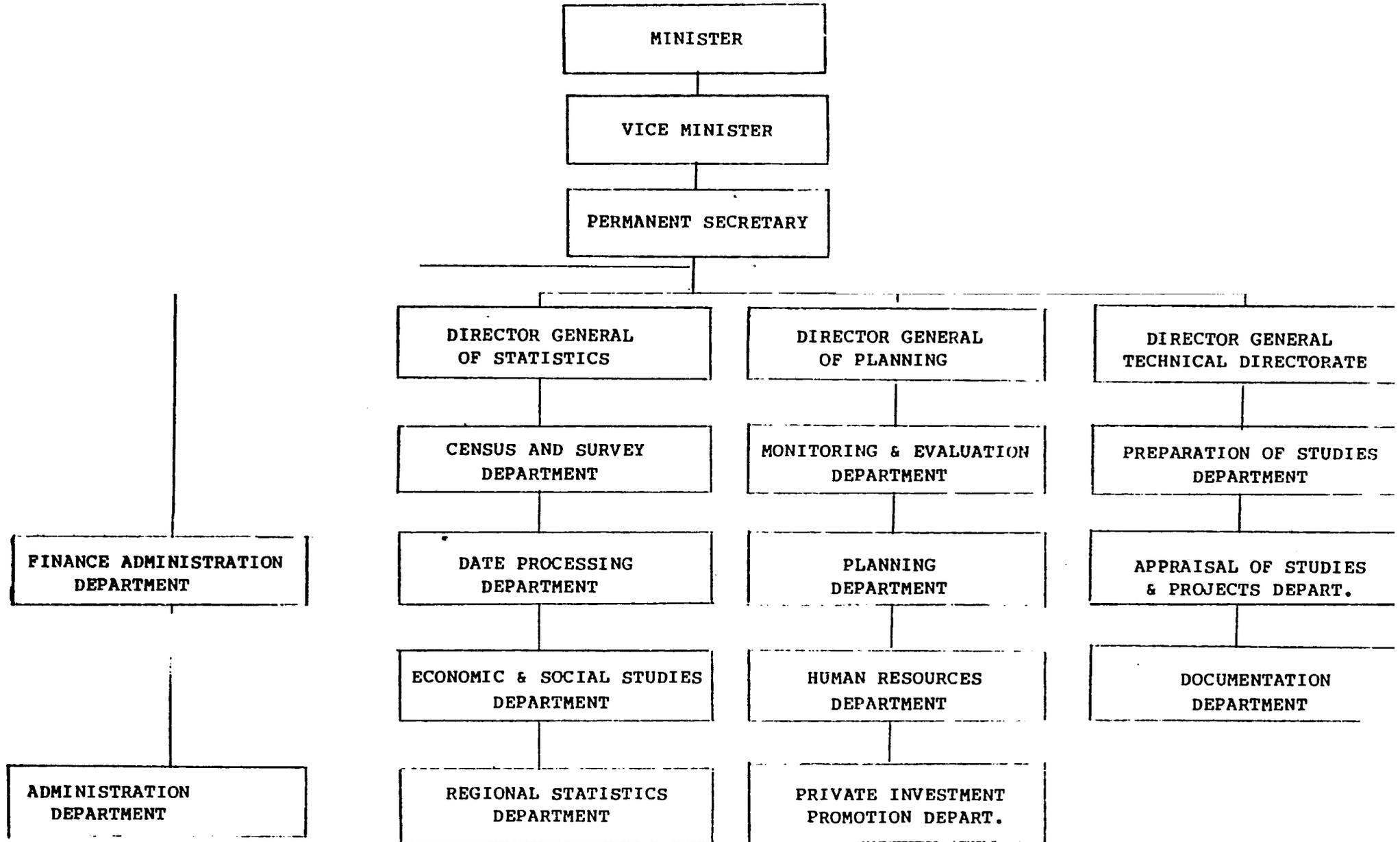
- Field Support Unit costs per L/T TA = \$150,000 (LOP).
- Vehicles (2) = \$19,000 @ incl. transportation + PSA fee = \$38,000.
- MOIC/SCC Library books/materials, incl. transportation + PSA fee = \$10,000.
- Micro Computers (2), telex machine (1), typewriters (2), photocopy machines (2) + transportation/PSA fee = \$173,000.

4/ Evaluation/Audit

- Approximately 4 P/M required because this will be supplemented by REDSO/ESA Tdy assistance.

