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CLASSIFICATION: UNCLASSIFIED

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1.PAIP NO.

649-0143

Agency for
International Development

2.COUNTRY

Somalia

PROGRAM ASSISTANCE
IDENTIFICATION PROPOSAL
(PAIP)

3.CATEGORY

Program Grant

4.DATE

5.TO: Ray Love
Acting/AA/ Africa Bureau

6.OYB CHANGE NO

Not Applicable .

7.FROM: Louis A. Cohen
Director, USAID Somalia

8. OYB INCREASE: Not Applicable
TO BE TAKEN FROM: Not Applicable

9.COMMITMENT APPROVAL REQUESTED
\$35,000,000
\$25,000,000

10.APPROPRIATION-ALLOTMENT

FY 1988-91 DA
FY 1988-92 ESF

11.TYPE OF FUNDING
X GRANT

12.LOCAL CURRENCY ARRANGEMENT

Programmed

13.ESTIMATED DELIVERY PERIOD
06/30/88- 9/30/93

14. TRANSACTION ELIGIBILITY DATE

Grant Authorization Date

15.COMMODITIES FINANCED
Equipment, Spare Parts, and Construction Materials

16.PERMITTED SOURCE 000

17.ESTIMATED SOURCE N/A

18.SUMMARY DESCRIPTION

The Somalia Economic Rehabilitation Sector Grant is a \$60.0 million, five year public sector assistance grant aimed at significantly improving the foundation upon which the Government of the Somalia Democratic Republic (GSDR) can build and maintain its economic growth and development efforts. The conerstone of the program is public sector reform. The private sector will be used to finance this reform.

19.PAAD DESIGN REQUIREMENTS

AID/W: To be determined at ECPR

REDSO/ESA: Project Development Officer, Social Scientist, Environmental Officer and Program Economist for a total of 2.5 person months.

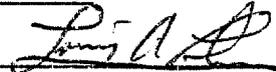
CONTRACTORS: Approximately 25 person months of assistance in public sector reform and private sector development.

20.SIGNATURE

DATE

20.ACTION

USAID/Somalia:LACohen 6 May 1987



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ABBREVIATIONS AND ACRONYMS

AA/AFR	Assistant Administrator, Africa Bureau, AID/W
AEPRD	African Economic Policy Reform Program
CDSS	Country Development Strategy Statement
CIP	Commodity Import Program
CGDD	Comprehensive Groundwater Development Project
DDB	Domestic Development Budget
EEC	European Economic Community
ESF	Economic Support Fund
FAO	Food and Agricultural Organization
FR	Financing Request
FRG	Federal Republic of German
FX	Foreign Exchange
GDP	Gross Domestic Product
GSDR	Government of the Somali Democratic Republic
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEE	Initial Environmental Examination
IMF	International Monetary Fund
L/C	Local Currency
MOF	Ministry of Finance
MOE	Ministry of Education
MLS	Ministry of Labor and Sports
MOR	Ministry of Revenue
OYB	Operating Year Budget
OB	Ordinary Budget
PAAD	Program Assistance Approval Document
PAIP	Program Assistance Identification Proposal
PIP	Public Investment Program
PIPS	Policy Initiatives and Privatization Project
REDSO/ESA	Regional Economic Development Service Office/ East and Southern Africa

I. EXECUTIVE SUMMARY

A. Introduction: The proposed Somalia Economic Rehabilitation Sector Grant (SECOR) is a five year \$60 million program that aims to reform GSDR public sector institutions over the long-term. To do this SECOR, will establish an agenda, whereby AID, other donors and the GSDR can set targets and implement an agreed upon public sector reform program. SECOR will provide technical assistance and training to the GSDR to assist in the reform effort SECOR proposes to utilize the Somali private sector to generate the local currency to fund the reform program. Approximately \$25 million in commodities, machinery and equipment will be imported into Somalia for this purpose. If the reform program is implemented satisfactorily, these funds will be supplemented by up to \$25 million in local currency generated through an African Economic Policy Reform Program (AEPRP). AEPRP will be added as a supplement to AID's annual ESF Program. SECOR also proposes to strengthen the private sector since this will be the sector which will generate employment opportunities and tax revenue for the GSDR. To do this SECOR will establish a Private Sector Development Fund comprised of The CIP as well as technical assistance and training to administer the commodity program and to provide technical assistance and training to the private sector. Priority areas will be in the agribusiness and infrastructure sectors.

B. Summary Description.

Somalia's enormous economic problems are virtually unmanageable until more disciplined spending and management practices can be introduced into the public sector. The importance of this point is underscored in the area of debt management; one of Somalia's most immediate and significant economic problems. The GSDR's \$1.9 billion outstanding debt is jeopardizing future external financing which, by some estimates, has been financing over one half of the government operations and provides critical foreign exchange to the private sector. Unless the public sector improves its debt management and monitoring operations, in a relatively short time, the harm to the economy will be crippling. Equally important, Somalia must re-examine the range, scope and priorities of its public sector activities with respect to what it can effectively finance. The GSDR posts large budget deficits every year and it is still failing to operate and maintain basic public sector services such as primary education. Poor performance in the public sector is also constraining private sector activity. The country's physical infrastructure, including roads, communication facilities, and the power station, is deteriorating due to a lack of recurrent budgeting and maintenance programs. Other public sector operations, which provide vital support to the private sector, such as banking, insurance, shipping, and petroleum services, are undercapitalized and characterized by high fees and low quality services. There is a compelling need to encourage greater private sector investment and participation in the economy; to increase domestic financing for development activities; and, in some instances replace or supplement public sector investment and services.

The GSDR is considering major public sector reforms aimed at rationalizing the GSDR budget, increasing tax revenues, restructuring the civil service, and expanding private sector investment and services in the economy. These

reforms are fundamental for building Somalia's long term economic recovery plan. At the same time, the technical and financial requirements of undertaking these reforms are greater than the GSDR's internal resources.

SECOR is designed as the USAID input into a multi-donor effort to support the GSDR reform efforts. The SECOR central focus reflects USAID's principal interest in encouraging and assisting the GSDR to consolidate and improve its budgeting system and establish an institutional structure for civil service reform. USAID also expects to be a participating donor with UNDP in implementing tax reforms and with GTZ for promoting private sector development. While the focus of SECOR is public sector reform its implementation strategy will also contain a strong element of private sector development. In particular, Somalia's public sector will be encouraged to utilize more private sector services in its operations, and to encourage private investment in those sectors where it is determined to be appropriate.

SECOR contrasts strongly with previous policy reform programs in Somalia. First, it provides a multi-year time frame to introduce and implement policy reforms. Second, the design of the program recognizes the interdependence of the different fiscal reforms. Third, it attempts a multi-donor approach to provide the technical and financial resources for supporting the broad range of GSDR reforms. This attempt at establishing a unified policy agenda with substantial resources to support it gives SECOR an excellent chance of success in focussing the GSDR's long term reform efforts. Fourth, the local currency grant program adds leverage to the reform program, by making the disbursement of local currency contingent upon adequate GSDR implementation of the reform program. Further leverage is added through the provision of resources under an AEPRP, if the reform program is implemented satisfactorily.

C. Program Description

The purpose of SECOR is to implement GSDR policy reforms which will improve the efficiency and sustainability of public and private sector development efforts. SECOR will attempt to establish a long-term Policy Reform Agenda between AID, the GSDR, and donor community. Through action on this Agenda, SECOR will attempt to achieve the following policy reform targets by the end of the Grant Program. First, the GSDR will be operating under a unified budgeting system that allocates and accounts for all receipts and expenditures. Second, Government revenues from taxes will be the equivalent of 8% of the Gross Domestic Product and will utilize a wider range of revenue sources. Third, the GSDR Civil Service will be restructured to be more effective and responsive and will be guided by a Civil Service Commission. Finally, improved incentives and opportunities will be in place for the private sector, leading to increased investment and contracting.

SECOR has three components: a public sector reform component, a private sector component, and a local currency component. The public sector component supports: (1) the development of an improved GSDR budgeting and accounting system; (2) modifications to the revenue system aimed at strengthening the base upon which the tax system is built and improving collections; (3) the establishment of a Civil Service Commission; and, (4) introducing and testing improved budgeting, revenue systems, and personnel practices in key GSDR ministries. The private sector component over time becomes a main source of financing the increased costs of civil service

reform and through expansion of job opportunities an alternative employer for ex-civil servants. The private sector component consists of a managed fund to assist small to medium sized firms engaged in or capable of expanding their operations to producing items for import substitution, exports, and provision of services for GSDR infrastructure construction.

