PD-AAU-430
47481

CLASSIFICATION:

AID 1120-1		1. PAAD NO. 649-0130
PAAD	AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	2. COUNTRY Somalia 3. CATEGORY Cash Sales Program 4. DATE July --, 1986
5. TO Louis A. Cohen, Mission Director USAID		6. OYB CHANGE
7. FROM Meredith Scovill, Program Economics Officer Meredith Scovill		8. OYB INCREASE $20.5 Million TO BE TAKEN FROM
9. APPROVAL REQUESTED FOR COMMITMENT OF: $ 20,5 Million		10. APPROPRIATION - ESF

11. TYPE FUNDING	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD	14. TRANSACTION ELIGIBILITY DATE
☐ LOAN ☒ GRANT	☐ INFORMAL ☐ FORMAL ☐ NONE		

15. COMMODITIES FINANCED

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S. only:	U.S.:
Limited F.W.:	Industrialized Countries:
Free World:	Local:
Cash: $20.5 Million	Other:

18. SUMMARY DESCRIPTION

This program is a resource transfer. The purpose of the program is to assist the Somali Democratic Republic (Cooperating Country) in meeting its foreign exchange liquidity and balance of payments problems by provision of cash for Cooperating Country needs and for auction to the private sector.

Subject to the availability of funds and to the mutual agreement of the parties to the terms and conditions set forth herein, dollar disbursement will be made to the Cooperating Country in two or more tranches. Subject to satisfaction of conditions precedent, the first tranche equalling $10 million, will be made to the Cooperating Country for foreign exchange and balance of payments support, and the remaining $10.5 million will be made available to support an acceptable foreign exchange auction to the private sector. Should an acceptable auction mechanism not be agreed upon between the Parties, or should an acceptable auction mechanism not be retained until all remaining Grant funds have been disbursed by AID, the undisbursed balance of the Grant will be made available as cash for foreign exchange and balance of payments support to the Cooperating Country, subject to the satisfaction of conditions precedent.

19. CLEARANCES	DATE	20. ACTION
PROG:LAWaggoner		☒ APPROVED ☐ DISAPPROVED
A/DD:MRBradley MRB	8/17/86	
CONT:TTBradley		AUTHORIZED SIGNATURE — DATE 7 Aug 86
RLA:BBarrington (in draft)	6/25/86	TITLE Mission Director

CLASSIFICATION:

Authority to authorize this project was delegated to the Mission Director in Mogadishu by AA/AFR M. Edelman in State 172597, subject to guidance in cables State 128420 and State 148627, modified by Mogadishu 6668, State 198596, Mogadishu 7704 and State 229801

Program Assistance Approval Document for FY 86 ESF Somalia Cash Sales Program

Table of Contents

INDEX OF TABLES

INDEX OF GRAPHS

I. SUMMARY

Somalia is one of the poorest countries in the world with a per capita GNP of less than $300 per year. The country currently has an external debt of $1.87 billion. Yearly imports are typically three to four times exports. Even with the most generous rescheduling terms in 1986, the debt service will be over 50% of exports (64% based on present estimates). Therefore, the country depends on donors to avoid debt default and to finance critical imports.

Efforts towards economic development are constrainted by limited natural resources and a harsh and variable climate. Only about 14 percent of the land is arable and drought occurs frequently. Average annual rainfall ranges from less than four inches a year in the driest areas to only 25 inches in the wettest. Eighty percent of the population earns its livelihood in the agricultural sector, mainly in nomadic pastoralism. This nomadic population, which has traditionally resisted efforts towards a more settled, agrarian existence, has been providing over 70% of Somalia's export foreign exchange.

The need for more diversification became apparent in 1983 when the Saudi ban on Somali livestock imports resulted in an over 50% drop in export proceeds between 1982 and 1984. The recovery program has slowed considerably because of this reduction in export foreign exchange earnings. The country has begun to diversify in terms of finding alternative outlets for livestock exports and increasing banana exports. Livestock and banana exports together, however, still constitute over 70% of export value. At present, manufacturing for either domestic consumption or export is practically non-existent, providing less than 10% of GDP. Although crop production has increased, and may continue to do so, harsh climatic conditions make it unrealistic to rely heavily on this sector as a solution to Somalia's economic difficulties, and improvements in crop yields are a medium to long term activity. With continued policy change and donor assistance, Somalia can increase production and eventually repay its large external debt, but recovery is a long term process. Recovery is hindered by a lack of available foreign exchange for both the public and private sectors.

The GSDR has helped the private sector by establishing a free foreign exchange market. (An "official market" still exists for government transactions.) The government-owned Commercial Bank acts as a broker, matching persons wanting to buy foreign exchange with holders of foreign exchange accounts who wish to sell some of their currency. Although it rarely does so, the GSDR can also use the free market to purchase foreign exchange for debt repayment or importation when there is insufficient foreign exchange available in the official market.

Nevertheless, free market foreign exchange is costly for both the public and private sectors. Expectations of continued devaluation have resulted in large speculative use of the market. Most holders of foreign exchange appear unwilling to sell at any price. Additionally, the market is thin, and it is difficult to obtain large amounts of foreign exchange. Only about $4 million per month goes through the Commercial Bank-assisted free market in Mogadishu. (Smaller amounts are exchanged at regional branches of the Commercial Bank, at virtually the same rate as that in Mogadishu.) The rate for each transaction is negotiated by the buyer and seller, and persons may either use the Commercial Bank as a broker or make private arrangements. As would be expected, persons wanting to buy large amounts must generally buy at a slightly higher rate. Similarly, persons selling several thousand dollars generally receive slightly more than those selling several hundreds of dollars. Because of the lack of depth in the market, however, persons wishing to sell extremely large sums in a short period of time may occassionally have to accept a reduced rate.

Since the opening of the free market, the private sector has had access to foreign exchange through a market determined mechanism. Use of the free market is helping to encourage exports and discourage imports. Since the free market also results in more realistic pricing, it is helping to re-direct consumption patterns. This mechanism is far superior to the previous method whereby the Government allocated virtually all the foreign exchange, but the free market is presently hampered by both the thinness of the market and recent speculative pressure. In addition the constant devaluation of the market and the need for cheap foreign exchange for the public sector have caused many officials to work to intervene in the market. At this time the free market is also not an attractive source of foreign exchange for the public sector's large needs. Being used to an overvalued official rate, the GSDR is reluctant to pay the higher price for free market foreign exchange. Even more important, GSDR monthly foreign exchange needs are several times the total monthly value of transaction on the free market and a sudden transfer of a large percentage of public sector activity to this market would be disruptive.

Use of ESF can help alleviate the foreign exchange crunch. USAID plans to provide foreign exchange to the public sector in the form of a cash sale at the free market rate. This will provide the GSDR with more liquidity to meet its various needs and will allow the public sector more flexibility in meeting priority needs than would a traditional CIP. USAID proposes to provide the remaining funds directly to the existing Commercial Bank free foreign exchange market for auction to the private sector.

In the past, USAID has used a more traditional CIP with funds allocated to the public and private sectors, often for purchase of specific commodities. In the past, this worked well. During a period of a fixed, over-valued exchange rate, few persons in the private sector could obtain legal foreign exchange, and our program helped ensure that funding was available for importation in priority sectors. The program also helped the GSDR with public sector needs.

For the private sector, the opening of the free market has diminished the attractiveness of a traditional CIP. It is now relatively easier for importers to obtain foreign exchange on the free market, and the problem of selecting an appropriate exchange rate for local currency deposits under a CIP is complex. Businessmen are not interested in a commodity import program tied to source/origin and procurement requirements when realistically priced foreign exchange is available on the free market. Additionally, USAID wholeheartedly supports the free market process of allocating foreign exchange. Foreign exchange is now being purchased at a market-determined price. Fewer imports are coming in with exchange rate subsidies. We believe the GSDR has moved in the right direction by establishing a free market and by allowing a market mechanism to determine the allocation of scarce foreign exchange. Maintenance of a market-determined exchange rate is essential if we are to achieve our development objectives. We want to encourage the government to continue this process rather than return to a system in which the government essentially determined foreign exchange allocations. The present free market is working relatively well, though the rate fluctuates slightly with seasonal export sales, and the total volume of foreign exchange going through the system is small, especially during periods of low exports. The market is also affected by speculative purchases and subsequent hoarding. This has become a problem in recent months. The next year is extremely important to the healthy survival of the free market since the GSDR has agreed to unify the official and free market rates. Unification with a freely floating exchange regime is more likely to be achieved and to work well if the free market is functioning smoothly and is not unduly influenced by speculative pressures. We propose to use our ESF to support this system with minor refinements.

We hope to help the market function more smoothly by reducing some of the speculative pressure, adding more depth to the market, and providing a more constant flow of foreign exchange into the market, thereby lessening the pressure on the rate caused by periods of low exports. This method of aiding the private sector not only helps strengthen the free market and encourages its continuation but also allows ESF funds to be allocated through a working market mechanism. For the public sector we also believe untied cash is now more appropriate in helping the GSDR to meet its liquidity needs better. We are trying to encourage the government to move such purchases as petroleum from the official to the free market, with the eventual aim being private sector importation and distribution. We believe a cash sale instead of funds for specific commodities is more in keeping with our views on the proper role for government in that it allows the GSDR more flexibility in meeting its needs. We propose giving $10 million to the public sector as cash. The remainder will go to the private sector through a cash auction if an auction mechanism acceptable to AID in form and substance is established. If such a mechanism is not established or if an established auction is changed so as to be no longer acceptable, any unspent auction funds would go to the public sector.

II. ECONOMIC STRUCTURE AND ANALYSIS

A. Background

Somalia is presently overcoming economic difficulties created by a decade of poor policies, natural disasters, war, and political difficulties. Following the revolution in 1969, Somalia embarked on a socialist oriented system of government, later termed "scientific socialism." The Soviet Union was the major donor. The GSDR nationalized most industries, often without compensation, and established government owned or controlled monopolies in most export and import industries except livestock. Prices of agricultural products were kept low, resulting in insufficient incentives for farmers. Inefficient government parastatals resulted in increased government deficits. Most trade took place through cooperatives or parastatals and the government was assumed to be responsible for the provision of all services. The program of the seventies had some successes. A literacy campaign was started (following alphabetization of the Somali language in 1972), and an effective system of food distribution was established. Improvements in health, sanitation, and water supply were less significant, however. Social services have favored the urban areas, and the income differential in rural areas has widened. Production stagnated during the 1970s, and per capita income declined. Skilled managers and technicians left the country for higher wages offered in the Gulf States.

In 1977/78, Somalia fought with Ethiopia over the Ogaden area of Ethiopia, which is ethnically Somali. The war increased both the balance of payments and budgetary deficits. It was also as a result of the war that Somalia broke relations with its then major donor, the Soviet Union, which supported Ethiopia during the conflict. Following the conflict, Somalia's internal and external debt worsened because of continued military expenditures and the necessity of feeding a large number of refugees. The situation was exacerbated by poor polices such as the Government commitment to hire all secondary school leavers, and foreign aid declined as Somalia lost its major donor. In addition, a major drought added to the problem.

Somalia entered the 1980's with government-owned factories and service industries characterized by poor management and low productivity, controlled prices and export and import monopolies resulting in inefficient incentives, and a loss of skilled labor. All this contributed to economic stagnation and added to domestic and external financial deficits. The general decline in productivity, coupled with the greatly increased role of the government, resulted in heavy external borrowing and a general decline in exports and increase in imports. This heritage of a government-managed economy was difficult to overcome, and there is still government resistance to more privatization in several sectors. Nevertheless, considerable progress has been made. The period from 1979 to 1981 was one of transition. In 1981, Somalia began taking serious steps toward improving the economy and moving toward a more market-oriented system. With the help of the IMF, the GSDR undertook a stabilization program designed to restrain demand and promote production. In the late 1970s, all imports and exports except livestock were state controlled and all export proceeds were turned over to the Government. The only exception was a small proportion of imports brought in under the franco valuta system. (See section II B-3) Since 1981, the GSDR has decontrolled most agricultural prices, removed virtually all subsidies, shut down some government-operated parastatals, and removed most of the restrictions to private imports and exports. ADC, the Government owned grain agency, no longer has monopsony buying power for grains.

Somalia still needs to diversify, however. Livestock remains the principal economic activity in Somalia, providing approximately 75 percent of exports. About two thirds of the population earns its livelihood primarily from livestock. In May 1983, Saudi Arabia banned all cattle imports from Africa because some imported cattle were reported to have rinderpest. The GSDR enforced stringent shipping, quarantine, and vaccination procedures and secured veterinary reports that there were no identified cases of rinderpest in the country, but the embargo remained in effect. Initially, the ban legally included sheep, goats, and camels as well as cattle. Although Saudi Arabia lifted the ban on sheep, goats and camels, these animals remained affected because they are often shipped together with cattle. As a result of the boycott, cattle exports declined by almost 95 percent in 1983, camels by almost 50 percent, and sheep and goats by about 25 percent. The importance of livestock in total exports and the impact of the livestock ban on export receipts can be seen from Graph 1. In 1985, the total value of livestock exports increased by over 100% from the previous year, but still did not reach the 1982 level. The recovery is due in large measure to the use of alternative markets, primarily Egypt. The price received in Egypt is substantially lower than in Saudi, however, and were it not for the great devaluation in the shilling, exporters would not have found the Egypt market attractive and viable. There is also some smuggling of cattle into Saudi Arabia through Yemen. The seriousness of the Balance of Payments problems as well as the recent improvement in the export picture can be seen from Table 1. General economic and financial indicators, including price levels, are given in tables 1, 2, and 3. As can be seen, the external debt has risen from $1.1 billion in 1982 to $1.87 billion in 1986.

Table 1

Somalia: Balance of Payments, 1980-86
(In millions of U.S. dollars)

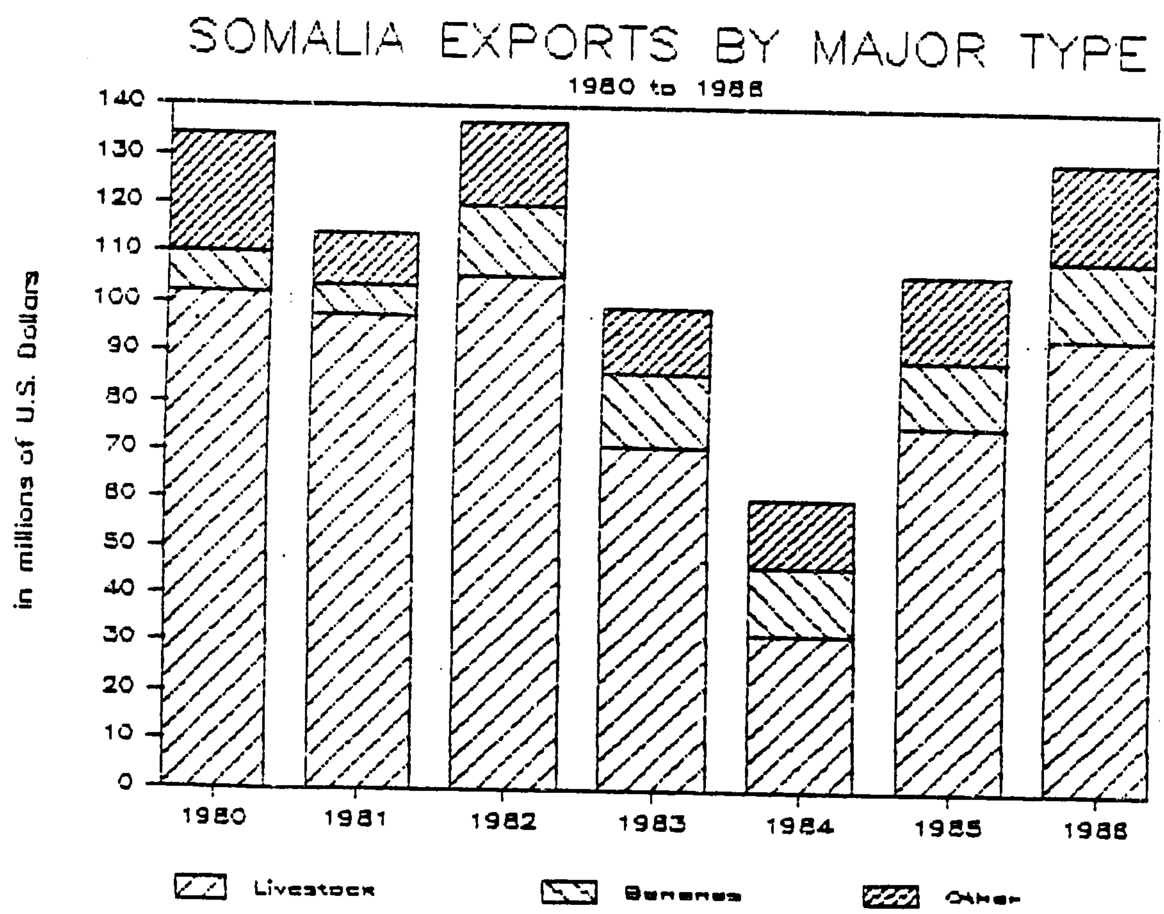
	1980	1981	1982	1983	1984	1985 Est.	1986 Prog.
Current Account	-136	-95	-131	-162	-145	-143	-169
Exports, f.o.b.	133	114	137	100	62	107	130
Livestock	(102)	(98)	(106)	(72)	(33)	(77)	(95)
Bananas	(8)	(6)	(14)	(15)	(14)	(13)	(15)
Others	(24)	(10)	(17)	(13)	(15)	(17)	(20)
Imports, c.i.f.	-461	-421	-484	-450	-406	-400	-425
Cash			(-204)	(-206)	(-156	(-111)	(-142)
Grants-in-kind			(-157)	(-147)	(-151)	(-127)	(-158)
Loans-in-kind			(-123)	(- 97)	(- 99)	(-162)	(-125)
Trade balance	-328	-308	-347	-350	-344	-293	-295
Services (net)	8	-1	9	- 11	- 47	- 51	-82
Interest payments	(- 14)	(- 21)	(- 14)	(- 21)	(- 44)	(-43)	(-79) 2/
Other	(23)	(20)	(23)	(10)	(- 3)	(-8)	(-3)
Transfers	200	214	207	199	246	201	208
Private	(57)	(64)	(50)	(51)	(72)	(33)	(30)
Official	(143)	(150)	(157)	(148)	(174)	(168)	(178)
Capital account	78	49	78	49	6	74	52
Official (net)			114	88	46	114	62
Inflows			(132)	(107)	(106)	(162)	(136)
Outflows			(- 18)	(- 19)	(- 60)	(-48)	(-74)
Private 3/			- 36	- 39	- 40	-40	-10
Overall Balance	-58	-46	-53	-113	-139	-70	-117
Financing	-34	-71	53	113	139	70	117
Central Bank			64	47	13	30	-11
Reserves			(28)	(-1)	(9)	(- 2)	(-4)
IMF (net)			(34)	(44)	(- 3)	(32)	(-5)
Other			(2)	(4)	(7)	(--)	(-2)
Commercial Bank	NA	NA	-20	39	29	- 16	12
Arrears			9	27	71	-100	-18
Debt relief			--	--	26	156	--
Current debt service			(--)	(--)	(--)	(47)	(--)
Arrears			(--)	(--)	(26)	(109)	(--)
ancing gap			--	--	--	--	134

Memorandum items:	NA	NA					
Gross reserves (in weeks of cash imports)			4	4	2	4	4
Current account/GDP (in percent)	NA						
Adjusted 4/	NA		- 9.0	- 12.9	-11.9	-11.0	-11.8
Unadjusted			- 5.0	- 6.5	- 3.8	- 5.1	- 8.4

Sources: Somalia - Review Under Stand-By Arrangement and Request for Waiver of Performance Criteria, IMF, April 25, 1986.

1/ Imports CIF includes loans and grants in kind.
2/ Includes US$18 million in moratorium interest on 1985 debt relief.
3/ Includes valuation adjustment and net errors and omissions.
4/ GDP in Somali shillings converted at U.S. dollar rate necessary to maintain purchasing power parity at 1973 level.

GRAPH 1



SOMALIA EXPORTS BY MAJOR TYPE
1980 to 1986
in millions of U.S. Dollars
140
130
120
110
100
90
80
70
60
50
40
30
20
10
0
1980
1981
1982
1983
1984
1985
1986
Livestock
Bananas
Other

Table 2. Somalia: Selected Economic and Financial Indicators, 1982-86

	1982	1983 Prel. est.	1984 [1] Prog.	1985[2] Est.	1985[3] Prog.	1986
(Growth rate in percent unless otherwise specified)						
National Income and Prices						
GDP at constant prices	11.2	2.4	2.3	4.0	4.0	4.0
Consumer price index						
Average	22.6	36.4	92.2	20.0	37.8	...
December/December	30.9	48.9	82.0	...	30.4	22.0
Trends in central govt. finance						
Revenue	15.0	57.5	- 7.6	92.9	37.7	60.1
Total revenue & grants	41.4	40.4	11.0	121.7	97.6	85.4
Total expenditure	44.2	23.7	69.7	43.3	43.1	76.1
Trends in monetary aggregates[4]						
Money and quasi-money	15.7	7.5	26.0	17.4	8.3	11.1
Net domestic credit	10.8	4.6	79.2	6.7	28.7	12.9
Government (net)	- 3.4	- 5.8	46.8	0.6	15.9	- 4.2
Private	14.2	10.4	32.4	6.0	12.8	17.1
Interest rates						
Commercial bank lending rate						
Minimum	12.0	12.0	12.0	15.0	15.0	19.0
Maximum	14.5	14.5	14.5	20.0	20.0	24.0
Commercial bank maximum deposit rate	11.0	11.0	11.0	18.0	18.0	22.0
Trends in external sector (in U.S. dollars)						
Exports, f.o.b.	20.2	-27.0	-38.0	81.7	72.6	21.5
Imports, c.i.f.	14.7	- 7.0	- 9.8	24.7	- 1.5	6.3
Nominal effective exchange rate (depreciation -)	-27.3	-11.3	- 9.0	...	-46.0[5]	...
Real effective exchange rate (depreciation -)	-20.8	10.5	60.4	...	-31.2[5]	...

			(In percent of GDP)			
Overall budget balance						
Including grants	-5.5	-3.3	-6.9	-2.0	-3.9	-4.5
Excluding grants	-9.3	-6.1	-9.5	-8.9	-9.8	-13.8
Current budget balance						
Including grants	3.3	1.6	-2.8	6.7	2.4	7.5
Excluding grants	-0.5	-1.2	-5.4	-0.2	-3.5	-1.8
Balance of payments 6/						
Current account balance	-9.0	-12.9	-11.9	-10.0	-11.0	-11.8
Current account balance, excluding official grants	-19.8	-24.7	-26.3	-30.6	-23.8	-24.2
Overall balance	-3.6	-9.0	-11.5	-2.8	-5.3	-8.2
	(In millions of U.S. dollars unless otherwise specified)					
Current account balance	-131.0	-162.0	-145.0	-131.0	-143.0	-169.0
Current account, excluding official grants	-288.0	-310.0	-319.0	-400.0	-311.0	-347.0
Overall balance of payments	-53.0	-113.0	-139.0	-37.0	-70.0	-117.0
Gross official reserves	14.0	16.0	6.0	39.0	8.0	12.0
(in weeks of cash imports)	(3.6)	(4.0)	(2.0)	(9.2)	(3.7)	(4.4)
External debt, including IMF	1,146.4	1,260.5	1,348.0	1,446.8	1,693.0	1,872.0
External debt servicing arrears	55.6	82.8	113.9	--	46.4	28.4
External commercial arrears	...	...	33.0	10.0	0.2	0.2

Source: Somalia - Review Under Stand-By Arrangement and Request for Waiver of Performance Criteria, IMF, April 25, 1986. GDP data are based on IMF staff estimates derived from 1978 base using estimates of real GDP growth and the consumer price index as a proxy for the GDP deflator.

1/ Balance of payments data for interest and amortization payments, as well as debt service ratio, are on commitment basis.