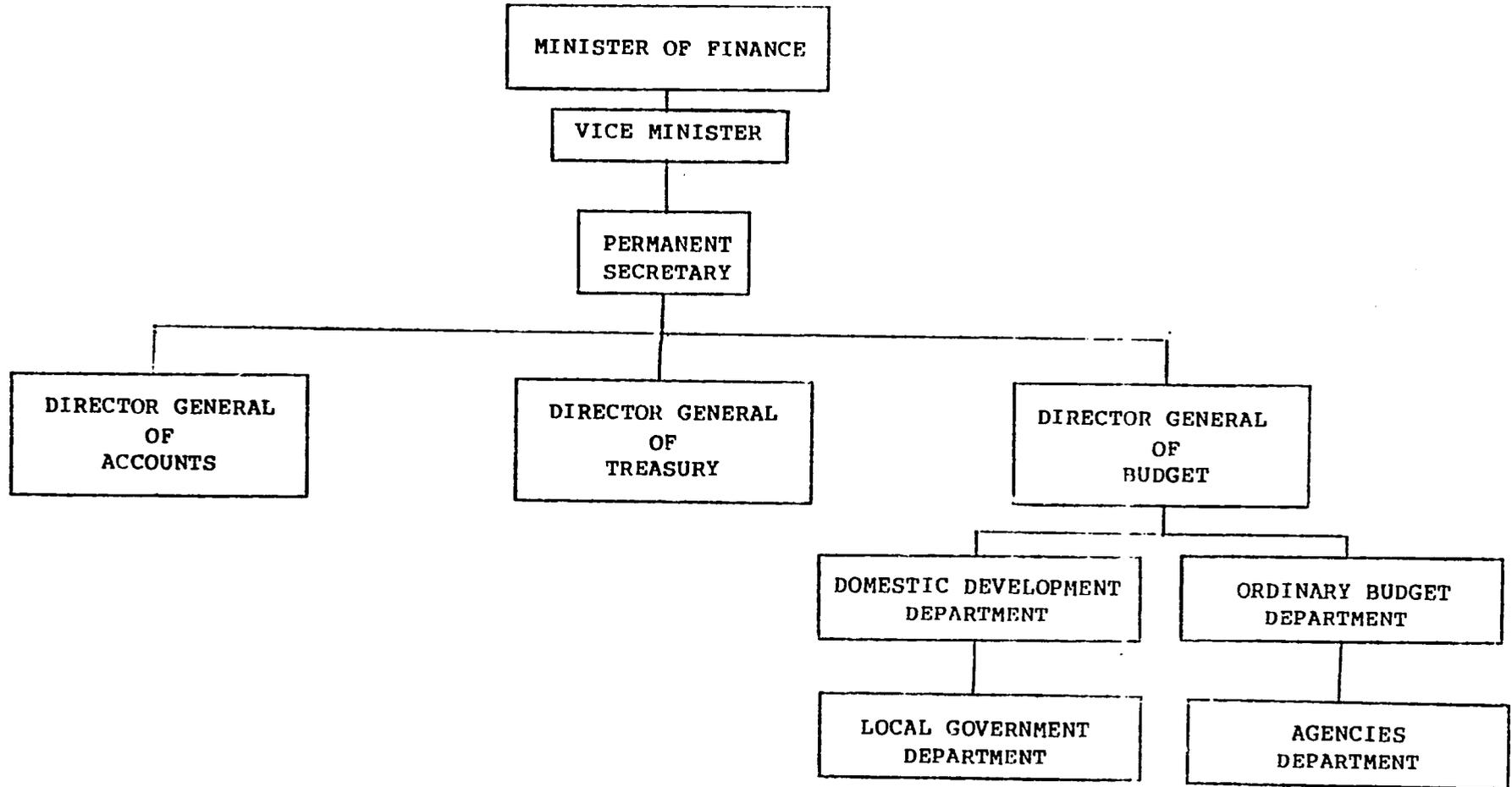
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ORGANIZATIONAL CHART: MINISTRY OF NATIONAL PLANNING



ANNEX "H"