The last component is the local currency one. Initially, local currency funding for civil service reform will be provided by generations from the Mission's ESF program grants. However, as the managed fund for the private sector component moves forward it will also generate shillings which would be applied to civil service reform. All such local currency, whether ESF or SECOR generated will be placed in a special account to be released only upon satisfactory implementation of mutually agreed reforms related to improvement of the civil service. Civil service reform will have a large demand for such shillings because an urgent need to instill professionalism in the GSDR bureaucracy is raising salaries to a realistic level in order to eliminate current practices used to supplement salaries.

A technical assistance contract estimated to cost approximately \$5 million will be employed to assist the GSDR implement public sector reforms and private sector development activities. The contract will provide policy analysis, financial systems and management, and taxation specialist skill to support the GSDR's public sector reform activities and to develop and test applications for these reforms among GSDR ministries.

A second component will be the implementation of a Private Sector Development Fund. This fund would be administered by a contractor familiar with business development and investment and would provide foreign exchange to private businesses in exchange for shillings, and perhaps in some cases on credit terms, to be used for importing necessary production inputs, raw materials and equipment, and for technical services. Businesses with existing or potential capacity to produce items which replace finished products currently being imported or add value to exports and to provide services to the government for the construction or maintenance of infrastructure related to private sector development would qualify for using this facility. An additional responsibility of the fund management would be to carry out studies aimed at solving practical problems impeding private sector development, including changing current policies on use of government monopolies and parastatals which these do not make good economic sense. It is assumed given the agriculture base of Somalia's economy that a major focus on agribusiness although this would not be an exclusive focus.

If the Reform Program proceeds in an acceptable manner, AID expects to supplement SECOR with funds from The African Economic Policy Reform Program. AID anticipates an annual \$5 million AEPRP during the life of the Sector Grant.

SECOR can be funded principally through Development Assistance Funds; with AEPRP funds coming from Economic Support Funds.

D. Program Design and Development

Subject to the approval of this document in AID Washington USAID/Somalia will undertake a series of reviews to address the feasibility of the different aspects of the program design. A schedule of design activities, resource requirements and draft scopes of work are included as Annex D.

II. PROGRAM FACTORS

A) Conformity with GSDR Strategy and Resources

1) An Economy in Crisis

Somalia's economic problems are enormous. Its external debt, estimated at \$1.9 billion, is the equivalent of over one year's GDP. Annual debt service payments alone exceed the total value of the country's exports by fifty percent. Trade imbalances are staggering; the value of imports exceeds that of exports by a four to one margin. The Central Government budget is continually in the red, posting large deficits year in and year out. This is in spite of the fact that over half of the domestic budget is financed directly or indirectly by external donors. These budget deficits are adversely affecting economic performance by fueling inflation, reducing finance for servicing the GSDR debts, and putting a brake on the private sector growth. More importantly, until these budget deficits can be controlled it is virtually impossible to effect a long range plan for Somalia's economic recovery. While tax collections have been improving, the total tax revenues still represent only six percent of the GDP which is low by international standards. Opportunities for significantly increasing domestic finances are limited by the already high use of duties and a tax structure which does not allow for much increased reliance on income taxes. In addition the "informally" collected taxes makes the true burden on the private sector relatively high with respect to GDP, but gives little revenue to the government. Complicating these problems, and efforts to constructively address them, is an inefficient and demoralized civil service.

The causes of the current crises are rooted in Somalia's recent history. The debt problems, for example, became considerably worse because of Somalia's war with Ethiopia in the Ogaden in the 1970's. The simultaneous influx of refugees fleeing the war, drought, and the withdrawal of the Soviet Union exacerbated the existing problems. Somalia's efforts to extricate itself from a worsening situation have also been hampered by the legacy of their experiment with socialism. This legacy is characterized by a deteriorating physical infrastructure, a private sector which is still recovering from the dismantling of the 1970's, and a public sector which is ineffectual and financially bankrupt. The international community, while well intentioned, has contributed to Somalia's long term problem by continuing to provide loan assistance, instead of grants, which has increased overall debt.

Somalia's economic situation is becoming ever more unstable as a result of its debt problems noted above. At the end of 1986 the GSDR was in arrears to its creditors to the tune of \$172 million as a result of failure to have a Paris Club debt rescheduling session, which has now become a yearly necessity. The GSDR system for paying its debt is generally to pay only those debts needed to keep or reestablish donor funding flows and then only at the last minute. They are not at all prepared for tackling the complex issues of debt management. At the same time the lack of initiative on behalf of the donors to reschedule debt has already resulted in some donor programs being suspended.

2) Proposed Corrective Actions

The GSDR with the IMF and the donor community have proposed a series of actions which are aimed at setting up an economic recovery plan. These actions include: 1) a reduction in the GSDR capital spending as outlined in the Public Investment Plan and a consolidation of funds for meeting recurrent expenses to maintain infrastructure.; 2) a plan for debt rescheduling; 3) the endorsement of an IMF agreement which sets limits on public sector spending and overall credit levels. The IMF Agreement permits a 22% increase in civil servants salaries, if funded from a decrease in other expenditures or an increase in taxes; and 4) a restructuring of the tax system and administration.

Structural adjustments endorsed in general by the GSDR, and still the subject of negotiation with the IBRD and other donors include: 1) reforms of the Ministry of Finance's budgetary system; 2) civil service reform; 3) revenue reforms aimed at increasing the revenue base and collection system; 4) privatization and private sector development.

3) GSDR Capacity To Undertake Corrective Actions

The most important factor affecting the GSDR's capacity to undertake the actions which are required to turn its economy in the right direction is political support. The existing economic situation in Somalia, cannot be improved without a deep political commitment to weather the coming storms. It appears that this commitment is materializing, although its authenticity has yet to face a serious test. In the past the GSDR has stayed the course on other reforms which it has said it would implement, namely the agricultural pricing and marketing reform and the establishment of a free market exchange rate system. Another factor, which heavily influences the GSDR's ability to carry out the improved reforms, is the extent to which it is able to mobilize the international community to finance economic reforms and restructuring. The GSDR is in serious financial difficulty and is unable to completely pay for any of the public sector reform programs which are needed. In addition, while there is a reservoir of talent among Somalis which can be expected to contribute to any reform and restructuring program, special technical skills related to budgeting, finance, and taxation will need to be imported. The private sector has proved its resilience over the last several years and can be expected to provide a significant impetus to the reform effort if given the opportunity.

B. Relationships to the CDSS and other USAID Programs

1. Country Development Strategy Statement (CDSS)

The Somalia Economic Rehabilitation and Reform Sector Grant received its impetus from Program Week discussions made during May 1986. As a result of the discussions, it was decided that USAID would explore performance based sector assistance possibilities for ESF or DA funding and for other donor programming as an option to traditional project assistance. (See 86 State 205248 attached as Annex H.) While the mini-donor conference discussed at Program Week never materialized the decisions made at Program Week resulted in USAID developing a series of USG positions on a number of crucial macro policy items that need to be discussed with the donor community and the

GSDR. The positions covered the areas of Somali budget rationalization, private sector support, foreign exchange auctions, food aid, civil service reform and the use of local currency. (See 86 Mogadishu 87281 attached as Annex H.)

The Somalia Economic Rehabilitation Project is directly supportive of both short-term and long-term objectives of USAID's Country Development Strategy Statement. In the short-term our strategy is to provide balance of payment support, reduce the public deficit and support promising areas for future growth. SECOR will provide extra dimensions to existing AID programs, in support of these objectives, by supporting programs to rationalize budget receipts and expenditures, and improve the performance of the Civil Service. Additionally, the provision of local currency grants from SECOR increases the leverage available for promoting other projects.

The long-term objective of the CDSS is to build a base for productivity in a diversified and outward orientated economy. Clearly, the provision of commodities, technical assistance and training envisioned in implementing public sector reforms and developing business and agribusiness opportunities, as well as basic road, water and communication systems are directly supportive of this long-term goal. The utilization of the private sector will further support this goal. Finally, a Civil Service that is adequately trained and maintained will address many of the institutional problems constraining long term economic growth in Somalia.