2/ The fiscal and monetary data exclude the resources accruing to the Government as a result of the gap-fill exercise.

3/ The fiscal and monetary data include the resources accruing from the gap-fill exercise.

4/ Change in relation to broad money at the beginning of the year. Beginning with 1985 estimates, broad money excludes foreign currency deposits and counterpart fund deposits.

5/ January-November 1985.

6/ GDP in Somali shillings converted to U.S. dollars at rates necessary to maintain the purchasing power parity at 1973 level.

Table 3A

Table 3A. Mogadishu Consumer Price Index by Year, 1978-1985

Date	General CPI	% Increase	Food	% Increase
Dec. 1978	109.68		111.78	
Dec. 1979	155.91	42%	148.[illegible]8	33%
Dec. 1980	263.68	69	312.44	110
Dec. 1981	316.07	20	294.53	6
Dec. 1982	423.63	34	393.99	34
Dec. 1983	630.64	49	630.99	60
Dec. 1984	1,148.04	82	1,112.79	76
Dec. 1985	1,497.57	30	1,247.14	12

Source: Ministry of National Planning

Table 3B. Mogadishu Consumer Price Index by Month, Jan. 1985 - June 1986

Date	General CPI	% Increase Over Previous Month	Food	% Increase Over Previous Month
January 1985	100.00	3.65	100.00	4.05
February	101.07	1.07	100.05	0.05
March	107.83	6.69	104.00	3.95
April	113.77	5.51	109.03	4.34
May	124.05	9.04	121.80	11.71
June	123.01	- .84	118.21	- 2.95
July	123.93	.75	119.58	1.16
August	117.68	-5.04	106.38	-11.03
September	115.89	-1.52	99.61	- 6.36
October	123.20	6.31	104.29	4.69
November	123.34	.11	103.85	- .42
December	125.85	2.04	107.72	3.72
January 1986	131.84	4.77	113.74	5.59
February	137.82	4.54	118.71	4.37
March	144.07	4.53	122.55	3.23
April	150.98	4.80	131.48	7.28
May	163.42	8.24	140.70	7.02
June	168.11	2.87	145.43	3.36

Source: Ministry of National Planning, Central Statistical Office

Agriculture provides employment for about one fifth of the population. The sector is dominated by subsistence farmers cultivating cereals, oil seeds, and sugar cane for domestic consumption. Agricultural marketing used to be dominated by the Agricultural Development Corporation (ADC) which had monopsony buying power over grains. This power has been removed and the Corporation is supposed to act only as a receiver and distributor of food grants and purchaser of grains for government institutions. ADC is also supposed to act as a stabilization board. Its function in this capacity is not completely determined as yet, but the removal of ADC's monopsony power and the subsequent increase in prices offered to farmers has had a beneficial impact on agricultural production. Corn production in 1985 was 28 percent higher than in 1984 and 35 percent greater than 1983. Much of the increase is attributable to favorable climatic conditions, but privatization of marketing shares a role in the increase.

The commercial sector produces banana, sugar cane, and cotton. Banana exports are second to livestock in importance. The banana industry is presently controlled by a monopoly. The manufacturing sector provides less than 10 percent of output, and this percentage is not expected to increase in the short or medium term.

B. Recent Economic Developments

-1. Background

The rate of reforms has slowed somewhat since the large push in the early eighties. The reform effort has continued, however, and there have been some significant changes. Chief among them was the opening of the free foreign exchange market in January, 1985. Although the official rate is still over-valued, it is used only for official government transactions such as debt payment and petroleum purchases, and many of these expenditures are actually made at free market rates. The vast majority of private sector transactions take place at the free market rate. Some transactions take place at the Commercial Bank rate since donor commodity import programs for 1985 generally specified that rate. Without donor loans and grants, which have been transacted at the official rate, more transactions would take place at the free market rate than at either of the other two rates. Unlike most countries in similar situations, the GSDR has not restricted the free market or made any attempt to freeze foreign exchange accounts of private individuals, with the exception of two weeks this spring when there was some confusion over regulations regarding use of the market by ex-patriots. With respect to parastatals, the Government does reserve the right to control the exchange rate. The Government had been letting parastatals and cooperatives use the free market although a circular was issued last fall saying they needed to go through the Commercial Bank for all transactions. Recently, the GSDR forced certain cooperatives and parastatals to sell foreign exchange to the government at a set rate, lower than the prevailing free market rate. The GSDR used the dollars to help pay its arrears to the IMF. Since then, enforcement of the 1985 circular has been irregular. Sales from one GSDR entity to another typically take place at SoSh 100 = $1. Parastatals are often able to purchase foreign exchange at the Commercial Bank rate, however.

In addition to the reform of the exchange market during the past year, 1985 brought economic improvements in other areas. As illustrated by Tables 1,2 and 3, the rate of inflation dropped from 95% the preceding year to approximately 35%, and exports substantially increased (though not to the level prior to the Saudi cattle ban). Although the GSDR still imports and distributes petroleum, the GSDR agreed with the IMF to raise prices each month until reaching world market prices converted to shillings at the free market rate. With the petroleum price increase in Somalia and the recent, large drop in world market prices, Somalia now sells gasoline though not diesel at "world market prices." Somalia, however, has been paying somewhat more for its petroleum, and the present sales price in Somalia does not completely reflect this. Thus, although steps have been taken toward more adequate pricing of petroleum, the GSDR is not receiving sufficient shillings for its petroleum to enable the government to fund new purchases with free market foreign exchange without a subsidy. The GSDR intends to continue adjusting petroleum prices.

Despite the various reforms and progress, there are still several areas requiring improvement. The country faces severe foreign exchange difficulties and a lack of available foreign exchange for external debt payment and importation. In addition, despite reforms, some government restrictions on exports and imports remain, and there are still inefficient parastatals and several export and import monopolies, including export of hides and skins and importation and distribution of petroleum. Indeed, the existence of these monopolies and parastatals exacerbates the country's foreign exchange and budgetary problems. Lack of competition in the hides and skins industry has resulted in almost no exportation from an industry with large potential. Similarly, Somalia pays more for its oil than it would if petroleum was obtained through public tenders.

Recently, the GSDR increased the percentage of export proceeds that must be surrendered to the public sector at the official exchange rate, thus offsetting some of the gains to exporters from the recent devaluation and reducing incentives for increased exportation of traditional goods. The impact on potential, new industries will be even greater from the reduced shilling return.

The country has a sizable export tax. Evasion of import duties is common. The tax system in general needs revision. The public deficit continues to be large. The Government relies heavily on donors and net credit to support the domestic budget. The size of the domestic deficit is making inflation more difficult to control.

An important area where some (but not enough) reform has been made is the government civil service. As a result of the AID-financed Civil Service Study, some reform recommendations were implemented, and the GSDR no longer automatically employs all secondary school graduates. The government has also begun reducing the size of the civil service. Nevertheless, too many persons are still employed by the public sector. Additionally, government salaries in Somalia are too low to retain qualified personnel and need to be raised. Also, an incentive system and other civil service reform measures need to be introduced. The donors as a group are meeting regularly to work on civil service reform issues, and frequent discussions are held with the GSDR.

The above will be areas of USAID focus in the coming years during which Somalia will continue to need debt rescheduling, donor balance of payments support, and policy reform. During this period, the government will need to increase incentives for exports, improve the efficiency of government operations, and cease activities that waste scarce foreign exchange. For next year our ESF program will address Somalia's balance of payments and structural problems by supporting the free foreign exchange market, assisting the public sector with its balance of payments needs, and focusing reform efforts on the few remaining monopoly restraints to private sector activity.

-2. Exchange Rate System

In January, 1985, the GSDR established a free foreign exchange market, keeping the official rate for government purchases. An understanding of the current exchange system and various exchange markets is critical to understanding the economy and the nature of the foreign exchange crisis, and AID's FY 86 ESF program. There are currently three legal exchange rates:

Official Rate: This rate is pegged to the dollar and is currently SoSh 73.75 = $1. There has been a So.Sh. 4 per $1 devaluation per month since January and this should continue until unification with the free market rate. The major sources of foreign exchange for this market are the 50% of export proceeds surrendered to the Central Bank at the official rate, grants and loans from donors, and hard currency changed by diplomatic missions to Somalia. (Prior to opening the free market, the export surrender requirement was 100 percent. It was dropped to 35 percent when the free market was opened in January 1985--with exporters allowed to convert the remaining 65 percent through the free market. At the IMF request, the surrender requirement was raised to 50 percent in January 1986 to increase foreign exchange availability to the public sector.) The official rate is used only by the government and is used to repay debt, finance government imports (such as petroleum), and pay costs of GSDR embassies abroad. However, the GSDR does not receive enough official rate foreign exchange to meet all of these needs.

Commercial Bank Rate: This rate was established in January 1985 and was supposed to be a floating rate. However, after April 1985, the rate has remained the same, with the Commercial Bank giving approximately SoSh 83 = $1 when buying dollars and SoSh 85 = $1 when selling dollars. Individuals and organizations changing hard currency directly with the Commercial Bank and a few authorized exchange agents (such as hotels) receive the commercial rate. Some international donor organizations (such as UNDP) have received this rate for some of their transactions, but virtually all donor contributions are exchanged at the official rate. Parastatals generally are purchasing their foreign exchange at this rate. AID FY 85 CIP sales to the private sector were placed at this rate, and it was also the rate used by the World Bank AIP. With the exception of donor commodity import programs, records regarding the number of transactions occurring at this rate and the uses of the foreign exchange are not available. Excluding commodity import programs, the volume of transactions exchanged at this rate is assumed to be thin.

Free Market Rate: This market emerged as the principal commercial exchange when the Commercial Bank rate (discussed above) failed to float. There are three types of bank accounts: import, export, and external. External account foreign exchange must come from sources originating outside Somalia, e.g., worker remittances. There are basically no restrictions on the use of external account foreign exchange. This is the only account from which funds may be withdrawn in hard currency or from which foreign exchange may be transferred to accounts outside the country without restriction. Foreign exchange in export promotion accounts comes from the 50% of export receipts not surrendered to the government. Funds may be transferred or sold from external and export promotion accounts into import accounts. The greatest restrictions are on the use of import account foreign exchange. In addition to importing commodities, a small amount of funds in these accounts may be used for travel or education abroad without government approval. Persons with one of these accounts may buy or sell the foreign exchange at a rate determined by the market. The Commercial Bank will act as a broker, matching buyers and sellers. On any given day there may be only a few transactions for each of the three types of foreign exchange accounts, and the individual buyers and sellers are free to negotiate a rate. For each type of account, however, the exchange rate negotiated has been similar, with a higher rate generally applying to large transactions. Of the three types of accounts, the average exchange rate for import accounts is lowest because of the greater number of restrictions on use of foreign exchange in this type of account. The free market rate for import accounts has risen to around SoSh 150 = $1. The rate is over 150 for external account transactions. Some illegal transactions take place outside the Commercial Bank and therefore go unrecorded. The rate in these transactions appears to be similar to the exchange rate for transactions going through the banking system. In addition, there are regional branches of the Commercial Bank where dollars can be bought and sold through this modified auction system, and the seller can theoretically sell to the highest bidder. The vast majority of transactions take place in Mogadishu, however.

Table 4 shows changes in the three exchange rates since opening of the free market.

The GSDR occasionally purchases foreign exchange at the free market rate to fund relatively small debt payments and petroleum imports because of a shortage of funds at the official rate. Given the size of the debt and the shortage of official rate foreign exchange, the GSDR will need to turn increasingly to the free market. The GSDR is reluctant to do so, however, because of the likely impact on the domestic deficit and the risk of further devaluing the free market rate. In February, 1986, the GSDR needed an additional $10 million to pay IMF arrears, and was unable to use the free market because the amount the GSDR needed was more than double the month's volume of total foreign exchange sales on the free market. If such a large purchase had been made, an enormous devaluation of the free market rate would probably have resulted. (See Table 5 for a monthly summary of changes in the free market since its opening in January 1985.)

Table 4 Changes in Official, Commercial, and Free Market Exchange Rate (January 1985 to July 1986) Somali Shillings Per U.S. Dollar

Date	Official Rate* (on fifteenth day of month)	Commercial Bank* (on fifteenth day of month)	Free Market Rate (average for month)
January 1985	35.64	76.48	88.26
February	36.135	79.55	88.48
March	37.63	80.35	91.56
April	37.125	80.35	92.83
May	37.125	83.60	93.86
June	39.702	83.60	97.63
July	40.2022	83.60	101.46
August	40.2022	83.60	102.09
September	40.2022	83.60	100.31
October	40.2022	83.60	107.43
Novemb	40.2022	83.60	109.83
December	42.075	83.60	114.63
January 1986	42.075	83.60	114.76
February	53.955	83.60	122.90
March	57.9150	83.60	138.63
April	61.875	83.60	148.96
May	65.8350	83.60	152.56
June	69.7950	83.60	155.21
July	73.7550	83.60	155.34**

* The Official and Commercial Bank Rates are the rates at which the Banks buy dollars.

** For first ten days of July only.

Sources: Commercial and Savings Bank of Somalia and Central Bank of Somalia

Table 5

Free Market Foreign Exchange Transactions: Jan. 1985 - June 1986
(in Thousands of U.S. Dollars)

	Number of Transaction	Amount of Foreign Exchange (US Dols '000)	Average Size of transaction (US Dols '000)	Average Exch. Rate (SoSh per U.S. Dollars)	Monthly cost of living Index	Average Real Exchange Rate (SoSh/US$)
January'85	229	973.3	4.3	88.26	100.00	88.26
February	229	2,070.9	9.0	88.48	101.07	87.55
March	309	2,319.3	7.5	91.56	107.83	84.91
April	374	2,718.9	7.3	92.83	113.77	81.59
May	358	4,594.3	12.8	93.86	124.05	75.66
June	286	2,930.2	10.2	97.63	123.01	79.37
July	374	2,922.7	7.8	101.46	123.93	81.87
August	151	4,673.6	31.0	102.09	117.68	86.75
September	178	8,969.2	50.4	100.31	115.89	86.56
October	165	4,315.4	26.2	107.43	123.20	87.20
November	157	2,915.1	18.6	109.82	123.34	89.05
December	282	5,385.1	19.1	114.63	125.85	91.09
January'86	263	6,365.9	24.2	114.76	131.84	87.05
February	295	4,040.5	13.7	122.9	137.82	89.18
March	306	3,473.6	11.4	138.63	144.07	96.22
April	262	3,393.1	12.9	148.96	150.98	98.66
May	280	4,383.6	15.7	152.56	163.42	93.36
June	268	4,180.3	15.6	155.21	168.11	92.33

SOURCE: Commercial and Saving Bank of Somalia, International Division, Mogadishu, Foreign Exchange Office

Note: The large number of FX transactions in September was due to the Haj. (This phenomenon occurs in several Moslem countries.)

The amount of foreign exchange purchased per month includes transactions from all 3 types of accounts.

C. Economic Structure and Problem

-1. Domestic Deficit and Taxes

The GSDR continually runs a deficit in its domestic budget. Revenue collections are grossly inadequate and expenditures are growing. As can be seen from Table 6, the GSDR is becoming increasingly reliant on grants to finance government expenditures. In 1985, grants exceeded revenue from all other sources. They are expected to do so this year. This represents a change from previous years when grants were only one third to one half of other revenues. The change is due to a basic stagnation of general revenues and a rapid increase in grant funds. Grants for 1985 were over two-thirds as large as total ordinary budget expenditures, over four times the development budget, and only slightly less than total expenditures on investments. For 1986, the situation is expected to be similar.

The composition of the domestic budget has changed somewhat in recent years. Ordinary expenditures, including wages and salaries, now form a slightly smaller percentage of total expenditures, though these statistics are somewhat misleading since a portion of the investment budget actually pays salaries of persons engaged in investment and development activities. Investment expenditures have increased both absolutely and as a percentage of the budget. The development budget-- financed almost solely by donors-- has increased.

Unlike most countries, Somalia needs to increase tax collections. As Table 6 illustrates, revenue as a percentage of GDP has been falling and total revenue comes primarily from and is expected to be only 5.7 percent of GDP in 1986, which is lower than for most countries in similar economic straits. The tax-GDP ratio for Somalia has been falling since the late 1970s when it was 19 percent. The country relies almost solely on import duties for tax revenues. Lack of adequate revenue hinders civil service reform and also places heavy reliance on donor funding for financing both recurrent costs and development projects. The GSDR's ability to service debt by purchasing dollars in the free market is also hampered. Based on Table 6, over seventy percent of Somalia's tax revenue in 1985 came from import related duties. Import, export, and sales taxes provide approximately 80 to 95 percent of total tax revenues. For most countries in a similar stage of development, these taxes together provide from 40 to 60 percent tax revenues. In addition, the customs structure is complicated and enforcement is poor. The income tax is schedular rather than global (each source of income facing a separate tax), and in practice is paid only by wage and salary earners. The recently established Ministry of Treasury is working to correct many of these problems but progress will necessarily be slow. Tax revenues are expected to increase this year, however, and preliminary evidence indicates revenues will increase.

The domestic budget has created difficulties for the economy. The deficit has been financed by net credit to the public sector, helping fuel inflation. A major difficulty with the budget is an almost total absence of a system of priorities either within each functional budget or among ordinary, investment, and development budgets.

-2.Balance of Payments - Foreign Exchange Analysis

Both the public and private sectors suffer from a foreign exchange shortage. Somalia entered the 1980s with a large external deficit. As a result, even with long grace periods and debt rescheduling, debt payments place a large drain on foreign exchange. Unrescheduled debt payments for 1986 would be $192 million. After rescheduling, they are anticipated to be $83 million, or over 60 percent of export proceeds. Without rescheduling and donor grants and loans, Somalia will necessarily default on debt.

Somalia has also had a trade deficit for the entire decade and is dependent on donor grants and loans to maintain the needed level of both public and private sector imports. The trade deficit for 1986 is estimated to be $295 million. Graph 2 shows the large difference between exports and imports and the continuing trade deficit. The statistics at the top of Table 1 show the same. Although the trade deficit is lower now than in 1980, this is due to a decrease in imports, rather than an increase in exports. Indeed, exports are just returning to the level prior to the Saudi ban on cattle exports.

All these reforms have improved the trade and investment climate. They have not been able to overcome the larger debt burden created in the 1970s, however, and recovery has been hindered by a Saudi ban on livestock imports in 1983. (See Graph 1) The ban was later modified to include only cattle, but shipping arrangements in Somalia make it difficult to transport only sheep and goats profitably. In addition, the price of sheep has recently dropped sufficiently to make them unprofitable to ship.

The GSDR must find sufficient foreign exchange to meet critical public sector needs without crippling the private sector and without disrupting the free foreign exchange market. There is a temptation to obtain cheap foreign exchange by increasing the export surrender requirement or by closing the free market and once again having the government serve as the allocating mechanism for legal foreign exchange. It is important that the government meet its own foreign exchange needs without doing this. We also want the GSDR to begin funding more of its activities with foreign exchange obtained at free market rates; this will reduce the extortions created by the present exchange rate subsidies. The Government cannot, however, shift all its purchases to the free market without severely disrupting that market. The GSDR foreign exchange needs are considerably greater than its supply at the official rate. Many expenditures, such as debt payments, will need to be made even at an increased cost created by devaluation. Although we want the GSDR to begin realizing the true value of the foreign exchange it uses, any shift of activity to the free market must be gradual.

Table 7 gives the official GSDR foreign exchange needs for 1986. These include only those expenditures expected--or hoped--to be made with official foreign exchange. Most petroleum imports are expected to be financed directly by donors. The figures are based on the assumption that debt payments will be made through official foreign exchange, though the GSDR will need to turn increasingly to the free market for repaying debt. The public sector foreign exchange needs cannot be met solely by helping the free market function more smoothly and by injecting foreign exchange into this market. Although we encourage the public sector to turn more to the free market, this transition must be gradual. The free market does not have sufficient depth at this time to absorb all the potential public sector purchases, even if they were carefully spaced and even if the portion of export proceeds going to the public sector were turned over to the free market. GSDR expenditures for imports, rescheduled debt payments and other necessary expenditures are approximately 11 million per month. Export proceeds surrendered to the Central Bank average less than $5 million per month. Export proceeds are the only source of foreign exchange available to the Central Government without recourse to the free market or receipt of commercial and donor loans, grants, and the small amount of foreign exchange sold to the Central Bank by donors for operating expenses. The average volume of free market transactions or trades each month has been $4 million to $6 million. Even with an increase in the supply of funds to the free market, a sudden large shift of this magnitude would disrupt the free market. We would like to see more parastatal activity transferred to the free market. With respect to other public sector activity, a mechanism whereby some foreign exchange is set aside--at a realistic rate--or a gradual shift to the free market is more desirable. The GSDR has a considerable amount of unmet foreign exchange needs each month. (Generally, these are for debt service payments which go unpaid.) If the public sector transfers all its funding sources to the free market and then uses that market to attempt to purchase all the foreign exchange it needs, the result would be disruptive.

To help the public sector meet critical expenditures and to reduce disruption of the free market by sudden increased public sector use of this market, we propose giving $10 million in initial cash to the public sector. This will help meet the gap of $29 million. If there is prompt signing of a new IMF Agreement this fall, followed by debt rescheduling, the GSDR should be able to meet the remainder through solicitation of aid from other donors or through the free market; based on present projections, the unmet amount is not sufficiently large to disrupt the free market if purchases are planned carefully, especially if more depth is added to the free market through USAID and World Bank funds. We anticipate donor funds would be auctioned for deposit directly into existing foreign exchange accounts at the Commercial Bank. Since persons can re-sell foreign exchange in these accounts, the free market rate and auction rate should move close together over a short period of time.

If an acceptable auction mechanism is not established and all or part of the funds allocated to the auction go instead to the public sector, the GSDR will be able to meet more of its debt and import needs without recourse to the free market. This, too, would help the economy, though we prefer giving a portion of the aid to the auction, rather than giving all of it to the Central Bank. However, additional resources to the public sector, from donors and/or export proceeds, would result in a need for less less debt rescheduling, and the GSDR would therefore be postponing less of its obligations to the future.