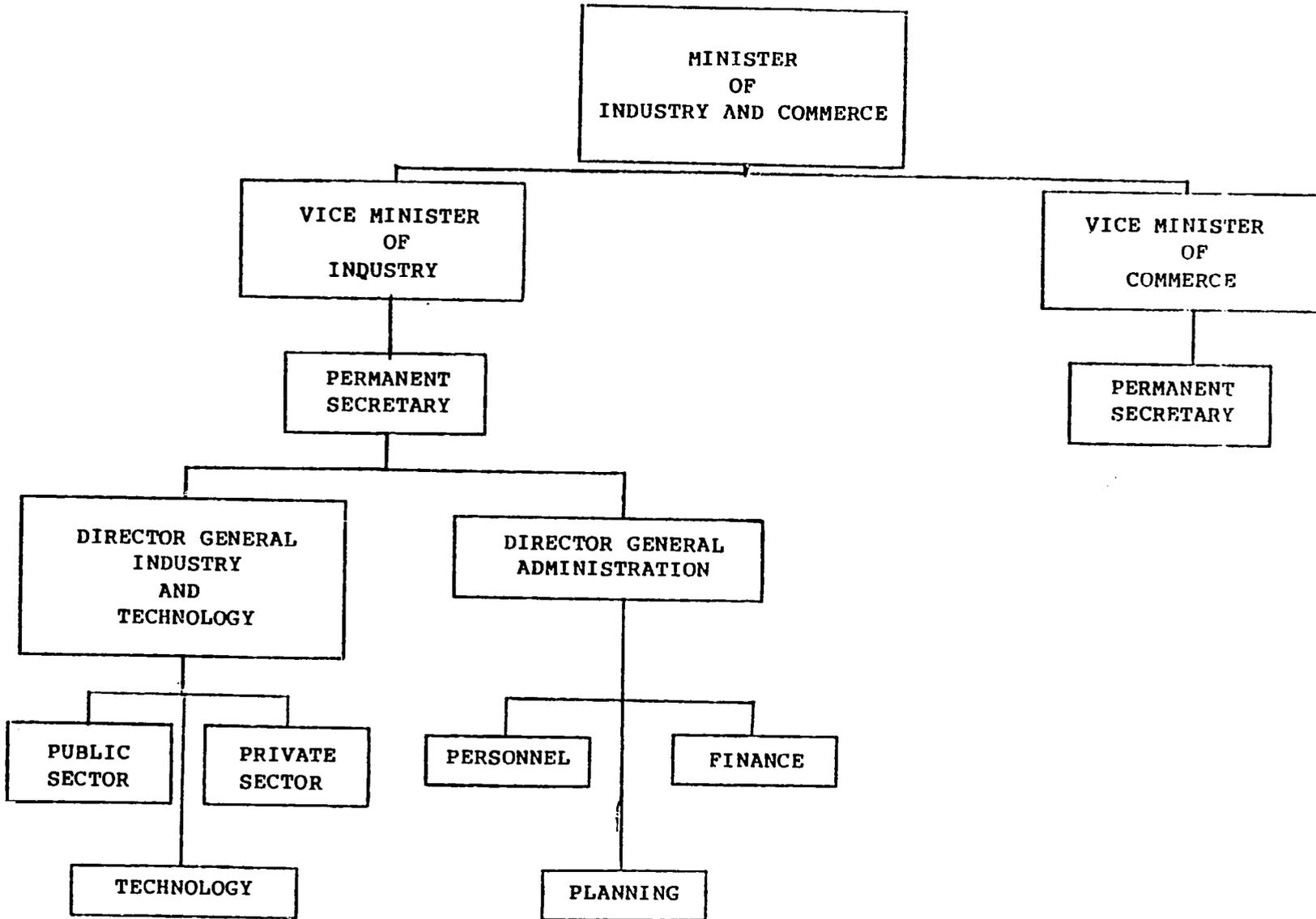
ORGANIZATIONAL CHART: MINISTRY OF FINANCE



ANNEX "I"

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ORGANIZATIONAL CHART: MINISTRY OF INDUSTRY AND COMMERCE



ANNEX "J"

Scope of Work: Private Sector Banking Management Specialist

Objective: The private sector commercial bank which will be established in Somalia will require a variety of technical assistance in establishing a creditable banking operation in accordance with internationally accepted commercial banking practices. The technical assistance will be long-term (48 P/M) in nature and specifically geared to developing and implementing those commercial banking strategic planning and operations systems which are vital to a creditable commercial banking enterprise. In addition, to ensure a sustainable, efficient enterprise the bank must have a training and development program which encompasses in the initial stages key executive and other operational personnel. The nature of the technical assistance may require a series of structured short-term technical assistance activities geared to specific operational needs of the bank which cannot be supplied by the resident specialist. This short-term technical assistance would be included in the total 48 P/M of technical assistance.

Duties and Responsibilities: The Private Banking Management Specialist shall:

(1) Serve as chief technical advisor to the Chief Executive Officer (CEO) of the bank and shall have executive level line operations responsibilities as agreed in writing between the International Finance Corporation, AID and the bank's board of directors.

(2) Develop a detailed, comprehensive strategic planning document which at a minimum shall:

(a) Define specific and realistic objectives for development of each commercial banking function required to comply with international commercial banking standards.

(b) Define bank management strategy and programs required to accomplish the objectives of the strategy plan.

(c) Pinpoint responsibility for execution of the identified programs.

(d) Couple the strategic plan to operations plans through translating goals and programs into financial criteria, workforce requirements, and expense budgets designed to implement plans and achieve goals in a timely manner.

(e) Develop plans and controls for all of the functional departments of the bank.

(3) Develop operational plans and steps/procedures for implementing the plans over a specific time frame. The areas covered by these plans shall include at least the following:

(a) Financial and Operational Systems

(b) Organization and Workforce

(c) Training and Development

(d) Personnel Policies

(e) Electronic Data Processing

(f) Facilities and Equipment

(g) Marketing

(4) Implement the establishment of private commercial banking in accordance with the approved plans of the bank's board of directors.

ANNEX "K"

Scopes of Work for Macroeconomic and Socioeconomic Policy Studies

K.1 Scope of Work: Macroeconomic Policy Studies

The macroeconomic studies financed under the PIP Project Supplement will be designed to present a detailed examination/analysis of appropriate economic policies resulting in: (1) changes in policy, (2) greater efficiency in the private and public sectors which would generate more economic growth in the private sector, and (3) improvement in the Government's budgeting and revenue collection systems. Specifically, the studies will:

(a) Contribute to a more productive policy reform dialogue between AID and the GSDR.

(b) Form the basis for an expanded dialogue between the GSDR and the Somali private sector on key economic issues as a means of building an effective public/private sector partnership in economic development.

(c) Contribute to an expanded and better coordinated dialogue between the international donor community and the GSDR (i.e. IMF and IBRD) on a range of economic issues.

(d) Develop a framework for economic policy changes in Somalia which will plot the course for increased fiscal responsibility, greater responsiveness to market forces, and greater consideration and impact of Somali private sector interests.

Priority will be given to studies in the following areas:

(a) An Assessment of the Somali Hides and Skins Industry

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- (b) Diagnostic Evaluation of Strategic Business Development and Implementation Plan
- (c) A Study of Direct Tax Administration Procedures
- (d) Export Development Strategy and Comparative Advantage Study
- (e) Public Sector Recurrent Costs Financing/Revenue Generation Options Study
- (f) An Assessment of the Custom Rates Structure
- (g) A Study of the Impact of Export Taxes and Export Surrender Requirements
- (h) An Assessment and Rationalization of Somali Labor Laws
- (i) An Assessment of the Somali Banana Industry
- (j) A Private Sector Strategy Action Plan
- (k) A Study of Indirect Tax Administration Procedures
- (l) An Assessment of Small Business Credit Needs

K.2 Scope of Work: Socioeconomic Policy Studies

The socioeconomic studies are intended to generate results that meet the informational, policy and planning needs of the GSDR and USAID, through collection and analysis of baseline data pertinent to issues related to long-term policy reform and implementation of the PIPs project. The studies will:

- (a) Contribute to greater understanding of the human factors involved in economic policy reform and private sector development;
- (b) Generate the necessary qualitative and quantitative information necessary for understanding this important facet of economic development through the private sector;
- (c) Address the socioeconomic and cultural context in which policy reform in general is taking place;
- (d) Provide the analytical and knowledge base for making informed policy decisions and recommending strategies and future new directions based on an assessment of Somali socioeconomic realities, and thereby lead to improved program strategies based on lessons learned about the impact of socioeconomic and other human factors related to economic development and policy change.