2. Relationship with Other USAID Projects

The policy reform agenda of SECOR will directly support the ongoing USAID projects and programs. This is particularly relevant for the Civil Service reform activities which will have direct effect upon the timely implementation of all AID and donor community projects.

SECOR will continue programs initiated under the Policy Initiatives and Privatization Project (649-0132). SECOR will replace PIP's by undertaking many of the pathbreaking policy reform and private sector activities originally undertaken through PIP's.

SOMTAD is probably the program most complementary to SECOR. SECOR will in many ways continue on from SOMTAD. Particularly as regards the continued organizational strengthening of key developmental ministries. Also SECOR will benefit from initial civil service reform work started under SOMTAD. Finally, it is doubtful that SOMTAD can be successful without an activity such as SECOR being implemented. The upgrading of GSDR staff will have little effect unless the long and short-term training programs are supported by a program of raising civil service salaries and civil service reform.

SECOR will also compliment AID's annual ESF Program. By addressing reform as a long-term issue, SECOR will provide the inputs by which the annual program focussing on balance of payments and stabilization can be rationalized.

Finally, SECOR compliments the work done under the Comprehensive Groundwater Development Project (649-0104) initiating private sector water development activities. Some of the activities suggested under SECOR received their original impetus from the major study conducted by Louis Berger International and funded under CGDP. The project also funded a series of well drilling operations implemented through the private sector.

C. Assessment of Donor Support for The Program

The size and complexity of the reform program required under SECOR requires a multi-donor approach. AID experience with other donors in the past has been one of positive collaboration where parallel commitments are involved. There is no reason to assume this type of collaboration cannot be continued under SECOR. Examples of successful collaboration are particularly evident in terms of the joint development of the Somalia Agriculture Sector Strategy between AID, The World Bank, GTZ, and the United Nations. This collaboration led to the design of the Shebbeli Water Management Project, and to the possible continuation of rainfed agricultural research by the World Bank after AID support ends for this research with the completion of The Bay Region Agricultural Development Project in FY88. Additional examples include excellent collaboration among the Consultative Group concerning the Bardere Dam and the development of the Jubba Valley, and collaboration between AID, (through Improving The Efficiency of Education Systems), The World Bank and UNICEF on the Education Sector.

One aspect of SECOR that would suggest donor support is the long-term strategy involved. USAID does not expect the donor community to give SECOR its initial, unanimous support, but over time, as progress is made, we expect donors to become more supportive of the Policy Reform Agenda proposed. SECOR will be AID's contribution to the total reform program. SECOR support would include technical assistance, studies and training to assist the GSDR in reaching rational decisions and in implementing these decisions. Foremost, however, SECOR will propose to provide a definite periodic forum where the reform agenda can be discussed and the GSDR's progress in achieving this agenda measured. If adequate progress is made in the reform program, SECOR will provide additional AEPRP funds to supplement the development assistance funds provided under the Private Sector Development Fund. USAID expects to develop the mechanism for implementing this Agenda with other donors and the GSDR during final design of SECOR, and finetune the mechanism during implementation.

III. PERCEIVED PROBLEMS

A. Overview of Reform Program

Somalia's critical economic problems and development constraints have been highlighted by the GSDR and supporting donor agencies, including USAID, in great detail. During recent years a myriad of policy and institutional issues have been identified as the principal impediments to economic development in Somalia.

The diversity and complexity of these issues, ranging from civil service reform to private banking, makes it difficult to visualize the origins of these problems and how they are related. This is a conceptual problem which acts as the first hurdle to initiating corrective action. A simple analogy may help clarify for the reader the connections between the various development issues which are described in this paper. Suppose a Mogadishu taxi cab driver brings his car into your garage and tells you his car isn't running very well. He highlights its problems to you; it doesn't have much power, it starts hard, once or twice it has stopped cold and, the funny noises under the hood make him uncomfortable about depending too much on this taxi to earn his future livelihood. After taking an initial look at the car your suspicions are confirmed. The taxi needs major repairs and just as importantly, a regular maintenance program.

You have found that the carburetor, which is responsible for mixing the correct amounts of fuel and air, is faulty. Tracing the source of the problem, it is also quite evident that the fuel line is leaking and the fuel pump needs a complete overhaul. By the time you reach the rear of the taxi more problems have cropped up; the fuel tank is nearly empty and is much too small for long trips. In order to get the taxi back on the road and earning money again, you advise the cab driver that, before anything else, he needs to keep more fuel in the tank, and if he is serious about long trips outside of town the tank capacity should be increased. If he would be willing to pay the cost of repairs you could overhaul the fuel pump, repair the fuel line, and rebuild the carburetor. It would be up to him, all the repairs must be undertaken for the taxi to be roadworthy and dependable.

One could very well imagine that Somalia's development prospects are similar to the Mogadishu taxi, economic performance has been weak, the industrial sector has been operating at only 30-40% capacity. New economic activities are equally hard to start, and foreign currency shortages and/or spare parts problems have brought the economy to a slow crawl on more the one occasion. There are a number of garages and mechanics in town, USAID being one of the largest. Furthermore, there is a growing consensus among the mechanics that in order to get the "development" taxi back on the road four major repair/reform actions have to be undertaken simultaneously: budget rationalization; civil service reform, tax reform and administration; and, private sector development. Budget rationalization, which refers to the use of budgeting principles to better plan and control the use of public expenditure and civil service reforms are analogous to the faulty carburetor in the taxi. Currently, public expenditure is characterized by too little financial fuel and too many civil servants who like the air in the Mogadishu taxi carburetor are not productive without the fuel of financing. Regular maintenance and intermittent overhauls are required to keep the budget and civil service operating smoothly. The tax reforms are aimed at replacing the existing fuel pump with a more efficient model. By increasing the GSDR revenues Somalia's development activities can eventually be domestically financed and maintained. Leaks in the fuel line represent poor collection and/or accounting procedures which permit legitimate revenues to escape from serving the purpose for which they were collected. Finally, the productive sector of the economy, largely under private control, symbolize the fuel tank of the "development" taxi. Like the Mogadishu cab driver the GSDR has not kept enough fuel in the tank by not collecting taxes adequately, under

utilizing key sectors of this economy and by failing to create an environment conducive for expanded private sector activities. In summary, Somalia's economy, like the Mogadishu taxi, can be repaired if there is a willingness on the part of the owners to pay the costs. Its only natural to expect that the GSDR will look to cut corners, postpone repairs, and look for a buy now - pay later arrangement. Likewise, the garage owners and mechanics will be hesitant about providing credit. It is clear, however, to all parties that the repairs must be made while spare parts are available or run the risk of letting the vehicle sit idle for a long time.

B. Environment for Policy Reform

Based upon the economic conditions highlighted above, a series of policy reforms aimed at economic recovery and stabilization have been under discussion between the GSDR and its financing partners. These reforms include revenue reform and administration, budget rationalization, civil service reform, and private sector development. It should be pointed out from the start, that the GSDR has not made any firm commitments on these issues, and there are at present no formal agenda for seeking multi-donor commitments and cooperation. There is, however, sufficient information to consider how such an agenda should be developed and the priority areas for USAID interest. A brief explanation of the circumstances surrounding each reform and description of its present status is provided below.

1) Revenue Reform and Administration

Given the central role domestic financing will play in the overall policy reform process it is appropriate to begin with a description of the performance of the GSDR revenue system and the proposals for modifying it. Although revenues have been rising in monetary terms, they steadily declined in real terms and as a percent of GDP between 1983 and 1985. This decline in revenue was caused primarily by a poorly designed tax system and an inefficient administration of the collection process. With the encouragement of the IMF Agreement, the GSDR was able to nearly double tax revenue in 1985 and 1986. The key elements of this effort were: 1) a currency devaluation and an increase in the exchange rate for calculating import duties; 2) an increase in the coverage and administration of excise taxes, and, 3) improving tax administration. A significant change in the tax structure was introduced when the GSDR switched from specific rates for valuing imports to ad valorem rates which made the structure less inelastic. However, in the application of the new system ad valorem rates have not really been used. In practice customs officials use a set table of values to avoid under invoicing, and the values in the table have been set sufficiently high that the table value, rather than the actual invoice value, is used. Thus tax rates reflect more fixed rates than ad valorem rates.