Table 6. Somalia: Summary of Central Government Operations, 1982-86

Fiscal Year Ending December 31	1982	1983	1984	1985		1986	
			Prel. est.	Program 1/	Prelim. actuals 2/	Est. Before Program 3/	Program 4/
			(In millions of Somali shillings)				
Total revenue and grants	3,816	5,359	5,951	14,549	11,758	16,550	21,800
Revenue	2,588	4,075	3,766	7,574	5,185	6,500	8,300
Tax	(2,275)	(3,371)	(2,973)	(6,870)	(4,450)	(5,650)	(7,400)
Import duty	1,275	2,198	1,870	4,893	3,200	3,600 5/	5,350 6/
Export duty	123	124	37	250	100	150	150
Other taxes	877	1,049	1,066	1,727	1,150	1,900	1,900
Nontax	(313)	(704)	(793)	(704)	(735)	(900)	(900)
Grants 7/	1,056	1,106	1,980	6,760	6,573	10,000	13,500
Oil grant and commodity import program	(600)	(901)	(620)	(2,760)	(2,504)	(2,800)	(4,785)
Transfers from local authorities	172	178	205	215	...	...	...
Total expenditure 8/	5,366	6,636	11,264	16,524	16,123	24,500	28,400
Ordinary expenditure	2,750	4,539	7,965	7,700	9,047	9,200	10,900
Wages and salaries	(...)	(...)	(2,150)	(...)	(2,152)	(2,200)	(2,200)
Interest: Domestic	(...)	(...)	(385)	(...)	(360)	(400)	(400)
Foreign	(...)	(...)	(540)	(...)	(1,167) 9/	(1,500)	(2,300)
Other expenditure	(...)	(...)	(4,890)	(...)	(5,368)	(5,100)	(6,000)
Investment expenditure	2,461	1,920	3,124	8,560	7,076	15,300	17,500
Development budget	(348)	(498)	(604)	(1,200)	(1,504)	(2,113)	(2,113)
Transfers to local authorities	155	177	175	264	...	...	...
Overall deficit on commitment basis							
Excluding grants	-2,606	-2,383	-7,293	-8,735	-10,938	-17,950	-20,100
Including grants	-1,550	-1,277	-5,313	-1,975	-4,3655	-7,950	-6,600
Change in domestic counterpart external arrears (excluding debt relief)	--	--	1,800	-1,840	-1,440	-450	-800

Table 6 (cont)

Overall deficit on cash basis	-1,550	-1,277	-3,513	-3,815	-5,805	-8,400	-7,400
Financing	1,550	1,277	3,513	3,815	5,805	8,400	7,400
Foreign (net)	1,724	1,572	940	3,760	3,680	2,400	4,700
Domestic	-174 10/	-295	2,573	55	1,045	6,000	-300
Banking system (net)	(-174)	(-295)	(2,573)	(55)	(1,045)	(6,000)	(-300)
Debt relief	--	--	--	--	(1,080) 11/	--	...
Financing gap	--	--	--	--	--	--	3,000 12/
				(In percent of GDP)			
Total revenue and grants	13.6	13.7	7.8	14.9	10.5	11.4	15.0
Of which: revenue	(9.3)	(10.4)	(4.9)	(7.7)	(4.6)	(4.5)	(5.7)
Total expenditure	19.2	17.0	14.7	16.9	14.4	16.8	19.5
Ordinary expenditure	(9.8)	(11.6)	(10.4)	(7.9)	(8.1)	(6.3)	(7.5)
Investment expenditure	(8.8)	(4.9)	(4.1)	(8.8)	(6.3)	(10.5)	(12.0)
Transfers to local authorities	(0.6)	(0.5)	(0.2)	(0.3)	(...)	(...)	(...)
Overall balance							
Excluding grants	-9.3	-6.1	-9.5	-8.9	-9.8	-12.3	-13.8
Including grants	-5.5	-3.3	-6.9	-2.0	-3.9	-5.4	-4.5
Change in arrears	--	--	2.3	-1.9	-1.3	-0.3	-0.6
External financing (net)	6.1	4.0	1.2	3.8	3.3	1.7	3.2
Bank financing (net)	-0.6 10/	-0.7	3.4	0.1	0.9	4.1	-0.2
Debt relief	--	--	--	--	1.0	--	--
Financing gap	--	--	--	--	--	--	--
GDP in current prices	27,972	39,070	76,820	97,762	111,850	145,405	145,405

Source: Somalia - Review Under Stand-By Arrangements and Request for Waiver of Performance Criteria, IMF, April 25, 1986.

1/ Based on an average official exchange rate of So.Sh. 40 per U.S. dollar assumed in the program.

2/ Based on an average exchange rate of So.Sh. 39.50 per U.S. dollar.

3/ Based on an average official exchange rate of So.Sh. 42.5 per U.S. dollar.

4/ Based on an average exchange rate of So.Sh. 72.5 per U.S. dollar.

5/ Based on the valuation of imports at So.Sh. 60 per U.S. dollar.

6/ Based on the valuation of imports at commercial exchange rate.

7/ Includes cash grants (as well as grants-in-kind), including project grants, Saudi oil grant, commodity import program, and budgetary support in the form of food aid.

8/ Commitment basis.

9/ Includes interest payable of So.Sh. 440 million ($11 million) which was subsequently rescheduled at the Paris Club meeting of March 1985.

10/ Includes use of cash in Treasury vaults amounting to So.Sh. 24 million.

11/ Consists of the debt relief on amortization of So.Sh. 640 million ($16 million) and of So.Sh. 440 million ($11 million) on interest due.

12/ Expected to be closed through debt relief on interest payments of So.Sh. 435 million ($6.1 million, which is net of the payment of interest moratorium of $18.7 million) and on amortization of So.Sh. 2,560 million ($35.2 million).

GRAPH 2

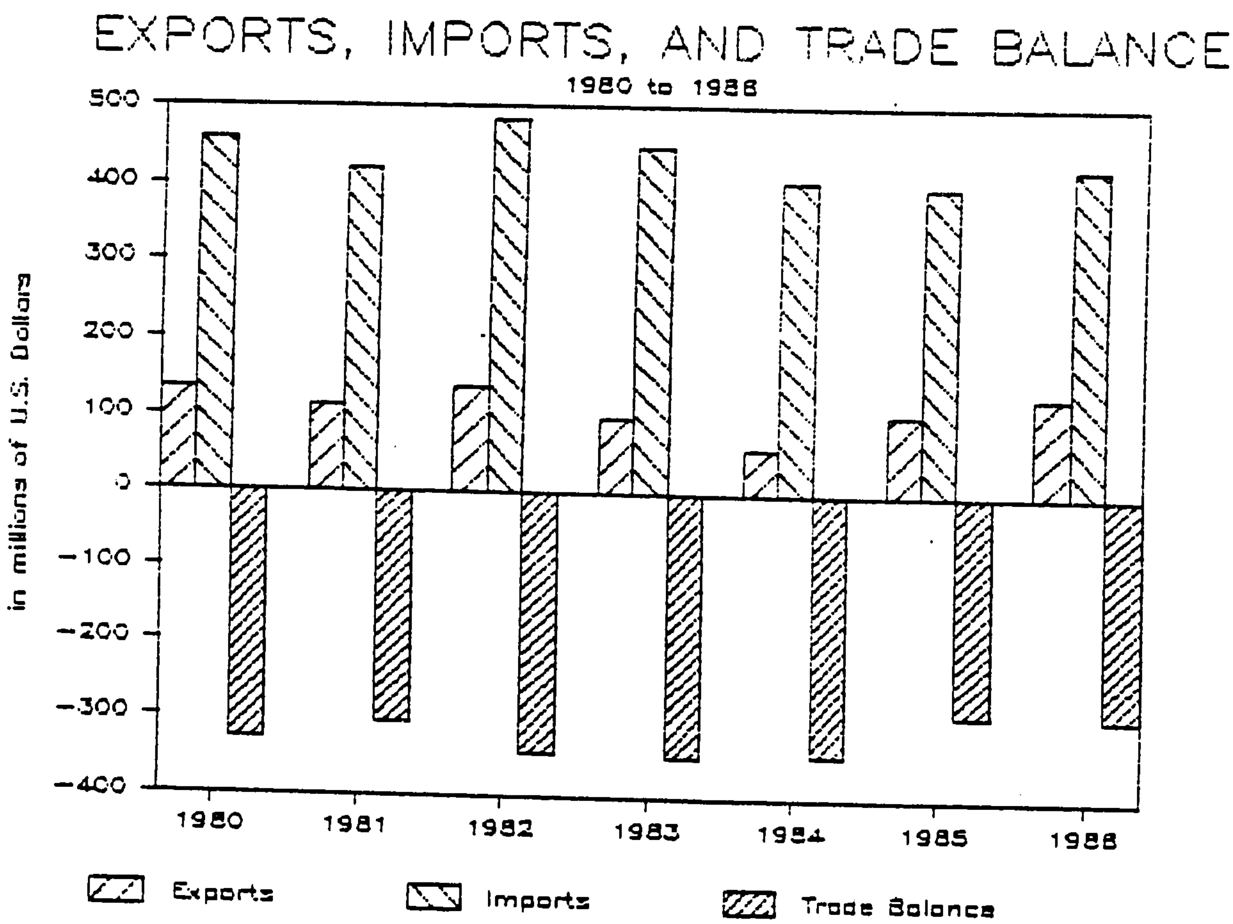

EXPORTS, IMPORTS, AND TRADE BALANCE
1980 to 1986
in millions of U.S. Dollars
500
400
300
200
100
0
-100
-200
-300
-400
1980
1981
1982
1983
1984
1985
1986
Exports
Imports
Trade Balance

Table 7 OFFICIAL GSDR FOREIGN EXCHANGE NEEDS (1986)

Expenditure

Imports (predominately oil and excluding donor in-kind grants)	$ 21 million
Unrescheduled Debt Payments (including arrears)	192 million
Services (including GSDR embassies abroad)	17
Reserve Reconstitution	10
Total	240

Sources

Export proceeds, surrendered	53
Anticipated rescheduled debt	109
Donor grants (excluding grants in-kind and ESF)	32
Loans	17
Total	211

GAP	$29 million

Source: IMF

Note: This includes only those Government expenditures which are expected to be met with foreign exchange from the Official market, currently SoSh 73.75 = $1. It does not include public sector expenditures or debt payments made from foreign exchange obtained on the free market.

-3. Role of the Free Market

The opening of the free foreign exchange market in January 1985 represented a substantial change for the private sector and potentially for the government. Prior to 1985, there was one over-valued legal exchange rate (except for a brief period during which there was one rate for essential imports and another for all other transaction). Table 8 shows the official exchange rates applicable for the five years prior to opening of the free market. Although there was frequent devaluation of the official rate after 1980, the exchange rate remained over-valued. In 1970, all import trade had been nationalized and placed under state monopolies. For most of the 1970s the only legal method of obtaining foreign exchange was through the government and preference was generally based on friendship not economic priorities. Most exportation was through government controlled monopolies, at the official exchange rate. Livestock exporters (who were allowed to export privately) were supposed to remit their foreign exchange at the official rate. Indeed, until the opening of the free market, the export surrender requirement was 100 percent, although exporters managed to keep a significant amount of foreign exchange through under-invoicing and smuggling. Most importation was also through government monopolies. The impact on the private sector and on the economy was disastrous and there was an extreme shortage of consumer goods.

Realizing the need for some form of incentive system, the government instituted the franco valuta system under which traders could import goods using their own foreign exchange. Although it remained illegal technically for Somali residents to hold foreign exchange abroad, the authorities permitted traders to import using foreign exchange from migrant workers in the Gulf States and from livestock exporters who had under-invoiced their exports. Private traders initially could import only selected commodities, but the list was gradually extended to include almost all imports. If the imported commodity was subject to government price control, however, it had to be sold to the state monopoly agencies dealing in that product. This system increased the incentive to exporters and provided greater access to foreign exchange for importers but was still an inefficient mechanism for allocating foreign exchange. Exporters wanting to convert their foreign exchange to shillings at a realistic rate either had to import goods themselves or sell the foreign exchange on the black market in Jidda. Importers not able to get a sufficient allocation of official foreign exchange needed access to an exporter or a Somali working abroad. There was a thriving black market in Jidda, but it was nevertheless not as efficient as the free market. The government abolished the franco valuta system in 1983 and then re-instituted it in 1984 because shortages of imports were affecting productive sectors of the economy. When the GSDR began abolishing state monopolies, the fixed, over-valued foreign exchange system limited the private sector response. Indeed, without the USAID CIP, and eventually similar programs from other donors, the private sector would not have had access to hard currency. The United States CIP was extremely instrumental in helping develop a newly legalized private sector. Even with the franco valuta system, a large percentage of export and import transactions occurred at an over-valued exchange rate. New export industries were discouraged. The import mix often depended on which persons or groups had access to over-valued versus black market foreign exchange rather than on true economic considerations. Few new industries developed, either for export or import substitution. This is attributable partly to government controls and partly to inappropriate pricing signals emanating from the exchange regime. Industrial development occurred where there were exchange rate subsidies or protection.

With the opening of the free market, The franco valuta system was abolished and the export surrender requirement was dropped to 35 percent. (It has recently been raised to 50 percent.) Persons are now able to obtain foreign exchange legally; the market mechanism and not the government or direct access to export proceeds determines who receives foreign exchange and who does not. Exporters also receive a free market rate for half their export proceeds, without having to become importers themselves or having to use an illegal, more costly mechanism of selling

Table 8. Official Exchange Rates Prior To Opening of Free Market

Time Period	Exchange Rate (So.Sh./U.S.$)
February 24, 1973 to March 6, 1973	SoSh 6.2327
March 6, 1973 to July 4, 1973	6.1080
July 17, 1973 to December 19, 1973	6.2327
December 14, 1973 to June 30, 1981	6.2327
July 1, 1981 to June 30, 1982	6.2327 (essential imports) 12.590 (for all other FX transactions)
July 1, 1982 to October 22, 1983	15.227
October 23, 1983 to September 17, 1984	17.55
September 15, 1984 to December 31, 1984	26.00
January 1, 1985	36.00

Source: Central Bank of Somalia

foreign exchange. Exports increased 75 percent, and this is partly from the increased incentives provided by the free market (Somalia has found alternative markets for livestock exports to offset the Saudi ban on Somali cattle. An increased amount is now exported to Egypt. Cattle is also smuggled into Saudi Arabia through South Yemen. The viability of Egypt as a market is due in large measure to devaluation since the price received in Egypt is considerably below that formerly received from Saudi Arabia). The export surrender requirement and export taxes still act as disincentives, but the degree of distortion has lessened. The majority

Table 9

Free Foreign Exchange Market By Account By Month, 1986

	Import Account	Export Promotion Account	External Account	Total Volume	Total Number Transaction	Average Exchange Rate
Jan. 2-10	630,539	269,506	412,651	1,312,696	65	114.91
11-20	585,477	922,942	1,103,864	2,612,283	95	111.80
21-30	1,751,224	109,533	580,196	2,440,953	103	117.57
January	2,967,240	1,301,981	2,096,711	6,365,932	263	114.76
Feb.1-10	594,998	357,002	834,781	1,786,781	117	115.40
11-20	251,500	218,261	692,808	1,162,569	110	125.07
22-28	543,000	138,999	409,172	1,091,171	68	128.23
February	1,389,498	714,262	1,936,761	4,040.521	295	122.90
March 1-10	615,850	38,360	572,415	1,226,625	92	132.18
11-20	406,074	58,500	764,596	1,229,170	108	140.03
21-31	147,600	20,586	849,646	1,017,832	106	143.69
Total March	1,169,524	117,446	2,186,657	3,473,627	306	138.63
April 1-8	247,200	15,700	541,155	804,055	81	150.29
9-20	358,778	338,700	1,051,029	1,748,507	102	145.26
21-30	118,400	64,700	657,440	840,540	79	152.02
Total April	724,378	419,100	2,249,624	3,393,102	262	148.96
May 1-10	238,333	20,000	704,067	962,402	84	152.24
11-20	40,528	25,970	1,147,810	1,214,308	99	151.69
21-31	616,965	1,000	1,588,936	2,206,901	97	153.83
Total May	895,828	46,970	3,440,813	4,383,611	280	152.56
June 1-10	48,998	15,900	1,551,116	1,61[illegible],014	82	152.34
11-19	568,250	98,050	1,001,915	1,668,215	110	153.83
20-30	143,844	10,000	742,261	896,105	76	157.10
Total June	761,092	123,950	3,295,292	4,180,334	268	155.21

Source: Commercial and Savings Bank of Somalia of private imports are now coming in at realistic rates, and the pricing mechanism can be used to help limit imports and to direct importation to those areas most needed or desired.

Unlike many other countries establishing foreign exchange accounts and a free market, the GSDR has maintained the integrity of the system. The government has not imposed restrictions on the use of the accounts, except those held by parastatals or government cooperatives, and has not tried to manipulate the free market rate. All foreign exchange accounts are held in the government owned Commercial Bank. (There are at present no private banks. The Commercial Bank will act as a broker for persons wishing to buy or sell, but individuals may negotiate their own sales.) The opening of the free market has given increased incentive to exporters who may now convert a portion of their earnings at a market determined rate. The existence of different types of accounts (import, export promotion, and external) makes it possible for persons to obtain foreign exchange for transfer abroad without permitting all foreign exchange to go for capital flight.

Despite the improvements occasioned by the opening of a free market, there are structural problems in the market. The amount traded each month is small, and though we do not have figures on the amount of foreign exchange in accounts of Somalis, we know the amount of foreign exchange held outside the country is great. There are several reasons for the small supply of foreign exchange offered for sale each month. Exports are only one fourth to one fifth of imports. The percentage of Somalis working abroad is smaller than for other Arab countries and has decreased recently. Also, economic uncertainties have resulted in persons preferring to keep most of their foreign exchange outside Somalia. The steady devaluation of the Somali Shilling vis-a-vis other currencies makes persons assume the shilling will continue to devalue, and they therefore want to hold dollars. In addition, many persons fear the GSDR might place further restrictions on external accounts held by nationals. Some Somalis have indicated they never keep more than $10,000 at one time in an external account. The rest is held outside the country. Since the beginning of this year the fears of devaluation have also increased demand for foreign exchange as persons want to hold their savings in foreign exchange, rather than shillings.

The free market worked extremely well the first year. Even the doubling of supply going through the free market in September, 1985, has only a slight impact on the rate as traders appear to have adjusted automatically to this predictable seasonal increase. (During long periods with few exports, the impact on the market appears to be somewhat stronger, giving pressure for devaluation.) Recently, there appears to be more speculative pressure in the market than last year, and the shilling devalued sharply and suddenly. The recent devaluation has caused some alarm among the traders and members of the Somali Government.

Table 9 gives the foreign exchange activity for each 8 to 10 day period from January 1986 through June 1986. Since the beginning of the year, the shilling has devalued almost constantly against the dollar, despite general strengthening of other currencies against the dollar. The lowered average exchange rate for the middle of April is the result of one export promotion account transaction on April 14 for $300,000. The total number of transactions for that day was $359,420, for an average exchange rate for the day of 108.46. Based on the Commercial Bank's normal method of calculating average daily rates (which is a weighted average of the day's transactions), the average rate for all other transactions that day was 151.71, or close to the average for the other days in the period and the rest of April. April 10 had an average exchange rate of 139.7. For the remaining 8 days, the rate varied between 147.5 and 152- or approximately the same as for the rest of April. Thus the apparent drop in the average exchange rate for the middle of April is due almost solely to one transaction on one day April 14- with some additional impact from the slightly lower rate on a second day: April 10. We understand the $300,000 transaction concerned a cooperative which was coerced into selling its export receipts to the government at the exchange rate of SoSh 100 = $1. The foreign exchange was used by the GSDR to help pay its arrears to the IMF. There have been other instances recently of cooperatives being required to sell their foreign exchange to the GSDR at a less than free market rate and a recent Ministry of Commerce circular prohibits government cooperatives from selling foreign exchange to the private sector. (A circular last November ostensibly prohibits their buying from the private sector, at least without government approval.) The government has not engaged in forced purchases from the private sector.

Since January, there have been few large swings in the market, and with almost no exception, the change from one day to the next has been gradual. There has, however, been a consistent and marked devaluation until April when the rate began stabilizing. This stabilization against the dollar has come when the value of most other currencies against the dollar worldwide has risen. We have been told there is also a "Gentleman's Agreement" among Somali businessmen not to let the shilling rise to more than So.Sh. 150 = $1. Whether there is truly such an agreement that is at all enforceable or whether the 150 level poses a psychological barrier, the average rate has not risen much above that level. Given the difficulties of buying dollars at that rate, we doubt the stabilization in March/April indicated a true equilibrium of supply and demand at that price. Also, the dollar volume of transactions in the free market (though not necessarily the number of transactions) has decreased during most of this year. Activity has also shifted from import account transactions to external accounts. This is reflected in the shift in activity from sales among import account holders to sales among external account holders. In January 1986, 47 percent of the transactions were among import accounts (Table 10) and only 33 percent involved external accounts.

Table 10. PERCENT OF TOTAL TRANSACTIONS FROM EACH ACCOUNT TYPE

MONTH	IMPORT ACCOUNT	EXPORT PROMOTION ACCOUNT	EXTERNAL ACCOUNT
January	46.6 Percent	20.5 Percent	32.9 Percent
February	34.4	17.7	47.9
March	33.7	3.4	63.0
April	21.3	12.4	66.3
May	20.4	1.1	78.5
June	18.2	3.0	78.8

Figures do not always add to 100 percent because of rounding.

The percentages have steadily shifted since then; for June, only 18 percent of the total volume of transactions occurred in import accounts, and 79 percent was in in external account. Importers of anything but luxury goods are generally reluctant to purchase foreign exchange because at the present exchange rates all but luxury imports are becoming too expensive to sell.

When looking at each individual transaction on a given day--not the totals for each day--sellers of relatively larger amounts receive a slightly higher rate, e.g., $20,000 returns more than $10,000, which brings the seller more than $1,000. When examining the relationship between the dollar volume of transactions and the exchange rate, there is no discernible relationship when viewing aggregated monthly data or each 8 to 10 day period as a unit. There is, however, a consistently negative relationship between the exchange rate and the total volume of transactions each day when looking at daily fluctuations within each 8 to 10 day period. (Table 11 gives linear correlation coefficients and regression coefficients for each period.) There is considerable variability among periods in the strength of the relationship, but it is consistently negative. This indicates that it is shifts in supply - not demand - which are affecting the exchange rate. It also supports the widely held belief that there is considerable speculation and hoarding of foreign exchange--that persons are buying foreign exchange in anticipation of long term, continued devaluation or general economic uncertainty and are selling only when absolutely necessary--or that persons are buying external account funds and transferring the money out of the country, feeling that the shilling is not a safe form for holding savings. Although there appear to be some persons buying foreign exchange for short term speculation, holders of foreign exchange accounts in general have been unwilling to sell foreign exchange, even when they could make a short term profit. The 29 percent devaluation in the first four months of this year could have brought a good profit, even adjusting for inflation. It appears, however, that persons prefer holding the foreign exchange for a long term gain or transferring it out of the country, and we believe that since January, there have been increases in the number of persons engaged in these activities. From what we hear, persons do not appear to have been taking advantage of the recent large devaluation to sell and make a quick profit. (We believe the continued stabilization of the rate since the beginning of June is due at least in part to anticipation of donor cash auctions. In May, the World Bank announced to the business community that it would begin auctioning funds quite soon.)

Given the negative correlation between the daily volume of transactions and the exchange rate, the injection of donor funds into the market should help lower the exchange rate and reduce hoarding as persons realize holding funds in non interest bearing accounts over prolonged periods can result in a loss - not just an assured gain. A more realistic exchange rate will also make it possible to import non-luxury goods. While we believe the free market generally is the best mechanism for allocating resources, the recent speculation appears to have created a temporary situation where only luxury imports are profitable. The problem seems to be caused by an expectation of continued devaluation. Given time, we believe the situation would be self-correcting. We would like to break this cycle, however, before the GSDR decides the free market is not viable and places restrictions on it. This is a critical period given the GSDR need to unify exchange rates under the follow-on to the IMF Agreement and our desire for a market-oriented rate. The pattern of activity on the free market this year differs enough from the same period in 1985 that the Government may view the situation as an indication a free market is not a viable exchange mechanism.

The Somali shilling devalued 29 percent in the first four months of this year, more than the devaluation during any other four month period since the free market opened. While inflation during the first four months this year is only slightly greater than for the corresponding period in 1985, we would have anticipated a slight drop rather than a rise as the GSDR is continuing fairly well with the monetary and fiscal reforms introduced in 1985. Both Graph 3 and the last column in Table 5 show the average real exchange rate (the exchange rate adjusted for inflation). The trends this year and last year are exactly opposite. In 1985, the average real exchange rate dropped steadily until May. The exchange rate adjusted for inflation did not reach the January level until November, when the rate of inflation finally caught up with devaluation. This year, the average real exchange rate rose from January until April, and only began dropping when the exchange rate finally stabilized and the consumer price index began increasing at a greater rate. In June, the exchange rate adjusted for inflation was still slightly higher than in January. We believe the devaluation in the shilling is responsible for the greater rate of inflation to date this year and that devaluation of the shilling is causing rather than reacting to inflation.

With the exception of the one export account transaction on April 14, and a handful of other transaction of parastatals and a brief period during June when some confusion existed concerning eligible holders of external accounts the GSDR has essentially refrained from interferring in the activity of individual accounts or from manipulating or managing the market. To our knowledge the Government has not restricted private sector activities. It deserves credit for this, and we hope the government continues to follow this course. The Commercial Bank brokerage function facilitates matters by matching buyers and sellers. Unfortunately, it does not function as smoothly as an open exchange, and preference may be given to buyers of foreign exchange who have connections in the Bank. The lack of depth in the market makes it especially difficult for persons wishing to buy large amounts. Also, although the Government is not manipulating the market, the private sector itself appears to be exercising some control over it by not buying or selling at rates much exceeding 150. While we support the free market and feel it is far superior to a government controlled system of allocating foreign exchange, the market will not function adequately as long as there is very little depth in the market and people buy foreign exchange primarily to hold or transfer abroad. We also believe the free market will function more smoothly if private banking is introduced and private banks are allowed to participate in the free market.