Priority will be given to studies in the following areas:

- (a) A Survey of Attitudes of Somali Businessmen and Women Affecting Entrepreneurial Activities.
- (b) Women in the Economy. The study will focus on experiences, constraints and opportunities for women in Somalia and the impact on the Somali economy and prospects for increased development.
- (c) A Survey of General Population Attitudes Towards Different Occupations.
- (d) Attitudes Towards Fertility, Childbearing, Family Size and Economic Development.

- (e) Regional Variation, Economic Specialization and Income Distribution.
- (f) The Impact of Male Migration to the Gulf States on extended family economic specialization in Somalia, with special reference to private sector development in and around Mogadishu.
- (g) The Institution of Polygamy and its Impact on Economic Specialization, Savings and Growth.
- (h) The Interrelationship of Pastoralists and Trader/Exporter of Live Animals.
- (i) Resource Access and Tenure Research in the Lower Shabelli and Lower Juba
- (j) Rural/Urban Dynamics and Linkages in the Lower Shabelli and Lower Juba.

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ANNEX "L"

INTERNATIONAL DONORS SECTOR COMMITTEE STUDIES

UPCOMING STUDIES BY OTHER DONORS

<u>TOPIC</u>	<u>DONOR</u>	<u>AVAILABILITY</u>
Evaluation of the Milk Production System of Banadir Area	GTZ	10/86
Development of the Exchange Rate System in Somalia	GTZ	11/86
Farm and Crop Budgets of Somali Agriculture	GTZ	10/86
Assistance to ADC/ENC	World Bank	11/86
Study of Hides and Skins Marketing	World Bank	02/87
Rehabilitation of Agricultural Machinery and Equipment	World Bank	11/86
Continuing Support for Statistical Work in the Ministry of National Planning (carried out by Swedish Team)	World Bank	11/86
Baardheere Dam Multi-Purpose Dam Project	World Bank	Ongoing
Government Recurrent Cost Financing Study	World Bank	02/87
Mogadishu Port Project	World Bank	11/86
Roads	World Bank	Ongoing
Livestock Marketing Study	World Bank	Ongoing
Agricultural Extension and Training	World Bank	Ongoing

ANNEX "M"

SCOPE OF WORK: MOF FINANCE ADVISOR

The long-term Finance Advisor to the Ministry of Finance will be the counterpart to the Director General of the Budget and will perform the following as they relate to the Domestic Development Department (DDD) and the Budget Directorate:

1. Revise the DDD internal accounting system, to include the development of a double entry general ledger package;
2. Develop a management information system which ensures effective monitoring and reporting on all aspects of project activities;
3. Supervise the development of and transition to computerized operations -- to include staff training and programming;
4. Streamline DDD administrative procedures, to be finalized in an Office Operations Manual;
5. Expand the audit capacity of the DDD and develop effective operations auditing procedures;
6. Develop and finalize a budget and accounting manual for project management, to include the standardization of budget procedures;
7. Participate in all development budget preparation and reviews conducted by the DDD with a view toward upgrading the skills and techniques of the staff as well as formulating procedural guidelines;
8. Assist in the formulation of the annual National Budget;
9. Train DDD staff in the basics of budget analysis;
10. Develop a cost data base for use in budget preparation and management control;
11. Assist the USAID Program Office with selected aspects of USAID local currency program operations, including:
 - (a) Advising on the preparation of the local currency portion of project budgets; and
 - (b) Preparing briefing materials and reports specifically on DDD operations.

ANNEX "N"

Scope of Work: MOIC Industrial Promotion Advisor

A. Nature of Position The Industrial Promotion Advisor - provides advice and support in promoting the development and growth of the Somali Private Industrial Sectors. The advisor will focus his/her attention on the policy, legal, and regulatory matters. The major program objectives are:

- to promote a favorable investment climate
- to promote free entry of new firms, both local and foreign, into the manufacturing industry.

The Industrial Promotion Advisor will work in the Private Enterprise Department of the Ministry of Industry. He will report to the Vice Minister of Industry through the Head of the Private Enterprise Department and will work in cooperation with the other ministries.

B. Duties:

1. Provide advice and guidance to the Vice Minister of Industry on the techniques of privatization of state-owned enterprises in accordance with decisions taken by the Government of Somalia.
2. Develop scopes of work required to implement the PIP Project (649-0132) and assist the Ministry of Industry in identifying needs for additional advisors, consultants or studies and help locate them.
3. Provide advice regarding the implementation of covenants attached to the USAID CIP program and to relevant PL 480 self-help measures.
4. Develop contracts and coordinate his activities with Somali Government officials, representatives of the private sector, and other advisors from international organizations in order to ensure the coordination of private sector development activities.
5. Design and assist in setting up an Industrial Advisory Unit in the Private Enterprise Department to:
 - conduct research and studies
 - prepare opportunity and prefeasibility studies
 - development project proposals
 - propagate for private investment through appropriate promotional activities.

6. Assist in drawing up lists of potential investment proposals by means of well planned and executed resources surveys and demand/market studies.
7. Participate in the preparation of the national plan for private industries development based on well-defined approved national objectives and strategies.
8. Design and assist in setting up appropriate institutions in Private Enterprise Department to oversee execution of national plans and monitor performance.
9. Prepare a program of providing advice and extension service to the private sector.
10. Maintain a continuous review of the private industrial sector including the work already done and advise on appropriate policies, plans and regulations for promotion of private investment.
11. Encourage and assist national and foreign investors, especially through promoting joint ventures between foreign and Somali partners by arranging and participating in suitable actions such as organizing seminars, workshops, conferences, etc, and setting up permanent forums.
12. Develop specific proposals which identify potential investment opportunities for presentation to foreign firms.
13. Make proposals concerning all forms of incentives and promotion of activities for development and encouragement of entrepreneurial activity, including the preparation of promotional literature, manuals and guidelines.
14. Investigate and make proposals concerning the development of industrial states.
15. Identify potential new products, markets and investors.