Despite the recent improvements in the revenue system, revenues in 1986 are estimated to represent only 6% of GDP as compared to about 10% in 1982 and 1983. Initial estimates suggests that the ratio between domestically generated revenue and the GDP will need to be increased to 8% just to cover the increased cost of the proposed civil service salaries. Reforms to the GSDR revenue system require a change from using essentially income inelastic

taxes, such as the import duties with specific rates mentioned above, to more elastic tax rates which increase with inflation and growth of GDP such as income taxes. It should be pointed out that a quick switch to income taxes may not result in a quick increase in revenues since a number of administrative problems would have to be worked out. Based upon the measures which have been adopted in the last three years, it appears that the GSDR is serious about wanting to maximize revenues. Likewise, the IMF continues to put pressure on the GSDR to increase its revenues under the GSDR/IMF Agreements. However, the narrow tax base in Somalia, combined with the growing zeal of the GSDR and the IMF to increase revenues, raise the possibility that indiscriminate tax increases will occur, sending the wrong signals to the productive sectors of the economy and adversely affecting Somalia's long term development prospects. While AID fully supports the general measures which are required to implement the GSDR revenue reforms the focus of its interest is in increasing the GSDR analytical and enforcement capacity to implement tax reform in ways that are consistent with its development objectives.

2) Budget Rationalization

The purpose of budget rationalization is to mobilize and allocate, in the most efficient manner the financial resources needed to realize the broad socio-economic goals and objectives of the country. Budget rationalization depends upon the establishment of sound accounting and budgeting techniques and their application to planning and control in the public sector.

The existing GSDR budgeting framework consists of two separate instruments: the Ordinary Budget(OB) and the Domestic Development Budget (DDB). The Ordinary Budget corresponds to the official operating budget. The DDB represents the GSDR fiscal contribution to development projects which, in addition to the direct investment by donor agencies, is formally identified in the planning document known as the Public Investment Program (PIP). The PIP is financed almost entirely by local shillings generated from non-project assistance programs of external donors.

The basis for focusing attention in the area of budgeting stems from three concerns. First, the current budgeting system is inefficient and does not fulfill its main purpose of mobilizing and allocating scarce resources in accordance with overall national goals. In the absence of an accounting framework, there is no clear distinction between operating (recurrent) costs and development (capital) expenditure. This, in turn, has allowed the GSDR to shift the burden of its recurrent costs to donor financed development programs.

Secondly, the budget allocations under the existing system are inequitable. The PIP budget is incomplete, not all projects are listed and those that are have no consistent sense of priorities. Ministries providing economic and social services receive only minimal funding from the domestically financed Ordinary Budget. Some are able to tap counterpart funds in the DDB (e.g. the Ministry of Agriculture). Others, unable to capitalize their operating costs within development projects (e.g. the Ministry of Education), have suffered a dramatic reduction in services.

Thirdly, the GSDR's economic and social programs are almost exclusively financed from donor's development programs. Donor grants and loans as a share of total revenue have increased from 21% in 1983 to 60% in 1986. Grants in 1986 were almost as large as the Ordinary Budget. This dependence renders the GSDR very vulnerable. Not only is the country dependent on donors for foreign exchange, it is also dependent for funding domestic expenditures. The situation may be worse than it appears, since not all donor-generated local currency or other aid appears in the budget. In addition, only the U.S. local currency is programmed. Thus the remainder forms a larger pool of funds allowing the GSDR to increase expenditures and commitments for the future without any need for sound budgeting.

From a long-term development standpoint, the existing budgetary situation is untenable. At present, the GSDR has no plan for sustaining development projects from domestic financing let alone for eventually funding future investment costs. The solution to this problem, while not easy to achieve, must be based upon a recognition of the dangers of dependence on donor-generated local currency and upon the need for realistically estimating all the short, medium, and long-term public sector financial responsibilities.

The GSDR must take immediate steps to reorganize its budgeting system so that it serves its proper function: allocating scarce resources to meet recurrent costs, debt repayment, capital investment and general development requirements. This includes establishing a plan for eventually financing these costs from domestic resources. A central feature of such a system would be budgeting and accounting procedures which control GSDR revenues and donor counterpart funds. There appears to be general consensus among the IMF, World Bank, and USAID on this approach.

For the last several years USAID has been working with the Ministry of Finance on the portion of the DDB which is funded from USAID generated local currency. Considerable progress has been made in establishing standardized procedures. Since the largest share of counterpart funds included in the DDB are generated by USAID programs it would appear logical that AID continue to work in this area. While the commitment of the GSDR to earnestly undertake meaningful budgetary reforms is still solidifying, the large share of the budget directly attributable to donor resources offers considerable leverage to donors to point out the benefits of such reforms.

3) Civil Service Reform

Somalia's Central Government civil service employs an estimated 45,000 persons. Unless these employees work for a Ministry that is able to benefit from donor programs they are drastically underpaid; a fact that serves as a disincentive to anyone considering a public sector position, and a general cause for the poor productivity and output of those who do. During recent years this problem has become more acute. In 1984, serious budget constraints forced the GSDR to discontinue its policy of hiring all high school graduates. Furthermore, as part of its IMF Standby Agreements the GSDR has not raised civil servants salaries since 1981 although a token increase of 20% is planned under this year's IMF Agreement. The IMF is

willing to consider any additional increases which can be funded from increased revenues or decreased expenditures. This latter action has resulted in a situation where, on average, civil servant salaries are only 20% of what they were in 1982, and only a fraction of what is needed for subsistence. The combined effect of these actions is that civil servants can only survive by having second jobs or by supplementing their incomes from sources other than the salary component of the Ordinary Budget.

The conditions of the Somali Civil Service was the subject of a special study funded by AID in 1984. The findings of this study have provided the foundations for current GSDR policy. Specifically, the Civil Service Study recommended: 1) the establishment of a Civil Service Commission to provide policy guidance on all aspects of civil service employment; 2) the establishment of a unit within the Ministry of Labour and Sports (MLS) to provide information and advice on civil service administration and procedures to implement the findings of the Commission; 3) a restructuring of the Civil Service; 4) a reduction in the total number of public employees; 5) subsequent to this reduction, an increase of about 400% in workforce salaries; 6) establishment of a management training program; 7) standardized wage scales among donors; and 8) technical and financial assistance from donors. A colloquium concerning civil service reform was sponsored by the GSDR and the Somali Revolutionary Socialist Party in 1984. This event included the participation of senior civil servants, party officials, private sector representatives, and cabinet ministers who used the report as an agenda for recommending action to a specified drafting committee. The colloquium obtained high visibility; it was held in Parliament Chambers, opened by the second Vice President, and closed by the President. The final recommendation of the colloquium closely paralleled those of the Civil Service Study.

In early 1985 the GSDR initiated action on one aspect of the proposed civil service reform program. The GSDR terminated nearly 5,000 civil servants either through retirement or reduction in force. As an incentive, the GSDR offered individuals either a boat and fishing net or one hectare of irrigated land to leave government service. Since that time, the GSDR has not actively pursued the other areas of the reform program.

The donor community, early on, established a sub-committee to coordinate with the GSDR on its civil service reform program. This group is chaired by USAID, and included the IBRD, IMF, FRG, Italy, and UNDP. In 1985 the sub-committee submitted a position paper to the GSDR outlining a joint donor proposal for providing technical and financial assistance to help the GSDR implement its program. This position paper has been accepted by the GSDR. In addition, the GSDR agreed to appoint an interministerial committee from the Ministries of Finance, Revenue, Foreign Affairs, Planning and Labor, to meet with the donor's sub-committee to discuss more specifically the issues involved, and the types of assistance the donors might provide. More recently, the IMF has concurred in an increase in civil service salaries for 1987.

The total increase, including fringe benefits, is approximately 20 to 25%. While raising civil servant salaries is a crucial step in the process of improving the performance of the public sector, without a corresponding set

of budget reforms which provide the necessary domestic financing these salary increases will be short lived. USAID has a strong and longstanding interest in Somalia's Civil Service Reform based upon our past investments and the recognition that there can be no significant improvement in the public sector without a restructuring of the civil service. However, there are obvious preconditions to AID providing any financial or technical assistance. These include: the establishment of a Civil Service Commission, a plan for reducing the numbers of civil servants, and the establishment of a special unit in the Ministry of Labor and Sports.