The present situation of either continued devaluation or informal agreement among businessmen to set a ceiling on transaction prices will continue as long as the shilling devalues consistently from week to week and uncertainty over the economy--and the foreign exchange regime--continues. ESF funds and World Bank funds would help add depth to the market and should make it run more smoothly.

The injection of donor funds, by increasing supply and hopefully reducing hoarding, should lower the exchange rate and make it possible for non luxury items to be imported profitably. The shift in activity from import to external accounts should also be reversed. More importantly, we would be providing our aid to the private sector through a market determined mechanism. We anticipate the introduction of an auction system which approximates the free market, and the donor funds will consequently be distributed at market determined prices. If, as we believe, the recent, sharp devaluation has been based on the belief that the shilling will always devalue, increasing the supply of foreign exchange and therefore lowering the exchange rate will indicate that losses as well as gains can result from this type of speculation and should lessen or stop it. The pressure on the government to close, manipulate, or otherwise restrict the free market will be reduced. Additionally, if speculative pressure decreases and the shilling revalues, the GSDR will be more amenable to unifying the official and free market rates at a freely floating (or at least realistic) rate. This is significant since we view maintenance of a freely floating exchange rate to be extremely important. In the absence of a free rate, the likelihood of an over-valued rate emerging is great, and the GSDR will again be the organization responsible for allocating scarce foreign exchange and we will return to a system where political considerations, not a market mechanism, are responsible for allocation, and the private sector will revert to informal or illegal methods of obtaining hard currency. There is a possibility a managed exchange regime would adjust sufficiently frequently and adequately to maintain a realistic exchange rate, but experience in Somalia would indicate this is unlikely.

GRAPH 3

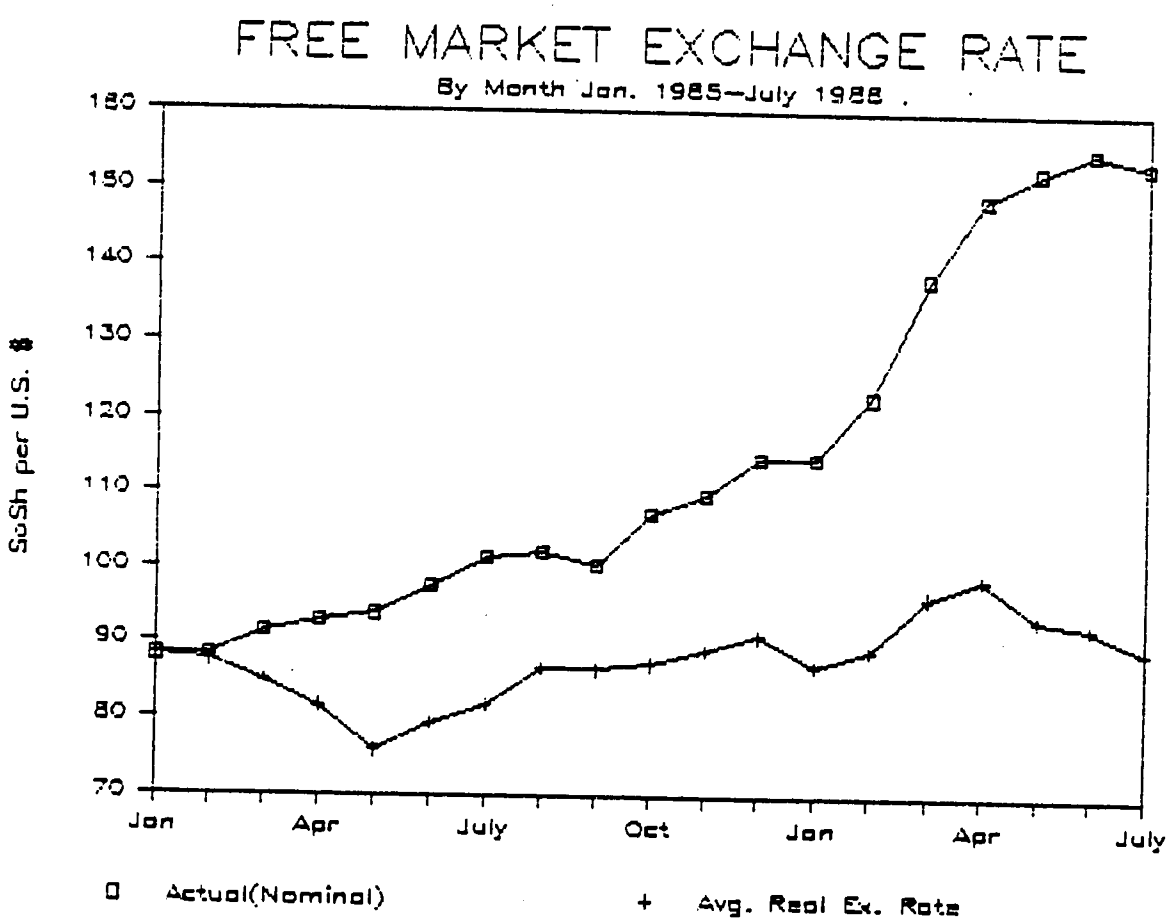

FREE MARKET EXCHANGE RATE
By Month Jan. 1985—July 1988
SoSh per U.S. $
180
150
140
130
120
110
100
90
80
70
Jan
Apr
July
Oct
Jan
Apr
July
Actual(Nominal)
Avg. Real Ex. Rate

Table 11. RELATIONSHIP BETWEEN VOLUME OF FX TRANSACTIONS AND EXCHANGE RATES.

Period	Linear Correlation coefficient (1)	Regression coefficient (2)
January 1-10	-0.36	-0.50
January 11-20	-0.87 (***)	-1.99
January 21-31	-0.47 (*)	-0.28
February 1-10	-0.67 (**)	-3.90
February 11-20	-0.18	-0.50
February 21-28	-0.45	-1.50
March 1-10	-0.19	-0.87
March 11-20	-0.36	-1.72
March 21-31	-0.30	-2.88
April 1-08	-0.59 (*)	-0.77
April 9-20	-0.37	-3.24
April 21-30	-0.80	-0.50

(1) Asterisks stand for significance at the 0.10 0.05 and 0.01 levels, respectively.

(2) So.Sh. per $ change in the exchange rate for every additional $100,000 transacted.

III. RELATIONSHIP WITH THE IMF

Somalia signed an extension to the 1985 Standby Agreement and was declared eligible to receive drawings under the extension on May 12, 1986. The extension will run through September. A new, 1986 or 1986-87 Agreement should follow the 1985 extension but will need to be negotiated. Somalia fell into arrears to the Fund in July 1985 when it failed to make a scheduled payment. From that time until May 12, drawings under the 1985 program stopped. A major impediment to Somalia's willingness to pay the Fund in mid 1985 was disagreement over scheduled devaluation of the official exchange rate and establishment of a schedule for exchange rate unification, which was supposed to occur before the end of 1985. From July, 1985, until early 1986, the arrears to the Fund continued to accumulate, and Somalia was approximately $25 million in arrears. In January 1986, the GSDR and IMF agreed in principle to a 6 month extension of the 1985 Standby. An extension, rather than a new agreement, was desirable because it would allow the GSDR to receive the approximately $20 million of drawings remaining under the 1985 program. Without the extension, scheduled payments (and thus arrears would have continued to increase but the remaining drawings would have been lost. The GSDR's ability to pay the Fund depended greatly on receiving the drawings remaining under the 1985 program. (Citibank extended a bridge loan equal to the first tranche of disbursements under the extension--approx. $10 million, and without the bridge loan, the GSDR would not have been current with the Fund. An additional loan was made by Manufacturers Hanover.) Quantitative performance criteria for 1984-86 are given in Table 12. A summary of the financial program, including policy measures is given in Annex I. A brief description follows.

The objectives of the program for calendar year 1986 are the following:

1) a real rate of economic growth of at least 4 percent

2) a reduction in inflation to 22 percent

3) a current account deficit of no more than $169 million and a balance of payment deficit of no more than $117 million

The policy measures designed to achieve this are divided into external sector policies, fiscal policies, monetary policies, and regulations on the activities of public enterprises. Some of the policy measures are listed below:

- Unification of the free market and official exchange rates by the end of 1986, with interim devaluations of the official rate on a monthly basis.

- Adjustments in the commercial bank rate every ten days to reflect changes in the free market.

- An increase in the export surrender requirement from 35% to 50%. (This occurred in January 1986,)

Table 12. Somalia: Quantitative Performance Criteria, 1984-86

(End of period)

	1984	1985				1986
	Dec.	March	June	Sept. 1/	Dec. 1/	April
		(In millions of Somali Shillings)				
Net domestic credit 2/						
Ceiling		9,703.0	9,840.0	9,995.0	10,150.0	12,200.0
Actual	9,616.2	9,666.0	9,788.6	11,525.6	11,496.0	
Net credit to Government 2/						
Ceiling		4,415.0	4,448.0 3/	4,448.0	4,448.0	5,800.0
Actual	4,378.1	4,413.4	4,419.2	6,049.0	5,421.0	
		(In millions of U.S. dollars)				
External debt service payments arrears 4/						
Ceiling		...	--	--	--	38.6
Actual	146.9	30.2	22.7	34.3	46.6	

Sources: Somalia - Review Under Stand-By Arrangement and Request for Waiver of Performance Criteria, IMF, April 25, 1986

1/ Indicative ceilings.
2/ Net domestic credit comprises credit to Government, public enterprises, and private sector less government deposits with the banking system. Net credit to Government comprises the banking system's claims on the Government, less government deposits, plus any budgetary use of local currency counterpart in respect of purchases from the IMF, plus losses accruing to the Central Bank from the operations of the dual exchange rate system.
3/ Ceiling adjustable downwards by any gap-fill resource in excess of So.Sh. 250 million.
4/ Excluding debt to Abu Dhabi, Saudi Arabia (other than Saudi Fund), and China frozen on the basis of verbal agreements. Excludes U.S. $6 million in letters of credit for which there is uncertainty as to government guarantee.

-An increase in minimum export prices for livestock to reflect current market conditions.

-Monthly increases in gasoline and diesel prices to reach import parity.

-Reduction in arrears.

- Continuation of civil service reform.

-An increase in deposit interest rates to a level equaling the expected rate of inflation; a reduction in the expansion of net domestic credit, and stabilization in the growth in broad money.

- A limit on the fiscal deficit

-Improvement of revenue collections by shifting from specific to ad valorem rates, basing import duties on the commercial bank exchange rate, and continuing with administrative improvements.

Even though the Standby extension was not signed until May, the GSDR has been devaluing the official exchange rate approximately SoSh 4 = $1 per month since January, with a devaluation in January of SoSh 12 to account for the devaluations that should have occurred in November and December of 1985. The GSDR has not changed the Commercial Bank exchange rate or based import duties on this rate. Imports are currently valued at an exchange rate of SoSh 67.2 = $1. They were valued at SoSh 60 = $1 for all of 1985. Petroleum prices have been increased each month, and prices for gasoline are at import parity at world market prices. Interest rates were increased last winter to equal the anticipated level of inflation. That rate, however, will be exceeded. Assuming a constant rate of spending for the year, the fiscal deficit will be larger than the target level..

Although Somalia has reached a stage where its net flows from the Fund are negative, an agreement with the Fund is important in providing a framework for Paris Club debt rescheduling. (Without debt rescheduling, Somalia will be unable to make its debt payments in 1986, and arrears will increase.) See Table 13 for payments due the Fund. The GSDR may also lose support from some other donors without an ongoing Fund program. Although the GSDR has already requested rescheduling, Paris Club debt rescheduling will most likely not occur until a 1986 or 1986-87 program is approved, and therefore may not occur this year. Under the 1985 extension, Somalia will receive an additional SDR 18.1 million. (SDR 9.66 million was paid following the initial signing and review. This amount was paid to Citibank) SDR 5.2 million and SDR 3.2 million are contingent on the end of April and end of June performance criteria being met and on a review of the balance of payments, exchange rate, budgetary policies, and petroleum policy. No decision will be made until following the July visit of the Fund,

(See ANNEX II for implementation status of the 1985 program as of January, 1985.)

Table 13

IMF PAYMENTS DUE
(in millions of SDR's)

Overdue as of 12/31/85	13.6
CY 1986, Quarter #1	10.2
Quarter #2	8.0
Quarter #3	10.9
Quarter #4	9.1
CY 1987	35.2
CY 1988 - 1989	101.7

Source: "IMF Overdue Financial Obligations to the Fund - Statistical Update" (EBS/86/30), p.9.

IV. ROLE OF OTHER DONORS

The major bilateral donors in Somalia have been the U.S., Italy, Saudi Arabia and the Federal Republic of Germany. Aid from Japan and France faries from year to year but is significant. The World Bank, Arab Fund, UN Agencies, and EEC have also been substantial donors. Somalia has received substantial flows from the IMF, but net flows are now negative. Annex III shows trends in ODA disbursements and commitments. In recent years, assistance has come primarily from DAC and OPEC countries. On a per-capita basis, aid to Somalia is significant relative to other countries. Somalia is heavily dependent on donors for support. This can be seen from the large volume of official transfers (Table 1). Because of the need for large donor support, there was a CG meeting in Paris in November 1985 to obtain pledges for 1986. Tables 14A and B indicate anticipated donor flows following the CG. Information concerning actual commitments and disbursements for 1984 and 1985 is not available. As Table 14B and the summary at the end of Table 14A illustrate, there was a mismatch between the types of aid pledged and required. Better coordination of donors prior to CG meetings and greater flexibility in the types of aid are needed. Efforts are being made now to get more donors to respond to the liquidity needs of Somalia.

The World Bank has recently responded to the greater need for flexibility in donor flows by restructuring its Agricultural Inputs Program (AIP). The Bank's 1985 AIP program was similar to our CIP but focused more heavily on agricultural inputs. Private sector deposits were made at the Commercial Bank exchange rate. Because of the opening of the free exchange market, private sector response to AIP, as to USAID's CIP, was poor. Until recently, the added regulations surrounding AIP did not offset the difference between the Commercial-Bank and free-market exchange rates. For the most part, the free market is still more attractive than AIP. In response to the opportunities offered by the free market and the decreased private sector need for donor foreign exchange through tied commodity import programs, the World Bank will be providing the majority of its funds as cash to the free market. We anticipate that USAID funds will be co-mingled with these funds in a joint auction. The World Bank will provide $50 million over an 18 month period. The remainder of the World Bank funds will go through a more traditional commodity import program directed toward the agricultural sector. The Italian Government has both a regular aid budget and a special, emergency aid budget. Under FAI (the special aid faculty), the Italian Government will provide $200 million to $300 million for special projects over several years. The Italian government will be providing $20 to $25 million in foreign exchange over the next few months in exchange for local currency support for special projects. The majority of the foreign exchange will be used to pay debts to multilateral and other organizations whose aid disbursements to Somalia are currently blocked because of arrears.

Table 14A

SOMALIA: Expected Foreign Aid Flows in 1986
(in Millions of US Dollars)

DONORS/CREDITORS	PROJECT AID: Expected Disb. from Pipeline (1)	New Commitment (2)	Expected Disb. fr. New Commit. (3)	Total Expected Disbursement (1) + (3)
Multilaterals				
African Dev. Bank	2	-	-	2
African Dev. Fund	6.5	-	-	6.5
Arab Fund	20	20	3.5	23.5
EIB	2.6	-	-	2.6
IDA	20	15	-	20
IFAD	3	6	0.5	3.5
Islamic Dev. Bank	3	-	-	3
OPEC Fund	-	-	-	-
WFP	-	-	-	-
EEC (all Grants)	15	-	-	15
Bilaterals				
Kuwait Fund	12	-	-	12
Saudi Fund	2	-	-	2
COUNTRIES				
France	8.5	-	-	8.5
Italy	18	75	4	22
U.S.A.	20	22	2	22
Germany (all Grants)	18.5	25	-	18.5
Japan (all Loans)	5.2	-	-	5.2
U.K. (all Grants)	0.3	-	-	0.3
Finland (all Grants)	3	-	-	3
TOTAL (Expected)	159.6	163	10	169.6
Total (Required)				160

Table 14A cont.

SOMALIA: Expected Foreign Aid Flows in 1986
(in Millions of US Dollars)

DONORS/CREDITORS	COMMODITY AID					
	Expected Disbursement From Pipeline			New Commitment		
	Food	Petrol.	Others	Food	Petrol.	Others
Multilaterals						
African Dev. Bank	-	-	-	-	-	-
African Dev. Fund	-	-	-	-	-	-
Arab Fund	-	-	-	-	-	-
EIB	-	-	-	-	-	-
IDA	-	5	-	-	5	10
IFAD	-	-	-	-	-	-
Islamic Dev. Bank	-	-	-	-	-	-
OPEC Fund	-	-	-	-	-	-
WFP	-	-	-	12	-	-
EEC (all Grants)	-	-	-	10	-	5
Bilaterals						
Kuwait Fund	-	-	-	-	-	-
Saudi Fund	-	-	-	-	-	-
COUNTRIES						
France	-	-	-	-	-	-
Italy	-	-	-	-	-	15
U.S.A.	8	5	-	32	-	30
Germany (all Grants)	-	-	10	-	-	-
Japan (all Loans)	-	-	4.8	2.8	-	1.6
U.K. (all Grants)	-	-	-	-	-	-
Finland (all Grants)	-	-	-	-	-	-
TOTAL (Expected)	8	10	14.8	56.8	5	61.6

Table 14A

SOMALIA: Expected Foreign Aid Flows in 1986
(in Millions of US Dollars)

DONORS/CREDITORS	COMMODITY AID: Expected Disbursement From New Commitment			COMMODITY AID: Total Expected Disbursement		
	Food	Petrol.	Others	Food	Petrol.	Others
Multilaterals						
African Dev. Bank	-	-	-	-	-	-
African Dev. Fund	-	-	-	-	-	-
Arab Fund	-	-	-	-	-	-
EIB	-	-	-	-	-	-
IDA	-	-	5	-	5	5
IFAD	-	-	-	-	-	-
Islamic Dev. Bank	-	-	-	-	-	-
OPEC Fund	-	-	-	-	-	-
WFP	10.5	-	-	10.5	-	-
EEC (all Grants)	7.5	-	2.5	7.5	-	2.5
Bilaterals						
Kuwait Fund	-	-	-	-	-	-
Saudi Fund	-	-	-	-	-	-
COUNTRIES						
France	-	-	-	-	-	-
Italy	-	-	8	-	-	8
U.S.A.	20	-	15	30	5	15
Germany (all Grants)	-	-	-	-	-	10
Japan (all Loans)	1.0	-	-	1.0	-	4.8
U.K. (all Grants)	1.0	-	-	1.0	-	1.0
Finland (all Grants)	-	-	-	-	-	-
TOTAL (Expected)	40	0.0	30.5	50	10	46.3
TOTAL (Required)				40	30	50

	PROJECT AID	CASH AID	FOOD AID	PETROL AID	OTHER COMM. AID.
TOTAL EXPECTED	169.6	0	50	10	46.3
TOTAL REQUIRED	160.0	30	40	30	50.0
BALANCE	+9.6	-30	+10	-20	-3.7

Source: Meeting of the Consultative Group For Somalia, IBRD, Jan. 15, 1986.

Table 14B

SOMALIA

Expected and Required Aid Flows in 1986
(in Millions of US Dollars)

	Pledged	Required
Project Aid		
C	163	250
D	172.1 (excess 12.1)	160
Commodity Aid		
(a) Food		
C	56.8	40
D	50 (excess 20)	40
(b) Petroleum		
C	10	30
D	15 (shortfall 15)	30
(c) Other		
C	71.6	60
D	53.3 (excess 3.3)	50
Cash Aid		
C	0	30
D	0 (shortfall 30)	30

C = New Commitments
D = Disbursements

Comment: For food aid disbursements, the difference in the amount pledged (50, and the amount required (40), is 10, not the 20 as given in the table. The figures in the table correspond with those reported in the IBRD Report.

Source: Meeting of the Consultative Group For Somalia, IBRD, Jan. 15, 1986.

V. PAST PERFORMANCE OF THE SOMALIA COMMODITY IMPORT PROGRAMS

Review of Applications for and Disbursements of CIP Funds

The U.S. CIP began in late 1982. At that time Somalia was beginning to allow the private sector to operate again in an essentially unrestricted form. Because of the previous policies followed by the GSDR, the private sector was reluctant initially to take part.

With the start of CIP I in late 1982, $15.5 million was initially allocated to the public sector and $3 million to the private sector. Priority was supposed to go to agriculture, agro-industries, and small-scale, light industry. When the implementation process began, however, it became apparent that public sector agencies lacked the local currency required for deposits equal to 100% of the CIP Mogadishu commodity cost. Consequently, shares were reallocated and the private sector received $12.7 million, with the public sector getting $5.7 million.

Private traders submitted applications slowly, fearing government confiscation of any goods which they would import. As a result, applications were accepted for categories of goods which could be sold quickly (e.g. tires and batteries), and which did not fall within the priority sectors established by AID and the GSDR. All applications were approved by a special committee made up of representatives from various ministries. The AID representative was a non-voting member, but he reserved veto authority for any proposed transaction which did not comply with AID regulations and the CIP agreement.

Under CIP II, over 130 applications were presented by the private sector for CIP-financing, at a dollar value exceeding $41 million. Out of these applications, which did not include applications for construction materials ($21 million), 71 applications were approved by the CIP Special Committee. With more financial applications being received from the private sector for long-term development, the committee began giving higher priority to applications having a longer-term developmental impact. The allocation of funds for FY 1983 CIP II was $16 million. Out of the $16 million, $6 million was earmarked by AID/W for payment of P.L. 480 Title I ocean freight. The remaining $10 million was divided between the private sector (85%) and the public sector (15%). CIP II was delayed by the five months required to open the U.S. Bank L/Com. In 1984, all ESF was obligated for Kismayo Port Rehabilitation.

For the FY 85 CIP (CIP III), $9 million was initially allocated for petroleum products obtained through public tenders. Of the remaining funds, 15 percent was allocated to the public sector and 85 percent to the private sector. FY 85 CIP III implementation was delayed by approximately ten months because the GSDR ordered an investigation to determine if the CIP program should be used to assist the private sector. The investigation concluded that (a) the CIP should be allowed to assist the private sector, and (b) the number of members on the CIP Special Committee should be increased. These two recommendations were implemented by the Ministry of Finance. Due to the increased number of members, however, the Committee could not agree on which applications to finance. This problem was resolved when a new Minister of Finance was appointed. The Minister immediately reduced the number of Committee members, and within one week (including long working sessions) financial applications indicating potential interest for CIP III from private sector exceeded $90 million. Approximately half of the applications received were for construction materials. The remaining half were for machinery, raw materials for existing plants, and similar commodities.

The CIP Special Committee approved 55 private sector financial applications. The majority of the applications approved were for the industrial sector rather than for agriculture. Applications from the agricultural sector declined because of the greater attraction of using World Bank, Italian, and German Agricultural Import Programs, which have fewer procurement restrictions and/or offer cheaper goods with less transport cost. The Commercial Bank exchange rate was established in 1985 and the U.S. and German CIPs and World Bank and German AIPs used the Commercial Rate for private sector local currency deposits. (The official rate prevailed for public sector purchases.) With the opening of the free exchange market, the financial attractiveness of the U.S. CIP declined (if not disappeared). Other donors faced similar difficulties, though generally not to the same degree. By February 1986, approximately $8.2 million of the U.S. CIP III remained undisbursed from the private sector share. This is attributable primarily to two reasons:

1) For most of 1985, the free market rate was between SoSh 95 and SoSh 110=$1. The difference between this and the Commercial Bank rate used by CIP III was not enough to counteract the added costs or reduced profits of following U.S. CIP regulations;

2) For those without political connections, credit is virtually unavailable to the private sector in Somalia, making it difficult to provide local currency in advance, especially for a program such as ours under which commodities will not arrive until months after the local currency is paid. Until recently, then, the difference between the Commercial Bank rate and the free market rate was not sufficient to outweigh the costs of having funds tied up for such a long period of time.