ANNEX O

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FM AMEMBASSY MOGADISHU
TO SECSTATE WASHDC PRIORITY 2329
BT
UNCLAS SECTION 01 OF * MOGADISHU 07383

CLASS: UNCLASSI
CHRG: AID 7/7/
APPRV: DIR: LACO
REF: PROJ: WDA
CLEAR: 1. PROJ: E
2. PROJ: AI
3. A/CONT
DISTR: DIR CDA
PROG CON

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FOR AFR/EA

E.O. 12356: N/A
SUBJ: SOMALIA - CONGRESSIONAL OVER NOTIFICATION (CN)
FOR POLICY INITIATIVES AND PRIVATIZATION
AMENDMENT (649-0132)

REF: STATE 207175

1. REQUEST AID/W PROCEED WITH SUBJECT CN. SUGGESTED
DRAFT IS PRESENTED BELOW. PLEASE NOTIFY MISSION WHEN
CN WAITING PERIOD HAS EXPIRED.

2. AGENCY FOR INTERNATIONAL DEVELOPMENT ADVICE OF
PROGRAM CHANGE.

COUNTRY:	SOMALIA
PROJECT TITLE:	POLICY INITIATIVES AND PRIVATIZATION (649-0132)
PROJECT NUMBER:	649-0132
FY86 CP REFERENCE:	FY86 CP AFRICA PROGRAMS
APPROPRIATION CATEGORY:	ESF, SDA
LIFE OF PROJECT FUNDING	US DOLS 7.0 MILLION
INTENDED FY86 OBLIGATION:	US DOLS 2.0 MILLION

THIS IS TO ADVISE THAT AID INTENDS TO INCREASE THE
LIFE-OF-PROJECT FUNDING FOR THE POLICY INITIATIVES AND
PRIVATIZATION PROJECT TO DOLS 7.0 MILLION AND OBLIGATE
DOLS 2.0 MILLION IN FY86. THIS IS AN ONGOING PROJECT.

THE PROJECT SEEKS TO IMPROVE THE SOMALI ECONOMIC
CLIMATE THROUGH IMPROVED ECONOMIC POLICIES, PROMOTION
OF PRIVATE SECTOR PARTICIPATION IN THE ECONOMY, AND
IMPROVED GOVERNMENT OF SOMALI BUDGETING AND REVENUE
SYSTEMS.

3. ACTIVITY DATA SHEET

-PROGRAM: SOMALIA

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-TITLE: POLICY INITIATIVES AND
- PRIVATIZATION

-NUMBER: 649-0132 (GRAMT AMENDMENT)

- FUNDING SOURCE: ESF, SDA

- PRIOR REFERENCE: FY86 CP AFRICA PROGRAMS
- ANNEX I. (P.415)

- PROPOSED OBLIGATION: FY86 US DOLS 2.0 MILLION

- LIFE OF PROJECT: US DOLS 7.0 MILLION

- INITIAL OBLIGATION: FY83 US DOLS 2.5 MILLION

- ESTIMATED FINAL OBLIGATION: FY89

- ESTIMATED COMPLETION

- DATE OF PROJECT: FY90

(A) PURPOSE: THE PURPOSE OF THIS PROJECT IS TO IMPROVE THE SOMALI ECONOMIC CLIMATE BY: (1) SUPPORTING THE DEVELOPMENT AND IMPLEMENTATION OF IMPROVED ECONOMIC POLICIES, (2) IDENTIFYING AND TESTING WAYS AND MEANS OF PROMOTING PRIVATE SECTOR PARTICIPATION IN THE ECONOMY, AND (3) IMPROVING THE GOVERNMENT OF SOMALIA BUDGETING AND REVENUE SYSTEMS.

(B) BACKGROUND: THE POLICY INITIATIVES AND PRIVATIZATION PROJECT WAS INITIALLY OBLIGATED ON SEPTEMBER 29, 1983. AID OBLIGATED US DOLS 2.5 MILLION IN ECONOMIC SUPPORT FUNDS AT THAT TIME. THE BASIC THRUST OF THE PROJECT IS TO PROVIDE CONSULTING SERVICES TO THE SOMALI PRIVATE AND PUBLIC SECTORS AND TO UNDERTAKE STUDIES OF MAJOR MACROECONOMIC POLICIES WHICH WOULD LEAD TO POLICY REFORM DIRECTED TOWARD INCREASING OPPORTUNITIES FOR ECONOMIC GROWTH AND FOR AN INCREASED ROLE FOR THE PRIVATE SECTOR. THE PROJECT AMENDMENT IS BASED ON ALMOST THREE AND ONE HALF YEARS OF PROJECT IMPLEMENTATION EXPERIENCE AND THE RECOMMENDATIONS OF AN INDEPENDENT PROJECT EVALUATION. THE PROJECT AMENDMENT RATIONALE IS BASED ON: (1) THE ACTIVITIES AND RESOURCES PROVIDED BY THE PROJECT MUST BE MAINTAINED AS THEY ARE
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PP RUEEC
DE RUEHMG #7383/02 190 **
ZNR UUUUU ZZH
P 091143Z JUL 86
FM AMEMBASSY MOGADISHU
TO SECSTATE WASHDC PRIORITY 2330
BT
UNCLAS SECTION 02 OF * MOGADISHU 07383

CLASS: UNCLASSIFIED
CHRG: AID 7/7/86
APPRV: DIR: LACOF
DRFTD: PROJ: WDAF
CLEAR: 1. PROJ: E
2. PROG: AM
3. A/CONT: F
DISTR: DIR: CDA: F
PROG: CONT

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FOR AFR/EA

E.O. 12356: N/A
SUBJ: SOMALIA - CONGRESSIONAL OVER NOTIFICATION. (CN)

CRITICAL TO THE SUCCESS OF OTHER USAID/SOMALIA PROGRAMS, (2) ADDITIONAL TIME AND FUNDING ARE REQUIRED FOR THE PROJECT TO CAPITALIZE ON THE INVESTMENTS AND POSITIVE GOVERNMENT OF SOMALIA POLICY CHANGES WHICH HAVE BEEN ACHIEVED AND (3) THERE IS A CLEAR NEED, AND A CORRESPONDING OPPORTUNITY TO FURTHER INCREASE THE ROLE OF THE PRIVATE SECTOR IN THE ECONOMY.