4) Private Sector Development

The private sector has several roles to play in relation to civil service reform. One is to become a more cost efficient source of services for construction and maintenance of public infrastructure. Another is to produce more revenue as an expanded tax base to relieve the Government's current over dependence on donor generated local currency. The private sector also needs to expand to provide more employment opportunities so that the civil service does not continue to be the main employer. This will offer alternatives to redundant civil servants as well as give new entrants into the job market greater choice. The increased reliance upon the private sector for services can be realized more quickly than the other roles, but while they are longer term in nature, these roles must begin to be developed now.

The private sector should be encouraged to fill the vacuum created by a more streamlined public sector by participating more in the development process through increased investment and contracting with the public sector. Finally it is unrealistic to expect the GSDR to substantially reduce its workforce if there are no opportunities in the private sector where they can be expected to earn a living. While this in no way is meant to imply that the GSDR is responsible for finding its redundant employees alternative employment, it does, however, highlight the advantages of the carrot over the stick and how much easier it would be to implement the civil service reforms if some employment could be generated in the private sector.

The objective of USAID's efforts to develop the private sector is clear: to promote increased participation of the private sector in the economy as a source of new investment and self sustaining growth. To achieve this objective USAID has set two goals. First, USAID will seek to promote a policy environment conducive to long term self sustaining growth. It will continue to strongly encourage those government policies that do not distort prices or stifle incentives. In short, AID will seek to promote policies which allow private markets to operate more freely and eliminate those policies that prohibit private sector involvement. Secondly, USAID will seek to help overcome the constraints to growth that are epidemic to Somalia's current economic status, including small domestic markets, inadequacies of local inputs, lack of managerial and entrepreneurial skills, shortages of investment finance and a rudimentary financial system.

IV. PROGRAM PROPOSAL

A. USAID Design Considerations

The underlying aim of the SECOR design is to promote economic growth through a complementary program which facilitates public sector reform and promotes private sector development. The backdrop against which this proposal is drawn is described below.

The GSDR Public Sector Reform Agenda is a very broad and ambitious undertaking. Its success depends upon GSDR commitment and support, and multi-donor cooperation and financing. USAID, through the design of this project is staking out those areas which we feel are appropriate and amenable to our assistance program. Clearly, in the areas of civil service reform and the budget reforms USAID has already invested considerable resources and acquired experience which have significant value for future reform programs. In other areas, other donors may be more appropriately placed. For instance, UNDP is giving considerable resources to The Ministry of Revenue in tax administration for the next two years. (A copy of the terms of reference for this assistance is contained in Annex G). However, due to the sizable domestic financing requirement of each of the individual reforms AID, as the largest single source of local currency, will be called upon to program its counterpart to support those reforms lead by others.

USAID would like to see the private sector get the bulk of SECOR's foreign exchange resources because we believe they are vital to keeping the private sector sufficiently healthy to carry the burden of reformed public sector. In this regard it should be possible to exchange dollars for shillings in Somalia's private sector and subsequently use the local currency to finance public sector reforms. Where possible USAID would like the foreign exchange financing available under our program to be utilized by the private sector for medium term capital investments, which for a number of reasons have not previously been attractive to the business community.

At the same time, the re-examination of what the public sector can or cannot afford offers an excellent opportunity to expand private sector participation in the economy utilizing both efficiency and expediency justifications.

SECOR proposes to do more than utilize the private sector to fund public sector reform programs. If this was the only rationale a Cash Sales Auction would be a very suitable vehicle for generating shillings. USAID feels the climate is correct for utilizing SECOR resources to demonstrate to the GSDR the importance of using the private sector for achieving a series of development goals. Among these are employment generation, import substitution and export promotion, as well as improving the countries rural infrastructure. The mechanism to be used to accomplish these objectives is to establish a fund, managed by a contractor, which would make foreign exchange available to the private sector for technical assistance and production inputs (raw materials and equipment. This is a variation of a traditional commodity import program in that it is much more discriminating and directed in its utilization. The fund would also be used by the contractor to carry out selected studies aimed at practical means for advancing private sector development. In the absence of a viable banking system it also offers AID the option of offering financing arrangements thus

demonstrating the importance of a viable private banking system to GSDR officials. SECOR would thus compliment resources made available to the private sector through existing donor and AID funded auction program, by offering alternatives for the private sector. The development of agribusiness and infrastructure promise to play prominent roles in SECOR. The agribusiness sector holds substantial promise for expansion, in the medium term for employment generation and import substitution and in the long-term for export promotion. Large investments in the Shebelli by AID under the Shebelli Water Management Project, as well as other donors promise to open up investment opportunities for Somalis' in this area. Furthermore, Somalia's large livestock industry also hold promise for significant business development in the medium term. Finally, Somalia with its 3000 kilometer coast line is harvesting less than ten percent of an estimated 180,000 ton potential of pelagic species of fish. Potential exists for private sector development both at the artisanal and the commercial level. The infrastructure sector is the sector in which GSDR leadership has the greatest interest and one that is basic to the operation of the entire economy. It is also a very visible sign of USG assistance. The infrastructure sector also offers potential to the GSDR for testing better budget techniques, introducing revenue measures which will capture users fees and other earmarked taxes. Finally housing the CIP on these two sectors gives a rationale for utilizing Development Assistance Funds for supporting essentially a program assistance activity.

B. Program Goal

The Somalia Economic Rehabilitation Sector Grant (SECOR) is designed to improve the mobilization, allocation, and management of both public and private developmental resources in Somalia. SECOR is expected to address this goal in two ways. First, it will enable the GSDR to better mobilize, allocate, and manage its resources so that increasingly it will be able to finance and sustain its development programs from domestic resources. Secondly, SECOR will promote the increased participation of the private sector in Somalia's development programs through increased investment and support services.

C. Programs Purpose, and Expected Achievements

The purpose of SECOR is to support policy reforms aimed at improving the efficiency and sustainability of public and private sector development efforts. The policy reforms, described generally in the preceding section, make up the agenda for the SECOR. During the implementation of SECOR this agenda will be further refined. Through these reforms, the program is expected to achieve the following results.

1) Revenue Reform and Administration

SECOR's support to revenue reform is expected to result in increased GSDR tax revenue in a manner consistent with Somalia's long term development interests. One performance target of GSDR revenue reforms is to increase tax revenues to a level equal to 8% of Gross Domestic Product. Another measure, equally important although more subjective, is the extent to which the sources and collection procedures are conducive to future economic growth.

In order to achieve these targets, SECOR resources will be used to modify the GSDR revenue system to better utilize and account for all appropriate sources of receipts. This output will require two types of activities: 1) an inventory and analysis of potential sources of revenue for public uses including the introduction of user fees and earmarked taxes; 2) measures to improve tax administration including assessment and collection methods, as well as, improved accounting and control procedures, and incorporating revisions into the tax code and 3) introduction of measures to reform the tax system.

Revenue reforms may be tested and assessed for selected GSDR water and transport programs. Specific measures, such as user fees, earmarked taxes, and/or decentralized services may be examined as potential financing mechanisms for the maintenance of these programs.

The input mix required for SECOR in the area of revenue reform includes, dollar funded technical assistance, commodities, training and operating costs financed from local currencies.

2) Budgetary Rationalization

SECOR's aim in supporting the GSDR budgetary reforms is to establish a unified budget system which plans, allocates, and accounts for all GSDR revenues (including donor financing) and expenditures. An integral feature of such a system is the establishment of a system for estimating and financing recurrent costs.

In order to develop this unified budgeting system SECOR's resources will be used to improve the GSDR Ministry of Finance's budgeting and accounting system. To ensure the viability and practicality of this program output the improved system will be tested internally in the Ministry of Finance, and subsequently in the Ministry of Revenue. Three specific activities will be undertaken in this regard. First, standardized accounting procedures will be developed. Second, the guidelines and the institutional arrangement for a comprehensive budgeting system will be designed and tested. Third, options for reducing public expenditures for activities which could be operated by or in conjunction with the private sector will be pursued. Budget reforms related to recurrent expenditures could be applied to the GSDR water development and road maintenance programs incorporating, wherever possible, the specific revenue measures discussed above.

The input mix required for SECOR in the area of Budget Rationalization includes, dollar funded technical assistance and commodities and training and operating costs financed from local currencies.