In April 1986, AID amended CIP III to allow up to $8.2 million of additional GSDR purchases of petroleum and petroleum products. Because of the unattractiveness of commodities tied to specific sources, we are shifting to an untied cash transfer for 1986, with the private sector portion to be allocated to the free foreign exchange market through an auction mechanism.

Although the World Bank Commodity Import Program (AIP) has fewer restrictions than the U.S. program, 1985 World Bank funds also remain unspent at the commercial bank rate, and the World Bank is shifting to auctioning cash through the free market as the primary mechanism for helping the private sector in 1986 and 1987. The Italian commodity import program has also faced difficulties because of the relative ease of using the free market.

VI. PROPOSED U.S. ASSISTANCE

A. The Problem to be Addressed:

Somalia suffers from a severe foreign exchange shortage. There is an anticipated trade deficit for 1986 of $295 million. Unrescheduled debt payments exceed exports. Unless U.S. debt payments are made, Somalia will fall under the Brooke Amendment January 1, 1987. Rescheduled debt payments to all creditors could be over 60% of exports. This large debt most likely can not be rescheduled unless the GSDR embarks on a new, 1986 or 1986-87 IMF program following the expiration of the extension of the 1985 program in September. There will be no follow-on program unless the GSDR remains current in its payments to the Fund. The GSDR also has other priority expenditures, including purchases of critical spare parts, payment for embassies abroad, and some petroleum purchases. The latter is often imported with official foreign exchange but priced at free market rates. The GSDR cannot meet these or its debt payments without donor assistance and recourse to the free market for some of its debt payments. The problem is a long term one. The debt is $1.8 billion and will not be repaid quickly. Significant export growth will only occur in the long run. The problem affects the public and private sectors, though in different ways.

The private sector has more access to foreign exchange now that the free foreign exchange market has been opened. Previously, the GSDR controlled access to the small amount of foreign exchange, determining which activities and sectors would be funded and which would not. The alternative was the black market or a growing use of a system in Somalia whereby exporters could repatriate some of their export proceeds in the form of imports. The system provided some freedom from rigid government control, but it was certainly not as efficient as a free market, and it only emerged as the official system became demonstrably unworkable. Even with smuggling, exports were discouraged, particularly potentially new export industries. The present system allows wider access to foreign exchange by the private sector and results in the market system allocating foreign exchange. The amount of funds going through the free market each month is small relative to total import needs, however. The amount also fluctuates widely depending on the amount of exports. Thus at certain times of year it can be extremely difficult to obtain foreign exchange. Recently, access to foreign exchange has become increasingly more difficult as persons have begun hoarding foreign exchange or buying it to transfer abroad. The shilling on the free market has also become under-valued, making importation of non-luxury goods unprofitable. This is a critical time in the "history" of the free market. The GSDR will unify exchange rates soon, and the Government's perception of the viability of the free market will play a large role in determining the type of exchange regime which is introduced following unification. We would like to maintain a market-determined system. Since unification is supposed to occur when the official and free-market rates approach each other more closely and the GSDR would like to unify at as low a shilling to dollar ratio as possible, the GSDR is showing some signs of wanting to manipulate the market to lower the rate greatly. We are trying to avoid general Government manipulation in the market.

In addition to its concern over the political and economic implications of the free market, the public sector has its own enormous foreign exchange needs. The public sector has anticipated foreign exchange needs for rescheduled debt repayment, petroleum, and support for GSDR embassies abroad of over $100 million in 1986. There are additional public sector commodity needs such as power and telecommunications equipment essential for even minimal functioning of the economy. The major non donor source of foreign exchange in the public sector is the 50% of export proceeds surrendered at the official rate. Only fifty to sixty five million dollars is anticipated from this source. This is not sufficient to meet the government's needs. The GSDR will need donor assistance in a highly liquid form and will also need to purchase foreign exchange from the free foreign exchange market to make necessary purchases and payments. In the past, the <u>total</u> of donor flows was sufficient or almost sufficient, but the <u>composition</u> was wrong. Consequently, we see a need for a cash sale to the public sector.

The free market is used primarily by the private sector though the public sector does have access to it and has entered the market occasionally. The public sector will need to turn increasingly to the free market to meet its debt payment and petroleum needs. The GSDR is reluctant to use this option since it fears large entry by the government would sharply devalue the free market rate. Also, although the IMF would probably relax any credit restrictions necessary to allow the GSDR access to shillings to buy free market foreign exchange, the GSDR is concerned over the budgetary impact and the consequences to the economy of large costly purchases.

Recently, the GSDR has purchased foreign exchange from the export promotion accounts of parastatals and government cooperatives at a "negotiated" rate considerably below the prevailing free market rate: SoSh 100 = $1. The dollars purchased were used to repay the IMF and get the 1985 Standby back on track. The Ministry of Commerce and Industry has issued a decree stating that all government cooperatives must sell their foreign exchange to the government, not the private sector. We know there have been free market sales from one government agency to another at a rate lower than the prevailing free market rate. While we would prefer to see parastatals and cooperatives operate on the same lines as private sector enterprises, the former have some access to official and commercial rate foreign exchange when buying hard currency, and therefore the forced sale at a less than free market rate may be legitimate. Certainly, we prefer this to controls over private accounts. The recent action, however, underscores the GSDR need for foreign exchange without direct entry into the free market. Having been used to an over-valued official rate, the GSDR is concerned over both the quantity and cost of exchange. The GSDR recently increased the percentage of export proceeds which must be surrendered to the GSDR at the official rate, reducing incentives for exporters and the quantity of foreign exchange potentially available to the free market. As the GSDR cash needs increase, the pressure on the GSDR to find extra sources of foreign exchange at decreased prices will increase.

It is important to find a mechanism for meeting public sector foreign exchange needs in a manner that decreases the GSDR's need and desire to restrict the free market. We also want to help the private sector by providing more foreign exchange and to make the free market more viable by reducing speculative pressure on the rate and lessening seasonal fluctuations in supply. We view the free market as a good mechanism for allocating foreign exchange and would like to ensure its continuation.

B. Role of ESF in Addressing the Problem

Since its inception, the USAID ESF grant has helped the Somali economy address the interrelated problems of a large external debt, continuing balance of payments deficit, a foreign exchange shortage, and a large internal budgetary deficit. In the past, the ESF provided foreign exchange primarily for the purchase of commodities from eligible suppliers through a CIP. USAID and the GSDR jointly determined the percentage to be allocated to the public versus private sectors, and the priority areas for financing. Deposits were made into the CIPL Special Account at the official rate until CIP III, when the Commercial Bank rate was established in January 1985. The public sector continued to use the official rate, but under CIP III, private importers made deposits at the Commercial Bank Rate (SoSh 83 = $1).

Prior to 1985--during a period of a fixed, over-valued rate--the CIP provided almost the only foreign exchange available to private sector importers unable to gain access to the scarce, legal exchange market controlled by the government. Through use of the CIP, AID was able to ensure more adequate financing for importation in priority sectors. With the opening of the free market, however, foreign exchange, though costly, is more available, and we have encountered some of the difficulties faced by hard currency countries. Private sector importers are reluctant to utilize the U.S. CIP (with its many restrictions and subsequently reduced profits) unless the exchange rate utilized is sufficiently below the free market rate to compensate for the profit reduction. The World Bank has experienced similar difficulties with its AIP program. As a result, it will place the major portion of its private sector funds through a cash auction for use in opening letters of credit. The commodity import portion will use an exchange rate discounted by 15% to account for additional costs. We prefer not to utilize a commodity import program because of the difficulties of determining an appropriate exchange rate or discounted exchange rate, the great liquidity needs of the public sector, and the opportunity to utilize a more market oriented system for helping private sector importers. At this time, the use of the official rate for private importers would give them a subsidy. The likelihood of unification during the remainder of calendar year 1986, conversely, could result in private importers paying almost a true free market rate. Given all the restrictions/ requirements, private importers will not use the CIP at the free market rate, and there is no longer any economic rationale for using the Commercial Bank rate.

Although we could discount the free market rate to account for the reduced profits associated with the CIP, in order to continue using a CIP with FY 86 ESF, the opening of the free foreign exchange market provides USAID with an attractive alternative for assisting private sector importation through an existing, market-oriented exchange system. Through this approach, we also can help keep the free market a viable mechanism by funneling foreign exchange directly through it. We fully support the free market. We also believe that the GSDR should be commended for keeping the market free from restrictions and for actively assisting coordination of buyers and sellers. Although we would like to see all export receipts surrendered at the free market rate, use of the free market for conversion of half of export proceeds has and will help encourage exportation. Use of the market for private sector importation is helping avoid pricing distortions created by exchange rate subsidies. Barring tarrifs and other tax and credit irregularities, investment for export and import substitution will be determined by the market, not subsidies and artificial protection. To support the free market by making it more viable and increasing the transactions occuring at free market rates, we are proposing to use a portion of the FY 1986 ESF to allocate funds directly to the Commercial Bank for auction to the private sector. We anticipate the injection of funds into the free market will help help break speculation and stabilize all three free market rates and reduce some of the speculative activity. In addition, this intervention would add more depth to the market and directly facilitate the purchase of foreign exchange.

We believe direct provision of foreign exchange into the free market will help both the public and private sectors. Reducing seasonal swings in the market will result in a more steady source of foreign exchange. In general, the Somali traders seem to anticipate the peak export period, and they use this period for purchasing foreign exchange needed for several months into the future. The impact of this seasonal increase in supply is therefore slight. Exports occur primarily during one or two months, however, and during the middle of the year, the shortage of foreign exchange appears to create some difficulties for the free market. In an auction mechanism, we could provide additional foreign exchange during these periods of seasonal shortage. Anticipation of donor auctions, and the general impact of an increase in supply of foreign exchange should lower the rate and reduce the present speculation. Reducing speculative pressure with its resulting devaluation will make importation of non luxury items profitable again. Reductions in speculation will also make use of the free market more attractive to the government, which must make more use of the free market to meet its debt obligations. The GSDR will be more willing to utilize the free market and also less inclined to manipulate it to reduce the rate. At present, the incentive to change the system and artificially lower the rate is great given the desire to make unification more pallitable to officials used to over-valued currency and the greater political pressure from traders wanting cheap foreign exchange than from exporters and others wanting access to realistic, market determined exchange. The Government also recognizes the need to meet more of its own debt and non-debt expenditures from the free market and wants to make the purchases using as few shillings as possible.

The large public sector needs cannot be met entirely through aid to the free market. We believe cash directly to the Central Bank is also necessary. The public sector cash needs have become more critical. Debt payments are assuming an increasingly larger share of the budget. The decline in exports caused by Saudi livestock ban has increased general foreign exchange needs. Also, the opening of the free foreign exchange market and the shift from a more centralized system have decreased the percentage of foreign exchange directly under the control of the government. Use of a traditional CIP would not give the government the flexibility to respond to its urgent needs. This became evident in the fall, 1985, CG meeting when the total donor pledges roughly met Somalia's needs, but the categories were inappropriate. More donor food aid was pledged than was needed. There was almost no cash aid pledged; commodity aid promised did not correspond with what was needed.

USAID proposes an ESF grant program of $20.5 million in cash. The public sector will receive an initial tranche of $10 million in untied cash. The remainder will be in cash channeled to the private sector through the Commercial Bank free foreign exchange market if the GSDR establishes auction procedures acceptable in form and substance to AID. USAID funds would be co-mingled with funds from the World Bank and other donors. If an acceptable auction system is not or can not be established, or if an established auction system is changed so as to be no longer acceptable, the remaining funds will go to the public sector. The portion of the ESF program going to the public sector as cash will allow the GSDR greater latitude in meeting its needs and will reduce any pressure on the government to impinge on the private sector auction or use other methods--such as increasing export surrender requirements--to obtain needed foreign exchange. Funds going to the auction system will provide foreign exchange for the free market which will permit additional purchases without driving up the free exchange rate and destroying GSDR confidence in the efficacy of a free market. It will provide more foreign exchange for the public sector. It will also be a key factor in helping the Mission in its on-going dialogue with the GSDR in encouraging policy reform.

The decision to give $10 million to the public sector and $10.5 million to the private sector through an auction mechanism is based on USAID determination of existing needs of the two sectors and on conditions in the free foreign exchange market. If conditions should change substantially, AID will consider amending the Agreement to change the recipient or use of remaining funds.

All local currency deposited by public or private buyers of AID-provided foreign exchange will be deposited in a special account Of the shillings generated, 10% would be reserved for USAID operating expenses. The remainder will be used by the GSDR to finance activities promoting development and/or reform.

C. Implementation Procedures And Schedules

-1. Mechanics of the Cash Auction

The existing mechanism for handling free market sales is one of negotiation between buyers and sellers. If requested, the Commercial Bank will act as a broker matching buyers and sellers. We approve of this method for transactions between private individuals, and expect the GSDR to continue supporting the process. Hopefully, if private banks are allowed to and do open in Somalia, they, too, will be allowed to act as brokers in the exchange process. USAID could not use this approach for its sales to the private sector, however, since we would not want to place ourselves in the position of personally selecting buyers or of asking or allowing persons in the government owned Commercial Bank to select recipients of ESF funds. Also, we want to stabilize the exchange rate and reduce speculative pressure. By negotiating directly with buyers, we could find ourself appearing to favor one group over another or to attempt to manipulate the exchange rate rather than letting market forces set it. We would therefore use a modified version of the existing system for our ESF funds.

USAID will disburse a specified amount each month to the auction committee for use in auctions. (The exact amount will be specified later.) Specific rules for each auction, including the amount of all donor funds to be offered in any given auction, will be determined by the Auction Committee, which will review procedures following each auction and may make adjustments to the procedures if appropriate. For AID money to continue to be used in the auction, AID will need to approve any changes.

2. Responsibility of the GSDR

We anticipate auction funds will be disbursed to the Commercial Bank prior to the auction. The Commercial Bank will have the responsibility of assuring that all successful bidders pay the total amount of shillings required and that these shillings are deposited in a special account. A listing of the auction winners, bids, and amounts of shillings deposited will be provided to USAID following each auction. The Commercial Bank will also be responsible for crediting the correct foreign exchange account after the shillings are paid. It is the GSDR's responsibility to ensure that any remaining foreign exchange is saved for the next auction. If a shilling deposit is required, the Commercial Bank shall be responsible for issuing receipts to all bidders prior to bid opening or of finding an alternative, acceptable mechanism for taking deposits. The GSDR will also be responsible for returning the deposits to unsuccessful bidders promptly and without difficulties. The GSDR will also have two persons on the Auction Committee: the Governor of the Central Bank and President of the Commercial Bank.

3. Schedule For Reimbursement

We estimate the Grant will be disbursed in approximately 12 months from the signing of the Agreement. The first tranche of the $10 million should be disbursed within less than one month of signing. We anticipate an auction mechanism will be in place within two to three months of the signing of the Agreement and we plan to disburse approximately $1 million each month until auction funds are depleted. Disbursement within this time frame is contigent upon the establishment and maintenance of auction procedures acceptable to AID. This will necessitate close work and cooperation with the World Bank with whom we will be co-mingling funds.

D. <u>Conditions Necessary For USAID Program Effectiveness and Eventual GSDR Recovery</u>

The public sector debt payment and the yearly trade imbalance will require years of careful management and government reform in addition to donor assistance and debt rescheduling. We view our ESF as helping the country meet its public and private sector liquidity needs. The infusions of funds alone, however, will not effect economic recovery. Conversely, unless the GSDR maintains certain policy reforms, our program will not even meet its minimal objectives. Most of the reforms listed below are not ones which can be made in one year or accomplished by USAID alone. They provide, rather, an indication of the medium to long term agenda and an indication of the direction of our general program.

For our cash sale to the private sector to meet even its short term goals, the free foreign exchange market must remain open. This means that prior to unification of exchange rates, the GSDR cannot impose significant new restrictions on the free market. After unifications, the exchange regime established would need to float freely or be adjusted on a frequent, rational basis such as is used in Kenya or Zambia.

For the GSDR to meet its debt and other payments this year and avoid default, better debt management procedures are needed and the GSDR will need to plan in advance the mechanism it intends to use for financing upcoming debt payments and petroleum needs. This requires that the GSDR begin to monitor its upcoming needs more closely and begin conserving or accumulating the needed foreign exchange in advance.

For <u>eventual</u> recovery, Somalia will need to increase exports and reduce unnecessary import expenditures. To accomplish this, and any of our developmental goals, a realistic foreign exchange system is absolutely essential. New export industries will not develop if the return remains lowered by the necessity of surrendering a portion of the proceeds at an over-valued official rate. Introduction or development of an over-valued rate for all transactions will exaccerabate the problem. Similarly, efficient import substitution industries will not develop if the exchange regime, or tax system, give incorrect pricing signals. To encourage establishing new industries, decreasing the export surrender requirement and/or export taxes are important long term objectives. Government efficiency will also need to be increased. In some cases, preliminary steps have already been taken. E.g., the GSDR is working toward civil service reform and has recently undertaken revision of direct tax administration. Export monopolies will need to be abolished, especially in areas offering opportunities for significant increases in exports. An important area for reducing import costs and improving efficiency is in the use of public tenders for petroleum importation and eventual privitizations of petroleum importation and distribution. Rationalization of the tax structure is also important.

Many of these are areas in which USAID is currently undertaking a policy dialogue with the GSDR. Some are areas where we and/or other donors are actively encouraging reform through conditionality. Although we cannot address all these areas through our ESF, we believe it is important to recognize and monitor those areas we view as critical to eventual economic recovery and therefore noting them here.

E. Conditions Precedent and Covenants

For purposes of distributing funds through the ESF program, at least two tranches will be used. Dollar allocations for the first tranche will be $10 million to the GSDR. The remaining funds will go to the private sector through an auction mechanism if a suitable mechanism has been established. The auction funds would be given to the Auction Committee in tranches, in an amount to be determined by AID. If no suitable auction mechanism has been established, the remaining funds will go to the public sector. Before any funds are disbursed, the following conditions precedent must be met.

Conditions Precedent to Initial Disbursement. Prior to any disbursement under the Grant, or to the issuance by AID 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:

1) A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee with a specimen signature of each person certified as to its authenticity;

2) A statement designating the bank and the account number into which the first tranche of funds under this Agreement is to be disbursed by AID;

3) Evidence that the Grantee has established a special account in the Bank of Somalia for deposit of the Somali Shillings generated by the AID provided foreign exchange;

4) An estimate of the Grantee's foreign exchange needs and anticipated sources for the forthcoming quarter of the Grantee's fiscal year, together with a plan to solicit donor and lender assistance in meeting any projected foreign exchange shortfall;

5) Evidence that the Grantee has deposited into the special account the Somali Shilling equivalent to ten million United States Dollars ($10,000,000).

General Covenants The Grantee shall agree to the following covenants prior to disbursement of any AID funds.

Free Foreign Exchange Market System. The Grantee agrees to keep a free foreign exchange market open until at least the terminal date for requesting disbursement under this Agreement.

Quarterly Reports. The Grantee agrees to provide AID with quarterly estimates of foreign exchange needs and anticipated sources, and a plan to solicit donors' and lenders' assistance in meeting any projected foreign exchange shortfall.

Monthly Reports. The Grantee agrees to provide to AID, within two weeks of the end of each month, a report on export proceeds remitted to the Grantee at the official exchange rate during the proceeding month.

Special Studies. The Grantee agrees to undertake the following studies, which shall be commenced before January 1, 1987 and completed within one year of commencement of each study:

(a) An examination of the present banana export industry.

(b) An examination of the present customs and direct tax administrative structures and policies to identify areas that could be improved in the short term, to rationalize rate structures, augment revenue collection, and simplify procedures. These activities will build on existing studies.

(c) A feasibility study regarding private insurance companies.

Disclosure of Auction Results. Should an auction mechanism acceptable to AID be implemented the Grantee agrees to publicize the foreign exchange rate resulting from each auction, as well as such other information as may be required by AID, and will discuss any aspects of the auction as may be requested by AID.

Advice to Use of Funds. Should an auction be held, the Grantee will advise AID immediately after each auction of the amount of funds provided under this Agreement that have been used in that auction.

Records. The Grantee will maintain financial records on Grant funds and Special Account funds in accordance with generally accepted accounting principles and practices consistently applied, to assure compliance with this Agreement. Such records may be inspected by AID or any of its authorized representatives at all times as AID may reasonably require, and shall be maintained for three years after the date of last disbursement by AID under this Grant.

Uses Special Account. The Grantee agrees that ninety percent of the funds in the Special Account shall be used for critical Grantee requirements and mutually agreed upon development projects. Ten percent of the funds in the Special Account shall be set aside for the use of the AID MIssion in Somalia, to meet such requirements as the Mission may have for carrying out its assistance programs in Somalia. The Grantee shall provide reports on the utilization of Special Account funds on a six-month basis showing the budget attributions of the funds. This report is to be certified as correct by an appropriate official within the Ministry of Finance and will be submitted to AID within thirty (30) days after the close of each six-month period, except as AID may otherwise agree in writing. The Grantee agrees to provide such other reports on the disbursement and use of Special Account funds as AID may from time to time require.

Second Tranche Conditions Precedent. Prior to disbursement of the second tranche, the Grantee shall furnish to AID, in form and substance satisfactory to AID:

1) Evidence that the Grantee agrees to review (with USAID participation) and develop a plan of action based on the recommendations of the forthcoming UNIDO study of the hides, skins, and leather marketing, trade, and industry; that the study will have emphasis on the relative benefits of continuing the present monopoly situation versus opening up the industry to other exporters.

2) Evidence that the Grantee has agreed to issue public tenders for the purchase of any petroleum products to be financed with donor resources after September 1, 1986 and will be guided by the prices paid for donor imports when purchasing petroleum with public sector funds. Evidence the GSDR will continue to follow the present agreement with the IMF with respect to prices of petroleum products.

3) Evidence the GSDR will study the various prospects for private sector banking currently placed before the Council of Ministers and will endeavor to permit all legitimate private sector banks to operate within one year.

<u>Conditions Precedent to Disbursement for Foreign Exchange Auction System.</u> Prior to any disbursement under the Grant or to the issuance by AID of documentation pursuant to which disbursement will be made for the Foreign Exchange Auction System, the Grantee will, except as the parties may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID;

1) Evidence that procedures have been established for a free foreign exchange auction system which will maintain the character of AID's contribution as cash; and

2) A statement designating the bank and the account number into which disbursement is to be made by AID of funds to support the foreign exchange auction system.

ANNEX I

Somalia: Summary of 1986 Financial Program

Objectives

1. Achieve a real rate of economic growth of at least 4 percent.

2. Reduce the rate of inflation to about 22 percent.

3. Confine the current account deficit to U.S. $169 million and the overall balance of payments deficit to U.S. $117 million.

Policy Measures

1. External sector policy

   a. Devalue the official exchange rate 22 percent in foreign currency terms to So.Sh. 54.5 = US $1 in January 1986.

   b. Depreciate the official exchange rate on a monthly basis to reach parity with the free market rate by end-1986.

   c. Adjust the commercial bank posted exchange rate every ten days to reflect the exchange rate in the free market.

   d. Increase the export surrender requirement to 50 percent.

   e. Increase minimum export prices for livestock to reflect current market conditions.

   f. Increase monthly gasoline and diesel prices to reach import parity for gasoline by April 1986 and for diesel by June 1986.

   g. Follow through with requests or initiate new requests for debt rescheduling to reduce the financing gap for 1986.

   h. Reduce the outstanding stock of end-1985 external payments arrears by at least US $8 million by end-February 1986, by US $9 million by end-June 1986, and by US $18 million for the year as a whole. To the extent that the envisaged flows of foreign exchange in the official market may fall short of the transactions (including the net reduction of arrears) to be financed in that market, the Government will purchase foreign exchange in the free market to meet the arrears reduction target.

   i. Refrain from contracting, or guaranteeing, any nonconcessional external loans with a 1 to 12 year maturity or short-term credits during 1986, except up to US $24 million of short-term borrowing to make payments to the Fund.