THE GOVERNMENT OF THE SOMALI DEMOCRATIC REPUBLIC (GSDR) HAS MADE SIGNIFICANT EFFORTS TO ABANDON ITS FORMER POLICY OF "SCIENTIFIC SOCIALISM" AND CENTRALIZED CONTROL OF THE ECONOMY. THROUGH THE EFFORTS OF THE IMF AND DONOR COUNTRIES, THE GSDR IS UNDERTAKING AN ECONOMIC STABILIZATION PROGRAM AND HAS HAD SOME SUCCESS IN RESTRAINING DEMAND AND PROMOTING PRODUCTION. SOME GSDR OPERATED ENTERPRISES HAVE BEEN SHUT DOWN, AND POLICIES HAVE BEEN INSTITUTED TO ENCOURAGE PRIVATE SECTOR PARTICIPATION IN THE ECONOMY. GSDR CURRENCY DEVALUATIONS AND MONETARY CONTROLS HAVE LED TO IMPROVEMENTS IN THE INTERNAL AND EXTERNAL FINANCIAL ACCOUNTS. FURTHER LIBERALIZATION HAS OCCURRED THROUGH 1985 WITH MORE PRICE DEREGULATION AND ADDITIONAL ADJUSTMENTS OF THE EXCHANGE RATE TOWARD FREE MARKET LEVELS. WITH ASSISTANCE OF AID AND OTHER INTERNATIONAL DONORS, THE GSDR HAS SET OUT TO IDENTIFY AND IMPLEMENT APPROPRIATE MEASURES TO PROMOTE AND SUSTAIN GREATER PRIVATE SECTOR INVOLVEMENT IN ECONOMIC DEVELOPMENT.

THIS PROJECT IS CONSISTENT WITH RECENT GSDR POLICY REFORM AND WILL ENCOURAGE THE CONTINUATION OF MOVEMENT OF THE SOMALI ECONOMY TOWARDS A FREE MARKET ORIENTATION AND INCREASED RELIANCE ON THE PRIVATE SECTOR FOR SUSTAINED ECONOMIC GROWTH.

(C) PROJECT DESCRIPTION: THE PROJECT WILL EMPHASIZE AND ENCOURAGE A PARTNERSHIP BETWEEN THE PUBLIC AND PRIVATE SECTORS IN SOMALIA IN FORMULATION AND IMPLEMENTATION OF SOUND ECONOMIC POLICIES AND ACTIVITIES WHICH WILL FUEL THE ENGINE OF ECONOMIC

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GROWTH AND PROSPERITY.

THIS IS AN ONGOING PROJECT STARTED SEPTEMBER 23, 1983. BY THE DATE OF THE ESTIMATED COMPLETION OF THE PROJECT IN FY90, THE PROJECT WILL HAVE BEEN IMPLEMENTED OVER A PERIOD OF SEVEN YEARS. DURING THE PROJECT IMPLEMENTATION PERIOD 1983-85, MUCH OF THE POLICY DIALOGUE EMPHASIS WAS DIRECTED TOWARD THE PRIVATE SECTOR. NOW THE EMPHASIS IN THE POLICY DIALOGUE WILL SHIFT TO IMPROVING GSDR REVENUE COLLECTION AND BUDGETARY CONTROL. NEVERTHELESS, AID WILL CONTINUE TO PROMOTE GREATER PRIVATE SECTOR PARTICIPATION IN THE ECONOMY THROUGH PREVIOUSLY FUNDED PRIVATE SECTOR ENCOURAGEMENT ACTIVITIES. HOWEVER, ACTIVITIES FUNDED BY AID UNDER THE PROJECT AMENDMENT PRIMARILY WILL FOCUS ON GSDR POLICY REFORM, TAXATION, AND FISCAL ISSUES. THE ACTIVITIES FUNDED BY AID UNDER THE PROJECT AMENDMENT WILL CONTINUE TO STRENGTHEN THE AID/GSDR POLICY DIALOGUE BY FUNDING A SERIES OF MACROECONOMIC AND SOCIOECONOMIC STUDIES, AND CONSULTANCIES WHICH WILL DEMONSTRATE THE BENEFIT OF SELECTED POLICY REFORMS AND CONTINUED GROWTH OF THE PRIVATE SECTOR. IN ADDITION, AID WILL FINANCE THE TECHNICAL ASSISTANCE REQUIRED TO IMPLEMENT SOME OF THE REFORMS. OTHER INTERNATIONAL DONORS WILL BE ENCOURAGED TO PROVIDE TECHNICAL ASSISTANCE IN AREAS OF CONCERN BEYOND AID'S CAPABILITY.