3) Civil Service Reform

The expected result of SECOR's participation in the GSDR's Civil Service Reform Program is the restructuring of the Somali Civil Service to be more effective and responsive. The performance targets, against which SECOR's contribution will be measured include: the establishment of a Civil Service Commission, reduction in the overall numbers of the public employees, and the introduction of an improved compensation package for civil servants which can attract and maintain quality personnel in public employment.

The program output corresponding to SECOR's aims in the area of civil service reform is to establish a public service unit which can facilitate the GSDR's reform program. The most important activity included in this output is the establishment of a Civil Service Commission with legal, policy, administration and appeal functions at the interministerial level. Another planned activity is an assessment of the redundant personnel in the civil service including a strategy for relocation of resigned or separated employees. Finally, a comprehensive examination will be undertaken of the wage/salary/compensation system of the civil service with a plan for its improvement.

Like tax reform and budgetary reform, the civil service reform is a long term institutional effort which involves the entire range of ministries and public enterprises. The complexity of the task leads to a significant design issue for SECOR. Should the Grant promote a general, across the board program of institutional reorganization, strengthening and compensation; or should resources be directed toward specific "high priority" or "lead" ministries, such as; The Ministry of Finance, Ministry of Revenue, Ministry of National Planning, Ministry of Labor and Sports and The Ministry of Education? Both approaches have their advantages and disadvantages. Currently, USAID is leaning toward an approach that will provide for general civil service reorganization through the establishment of a Civil Service Commission, but focussing resources in institutional strengthening and compensation programs for the lead reform Ministries. USAID would also be willing to target significant local currency resources and some technical assistance and training towards compensation programs for primary school teachers and accelerated reform of The Ministry of Education. Such support has the following advantages: (1) teachers represent approximately half of all non-military government employees, and primary teachers are the largest cohort in this group, (2) addressing functional literacy and numeracy training through primary education are key development goals of the GSDR and would be particularly important in the rural areas of Somalia, (3) the program would complement proposed World Bank and existing UNICEF Programs in curriculum and program development and teacher training.

According to World Bank estimates the grant could initially impact on up to 6,500 primary school teachers in Somalia. The goal would be to raise average salaries to 8,000 Somali Shillings per month. Sources of this income could come from communities (which would tax themselves 70 shillings per student per month), World Food Program, and from local currency generated through SECOR. SECOR contribution would be on a declining basis over the life of the program.

While the above approach has its advantages, the GSDR may be reluctant to accept the prioritized approach. In addition, the approach suggested may not take into account specific and vital linkages between Ministries which will make it mandatory to expand the reform package at the initial stages. The final design will fully address these issues. We welcome AID/Washington's input into this issue at this initial stage.

The inputs required to implement the above activities include: 1) dollar funded technical assistance to undertake special studies and train Somali staff; 2) local currency financing for training, increased salary costs, and other operating expenses.

4) Private Sector Development

The product of SECOR's efforts in developing the private sector is increased incentives and opportunities for private sector participation in development activities. The performance targets for measuring this target includes: a positive endorsement by the GSDR encouraging specific private sector participation in development programs; the identification of development sectors and individual activities where private sector participation can be increased; and the establishment of financing mechanisms which will attract and facilitate medium term investments required to support development programs. In order to meet the private sector development targets outlined above, SECOR resources will be used to develop mechanisms and procedures for increasing private sector medium term investment in development projects and utilizing private contractors more liberally in GSDR construction and maintenance programs. The activities which are planned to meet this output include: 1) an assessment and analysis of public sector activities which are critical to the productive sectors of the economy and are amenable to private investment and/or increased private sector contracting; 2) a dialogue with the GSDR on the areas and levels of private sector participation which can be supported, and, 3) a support system to provide technical and financial assistance for expanding private sector participation.

The benefits of utilizing private sector resources for developmental purposes will be demonstrated in the following areas. First private investment and employment will be expanded in businesses capable of producing finished products substituting for products now imported at higher cost, in firms processing goods, and thus adding value, to exports, and in the construction and service industries. It is anticipated that much of the focus of this business expansion will be related to Somalia's agricultural (including fisheries) sector and that both rural and urban areas will benefit. Overall this effort should result in an expanded tax base and in time in reducing the foreign exchange losses now occurring through the imports of finished and exports of unfinished products.

The required inputs include: 1) dollar financing for technical assistance and studies, and credit; 2) local currency financing for training, incountry studies and credit.

C. Program Structure

1) Resource Requirements

Depending upon the GSDRs resolve in addressing the reform agenda SECOR could make \$60 million available to the GSDR and Somali private sector over a five year period. The estimated SSh 4-6 billion in local currency generations will be programmed to support specific reform activities. The final design document will update the cost analysis and modify the budget estimates to reflect the costs associated with AID activities.

2) Selection of the Assistance Mechanism

A Sector Assistance Program is the most appropriate AID assistance mechanism for supporting the GSDR Public Sector Reform Program. The general consensus of AID and other donors at the recent Consultative Group was that development assistance should increasingly be provided through non-project mechanisms. SECOR's design reflects this approach. Likewise, as required by the AID sector grant guidelines, the principle justification for SECOR is to alleviate policy constraints - those associated with the GSDR fiscal and civil service operations.

Under the umbrella of Sector Assistance, SECOR will utilize three implementation instruments. A Commodity Import Program will be used to deliver foreign exchange financing to the private sector in the form of letters of credit for importing commodities, machinery, heavy equipment, construction materials and telecommunications equipment. Since these are areas in which the US is competitive it is advantageous both to the GSDR and the US that the CIP mechanism is utilized. Modifications in the traditional CIP mechanism are required to develop an appropriate pricing structure for these funds and methods of utilizing some portion of the total to provide medium term credit for activities .

Two technical assistance contracts are also proposed. The first, to provide technical assistance, special studies, and training to implement the public sector reform program. The other, to manage the credit arrangements designed for the CIP and to provide technical assistance and training to increase private sector investment and services in the economy. AEPRP is proposed contingent upon a suitable annual review of GSDR reform activities.

3) Programming Local Currency

To support the Public Sector Reform Program, SECOR will utilize a combination of general allocations and block grants of local currency. General allocations will be used as seed money to finance relatively modest efforts to get the reform process started. Thereafter, where significant sums are required block grants will be used which will be released to the GSDR contingent upon meeting pre-specified conditions. The mechanics of how this will work is provided in the next section.

4) Phasing

The phasing of the SECOR Program will be finalized during the PAAD design. Initial feasibility studies proposed for medium term investment opportunities for the private sector can be funded from the Policy Initiatives and Privatization Project as part of the design process. Likewise, any initial efforts to get public sector reform started can be financed from existing counterpart funds once these activities have been approved. The first major financial contribution for supporting public sector reforms will be generated by using the AEPRP supplement through the private sector to turn SECOR dollars into local currency. Thereafter, revenue reforms and budgetary reforms can start simultaneously without much difficulty. The progress on civil service reform will depend a great deal on the success of the other two reforms.

V. HOW SECOR WILL WORK AND ISSUES FOR CONSIDERATION

The implementation plan of SECOR is to utilize the combined resources of two technical assistance contracts and fifty million dollars of foreign exchange for the purposes of: 1) implementing fiscal and budgeting reforms aimed at establishing the foundation for a more effective public sector; 2) generating sufficient local currency from the private sector to finance public sector reforms, and secondarily, increasing private sector participation and investment in the provision of social and economic services; and, 3) demonstrating the impact of improved public sector reforms in the infrastructure sector, especially in the areas of water development and roads. This plan has a number of interrelated linkages which will be highlighted below.

A. Public Sector Reform

The Public Sector Reform Component of SECOR will be implemented according to an evolving Policy Reform Agenda. A long term technical assistance contract, which provides skills in policy analysis, management, and financial operations, will be employed to undertake the activities required to implement specific reforms.

1) Policy Reform Agenda

The framework of reforms which will be supported by SECOR has been summarized above. These reforms have evolved over a period of 3-5 years, and in all cases are a result of discussion between the GSDR, AID, and other donors. The participation of AID in the reform programs, in Somalia and elsewhere, have underscored the importance of planning for re-adjustments as part of the reform process. On this basis, it is proposed to guide the implementation of SECOR by way of an Annual Policy Reform Agenda which will update, refine, and clarify the priorities, requirements, and timing of the GSDR policy reform program.