ANNEX I

Somalia: Summary of 1986 Financial Program

Objectives

1. Achieve a real rate of economic growth of at least 4 percent.
2. Reduce the rate of inflation to about 22 percent
3. Confine the current account deficit to US $169 million and the overall balance of payments deficit to US $117 million.

Policy Measures

1. External Sector Policy
   a. Devalue the official exchange rate 22 percent in foreign currency terms to SoSh. 54.5 = US$1 in January 1986.
   b. Depreciate the official exchange rate on a monthly basis to reach parity with the free market rate by end-1986.
   c. Adjust the commercial bank posted exchange rate every ten days to reflect the exchange rate in the free market.
   d. Increase the export surrender requirement to 50 percent.
   e. Increase minimum export prices for livestock to reflect current market
   f. Increase monthly gasoline and diesel prices to reach import parity for gasoline by April 1986 and for diesel by June 1986.
   g. Follow through with requests or initiate new requests for debt rescheduling to reduce the financing gap for 1986.
   h. Reduce the outstanding stock of end-1985 external payments arrears by at least US $8 million by end-February 1986, by US $9 million by end-June 1986, and by US $18 million for the year as a whole. To the extent that the envisaged flows of foreign exchange in the official market may fall short of the transactions (including the net reduction of arrears) to be financed in that market, the Government will purchase foreign exchange in the free market to meet the arrears reduction target.
   i. Refrain from contracting, or guaranteeing, any nonconcessional external loans with a 1 to 12 year maturity or short- term credits during 1986, except up to US $24 million of short-term borrowing to make payments to the Fund.

ANNEX I

Somalia: Summary of 1986 Financial Program (concluded)

2. Fiscal policy

a. Confine the overall deficit on commitment basis (including grants) to So.Sh. 6.6 billion (4.5 percent of GDP), and excluding grants to So.Sh. 20.1 billion (13.8 percent of GDP).

b. Reduce net domestic credit to government by 5.5 percent.

c. To ensure the projected 60 percent increase to revenue collections:

change specific tax rates to ad valorem basis;

broaden the coverage of excise duties on the posted commercial bank exchange rate; and

continue with administrative improvements.

d. To limit the increase in total expenditure to 76 percent:

maintain an unchanged wage bill during the year, including payments of benefits-in-kind;

continue with reform of the civil service; and

allow investment outlays in conformance to the agreement reached with the World Bank on the public investment program and in line with available project and commodity assistance.

3. Monetary policy

a. Confine the growth in broad money to 11.1 percent.

b. Reduce the expansion in net domestic credit to 8 percent.

c. Increase the maximum interest rate on commercial bank deposits by 4 percentage points.

4. Public enterprises

a. Review with a World Bank mission possible strategies for continuing with the reform of public enterprises and as a consequence develop a strategy for speeding up such reform.

ANNEX II

Somalia: Implementation Status of 1985 Financial Program

Program	Implementation status at end-1985
1. External Sector Policy	
a. Adopt a freely floating system for the determination of the exchange rate for most private transactions.	Implemented.
b. Devalue the official exchange rate by 28 percent in foreign currency terms in January 1 1985 and peg the rate to the real SDR plus an additional adjustment of SoSh 0.5 per U.S. dollar per month through June 1985.	Implemented at the minimum acceptable level for the exchange regime adopted. The June adjustment to the rate made in November 1985.
c. Adjust the Commercial Bank posted exchange rate to reflect the market exchange rate.	Not implemented. From April to December no adjustment made in the rate.
d. Discontinue the franco valuta system.	Implemented.
e. Establish guidelines prices for livestock exports.	Not implemented.
f. Eliminate virtually all trade restrictions.	Implemented.
g. Unify the official exchange rate with the market exchange rate at end-1985.	Not implemented.
h. Discontinue the bonus scheme.	Implemented.
i. Formalize verbal agreements on debt relief by mid-1985.	Not implemented.
j. Eliminate end-1984 external debt service payments arrears by mid-1985.	Not implemented. New external arrears accumulated.
k. Secure resources to cover the financing gap for 1985.	Somalia participated in special Donor Meeting and Paris Club rescheduling. Donor assistance, however, was not in the form envisaged in the program. Moreover, bilateral agreements in conformance to Paris Club rescheduling not completed by end-June 1985.

Somalia: Implementation Status of 1985 Financial Program (continued)

Program	Implementation status at end-1985
l. No new commitments for public and publicly guaranteed non-concessional external debt with a maturity of 1-12 years.	Implemented.
m. Accumulate no new short-term debt other than normal trade-related credits.	Implemented.
n. Improve external debt management and data base.	Implemented.
o. Reduce non-government commercial arrears by one-half during 1985.	Implemented.
2. Fiscal Policy	
a. Reduce the overall deficit on commitment basis to SoSh 2 billion (2.0 percent of GDP).	Not implemented. Overall deficit on commitment basis reduced only to SoSh 4.4 billion (3.9 percent of GDP).
b. Confine expansion in net domestic credit to 1.3 percent.	Not implemented. New domestic credit to the Government estimated to increased by 23.8 percent.
c. Convert all specific excise taxes to *ad valorem* basis.	Not fully implemented.
d. Abolish the 50 percent surcharge on imports through external accounts and apply 20 percent surcharge to non-government imports.	Implemented.
e. Apply custom duties on basis of prices in letters of credit or up-to-date price lists, whichever is higher. Use the market exchange rate for the conversions.	Not fully implemented. The exchange rate used to determine import duties was se at SoSh 60 = U.S. $1.
f. Apply income tax to public enterprises and abolish turnover tax, share of profit tax, and charges on depreciation of public enterprises.	Not implemented.

Somalia: Implementation Status of 1985 Financial Program (continued)

Program	Implementation status at end-1985
g. Introduce structural and administrative reforms to improve tax collection.	Implemented. A new ministry established to increase revenue.
h. Establish an information management unit to modernize and reform the budget system.	Not implemented.
i. Confine civil service salary increases to an average of 15 percent.	No salary increase given. However, benefits in kind amounting to SoSh 1.2 billion given to civil servants, armed forces, etc.
j. Reduce civil service employment by 2 percent.	Implemented.
k. Limit allocations for administrative expenses and contingency fund.	Implemented.
l. Confined investment expenditures to a level consistent with available concessional financing.	Implemented.
3. <u>Monetary Policy</u>	
a. Reduce monetary growth to 17 percent in 1985.	Not implemented. Total monetary liabilities increased by 48.6 percent.
b. Limit the expansion in domestic credit to 6.7 percent of beginning money stock.	Not implemented. Net domestic credit increased by 27.1 percent of beginning money stock.
c. Increase interest rate structure and keep the structure under review to ensure positive real interest rates at end-1985.	Not fully implemented. Interest rate structure increased at beginning of 1985 but then not reviewed so that at end-1985 real interest rates were negative.
d. Complete study on reforming banking system by mid-1985 and begin implementing recommendations of study.	Not implemented.

Somalia: Implementation Status of 1985 Financial Program (continued)

Program	Implementation status at end-1985
4. <u>Pricing and Marketing Policies</u>	
a. Dismantle officially all price controls.	Implemented.
5. <u>Public Enterprises</u>	
a. Prepare breakdown of public enterprises into those which should be phased out of operation, privatized, or retained in public sector.	Not implemented.
b. Set up timetable to reform public enterprises.	Not implemented.
c. Continue instituting boards of directors at public enterprises.	Implemented.

Source: Somalia - Review Under Stand-by Arrangement and Request for Waiver of Performance Criteria

PER CAPITA ODA COMMITMENTS TO SUB-SAHARAN AFRICA: 1981-1983 ($ Millions)

	— 1981 —		— 1982 —		— 1983 —	
	DAC	Total Bilateral	DAC	Total Bilateral	DAC	Total Bilateral
Angola	5.1	6.4	8.3	23.1	6.8	23.4
Benin	16.3	17.8	15.8	15.8	11.2	11.2
Botswana	74.4	78.3	86.8	106.9	83.5	109.6
Burkina	29.1	31.4	22.5	23.7	20.9	29.0
Burundi	21.6	25.2	16.0	18.1	18.9	22.3
Cameroon	16.3	23.3	20.5	36.4	17.8	24.5
C.A.R.	30.3	30.9	32.8	34.2	33.3	38.7
Chad	10.8	11.3	9.3	9.3	10.2	10.2
Comoros	67.8	124.0	44.7	82.8	46.5	68.0
Congo	36.4	91.3	38.2	53.1	44.6	61.5
Djibouti	112.8	196.3	128.5	229.8	127.5	215.0
Ethiopia	2.8	4.6	2.9	4.4	3.0	6.4
Gabon	54.9	106.9	84.7	176.0	91.9	163.6
Gambia	59.3	79.0	39.8	41.5	48.7	48.8
Ghana	7.4	8.6	5.0	5.9	10.4	10.7
Guinea	8.7	10.2	8.1	8.4	11.4	13.4
GuineaBissau	51.5	54.8	36.4	47.0	36.5	68.0
Ivory Coast	17.8	37.2	14.9	29.9	17.8	31.6
Kenya	14.4	15.9	25.9	28.7	17.5	19.6
Lesotho	44.4	46.7	26.9	28.6	40.9	42.7
Liberia	41.3	44.9	53.4	55.2	41.2	72.1
Madagascar	13.2	20.5	14.7	21.7	12.8	23.2
Malawi	14.0	16.6	9.6	10.8	10.8	11.4
Mali	23.5	25.3	11.6	29.4	18.4	18.6
Mauritania	47.4	131.4	37.6	94.9	37.1	39.2
Mauritius	42.6	42.8	50.4	74.1	30.9	37.2
Mozambique	11.9	22.5	12.0	19.9	15.7	18.5
Niger	28.7	50.8	22.2	31.8	26.3	28.7
Nigeria	1.5	6.0	0.3	1.3	0.3	2.2
Rwanda	20.6	22.4	19.1	19.1	16.3	19.8
Senegal	40.5	48.5	36.4	74.7	45.5	63.8
Seychelles	170.0	281.0	94.0	94.0	186.0	223.0
Sierra Leone	14.8	16.8	10.4	10.6	6.7	6.7
Somalia	60.4	95.3	40.9	80.1	38.5	38.5
Sudan	17.6	23.0	18.0	24.8	21.9	54.3
Swaziland	40.3	50.7	49.9	55.1	42.4	48.3
Tanzania	22.6	25.8	26.4	29.5	19.5	21.5
Togo	14.4	43.4	15.9	19.1	28.9	52.4
Uganda	6.7	7.4	3.0	6.4	6.5	9.8
Zaire	8.9	21.1	7.2	10.6	8.9	10.3
Zambia	36.3	37.3	30.2	44.1	36.4	49.3
Zimbabwe	29.1	35.9	38.3	47.1	29.4	34.1
Total						

Source: OECD Geographical Distribution of Financial Flows to Developing Countries, 1984

PERCENTAGE OF BILATERAL ODA COMMITMENTS FROM VARIOUS SOURCES

	1981				1982				1983			
	DAC	OPEC	CMEA	OTHER	DAC	OPEC	CMEA	OTHER	DAC	OPEC	CMEA	OTHER
Angola	79.7%	3.9%	10.8%	5.5%	35.9%	7.0%	2.2%	54.9%	29.1%	0.0%	0.0%	70.9%
Benin	91.4%	0.0%	6.4%	2.3%	100.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%
Botswana	95.0%	5.0%	0.0%	.0%	81.2%	18.8%	0.0%	.0%	76.2%	0.0%	0.0%	23.8%
Burkina	92.9%	1.0%	0.0%	6.1%	95.0%	0.0%	0.0%	5.0%	71.9%	0.0%	0.0%	28.1%
Burundi	85.6%	14.1%	0.0%	0.3%	88.4%	11.6%	0.0%	0.0%	84.8%	15.2%	0.0%	.0%
Cameroon	70.2%	12.5%	0.0%	17.3%	56.4%	2.7%	0.0%	41.0%	72.7%	0.1%	0.0%	27.2%
C.A.R.	98.0%	2.0%	0.0%	0.0%	96.0%	0.0%	0.0%	4.0%	86.1%	6.3%	0.0%	7.7%
Chad	95.9%	4.1%	0.0%	.0%	100.0%	0.0%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%
Comoros	54.6%	45.4%	0.0%	0.0%	54.1%	42.9%	0.0%	3.0%	68.4%	32.0%	0.0%	-0.4%
Congo	39.8%	28.2%	26.9%	5.2%	71.9%	0.0%	0.0%	28.1%	72.5%	0.0%	0.0%	27.5%
Djibouti	57.5%	41.4%	0.0%	1.1%	55.9%	44.1%	0.0%	.0%	59.3%	40.7%	0.0%	0.0%
Ethiopia	61.2%	9.6%	20.9%	8.2%	67.3%	0.1%	31.3%	1.3%	47.4%	0.0%	49.9%	2.6%
Gabon	51.3%	0.0%	0.0%	48.7%	48.1%	22.8%	0.0%	29.1%	56.2%	0.0%	0.0%	43.8%
Gambia	75.1%	24.3%	0.0%	0.6%	96.0%	4.0%	0.0%	0.0%	99.7%	0.3%	0.0%	.0%
Ghana	86.2%	13.8%	0.0%	.0%	84.8%	0.0%	14.5%	0.7%	96.9%	0.2%	2.8%	0.1%
Guinea	84.9%	2.6%	0.0%	12.5%	96.7%	0.0%	0.0%	3.3%	85.1%	14.8%	0.0%	0.1%
GuineaBissau	94.1%	2.5%	3.4%	.0%	77.4%	8.0%	12.5%	2.1%	53.7%	42.5%	3.3%	0.6%
Ivory Coast	47.8%	0.0%	0.0%	52.2%	49.8%	0.0%	0.0%	50.2%	56.2%	0.0%	0.0%	43.8%
Kenya	90.2%	8.5%	0.0%	1.3%	90.3%	7.9%	0.0%	1.8%	89.4%	0.6%	0.0%	10.0%
Lesotho	95.0%	0.0%	0.0%	5.0%	94.0%	0.0%	0.0%	6.0%	95.7%	0.0%	0.0%	4.3%
Liberia	92.0%	0.0%	0.0%	8.0%	96.8%	0.0%	0.0%	3.2%	57.1%	0.0%	0.1%	42.8%
Madagascar	64.1%	0.0%	0.0%	35.9%	67.8%	0.0%	2.8%	29.4%	55.0%	24.8%	0.0%	20.1%
Malawi	84.4%	0.0%	0.0%	15.6%	89.7%	0.1%	0.0%	10.2%	94.6%	0.0%	0.0%	5.4%
Mali	92.9%	5.8%	0.3%	0.9%	39.4%	60.3%	0.2%	.0%	99.0%	1.0%	0.0%	.0%
Mauritania	36.1%	63.3%	0.0%	0.6%	39.6%	60.4%	0.0%	0.1%	94.7%	4.8%	0.5%	.0%
Mauritius	99.5%	0.0%	0.0%	0.5%	68.0%	32.0%	0.0%	.0%	83.1%	2.7%	0.0%	14.2%
Mozambique	53.1%	0.7%	1.6%	44.6%	60.3%	8.0%	26.2%	5.4%	85.1%	0.0%	11.1%	3.8%
Niger	56.5%	33.0%	0.0%	10.4%	69.6%	23.9%	0.0%	6.5%	91.6%	0.0%	0.0%	8.4%
Nigeria	24.4%	0.0%	0.0%	75.6%	23.0%	0.1%	0.0%	76.9%	15.2%	0.0%	38.4%	46.4%
Rwanda	92.0%	6.8%	0.0%	1.1%	99.9%	0.0%	0.0%	0.1%	82.6%	17.4%	0.0%	.0%
Senegal	83.6%	3.1%	0.0%	13.3%	48.8%	33.3%	0.0%	17.9%	71.3%	12.9%	.0%	15.7%
Seychelles	60.5%	36.7%	0.0%	2.8%	100.0%	0.0%	0.0%	0.0%	83.4%	0.0%	13.5%	3.1%
Sierra Leone	88.1%	0.0%	0.0%	11.9%	97.5%	0.0%	0.0%	2.5%	100.0%	0.0%	0.0%	0.0%
Somalia	63.3%	16.8%	0.0%	19.9%	51.1%	48.9%	0.0%	0.0%	100.0%	0.0%	0.0%	0.0%
Sudan	76.5%	22.9%	0.0%	0.5%	72.5%	18.6%	0.0%	9.0%	40.4%	47.9%	0.0%	11.7%
Swaziland	79.4%	0.0%	0.0%	20.6%	90.4%	0.0%	0.0%	9.6%	87.9%	0.0%	0.0%	12.1%
Tanzania	87.4%	10.3%	0.1%	2.2%	89.2%	0.0%	1.6%	9.1%	90.6%	0.0%	0.0%	9.4%
Togo	33.1%	0.0%	0.0%	66.9%	83.2%	0.0%	0.0%	16.8%	55.1%	11.7%	0.0%	33.2%
Uganda	89.6%	10.3%	0.0%	0.1%	46.7%	0.0%	0.0%	53.3%	66.9%	0.0%	0.0%	33.1%
Zaire	42.2%	0.0%	0.0%	57.8%	68.0%	0.0%	0.0%	32.0%	86.0%	0.0%	0.0%	14.0%
Zambia	97.4%	0.9%	0.0%	1.7%	68.5%	9.0%	0.0%	22.5%	73.8%	0.0%	3.1%	23.1%
Zimbabwe	80.3%	14.1%	0.3%	4.7%	81.3%	10.0%	0.0%	8.6%	86.2%	0.0%	0.0%	13.8%
Total	67.5%	10.2%	1.2%	21.1%	69.1%	13.6%	2.1%	15.2%	69.2%	10.6%	3.1%	17.1%

CMEA includes Bulgaria, Czechoslavakia, GDR, Hungary, Poland, Romania, and U.S.S.R.

Source: OECD Geographical Distribution of Financial Flows to Developing Countries, 1984

AVERAGE, YEARLY DAC BILATERAL COMMITMENTS TO SUB-SAHARAN AFRICA: 1981 THROUGH 1983 ($ Millions)

	Tot DAC	Australia	Canada	Denmark	Finland	France	FRG	Italy	Japan	N'lands	Norway	Sweden	Switz.	UK	US
Angola	53.7	0.1	0.3	3.7	0.2	3.1	1.9	15.8	0.0	6.0	0.4	16.8	0.1	0.1	3.3
Benin	53.5	0.0	0.6	2.8	0.0	22.1	16.2	0.5	0.8	3.1	1.5	0.0	3.5	0.1	1.6
Botswana	81.6	0.4	4.4	0.5	.0	6.1	22.1	0.0	0.7	2.9	7.4	13.1	0.0	12.5	11.5
Burkina	157.1	0.0	8.9	1.8	.0	55.5	24.7	4.9	2.7	24.0	1.5	0.1	3.4	0.1	28.5
Burundi	81.1	0.0	0.7	.0	0.8	20.9	19.5	0.6	2.4	1.2	1.9	0.0	1.2	.0	8.8
Cameroon	162.2	0.0	11.9	2.4	0.0	81.4	30.2	0.8	0.5	5.6	0.1	0.0	4.9	0.9	15.3
C.A.R.	77.1	0.0	0.1	0.1	0.0	65.1	6.2	0.2	3.6	0.3	0.0	0.0	0.1	0.0	1.5
Chad	46.5	0.0	0.9	0.0	0.0	36.1	2.4	0.1	0.0	1.0	0.1	.0	1.7	0.3	3.8
Comoros	21.2	0.0	0.5	0.0	0.0	18.3	0.8	0.0	1.4	.0	0.0	0.0	0.1	0.0	0.0
Congo	67.5	0.0	1.1	0.0	0.0	50.5	7.8	4.5	0.5	0.3	0.3	0.0	0.1	0.2	2.3
Djibouti	49.2	0.0	0.2	0.0	0.0	40.0	3.2	0.2	0.6	0.0	0.0	0.0	0.1	0.0	4.9
Ethiopia	95.8	4.5	8.1	2.3	1.9	4.5	11.4	24.0	2.2	2.9	2.3	19.3	1.6	5.4	4.8
Gabon	54.0	0.0	2.3	0.0	0.0	48.5	0.4	0.4	0.3	0.1	0.0	0.0	0.0	0.0	0.9
Gambia	29.6	.0	0.9	0.6	0.0	3.8	11.2	0.0	2.1	0.5	.0	0.0	0.0	3.0	7.3
Ghana	92.5	0.4	17.1	0.0	0.1	2.1	22.4	0.2	16.8	4.8	0.8	.0	0.3	11.1	16.3
Guinea	53.7	0.0	2.6	1.6	.0	14.8	13.2	2.2	11.8	0.1	0.0	0.0	.0	0.1	7.4
GuineaBissau	33.2	0.0	0.1	0.2	0.0	4.3	0.7	1.0	1.2	10.6	0.0	9.9	0.5	0.1	4.6
Ivory Coast	147.9	0.0	11.6	0.1	0.0	91.3	28.2	0.4	8.1	1.7	0.2	0.0	0.2	0.3	0.3
Kenya	349.0	5.2	13.1	19.9	10.8	21.3	50.5	4.8	39.4	35.5	16.1	20.6	6.9	38.6	65.2
Lesotho	52.3	0.3	2.9	1.7	1.3	0.8	13.3	0.1	0.2	2.6	0.4	3.5	0.7	3.1	21.6
Liberia	90.5	0.0	0.2	1.8	0.6	1.8	13.8	0.0	4.7	1.6	.0	0.0	0.0	0.6	65.3
Madagascar	124.6	0.6	0.5	2.1	0.0	67.4	10.5	1.8	20.6	0.7	1.4	0.0	5.9	0.4	12.0
Malawi	74.6	0.1	7.8	3.4	0.1	3.6	24.0	4.4	5.1	2.3	0.0	0.0	0.2	17.4	6.2
Mali	126.6	0.0	5.5	1.8	0.0	56.3	26.2	0.2	5.5	4.8	0.0	0.0	8.8	0.4	14.3
Mauritania	65.1	0.0	1.4	1.0	0.1	23.3	15.4	2.6	3.0	0.9	0.2	0.0	0.4	0.8	16.0
Mauritius	41.3	2.5	0.2	.0	0.0	26.4	1.0	0.0	2.4	0.1	0.0	0.0	.0	2.0	5.5
Mozambique	170.7	2.1	3.2	4.6	6.5	14.8	4.6	36.5	6.5	22.5	12.9	41.7	3.1	3.4	7.7
Niger	151.8	0.0	20.1	0.2	.0	48.9	35.0	.0	8.8	3.0	1.7	0.1	2.2	0.1	24.3
Nigeria	63.1	0.3	1.2	.0	0.0	4.2	14.3	1.9	28.4	1.4	0.2	.0	0.0	8.3	0.0
Rwanda	102.7	0.0	7.8	0.0	0.0	14.6	19.6	.0	3.7	4.6	1.5	0.0	9.1	.0	11.8
Senegal	244.8	0.0	17.0	5.9	0.4	113.2	25.3	14.7	9.9	4.0	0.9	0.2	2.7	0.7	43.3
Seychelles	15.0	0.3	0.1	0.0	0.0	4.7	0.6	0.1	0.6	.0	1.2	0.1	0.1	5.3	2.0
Sierra Leone	39.3	.0	0.7	0.1	0.0	0.7	9.3	6.8	4.6	1.1	0.6	0.0	0.0	6.4	9.0
Somalia	209.6	4.0	3.4	2.7	1.9	11.6	26.3	73.7	11.3	3.0	3.5	3.3	1.4	3.4	60.2
Sudan	379.6	4.3	11.8	5.6	2.5	17.6	64.1	20.8	23.7	33.0	11.2	2.4	4.5	25.7	149.4
Swaziland	30.9	0.1	5.4	0.2	0.0	0.1	4.7	2.0	0.9	1.0	0.0	1.7	.0	6.8	8.2
Tanzania	460.6	9.2	38.7	30.5	18.5	6.9	45.0	38.0	37.3	53.8	47.6	73.9	7.1	28.1	20.4
Togo	55.2	0.0	0.5	.0	0.0	24.4	19.9	0.2	1.7	0.6	0.0	0.0	0.2	0.1	7.6
Uganda	72.3	4.6	4.4	1.1	1.0	2.5	17.6	1.7	2.8	5.9	0.6	1.1	0.5	20.1	9.0
Zaire	256.0	1.1	19.0	0.0	0.0	24.9	33.4	14.2	5.4	2.0	0.4	0.0	0.5	2.1	31.1
Zambia	205.8	3.2	14.5	3.4	9.3	0.8	27.3	6.0	27.3	14.5	11.2	27.1	0.1	23.7	35.5
Zimbabwe	242.0	2.7	18.3	4.9	1.8	13.8	32.5	12.2	12.0	13.9	10.0	18.4	4.3	36.8	59.3
Total	4,381.5	46.2	270.1	107.1	57.9	1,073.2	756.6	298.5	322.2	278.5	138.3	253.3	76.6	268.3	808.7

Belgium and Australia are included in the total for DAC but are not listed separately.