(D) BENEFICIARIES: THE PRIMARY BENEFICIARIES OF THE PROJECT WILL BE: (1) THE MINISTRY OF FINANCE (MOF), (2) THE MINISTRY OF INDUSTRY AND COMMERCE (MOIC), (3) THE SOMALI CHAMBER OF COMMERCE (SCC), (4) SELECTED SOMALI PRIVATE SECTOR FIRMS AND ENTREPRENEURIAL ASSOCIATIONS, AND (5) A SOMALI PRIVATE BANK. LONG-TERM TECHNICAL ASSISTANCE WILL BE PROVIDED TO THE MOF, MOIC AND THE PRIVATE SECTOR BANK (WHEN ESTABLISHED). THE SOMALI CHAMBER OF COMMERCE WILL BE PROVIDED SHORT-TERM TECHNICAL ASSISTANCE IN ADMINISTRATION AND PRIVATE SECTOR OUTREACH PROGRAM DEVELOPMENT. APPROXIMATELY 20-35 SOMALI PRIVATE SECTOR FIRMS AND ENTREPRENEURIAL ASSOCIATIONS WILL BE PROVIDED SHORT-TERM TECHNICAL ASSISTANCE IN BUSINESS DEVELOPMENT AND IMPROVEMENT, AND FINANCIAL PLANNING. TO THE EXTENT PRACTICABLE, TRAINING ACTIVITIES WILL BE PROVIDED THROUGH THE SOMALI INSTITUTE FOR DEVELOPMENT ADMINISTRATION AND MANAGEMENT

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PP RUEHC
DE RUEHMG #7383/03 190 **
ZNR UUUUU ZZH
P 091143Z JUL 86
FM AMEMBASSY MOGADISHU
TO SECSTATE WASHDC PRIORITY 2331
BT
UNCLAS SECTION 03 OF 03 MOGADISHU 07383

CLASS: UNCLASSIFIED
CHRG: AID 7/7/8
APPRV: DIR: LACOF
DRFTD: PROJ: WDAF
CLEAR: 1. PROJ: EF
2. PROG: AM
3. A/CONT: I
DISTR: DIR: CDA: F
PROG: CONT: I

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FOR AFR/EA

E.O. 12356: N/A

SUBJ: SOMALIA - CONGRESSIONAL OVER NOTIFICATION (CN)
(SIDAM).

(E) HOST COUNTRY CONTRIBUTIONS: THE GSDR CONTRIBUTION WILL BE MORE THAN 25 PERCENT OF TOTAL PROJECT COSTS. THIS WILL BE PROVIDED PRIMARILY THROUGH THE GENERATED SHILLINGS (LOCAL CURRENCY) ACCOUNTS. THE GSDR WILL PROVIDE COMPLEMENTARY SUPPORT TO TECHNICAL ASSISTANCE, STUDY TOURS, SEMINARS, CONFERENCES, PROJECT SUPPORT (LOGISTICS AND COMMODITIES), TRAINING ACTIVITIES, LOCAL SALARY SUPPORT, FUEL, OFFICE SPACE, AND COUNTERPARTS FOR TECHNICAL ADVISORS.

(F) MAJOR OUTPUTS:

ITEM	ALL YEARS
1. A DETAILED EXAMINATION OF APPROPRIATE ECONOMIC POLICIES AND PUBLICLY-HELD INSTITUTIONS, RESULTING FROM A MORE EFFECTIVE, CONCERTED POLICY DIALOGUE BETWEEN THE GSDR AND AID.	6-10 POLICY STUDIES/ SEMINARS; 2 MINISTRIES STRENGTHENED.
2. AN EXPANDED DIALOGUE BETWEEN THE GSDR AND THE SOMALI PRIVATE SECTOR ON ECONOMIC AND REGULATORY POLICIES.	6-10 WORKSHOPS/ SEMINARS.
3. THE ESTABLISHMENT OF A PRIVATE SECTOR BANK IN SOMALIA.	1 PRIVATE BANK PRIVATE OPERATIONAL.
4. REVISED AND IMPROVED GSDR BUDGETARY AND REVENUE COLLECTION SYSTEMS.	2 SYSTEMS REVISED/ IMPROVED.

(G) AID FINANCED INPUTS:

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ITEM	\$THOUSAND-LOP
LONG-TERM TECHNICAL ASSISTANCE	2,699
SHORT-TERM TECHNICAL ASSISTANCE	3,000
STUDY TOURS, SEMINARS, CONFERENCES	228
PROJECT SUPPORT (LOGISTICS AND COMMODITIES)	626
EVALUATION	50
AUDIT	45
CONTINGENCY AND INFLATION	352
TOTAL	<u>7,000</u>

- (H) PRINCIPAL CONTRACTOR(S) OR AGENCIES:
- - INTERNATIONAL SCIENCE AND TECHNOLOGY INSTITUTE
INC. (ISTI).
 - THE TECHNOLOGY INFORMATION PROCESSING COMPANY
(TIPCO)
 - TWO (2) PERSONAL SERVICES CONTRACTORS (ON BOARD).
 - PRIVATE SECTOR BANKING MANAGEMENT TA (TO BE
DETERMINED). HIRSCH

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STATE 207175

JUL 2 - 1986

ACTION: AID/ INFO: CDA/ECON

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FM SECSTATE WASHDC

TO AMEMBASSY MCCADISHU PRIORITY 5407

BT

UNCLAS STATE 207175

LOC

02 JUL 86

0445

CN: 58250

CHRG: AID

DIST: AID

E.O. 12356:N/A

TAGS:

SUBJECT: CONGRESSIONAL NOTIFICATION ON POLICY INITIATIVES AND PRIVATIZATION (649-0132)

REF: TELCON, COHEN/MENDELSON 6/17/86

PER DISCUSSIONS WITH DIRECTOR COHEN WHILE HE WAS IN AID/W AND REPTELCON, REQUEST MISSION SUBMIT ASAP ATTENTION AFR/EA CN FOR DOLS 2.9 MILLION OVERTNOTIFICATION FOR SUBJECT PROJECT FROM SEA ACCOUNT. AFR/EA WILL PREPARE TN FOR DOLS 3.9 MILLION OVERTNOTIFICATION FOR SOMALI MGMT TRAINING FOR DEVELOPMENT (SOMTAD) 649-0119). SHULTZ