The mechanics of how this policy reform agenda would be formulated have been preliminary discussed, and several options have been considered. The preferable option is that a sub-committee of the resident donor coordination group (including the IMF and IBRD representative, USAID, UNDP and GTZ) and GSDR officials would be responsible for developing and monitoring the agenda. This option offers the advantage of building a broader base for reforms, in country, and among GSDR technicians and mid level managers. Another option would be to utilize the annual Consultative Group which offers high level participation, but probably not one where the nitty gritty of reforms can be hammered out. The option of individual donors negotiating their own agendas is viewed as potentially the greatest weakness of the program. At issue are the questions "Is there any better way of planning for the inevitable adjustments which will crop up in the reform process?" and "What is the most desirable mechanism for keeping the GSDR and key donors moving together towards the same goals?"

2) Implementing the Individual Reforms

The implementation of the public sector reforms which are needed to increase revenues, rationalize the budgeting system, and restructure the civil service will be carried out in two stages. The first stage involves developing and refining the details of the reforms themselves, calculating their exact cost in terms of financial and human resources, and proposing a realistic timetable for their implementation. It is expected that the establishment of a Civil Services Commission and specific reorganization plans for key ministries are likely to be the first reforms to move forward.

The second stage of implementing the SECOR Public Sector Reform Agenda involves the management and financing of putting the above reforms into effect.

The intensive technical assistance required during this stage will be provided under a single contractor, led by an experienced Senior Policy Analyst. Long-term technical assistance resident in the participating ministries will be employed to provide management organization, budgeting and financial control services, and training. It is anticipated that the contractor will also have flexible short term resources which could supplement the long term staff and also meet the requirements of USAID in preparing for the annual policy reform agenda. During the second stage, the technical assistance requirements will shift from analytical skills to management skills and local shilling financing will become the most important input. One issue which needs further consideration is where to locate the public sector technical assistance contractor. Two possibilities have been discussed: either the Ministry of Finance or the Office of the President.

Demonstrating the effectiveness of reforms on public sector operations is recognized as an important ingredient in maintaining the momentum for the reform process. From a practical perspective, it is easier to measure the effectiveness of reforms on more focused sectors and activities than across the entire spectrum of public sector activities. Therefore, as part of the implementation plan for the public sector reform program special attention will be given to water development, road maintenance, and other activities in the infrastructure sector where the introduction of users fees (revenue reform), recurrent budgeting (budget rationalization) and personnel policies (civil service reform) can be practically applied and easily demonstrated. Other considerations in selecting this sector include its attractiveness to the GSDR and the fact that these programs have important benefits for rural communities. This sector also has an added advantage of offering potential for increasing private sector participation and investment.

B. Private Sector Development

Underlying SECOR's plans for private sector development is a genuine recognition that the private sector is the only legitimate source for financing the current reform program and sustaining it over the long run. Moreover, as part of the process of redefining the role and scope of the public sector, it is advantageous to consider private sector alternatives to public sector services at the same time.

1) Financing the Public Sector

The implementation of the public sector reform program will require large sums of local currency. In order to exchange the SECOR's dollar resources for Somalia Shillings the Program will sell letters of credit to the private sector for U.S. goods, as well as utilizing a foreign exchange auction for the private sector, under the AEPRP supplement. The funds generated by AEPRP will provide the liquidity necessary to keep an even cash flow for financing the public sector reform program. At the same time, these foreign exchange sales will be valuable in terms of keeping private sector businesses healthy. The remainder of the funds, under the CIP, will be earmarked for medium term development investments, for private sector firms.

The management of these sales will be contracted out preferably to an investment bank or firm associated with an investment bank. The rationale for this type of arrangement is based upon several factors. First, the current banking arrangements in Somalia are not satisfactory, nor have AID's effort in persuading the GSDR to open a private bank. There are opportunities, by utilizing the services of an investment bank or affiliate in SECOR, either to improve Somalia's banking practices and/or more successfully persuade the GSDR of opening the banking business to more competition. Secondly, banking experience is required to devise and operate a means of providing medium term credit to those funds which are aimed at medium term development investment activities particularly in the agribusiness and in the infrastructural sector. This service is fundamental to enlisting the participation of the private sector in development projects since the private sector does not have access to medium term credit under current banking arrangements. There are clearly a number of options for designing this aspect of the program which need to be explored during the design of the PAAD. First, the contractor could be attached to either the Somali Commercial Bank or the Somali Development Bank both government owned credit institutions with very poor track records. Another option would be to set up a separate window, in Mogadishu under the name of the investment bank, to disburse letters of credit and devise a credit scheme based upon the timing of the local shilling deposits. The third option, could have the contractor set up under the umbrella of USAID.

While the primary aim is to utilize the private sector to finance the public sector reform program supported by SECOR, it is also important to assist the private sector increase its capabilities for financing and sustaining these reforms over the long run. SECOR is well placed to contribute towards achieving this secondary objective. With respect to the GSDR's policies for the private sector, SECOR will act as a catalyst to promote business growth and investigate and promote opportunities where public services can be replaced or supplemented by the private sector. Likewise, USAID has not changed its view on the value of improving the mobilization and allocation of credit in Somalia. Practical experience with designing financing plans for medium term development projects should demonstrate the demand for such services.

Building on the day to day contact with the private sector that the Mission has maintained during the past and is planned to continue under SECOR, it is advantageous and practical to provide limited training opportunities , technical personnel, and specialized studies to the business community to improve existing operations or to explore new areas. Such activities as industrial sector analysis, investment promotion, and market analyses could be extremely valuable catalysts for expanding private sector activity. It is proposed to add a technical assistance component to the contract with the firm responsible for supervising the commodity import activities to provide the above policy analysis and technical services. These additional services can provide valuable support for the long term development of the private sector with only a marginal investment by SECOR.

2) Increasing Private Sector Participation

There are demonstrated opportunities for the private sector to increase its investment and to sell its services in Somalia's infrastructure sector. This sector is especially attractive, in terms of the SECOR objectives, because: 1) the poor condition of the country's infrastructure is an obstacle to future economic growth; 2) the public sector has virtually no way of domestically financing new investment in public infrastructure and increasingly will need to use all of its available funds for recurrent expenditures; 3) opportunities for reducing the burden of the public sector by increasing private sector investment and contracting services have been identified in the priority areas of water development and road maintenance; and, 4) the effectiveness of public sector reforms aimed at increasing revenues through user fees, improved budgeting to meet recurrent costs, and decentralizing government services can be most easily demonstrated in this sector. SECOR intends to use the infrastructure sector to apply and demonstrate the effectiveness of its complementary strategy of private sector development and public sector reform. Initial proposals for water development and road maintenance and reconstruction, as well as telecommunications, are listed in Annex E.

3. Private Sector Productivity and Employment

Infusions of technical assistance and productive inputs to small and medium sized private sector business with the objectives of increasing local production of finished good not imported at high cost and processing of local products for export to earn the value added offers the potential to reduce Somalia's foreign exchange gap. This is long term output given the limited industrial base now extant, but the process must start somewhere. One example is Somalia's textile industry. Once a joint venture, Somatex is now a parastatal. It produces at only 30% existing capacity and is capable at full capacity of meeting a significant level of the country's needs for finished cloth. The managed fund could offer assistance to Somaltex which would provide technical and managerial advisory services, spare parts or new machinery, dyes, etc. Such assistance could also be proffered on the written understanding that Somaltex would move back to the private sector. The PL 480 program could also be used initially to supply cotton, which is now being imported, and SECOR and the PL 480 program together could provide the advice and leverage to restore policies conducive to restoring Somalia's cotton production capacity.

While it is anticipated the SECOR would focus primarily on smaller firms already in the private sector, this example encompasses the range of potential types of interventions possible through SECOR.

Expansion of private sector activity is also viewed as stimulating significant job creation, both in the businesses affected and in those providing them goods and services. Civil service reform and indeed meeting the demand of the growing numbers of job seekers demand such expansion of the private sector alternative to employment. Somalia's future development and stability cannot be assured through the current practice of reliance upon the public sector as the primary employer.