Source: OECD Geographical Distribution of Financial Flows to Developing Countries, 1984

AVERAGE, YEARLY ODA COMMITMENTS TO SUB-SAHARAN AFRICA-GENERAL: 1981 THROUGH 1983 ($ Millions)

	BILATERAL AID				MULTILATERAL AID						GRAND
	Total	OPEC	CMEA	Other	Total	Af.D.F.	IDA	EEC	UN Agencies	Arab OPEC	TOTAL
Angola	140.8	5.0	3.2	79.0	46.8	4.8	0.0	6.1	20.2	0.0	187.6
Benin	55.4	0.0	1.4	0.5	66.3	0.0	26.0	10.1	9.6	4.8	121.7
Botswana	98.3	8.0	0.0	8.7	89.0	5.3	0.0	4.4	11.5	1.3	187.3
Burkina	182.2	0.7	0.0	24.4	117.4	8.0	39.2	30.1	19.4	10.9	299.6
Burundi	94.1	13.0	0.0	0.1	101.3	12.0	33.0	19.3	15.0	6.0	195.5
Cameroon	249.8	11.6	0.0	76.0	149.7	5.4	3.2	21.4	14.1	1.9	399.6
C.A.R.	83.0	2.4	0.0	3.5	56.4	9.6	14.4	16.8	6.4	3.7	139.4
Chad	47.2	0.7	0.0	.0	38.2	5.0	0.0	14.3	18.9	0.0	85.4
Comoros	36.6	15.1	0.0	0.3	30.9	8.0	6.0	2.8	6.5	3.8	67.5
Congo	116.7	14.6	13.9	20.7	47.3	0.0	5.7	10.3	5.7	0.0	164.0
Djibouti	85.5	36.0	0.0	0.3	29.1	4.2	3.1	3.1	8.5	10.3	114.6
Ethiopia	167.4	4.3	60.2	6.6	245.6	34.1	64.9	72.0	66.9	0.4	413.1
Gabon	104.2	9.4	0.0	40.8	27.4	0.0	0.0	4.3	3.1	1.8	131.6
Gambia	33.9	4.2	0.0	0.1	34.4	7.4	2.7	8.1	8.2	1.7	68.2
Ghana	102.3	4.9	4.7	0.2	92.0	10.3	33.5	31.1	13.2	0.0	194.3
Guinea	61.0	4.3	0.0	3.0	70.0	10.0	14.3	9.9	11.1	8.0	131.0
GuineaBissau	45.3	3.1	2.7	0.4	39.6	4.8	11.8	7.5	7.2	1.8	84.9
Ivory Coast	289.6	0.0	0.0	141.6	271.5	0.0	0.0	32.7	4.3	0.0	561.1
Kenya	387.7	22.6	0.0	16.2	286.8	13.9	73.4	28.7	18.9	5.0	674.6
Lesotho	55.1	0.0	0.0	2.8	40.1	11.4	3.2	7.1	16.2	2.2	95.2
Liberia	114.7	0.0	.0	24.1	54.9	3.1	13.6	2.1	6.3	2.8	169.6
Madagascar	200.6	17.7	1.9	56.4	121.5	15.5	37.7	19.9	10.1	10.3	322.1
Malawi	83.9	.0	0.0	9.3	148.8	6.7	68.4	18.3	13.4	0.3	232.7
Mali	173.4	45.8	0.4	0.6	129.3	12.5	42.8	29.5	25.7	10.8	302.6
Mauritania	141.6	75.9	0.1	0.4	74.8	3.1	8.5	16.9	13.1	27.1	216.4
Mauritius	51.4	8.2	0.0	1.8	48.9	0.0	0.0	4.5	3.7	0.7	100.3
Mozambique	261.8	7.5	32.8	50.7	68.9	7.7	0.0	13.6	24.1	2.8	330.7
Niger	219.0	48.0	0.0	19.2	78.4	9.2	25.4	15.6	16.2	4.6	297.4
Nigeria	285.5	.0	25.3	197.1	373.2	0.0	0.0	6.3	19.9	0.0	658.7
Rwanda	112.3	9.1	0.0	0.5	101.6	17.5	35.3	22.6	15.6	3.7	213.9
Senegal	373.7	69.1	.0	59.8	132.6	6.2	30.0	44.9	15.3	12.0	506.3
Seychelles	19.9	3.4	1.0	0.5	7.4	2.9	0.0	1.4	1.2	0.0	27.3
Sierra Leone	42.1	0.0	0.0	2.8	49.3	5.1	17.7	12.1	6.3	5.2	91.4
Somalia	320.8	82.7	0.0	28.4	171.6	4.0	15.8	33.8	88.2	27.9	492.4
Sudan	674.2	237.0	0.0	57.6	226.9	5.7	84.3	34.1	64.1	32.3	901.1
Swaziland	36.0	0.0	0.0	5.0	24.7	0.0	0.0	5.5	7.0	0.0	60.7
Tanzania	517.5	17.9	3.4	35.6	177.7	14.6	67.8	42.2	35.8	12.7	695.3
Togo	107.3	5.7	0.0	46.3	63.5	5.8	30.5	12.8	6.3	3.8	170.8
Uganda	106.4	3.5	0.0	30.0	183.4	4.8	85.4	29.4	29.0	5.8	289.8
Zaire	430.4	0.0	0.0	174.4	191.3	15.5	70.6	39.4	30.4	1.7	621.8
Zambia	261.3	3.6	3.1	43.9	133.5	6.1	21.9	34.9	11.0	0.0	394.7
Zimbabwe	293.0	24.5	0.3	26.2	230.6	5.4	17.7	19.5	22.5	10.0	523.6
Total	7,262.7	831.0	154.3	6,035.4	4,673.0	305.8	1,007.7	799.4	750.3	238.1	11,335.7

CMEA includes Bulgaria, Czechoslavakia, GDR, Hungary, Poland, Romania, and U.S.S.R.

Source: OECD Geographical Distribution of Financial Flows to Developing Countries, 1984

AVERAGE, YEARLY NET DISBURSEMENTS TO SUB-SAHARAN AFRICA: 1981-1983 ($ Millions)

	TOTAL	Tot DAC	Australia	Canada	Denmark	Finland	France	FRG	Italy	Japan	N'lands	Norway	Sweden	Switz	U.K.	U.S.
Angola	64.8	41.3	0.1	0.3	4.5	0.2	1.0	1.7	6.8	0.0	5.1	0.6	16.1	0.2	0.1	3.3
Benin	33.0	42.5	0.0	3.5	0.6	0.0	15.3	12.2	0.3	1.4	2.7	1.2	0.0	1.5	0.1	2.0
Botswana	100.7	77.9	0.4	3.1	1.0	0.1	0.4	13.0	0.0	0.6	3.4	8.1	13.3	0.0	13.3	14.7
Burkina	206.5	146.4	0.0	8.1	1.5	0.1	46.9	24.5	5.8	1.2	23.8	1.0	0.2	2.3	0.1	29.7
Burundi	129.9	69.9	0.0	0.6	0.1	0.5	21.2	15.3	0.7	1.8	1.1	0.7	0.1	1.0	.0	7.0
Cameroon	182.1	132.9	0.0	12.1	2.4	0.0	74.1	[illegible]	0.9	0.5	5.0	0.2	0.0	2.1	5.5	[illegible]
C.A.R.	94.8	68.9	0.0	0.1	0.1	0.0	59.7	3.6	0.2	3.1	0.4	0.0	0.2	0.1	0.0	[illegible]
Chad	70.2	36.3	0.0	0.8	0.1	0.0	25.7	2.4	0.1	0.0	0.9	0.2	0.1	1.6	0.3	4.0
Comoros	42.0	15.9	0.3	0.5	0.0	0.0	12.4	0.7	0.0	1.3	0.0	0.0	0.0	0.1	0.0	[illegible]
Congo	90.4	52.4	0.0	1.5	.0	0.0	43.4	4.3	0.1	0.5	0.3	0.1	0.2	0.1	0.2	[illegible]
Djibouti	62.4	40.4	0.0	0.2	[illegible]	0.0	[illegible]	[illegible]	0.2	0.2	0.0	0.0	0.1	0.1	0.0	[illegible]
Ethiopia	232.3	73.2	4.8	11.0	1.6	1.4	3.3	[illegible]	10.7	1.2	3.3	2.0	17.7	1.5	5.3	[illegible]
Gabon	56.5	50.2	0.0	0.6	0.0	0.0	46.7	0.2	0.4	0.0	0.1	0.0	0.0	0.1	0.0	[illegible]
Gambia	52.5	21.4	.0	0.7	0.9	0.0	0.7	6.3	0.0	1.5	1.0	0.3	0.1	0.0	3.7	5.7
Ghana	131.3	70.3	1.0	7.4	-0.2	0.1	2.0	25.7	-0.2	6.0	3.2	0.6	0.1	0.3	10.1	2.0
Guinea	71.8	28.5	0.0	0.4	0.2	.0	11.1	5.7	1.1	2.8	0.1	0.0	0.0	0.1	0.1	[illegible]
GuineaBissau	54.2	34.1	0.0	0.2	0.9	0.0	3.7	0.6	1.1	1.1	9.4	0.3	10.7	0.5	0.7	-.7
Ivory Coast	139.0	111.5	0.0	4.2	.0	0.0	82.2	13.6	0.3	1.7	1.7	0.2	0.0	0.2	2.4	[illegible]
Kenya	444.3	344.2	6.0	32.3	17.9	5.3	13.0	33.0	1.2	32.2	40.9	22.2	14.8	2.7	48.5	[illegible]
Lesotho	97.3	57.0	0.3	2.9	1.8	0.4	0.1	12.1	0.0	0.1	2.7	0.4	3.1	0.7	3.0	14.3
Liberia	111.9	36.6	0.0	0.1	.0	0.6	1.9	14.5	0.0	5.2	1.3	0.1	0.1	0.0	3.2	59.7
Madagascar	223.1	122.7	0.4	2.6	.0	0.0	65.7	7.6	1.3	21.4	0.8	2.4	0.0	5.8	.6	[illegible]
Malawi	125.2	67.9	0.1	8.1	1.9	0.1	2.6	20.4	0.1	6.9	2.4	0.1	0.0	0.2	20.1	-.7
Mali	212.9	108.1	0.0	9.4	0.0	0.0	35.2	25.5	0.2	6.1	6.0	0.3	0.0	5.8	0.4	15.3
Mauritania	189.2	66.5	0.0	1.3	0.7	0.1	25.0	12.7	0.2	4.7	2.8	0.2	0.0	0.5	0.8	[illegible]
Mauritius	48.9	34.4	2.2	0.1	0.0	0.0	22.9	0.5	0.0	0.3	0.1	0.0	0.0	.0	1.9	[illegible]
Mozambique	186.3	144.0	1.5	3.7	7.6	3.8	5.3	[illegible]	23.2	5.1	21.5	15.5	38.2	1.3	5.6	7.0
Niger	206.3	115.2	0.0	5.3	1.7	0.1	40.3	32.9	0.0	5.6	2.2	1.1	0.0	2.8	0.1	15.7
Nigeria	42.4	21.5	0.3	0.9	0.1	0.1	4.2	1.2	1.5	7.2	0.7	0.2	0.2	0.1	4.2	-2.0
Rwanda	151.1	98.5	0.0	7.8	.0	0.0	14.2	22.7	0.0	4.5	4.3	1.5	0.4	3.1	.0	3.3
Senegal	331.3	203.0	0.0	16.4	2.4	0.4	102.5	16.2	1.1	9.7	4.6	0.7	0.1	3.2	0.7	39.0
Seychelles	18.5	14.0	0.6	0.1	0.0	0.0	4.1	0.6	0.1	0.2	.0	0.2	0.0	0.0	5.9	2.0
Sierra Leone	69.4	41.4	0.3	0.7	0.5	0.0	1.7	12.5	5.7	4.9	1.5	0.3	0.1	0.0	4.7	3.3
Somalia	390.7	147.4	3.2	3.4	1.5	1.6	6.5	22.6	45.5	2.9	3.1	2.2	2.7	1.4	4.4	45.7
Sudan	793.6	364.7	4.6	9.5	7.2	2.5	15.9	65.0	15.1	14.3	31.8	10.9	2.8	4.6	59.9	[illegible]
Swaziland	32.3	21.0	0.1	1.4	0.1	0.0	0.1	2.9	0.1	0.3	0.9	0.0	2.0	0.1	4.5	8.0
Tanzania	657.7	468.3	9.1	32.1	37.7	16.5	6.3	50.0	17.2	39.5	53.5	49.0	73.2	5.5	46.3	24.7
Togo	93.8	45.1	0.0	0.4	.0	0.0	20.3	15.2	0.2	1.4	0.6	0.1	0.1	0.2	0.1	5.7
Uganda	134.4	58.2	4.0	3.4	1.6	0.9	3.9	3.4	1.1	2.1	10.2	3.1	1.6	0.5	12.3	4.7
Zaire	353.4	241.7	1.0	13.9	0.1	0.0	24.3	32.9	4.0	32.4	2.1	0.5	0.9	0.6	2.4	20.0
Zambia	229.4	182.2	2.5	11.3	4.2	8.4	0.3	23.8	1.3	18.9	15.4	12.9	28.6	0.2	26.6	25.3
Zimbabwe	211.6	154.2	2.4	8.4	5.1	1.3	5.3	[illegible]	2.7	6.8	10.7	8.1	12.1	2.1	31.1	29.7
									0.0	0.0						
Total	7221.9	4326.9	45.1	231.5	105.7	44.4	911.6	630.5	149.9	258.0	281.6	147.3	239.9	59.7	334.7	[illegible]

Australia and Belgium are included in total DAC figures but are not listed separately.

Source: OECD Geographical Distribution of Financial Flows to Developing Countries: 1984

DAC COUNTRY ODA COMMITMENTS TO SUB-SAHARAN AFRICA: 1981 ($ Millions)

	Tot DAC	Australia	Canada	Denmark	Finland	France	FRG	Italy	Japan	N'lands	Norway	Sweden	Switz.	UK	US
Angola	40.5	0.2	0.5	8.6	0.3	1.1	2.1	0.6	0.0	0.9	1.0	20.3	0.0	0.2	4.6
Benin	60.3	0.0	0.1	0.0	0.0	22.6	27.8	0.8	0.0	3.5	1.0	0.0	2.7	0.1	1.8
Botswana	74.4	0.3	3.8	0.5	0.0	0.1	25.8	0.0	1.2	3.7	4.4	13.8	0.0	12.2	8.6
Burkina	189.4	0.0	2.6	0.0	0.1	72.5	40.0	0.1	0.2	27.7	4.4	0.0	3.9	0.1	37.8
Burundi	92.9	0.0	0.3	0.0	1.7	12.2	32.4	0.5	1.8	1.6	5.8	0.0	1.1	0.0	9.7
Cameroon	145.3	0.0	23.6	0.0	0.0	67.1	20.3	1.1	1.3	5.2	0.4	0.0	7.1	1.4	13.0
C.A.R.	72.5	0.0	0.0	0.1	0.0	62.4	5.3	0.1	2.5	0.8	0.0	0.0	0.0	0.0	1.0
Chad	49.7	0.0	0.3	0.0	0.0	45.9	0.8	0.1	0.0	0.6	0.0	0.1	1.1	0.1	0.7
Comoros	27.1	0.0	0.2	0.0	0.0	23.6	1.5	0.0	1.6	0.0	0.0	0.0	0.2	0.0	0.0
Congo	61.3	0.0	0.1	0.0	0.0	47.8	10.2	0.0	1.2	0.1	0.0	0.0	0.0	0.3	2.1
Djibouti	45.1	0.0	0.3	0.0	0.0	35.1	2.8	0.5	0.0	0.0	0.0	0.0	0.1	0.0	6.3
Ethiopia	92.0	5.5	1.2	0.1	0.4	2.4	13.6	30.8	2.7	4.0	1.6	21.0	1.0	1.1	6.4
Gabon	38.4	0.0	0.5	0.0	0.0	35.8	0.4	0.3	0.3	0.2	0.0	0.0	0.0	0.0	0.9
Gambia	35.6	0.1	0.4	1.6	0.0	0.6	11.3	0.0	3.6	0.5	0.0	0.0	0.0	3.5	13.5
Ghana	90.1	0.9	18.0	0.0	0.0	2.2	6.8	0.3	8.0	2.4	0.1	0.1	0.2	25.3	25.9
Guinea	49.5	0.0	0.2	0.0	0.1	10.8	21.3	3.7	3.5	0.1	0.0	0.0	0.0	0.0	9.9
GuineaBissau	41.2	0.0	0.0	0.0	0.0	3.5	0.8	0.7	2.3	15.0	0.0	11.7	0.1	0.1	7.1
Ivory Coast	156.5	0.0	21.0	0.0	0.0	68.8	47.1	0.2	2.0	0.7	0.2	0.0	0.2	0.2	0.7
Kenya	260.1	6.0	3.0	5.0	6.7	25.7	42.6	2.2	14.7	29.7	9.9	22.4	8.4	39.9	44.0
Lesotho	62.1	0.3	0.3	1.0	0.1	0.1	26.4	0.0	0.1	3.5	0.0	3.0	0.9	3.3	23.3
Liberia	82.5	0.0	0.0	0.0	1.9	0.4	14.3	0.0	6.7	1.7	0.0	0.0	0.0	0.5	57.0
Madagascar	121.[illegible]	0.0	0.3	6.3	0.0	70.1	12.5	2.1	10.1	0.4	1.6	0.0	4.4	0.6	10.7
Malawi	91.0	0.0	13.2	0.8	0.1	0.6	52.0	0.1	3.9	2.0	0.0	0.0	0.0	16.6	1.8
Mali	167.1	0.0	5.4	0.0	0.0	75.5	40.8	0.0	6.1	4.0	0.0	0.0	21.1	0.6	12.0
Mauritania	75.9	0.0	0.6	0.0	0.0	26.8	20.0	0.0	6.2	0.8	0.0	0.0	0.3	0.8	20.4
Mauritius	42.6	3.0	0.2	0.1	0.0	29.7	0.3	0.0	2.3	0.0	0.0	0.0	0.1	3.6	3.4
Mozambique	154.0	2.3	0.2	0.3	3.6	17.5	2.4	34.6	0.1	26.2	6.9	44.0	1.5	6.3	3.2
Niger	169.4	0.0	6.5	0.6	0.0	56.7	54.6	0.1	10.2	4.0	5.0	0.0	2.9	0.1	15.4
Nigeria	132.5	0.2	0.5	0.1	0.0	4.1	27.9	1.3	81.7	2.2	0.4	0.0	0.0	7.9	0.0
Rwanda	113.4	0.0	11.9	0.0	0.0	15.3	20.3	0.1	2.8	2.0	4.4	0.0	10.2	0.0	10.9
Senegal	243.0	0.0	16.6	0.1	0.1	144.0	28.7	1.2	5.0	3.5	0.2	0.0	4.0	0.5	32.8
Seychelles	17.0	0.4	0.1	0.0	0.0	3.6	1.0	0.1	0.2	0.1	0.0	0.0	0.0	10.6	0.9
Sierra Leone	54.9	0.0	0.4	0.1	0.0	0.6	16.2	20.1	3.3	1.1	0.0	0.0	0.0	5.7	7.4
Somalia	271.7	5.9	1.6	6.5	2.9	16.4	17.1	140.8	6.2	4.5	1.0	8.1	1.9	4.4	54.3
Sudan	348.4	5.8	14.2	0.7	0.0	17.4	108.9	13.3	2.0	36.3	6.0	3.3	6.9	30.1	98.9
Swaziland	28.2	0.1	4.0	0.3	0.0	0.1	3.6	0.0	1.1	1.2	0.0	1.0	0.0	4.7	12.2
Tanzania	456.2	9.4	13.4	13.1	23.1	5.4	38.3	10.6	41.5	78.0	61.9	82.7	7.8	33.0	33.2
Togo	40.3	0.0	0.4	0.0	0.0	21.7	9.5	0.1	0.0	0.5	0.0	0.0	0.2	0.2	7.9
Uganda	90.0	4.6	1.7	0.0	2.9	0.7	17.0	1.1	1.2	7.9	0.2	2.4	0.6	35.3	13.9
Zaire	273.2	3.2	21.6	0.0	0.0	41.2	33.0	5.0	2.6	2.1	0.2	0.0	0.3	0.2	24.4
Zambia	217.8	4.5	29.4	1.7	9.1	0.5	33.5	4.0	11.6	13.6	3.7	28.6	0.1	28.8	46.5
Zimbabwe	218.0	0.6	14.2	0.3	0.1	18.7	25.3	4.4	2.9	14.5	14.4	16.2	5.5	72.6	25.6
Total	5,092.8	53.3	242.8	47.9	53.2	1,107.3	917.5	281.0	254.7	306.8	134.7	278.7	94.8	351.4	715.1
Total World	22,733.8	590.0	1,010.8	224.8	111.3	4,430.5	3,466.7	480.6	3,437.1	1,065.3	261.6	517.7	253.2	999.5	5,135.2
% to SSA	22%	9%	24%	21%	48%	25%	26%	58%	7%	29%	51%	54%	37%	35%	14

Belgium and Austria are included in the total for DAC but are not listedseparately.