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STATE 207175

Best Available Document

OFFICE	INFO	ACTION
DIR		
DD		
PROG	✓	✓
PROJ	✓	
ENG		
RD/RA		
SMO		
CON	✓	
MGT		
AGF		

Pray

ACTION: AID INFO: AMB DCM ECON

7ZCZCNGC206
PP RUEEMG
DE RUEEC #7675 1292116
ZNR UUUUU ZZE
P 092118Z MAY 86
FM SECSTATE WASHDC
TO AMEMBASSY MCGADISHU PRIORITY 4728
BT
UNCLAS STATE 147675

Action taken: _____
Action necessary: _____

ICC: 666- 218
11 MAY 86 0829
CN: 51277
CHRG: AID
DIST: AID

AIDAC

E.C. 12355: 5/A

TAGS:
SUBJECT: SOMALIA-POLICY INITIATIVES AND PRIVATIZATION
AMENDMENT (645-3132): EOPR GUIDANCE ON FID

1. MISSION IS CORRECT THAT FY 88 SDA (126) ACCOUNT FUNDS WILL BE LIMITED, HOWEVER, BUREAU HAS BEEN INSTRUCTED BY SENIOR MANAGEMENT TO REQUEST HIGHER LEVEL OF SDA FUNDS FOR THE BUREAU IN FY 88 CP. EOPR GUIDANCE WAS BASED ON THE DECISION THAT FY 86 AND BEYOND OBLIGATIONS NEEDED FOR SUBJECT PROJECT SHOULD RECEIVE A PRIORITY FOR SDA AVAILABLE FOR SOMALIA. MISSION SHOULD PRESENT SDA REQUIREMENTS TO FULLY FUND LOP IN FY 88 ABS. REPORTING CABLE ON ABS REVITW WILL ADDRESS THE ISSUE OF WHETHER OR NOT THIS SDA FUNDING WILL BE AVAILABLE. APMACCST

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PROG	✓	
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SMC		
C/N	✓	
MGT		
AGP		

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5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only:
 B.1. applies to all projects funded with Development Assistance loans, and
 B.3. applies to projects funded from ESF.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

YES.
 YES.

A. GENERAL CRITERIA FOR PROJECT1. FY 1985 Continuing Resolution Sec. 525; FAA Sec. 634A; Se 653(b).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or nor more than \$1 million over that amount)?

The U. S. Congress has been notified. The Congressional Notification (CN) expired on August 16, 1986 with no objections raised by the Congress.
 YES.

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

N/A

N/A

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

GSDR must enact legislation permitting private banking in Somalia prior to disbursement of AID funds for T/A in establishment of a private bank. Private banking feasibility study and draft private banking laws have been completed. GSDR has re-confirmed its intention to endeavor to enact such laws in a covenant in the 1986 CIP PROAG.

4. FAA Sec. 611(b); FY 1985 Continuing Resolution Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973, or the Water Resources Planning Act (42 U.S.C. 1962, et seq.)? (See AID Handbook 3 for new guidelines.)

, N/A

5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

N/A

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.

NO.

7. FAA Sec. 601(a). Information and conclusions whether projects will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and 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.
8. FAA Sec. 601(b). Information and conclusions on how project 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).
9. FAA Sec. 612(b), 636(h); FY 1985 Continuing Resolution Sec. 507. Describe 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 U.S. are utilized in lieu of dollars.
10. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?
- The macroeconomic and socioeconomic policy studies and private sector encouragement initiatives which will be funded, will lead toward and form the basis /framework for effective implementation of market-orientated policy leading to realization of practical all of these items to varied degrees.
- The project will assist the GSDR to accomplish its economic recovery program and increase private participation in the economy, support the development and implementation of improved economic policies and identifying and testing ways and means of promoting private sector participation in the economy and improving the GSDR's budgeting and revenue collection systems. A significant movement toward a market-orientated economy is the objective. To the maximum extent practicable U. S. firms will be used to assist in this process.
- To the maximum extent practicable, local costs will be covered by the GSDR with Somali currency generated from the CIP/ PL-480 programs.
- N/;

15. FY 1985 Continuing Resolution Sec. 536. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution? NO.

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

- a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote N/A

the participation of women in the national economies of developing countries and the improvement of women's status, (e) utilize and encourage regional cooperation by developing countries?

- b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used? YES.
- c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)? N/A
- d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed country)? YES.
- e. FAA Sec. 110(b). Will grant capital assistance be disbursed for project for more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country N/A

"relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than \$100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character."

- f. 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?

YES.

- g. 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 civil education and training in skills required for effective participation in governmental processes essential to self-government.

Macroeconomic and socioeconomic policy studies will be conducted in collaboration with appropriate Somali institutions and firms. Project outreach programs are directed toward addressing private sector governmental managerial and operational technical assistance needs, therefore promoting the development of Somali intellectual and productive capacities and opportunities to utilize them.

2. Development Assistance Project
Criteria (Loans Only)

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

- b. FAA Sec. 620(d). 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

3. Economic Support Fund Project
Criteria

- a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the extent possible, does it reflect the policy directions of FAA Section 102? YES.
By assisting the GSDR in accomplishing its economic recovery program, supporting the development and implementation of improved economic policies, identifying and testing ways and means of promoting private sector participation in the economy, and improving the GSDR budgeting and revenue collection systems.

- b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? NO.

- c. FAA Sec. 534. Will ESF funds be used to finance the construction of, or the operation or maintenance 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. 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?

N/A

11. FAA Sec. 601(e). Will the project utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? YES.
12. FY 1985 Continuing Resolution Sec. 522. 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, similar or competing commodity? N/A
13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16. Does the project or program taken into consideration the problem of the destruction of tropical forests? N/A
14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)? N/A