Source: OECD Geographical Distribution of Financial Flows to Developing Countries, 1984

GENERAL ODA COMMITMENTS TO SUB-SAHARAN AFRICA: 1981 ($ Millions)

	BILATERAL AID Total	OPEC	CMEA	Other	MULTILATERAL AID	Af.D.F.	IDA	EEC	UN Agencies	Arab OPEC	TOTAL
Angola	50.8	2.0	5.5	2.8	20.4	0.0	0.0	1.9	18.5	0.0	71.2
Benin	66.0	0.0	4.2	1.5	75.3	0.0	35.9	4.9	10.2	7.0	141.3
Botswana	78.3	3.9	0.0	.0	95.8	15.8	0.0	2.6	12.6	0.0	174.1
Burkina	203.9	2.1	0.0	12.4	147.2	0.0	58.3	42.8	17.3	10.0	351.1
Burundi	108.5	15.3	0.0	0.3	160.1	23.9	63.1	19.9	14.9	18.0	268.6
Cameroon	207.1	25.9	0.0	35.9	91.7	3.0	9.5	14.2	22.1	5.8	288.8
C.A.R.	74.1	1.5	0.0	0.0	25.5	0.0	3.8	2.4	6.7	1.0	99.6
Chad	51.3	2.1	0.0	.0	46.4	15.1	0.0	16.5	14.8	0.0	98.2
Comoros	49.6	22.5	0.0	0.0	41.6	5.9	12.7	4.0	6.6	0.9	91.2
Congo	155.2	43.7	41.7	3.0	28.5	0.0	17.0	3.8	4.1	0.0	183.7
Djibouti	78.5	32.5	0.0	0.9	18.5	0.0	0.0	3.8	9.1	5.6	97.0
Ethiopia	150.4	14.5	31.5	12.4	205.0	23.6	32.8	77.9	59.5	1.1	355.4
Gabon	74.3	0.0	0.0	36.4	39.5	0.0	0.0	0.9	3.5	0.0	114.3
Gambia	47.4	11.5	0.0	0.3	31.5	0.0	1.5	13.8	3.5	2.5	78.9
Ghana	104.5	14.4	0.0	.0	64.1	0.0	27.1	14.3	10.5	0.0	168.6
Guinea	58.3	1.5	0.0	7.3	26.4	0.0	0.0	8.0	12.2	0.1	84.7
GuineaBissau	43.8	1.1	1.5	.0	32.7	0.0	6.3	5.3	6.9	2.5	76.5
Ivory Coast	327.6	0.0	0.0	171.1	269.6	0.0	0.0	47.5	5.1	0.0	597.2
Kenya	288.3	24.4	0.0	3.8	234.0	8.0	46.1	37.5	19.6	3.0	522.3
Lesotho	65.4	0.0	0.0	3.3	50.1	8.6	9.6	7.0	21.2	3.7	115.5
Liberia	89.7	0.0	0.0	7.2	30.6	0.0	0.0	1.3	6.3	0.0	120.3
Madagascar	188.8	0.0	0.0	67.7	90.8	19.3	29.9	19.1	12.4	10.0	279.6
Malawi	107.8	0.0	0.0	16.6	169.4	9.6	75.2	10.6	14.3	1.0	277.2
Mali	179.8	10.5	0.6	1.6	115.3	12.9	25.6	32.4	27.0	17.5	295.1
Mauritania	210.2	133.1	0.0	1.2	42.1	6.4	3.0	9.7	15.0	8.0	252.3
Mauritius	42.8	0.0	0.0	0.2	44.6	0.0	0.0	4.0	4.0	2.0	87.4
Mozambique	289.8	2.0	4.6	129.2	65.7	8.6	0.0	6.3	18.9	0.0	355.5
Niger	299.6	99.0	0.0	31.2	88.6	8.6	20.1	26.6	14.7	7.5	388.2
Nigeria	542.8	0	0	410.3	412.4	0.0	0.0	1.7	22.6	0.0	955.2
Rwanda	123.2	8.4	0.0	1.4	95.2	27.9	13.7	27.5	13.5	1.0	218.4
Senegal	290.7	8.9	0.0	38.8	181.2	0.0	30.7	56.9	14.9	16.8	471.9
Seychelles	28.1	10.3	0.0	0.8	9.9	8.6	0.0	0.3	1.1	0.0	38.0
Sierra Leone	62.3	0.0	0.0	7.4	69.9	15.3	28.2	4.1	6.6	7.0	132.2
Somalia	428.9	71.9	0.0	85.3	219.4	8.6	9.3	62.7	105.4	33.0	648.3
Sudan	455.3	104.4	0.0	2.5	210.2	17.2	80.0	20.0	68.5	16.1	665.5
Swaziland	35.5	0.0	0.0	7.3	33.1	0.0	0.0	0.5	7.1	0.0	68.6
Tanzania	521.9	53.3	0.3	11.6	206.3	0.0	93.6	53.6	34.2	11.2	728.2
Togo	121.6	0.0	0.0	81.3	52.4	0.7	26.8	5.6	7.1	7.4	174.0
Uganda	100.5	10.4	0.0	0.1	115.6	0.0	8.3	44.1	32.6	1.0	216.1
Zaire	647.8	0.0	0.0	374.6	117.4	8.6	29.1	14.6	36.8	0.0	765.2
Zambia	223.6	2.0	0.0	3.8	159.6	8.6	26.3	16.3	11.5	0.0	383.2
Zimbabwe	269.6	38.0	0.9	12.7	220.7	0.0	14.1	16.6	49.8	10.0	490.3
Total	7544.6	771.6	90.8	1589.4	4444.3	268.3	837.6	764.0	818.2	210.7	11988.9
Total World	45418.5	8292.5	5115.1	9277.1	23522.2	311.2	3521.9	1496.2	2847.9	536.7	68940.7
% to SSA	17%	9%	2%	17%	19%	86%	24%	51%	29%	39%	17%

CMEA includes Bulgaria, Czechoslavakia, GDR, Hungary, Poland, Romania, and U.S.S.R.

Source: OECD Geographical Distribution of Financial Flows to Developing Countries, 1984

Table 3: ODA COMMITMENTS TO SUB-SAHARAN AFRICA: 1983 ($ Millions)

	TOTAL	Tot DAC	Belgium	Canada	France	FRG	Italy	Japan	N'lands	Sweden	UK	US
Angola	263.2	54.4	0.0	0.2	7.2	1.9	14.4	0.0	12.3	13.7	0.1	0.8
Benin	69.2	41.6	2.0	1.7	24.1	4.9	0.3	0.0	2.8	0.0	0.1	1.4
Botswana	187.8	83.5	0.0	5.0	6.6	18.0	0.0	0.2	2.5	17.6	16.6	11.3
Burkina	251.2	135.6	0.0	16.1	39.2	17.9	7.3	4.7	25.6	0.3	0.1	20.8
Burundi	183.3	81.4	19.4	1.2	21.6	21.9	0.7	4.2	1.1	0.0	0.1	9.9
Cameroon	352.9	158.7	10.7	8.4	72.1	48.5	0.7	0.1	2.5	0.0	0.5	13.6
C.A.R.	154.9	79.9	0.0	0.2	67.1	6.5	0.2	4.3	0.1	0.0	0.0	1.4
Chad	90.2	47.1	0.0	0.9	35.3	1.8	0.1	0.0	1.1	0.0	0.2	4.5
Comoros	41.9	18.6	0.0	0.7	16.5	0.8	0.0	0.5	0.0	0.0	0.0	0.0
Congo	167.1	75.8	0.0	0.4	51.2	8.4	13.5	0.1	0.7	0.0	0.1	1.1
Djibouti	123.0	51.0	0.0	0.2	43.1	2.1	0.1	1.5	0.0	0.0	0.0	3.8
Ethiopia	530.5	99.3	0.0	15.0	8.7	8.3	10.5	2.6	2.4	19.2	5.2	4.2
Gabon	144.7	64.3	2.0	4.3	55.6	0.7	0.4	0.2	0.0	0.0	0.0	1.0
Gambia	67.3	29.2	0.0	1.7	10.7	3.8	0.0	2.4	0.5	0.0	2.6	7.8
Ghana	293.9	126.6	0.0	32.8	1.9	35.1	0.2	37.3	4.5	0.0	3.8	7.6
Guinea	176.5	65.2	0.0	4.5	11.4	10.9	1.4	29.9	0.1	0.0	0.1	6.9
GuineaBissau	110.3	29.2	0.0	0.3	3.8	1.0	1.1	1.3	9.4	8.5	0.3	2.0
Ivory Coast	594.3	156.5	5.0	2.5	116.8	5.3	0.5	21.7	4.0	0.0	0.3	0.1
Kenya	603.6	317.4	1.7	6.7	14.3	13.6	10.6	57.4	25.6	17.1	33.0	82.9
Lesotho	99.9	57.2	0.0	3.8	2.1	10.9	0.1	0.4	2.7	4.2	2.8	25.3
Liberia	171.5	82.3	0.0	0.2	4.1	11.7	0.0	1.7	1.2	0.0	0.7	58.2
Madagascar	404.3	117.6	0.0	0.7	74.4	3.6	1.6	22.0	0.8	0.0	0.2	6.8
Malawi	302.0	70.0	0.0	6.1	5.3	15.2	0.1	5.6	2.2	0.0	21.2	5.2
Mali	266.5	130.6	2.8	4.8	55.4	20.5	0.3	5.9	9.0	0.0	0.3	20.4
Mauritania	155.9	59.4	0.0	1.9	20.2	15.7	0.9	1.2	2.0	0.0	1.6	13.5
Mauritius	102.0	30.9	0.0	0.2	20.1	0.6	0.0	4.6	0.7	0.0	1.2	2.2
Mozambique	286.0	203.1	0.0	3.0	19.1	4.6	51.1	10.1	18.1	35.8	1.4	12.8
Niger	227.4	155.3	4.8	39.2	50.6	20.7	0.0	7.4	3.6	0.2	0.1	27.5
Nigeria	637.0	30.1	0.0	1.6	4.5	8.0	2.2	2.0	0.9	0.0	8.3	0.0
Rwanda	216.5	89.8	25.7	3.3	13.9	15.8	0.0	2.7	7.2	0.0	0.1	12.2
Senegal	474.5	272.9	5.6	23.2	101.3	21.9	23.1	12.9	5.9	0.6	0.6	56.1
Seychelles	30.9	18.6	0.0	0.7	7.4	0.1	0.1	1.3	0.0	0.0	3.0	2.6
Sierra Leone	59.4	24.7	0.0	1.0	0.5	5.0	0.1	0.6	1.3	0.0	5.9	9.1
Somalia	315.7	173.2	0.0	1.2	16.1	7.9	41.0	24.7	3.0	0.7	2.5	69.3
Sudan	1373.1	434.2	1.7	14.5	16.9	63.9	14.4	26.7	40.9	1.9	22.9	195.9
Swaziland	64.0	29.7	0.0	7.9	0.1	1.8	6.0	0.5	0.5	2.4	3.2	7.2
Tanzania	565.0	393.2	5.3	25.9	12.7	27.0	69.1	24.0	33.5	60.8	36.9	3.6
Togo	217.7	80.9	0.0	0.7	32.3	35.6	[illegible]	2.8	0.5	0.0	0.1	8.4
Uganda	367.4	88.2	0.0	6.8	3.8	30.1	1.9	4.6	7.9	0.0	17.5	8.1
Zaire	528.3	272.6	117.3	23.4	16.6	41.7	30.2	8.8	1.9	0.0	0.4	31.0
Zambia	360.5	218.1	1.6	12.9	0.6	18.9	1.1	57.1	13.8	22.8	23.7	30.0
Zimbabwe	500.1	220.6	0.0	12.3	0.4	36.5	16.6	9.8	11.3	20.2	15.4	71.4
Total	12151.4	4968.3	705.6	297.6	1085.1	628.2	322.1	405.3	263.6	221.0	233.1	862.8

	OPEC Bil.	CMEA Bil.	Other Bil	MULTILATERAL	EEC	IDA	UNAgencies	Af.D.F.	ArabOPEC	POP
Angola	0.0	0.0	132.8	96.0	10.3	0.0	24.4	14.5	0.0	8.0
Benin	0.0	0.0	0.0	27.6	17.5	0.0	7.7	0.0	7.5	3.7
Botswana	0.0	0.0	26.1	78.2	4.2	0.0	14.0	0.0	0.0	1.0
Burkina	0.0	0.0	53.0	62.6	28.7	0.0	17.8	13.8	2.4	6.5
Burundi	14.6	0.0	.0	87.3	28.5	30.8	15.8	[illegible]	0.0	4.3
Cameroon	0.7	0.0	59.5	134.5	22.3	0.0	8.3	0.0	0.0	8.9
C.A.R.	5.8	0.0	7.1	62.1	18.8	21.4	6.5	[illegible]	0.0	2.4
Chad	0.0	0.0	0.0	43.1	16.2	0.0	26.9	[illegible]	0.0	4.6
Comoros	8.7	0.0	-0.1	14.7	2.7	5.2	7.4	0.0	0.0	0.4
Congo	0.0	0.0	28.8	62.5	25.8	0.0	5.7	[illegible]	0.0	1.7
Djibouti	35.0	0.0	0.0	37.0	2.6	0.0	8.3	[illegible]	[illegible]	0.4
Ethiopia	0.0	104.5	5.5	321.2	57.7	132.0	70.2	[illegible]	0.0	32.6
Gabon	0.0	0.0	50.2	30.2	2.4	0.0	2.9	0.0	5.3	0.7
Gambia	0.1	0.0	.0	38.0	5.1	0.0	8.1	17.4	1.0	0.6
Ghana	0.2	3.7	0.1	163.3	42.5	73.3	16.6	31.0	0.0	12.2
Guinea	11.3	0.0	0.1	99.9	7.6	24.0	9.2	15.4	0.0	5.7
GuineaBissau	23.1	1.8	0.3	55.9	4.4	29.1	6.8	6.4	1.5	0.8
Ivory Coast	0.0	0.0	121.9	316.0	15.4	0.0	4.0	0.0	0.0	8.8
Kenya	2.1	0.0	35.6	248.5	14.1	37.0	15.4	6.3	0.0	18.1
Lesotho	0.0	0.0	2.6	40.1	3.9	0.0	17.4	15.8	3.0	1.4
Liberia	0.0	0.1	61.7	27.4	3.4	0.0	5.1	0.0	0.0	2.0
Madagascar	53.1	0.0	43.0	190.6	28.3	50.9	8.8	15.4	11.0	9.2
Malawi	0.0	0.0	4.0	228.0	40.0	126.0	12.8	11.6	0.0	6.5
Mali	1.3	0.0	.0	134.6	29.3	54.8	29.0	1.4	7.5	7.1
Mauritania	3.0	0.3	.0	93.2	14.3	8.1	14.6	0.0	56.2	1.6
Mauritius	1.0	0.0	5.3	64.8	0.9	0.0	3.7	0.0	0.0	1.0
Mozambique	0.0	26.5	9.0	47.4	20.1	0.0	27.4	0.0	0.0	12.9
Niger	0.0	0.0	14.2	57.9	8.6	23.6	16.2	2.4	5.0	5.9
Nigeria	0	76	92.0	438.9	15.6	0.0	17.7	0.0	0.0	90.6
Rwanda	18.9	0.0	.0	107.8	23.7	35.0	17.1	22.8	0.0	5.5
Senegal	49.3	0.1	60.2	92.0	15.9	44.3	17.1	5.4	9.3	6.0
Seychelles	0.0	3.0	0.7	8.6	2.6	0.0	1.4	0.0	0.0	0.1
Sierra Leone	0.0	0.0	0.0	34.7	8.4	20.0	5.2	0.0	1.1	3.7
Somalia	0.0	0.0	0.0	142.5	7.1	23.0	85.9	0.0	21.3	4.5
Sudan	515.3	0.0	176.1	297.5	29.2	130.0	61.6	0.0	66.0	19.0
Swaziland	0.0	0.0	4.1	30.2	12.2	0.0	6.7	0.0	0.0	0.7
Tanzania	0.0	0.0	40.8	131.0	11.7	59.3	33.1	21.9	5.0	20.2
Togo	17.2	0.0	48.7	70.9	15.1	37.7	6.3	0.0	4.0	2.8
Uganda	0.0	0.0	43.6	235.6	20.0	139.0	28.7	14.5	0.1	13.5
Zaire	0.0	0.0	44.3	211.4	51.7	64.5	23.3	16.9	0.0	30.7
Zambia	0.0	9.7	68.2	65.0	12.3	14.3	11.1	[illegible]	0.0	6.0
Zimbabwe	0.0	0.0	35.4	244.1	30.4	7.3	8.2	0.0	10.0	7.5
Total	760.2	225.2	1224.7	4972.8	720.5	1190.6	734.4	328.3	231.5	

Australia, Austria, Denmark, Finland, Norway, and Switzerland are included in the total for DAC but are not listed separately.

CMEA includes Bulgaria, Czechoslovakia, GDR, Hungary, Poland, Rumania, and U.S.S.R.

The major recipients of DAC bilateral aid are Sudan, Tanzania, Kenya, Senegal, and Zaire (see underlined countries).

Source: OECD Geographical Distribution of Financial Flows to Developing Countries, 1984

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481(h)(1); FY 1986 Continuing Resolution Sec. 527. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully?

   1. NO

2. FAA Sec. 481(h)(4). Has the President determined that the recipient country has not taken adequate steps to prevent (a) the processing, in whole or in part, in such country of narcotic and psychotropic drugs or other controlled substances, (b) the transportation through such country of narcotic and psychotropic drugs or other controlled substances, and (c) the use of such country as a refuge for illegal drug traffickers?

   2. NO

3. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?

3. NO

4. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

4. NO

5. FAA Sec. 620(a), 620(f), 620D; FY 1986 Continuing Resolution Sec. 512. Is recipient country a Communist country? If so, has the President determined that assistance to the country is important to the national interests of the United States? Will assistance be provided to Angola, Cambodia, Cuba, Iraq, Syria, Vietnam, Libya, or South Yemen? Will assistance be provided to Afghanistan without a certification?

5. NO

N/A

NO

NO

6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?

6. NO

7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC?	7.	NO
8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?	8a.	NO
(b) If so, has any deduction required by the Fishermen's Protective Act been made?	8b.	NO
9. FAA Sec. 620(q); FY 1986 Continuing Resolution Sec. 518. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country?	9a.	NO
(b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill (or continuing resolution) appropriates funds?	9b.	NO
10. FAA SEC. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)	10.	Yes taken into account by the Administrator at time of FY 1986 OYB approval.

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	11. NO
12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)	12. Current
13. FAA Sec. 620A. Has the government of the recipient country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism?	13. NO
14. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures?	14. NO

15. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? — 15. NO

16. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? — 16. NO

Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) — NO

17. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported illegally (or attempted to export illegally) from the United States any material, equipment, or technology which would contribute significantly to the ability of such country to manufacture a nuclear explosive device? — 17. NO

18. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)	18. Issue was taken into account by Administrator at time of approval of FY 1986 OYB.
19. FY 1986 Continuing Resolution Sec. 541.	
Are any of the funds to be used for the performance of abortions as a method of family planning or to motivate or coerce any person to practice abortions?	19. NO
Are any of the funds to be used to pay for the performance of involuntary sterilization as a method of family planning or to coerce or provide any financial incentive to any person to undergo sterilizations?	NO
Are any of the funds to be used to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning?	NO

20. FY 1986 Continuing Resolution. Is the assistance being made available to any organization or program which has been determined as supporting or participating in the management of a program of coercive abortion on involuntary sterilization? — 20. NO

If assistance is from the population functional account, are any of the funds to be made available to family planning projects which do not offer, either directly or through referral to or information about access to, a broad range of family planning methods and services? — N/A

21. FY 1986 Continuing Resolution Sec. 529. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? — 21. NO

22. FY 1986 Continuing Resolution Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? — 22. NO

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria — 1. N/A

FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

2. Economic Support Fund Country Criteria — 2. NO

<u>FAA Sec. 502B</u>. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of funds.

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

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? — 1. N/A

2. FAA Sec. 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him?? — 2. N/A

3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? — 3. N/A

4. FAA Sec. 604(e); ISDCA of 1980 Sec. 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) — 4. N/A

5. <u>FAA Sec. 604(g)</u>. Will construction or engineering services be procured from firms of countries which receive direct economic assistance under the FAA and which are otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one of these areas? Do these countries permit United States firms to compete for construction or engineering services financed from assistance programs of these countries? 5. N/A

6. <u>FAA Sec. 603</u>. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and reasonable rates? 6. N/A

7. <u>FAA Sec. 621</u>. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? 7. N/A

8. International Air Transportation Fair Competitive Practices Act, 1974. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? — 8. N/A

9. FY 1986 Continuing Resolution Sec. 504. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? — 9. N/A

B. Construction

1. FAA Sec. 601(d). If capital (e.g., construction) project, will U.S. engineering and professional services be used? — 1. N/A

2. FAA Sec. 611(c). If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable? — 2. N/A

3. FAA Sec. 620(k). If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed $100 million (except for productive enterprises in Egypt that were described in the CP)? — 3. N/A

C. Other Restrictions

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

1. N/A

2. FAA Sec. 301(d). If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

2. N/A

3. FAA Sec. 620(h). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

3. YES

4. Will arrangements preclude use of financing:

   a. FAA Sec. 104(f); FY 1986 Continuing Resolution Sec. 526. (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo

4a. Payments for performanc of abortions and involuntary sterilizati are precluded.

sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion?

b. FAA Sec. 488. To reimburse persons, in the form of cash payments, whose illicit drug crops are eradicated? — 4b. Yes

c. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? — 4c. Yes

d. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? — 4d. Yes

e. FAA Sec. 662. For CIA activities? — 4e. Yes

f. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? — 4f. Yes

g.	FY 1986 Continuing Resolution, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel?	4g.	Precluded
h.	FY 1986 Continuing Resolution, Sec. 505. To pay U.N. assessments, arrearages or dues?	4h.	Precluded
i.	FY 1986 Continuing Resolution, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)?	4i.	Yes
j.	FY 1986 Continuing Resolution, Sec. 510. To finance the export of nuclear equipment, fuel, or technology?	4j.	Yes
k.	FY 1986 Continuing Resolution, Sec. 511. For the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?	4k.	Yes
l.	FY 1986 Continuing Resolution, Sec. 516. To be used for publicity or propaganda purposes within U.S. not authorized by Congress?	4l.	Yes

3(A)2 NONPROJECT ASSISTANCE CHECKLIST

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

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

A. <u>GENERAL CRITERIA FOR NONPROJECT ASSISTANCE</u>

1. <u>FY 1986 Continuing Resolution Sec. 524; FAA Sec. 634A.</u>

   Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.

   1. CY sent to Hill on 6/12/86

2. <u>FAA Sec. 611(a)(2).</u> 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?

   2. N/A This is a cash transfer.

3. <u>FAA Sec. 209</u> Is assistance more efficiently and effectively given through regional or multilateral organizations? If

   3. NO

so, why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.

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

4. a. Yes

b. Yes

c. Yes

d. Yes

e. Yes

f. N/A

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

5. By supporting free market exchange rate, assistance will contribute to economic environment which encourage U.S. private trade and investment abroad and U.S. participation in foreign assistance programs.

6. FAA Sec. 612(b), 636(h); FY 1986 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.

6. Local currencies equivalent to the amount of the grant will be used for mutually agreed upon activities.

7. 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?	7. NO
8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	8. N/A
9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?	9. N/A
10. FY 1986 Continuing Resolution Sec. 533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?	10. NO

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA?	1a. Yes b. N/A
b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities?	b. NO

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

c. Yes

d. ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States-origin? If so, what percentage of the funds will be so used?

d. Yes

e. ISDCA of 1985 Sec. 801. If ESF funds will be used to finance imports by an African country (under a commodity import program or sector program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria?

e. N/A

(i) spare parts and other imports shall be allocated on the basis of evaluations, by A.I.D., of the ability of likely recipients to use such spare parts and imports in a maximally productive, employment generating, and cost effective way;

(ii) imports shall be coordinated with investments in accordance with the recipient country's plans for promoting economic development. A.I.D. shall assess such plans to determine whether they will effectively promote economic development;

(iii) emphasis shall be placed on imports for agricultural activities which will expand agricultural production, particularly activities which expand production for export or production to reduce reliance on imported agricultural products;

(iv) emphasis shall also be placed on a distribution of imports having a broad development impact in terms of economic sectors and geographic regions;

(v) in order to maximize the likelihood that the imports financed by the United States under the ESF chapter are in addition to imports which would otherwise occur, consideration shall be given to historical patterns of foreign exchange uses;

(vi)(A) seventy-five percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA;

(B) the agreement shall require that the government of the country make available to the United States Government such portion of the amount deposited in the special account as may be determined by the President to be necessary for requirements of the United States Government.

f. ISDCA of 1985 Sec. 207. 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 country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin American (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

f. NO

g. 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?

g. N/A

2. <u>Nonproject Criteria for Development Assistance</u>

2. N/A

a. <u>FAA Sec. 102(a); 111; 113; 281(a)</u>. 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 the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. <u>FAA Sec. 103, 103A, 104, 105, 106, 107</u>. Is assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.)

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(2) [104] for population planning under sec. 104(b) or health under sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems and other modes of community research.

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, or strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education and training of people in developing countries in such disciplines as are required for planning and implementation of public and private development activities.

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

collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to encourage exploration for potential oil, natural gas, and coal reserves.

(ii) technical cooperation and development activities, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster;

(v) for special development problems, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

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