C. Local Currency

1) Programming Strategy

An estimated SSh 6.0 billion will be generated from the \$ 50 million ESF Program and Commodity Import Program and placed into a special account for SECOR. USAID proposes to use these counterpart funds to support the introduction and implementation of specific public sector reforms. It is anticipated that this support will largely consist of recurrent budget support for salaries, operating expenditures, and training. In these cases, local currency funding will be made available either in a one shot deal or over a limited period of time and on a declining basis. In all cases, local currency support will require a financing plan which demonstrates that the recurrent costs associated with the reform can be assumed, either from public funding or specific revenue measures, within a reasonable period of time. Two mechanisms for disbursing these funds have been discussed. For initiating the development of action plans for implementing reform programs in the participating ministries limited operating expenses would be provided, both to support the technical assistance contractors and encourage progress by the GSDR. Thereafter, local currency support would be disbursed in block grants to implement specific reforms. The release of these block grants would be contingent upon the GSDR meeting specific preconditions. For example, salaries and operating expenses for the proposed Civil Service Commission could be released once terms of reference for the Commission had been approved and members officially nominated by the GSDR to serve on the Commission. Since there would be an annual recurrent budget to maintain the Commission a financing plan would be required to show how its operational cost could be assumed by the GSDR over a specified period of time. In terms of the total local currency requirements of SECOR these are planned to be fully funded by counterpart generated by program funds.

2) Illustrative List of Local Currency Financed Activities

An illustrative list of local currency costs associated with the introduction and implementation of the GSDR policy reforms is provided below.

a. Local Currency Requirements for Implementing Revenue Reform

An illustrative list of local currency financing which would contribute to SECOR's objectives for revenue reform include:

- Support for the Operating Budget of the Ministry of Revenue (MOR)
- Salary increases, within an overall MOR restructuring plan for MOR staff
- Training for MOR personnel and other participating ministries for improved collection systems, utilization of user fees, etc
- Contributions, on a declining basis, towards an earmarked tax on fuel sales which would be specifically used for road construction and maintenance
- Projects aimed at establishing decentralized water services which would be self financing in terms of recovering recurrent costs

b. Local Currency Requirements for Implementing Budget Reform

An illustrative list of local currency financing which would contribute to SECOR's objectives for budget reform include:

- Support for the Operating Budget of the Ministry of Finance
- Salary increases, within an overall MOF restructuring plan for MOF staff
- Training for MOF personnel and other participating ministries for improved budgeting systems, expenditure control, etc
- Contributions, on a declining basis, for meeting the recurrent costs of Ministry of Mineral and Resources and Ministry of Public Works to restructure their operations to include more private sector participation

c. Local Currency Requirements for Implementing Civil Service Reform

An illustrative list of local currency financing which would contribute to SECOR's objectives for Civil Service Reform include:

- Support for the Operating Budget of the Civil Service Commission
- Salary increases, within an overall Civil Service restructuring plan for Ministry of Education primary school teachers who represent one third of the total cost of implementing an acceptable salary increase for the Civil Service
- Training for civil service personnel
- Compensation package for civil service employees who are made redundant and lose their jobs as a result of civil service reform

d. Local Currency Requirements for Implementing Private Sector Reform

An illustrative list of local currency financing which would contribute to SECOR's objectives for private sector reform include:

- Training and feasibility studies for private sector organizations

D. USAID Management

SECOR ushers in new directions in the USAID Somalia portfolio and along with SOMTAD may serve as the cornerstone of the USAID portfolio for the foreseeable future. There is really nothing new under SECOR. The sector grant is a variation on existing programs that USAID has had experience on implementing in the past. If anything SECOR adds a long-term developmental approach to USAID's typically short-term Cash Sales and CIP Programs. This coupled with technical assistance and training gives SECOR the potential for providing resources for significantly addressing public policy constraints. While the success of the Grant ultimately depends on the implementation of all components, each component can be independently implemented on a day to day basis. The principle management problem will be coordinating the activities of the various components to assure the interdependence of the end products takes place.

USAID anticipates the following Mission resources will be required to manage, monitor and coordinate SECOR activities:

Project Office:

- Overall Grant Coordination.
- Backstopping and monitoring of all Grant Activities.
- Managing the Private Sector Development Fund.

Rural Development/Refugee Affairs Office

- Implementation of the Reform Program.
- Monitoring the Policy Reform Contract.

Program Office

- Managing and monitoring the local currency program.

Engineering Office:

- Monitoring all infrastructure activities.

Mission will be able to manage SECOR within our existing management structure with only minor personnel changes. For example, an additional staff will be needed in RD/RA office to monitor the implementation of the reform program. The Projects, Program and Engineering Offices should handle the responsibilities of SECOR with existing positions.

It should be noted that by the time SECOR is fully operation probably by mid FY89 the USAID portfolio will consist of nine active projects, in addition to the ESF and Food for Peace Programs. Of the active projects four are currently scheduled for completion in FY89. Thus there appears ample management capacity with either current or reduced staffing levels. The individual component managers will be supported by a project committee, which will be comprised of representatives from the Projects Office, Program Office, Controllers Office and Contracts Office. SECOR is of such magnitude and coordination is so important that the Deputy Director will have to chair The Project Committee. The Projects Office will be responsible for coordinating the decisions of the Committee.

VI. ESTIMATED COST AND METHODS OF FINANCING

SECOR may require up to \$60.0 million over a five year period.

A. Uses of the Funds

The uses of funds are shown in Table 8 below.

TABLE 10
Uses of Funds for SECOR

Use of Funds	Amount (\$ Millions)	Financing Method	Implementation Method
1. FX Auction(AEPRP)	\$25.0	Letter of Commitment	Direct
2. CIP	\$25.0	Letter of Commitment	Direct
3. Technical Assistance Public Sector Policy Reforms	\$5.0	Direct Payment	Direct Contract
4. Technical Assistance Private Sector Policy Reforms	\$5.0	Direct Payment	Direct Contract

B) Financing Sources and Obligation Schedule

SECOR will request financing from both the Economic Security Fund (ESF) and Development Assistance (DA) appropriations.

The AEPRP and Foreign Exchange Auction will be financed separately from this project through the ESF account. These will produce initially the bulk of local currency needed for civil service reform. However, the managed private sector fund will generate shillings as well, as it sells or lends foreign exchange for technical services and commodities. These funds will also be applied to civil service reform or, if an opportunity presents itself in the future, perhaps placed in a Somali business investment bank program. The sources of funds for this would come from various accounts, if the Africa Bureau continues to have such accounts. Specifically, funds earmarked for agribusiness development will request financing under Section 103 increasing the fund supply and increasing rural incomes. Funds earmarked for purchasing well drilling machinery, spare parts, and water distribution equipment will request financing from Section 104 (C) account which supports safe water and sanitation. The machinery, spare parts and other commodities required for road construction and maintenance will request funding from Section 103(B)(1) which supports expansion of rural infrastructure and farm to market roads. Similarly, Section 106 allows funding for programs for export promotion.

The technical assistance contract proposed to manage the managed fund and to identify and assist the development of private sector participation in the infrastructure sector will request funding from Section 103 (A)(1). This account supports efforts to develop a more viable economic base and private sector opportunities in rural areas.

The technical assistance contract which is proposed for supporting public sector reforms will request funding from Section 106 (d)(4). The justification for using this account is that public sector reforms will promote the proper utilization of previous projects and programs financed with U.S. assistance.

USAID will further justify the use of functional accounts for development assistance funding in the final design. Financing under the African Development Fund would also be applicable if such funding becomes available. The obligation schedule, which follows, is illustrative, based to Mission's initial concept of SECOR. Mission's actual funding levels may demand modifications in the schedule. The actual obligation schedule will be determined during final design.

TABLE 2
Planned Obligation of SECOR Funding

Category	Account	FY 88	FY 89	FY 90	FY 91	FY 92
1. FX Auction (AEPRP)	ESF	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0
2. CIP	DA	-	\$5.0	\$10.0	\$10.0	
3. Technical Assistance Public Sector Policy Reforms	DA	\$.5	\$1.0	\$2.5	\$1.0	
4. Technical Assistance Private Sector Policy Reforms	DA	\$.5	\$1.0	\$2.5	\$1.0	
	ESF	\$5.0	\$5.0	\$5.0	\$5.0	\$5.0
	DA	\$1.0	\$7.0	\$15.0	\$12.0	
	Total	\$6.0	\$12.0	\$20.0	\$17.0	\$5.0

C. Local Currency Generations

The local currency generated under the program will be made available in block grants for the purpose of financing specific public sector reforms. local currency generations is provided in Table 3.

TABLE 3
Projected Counterpart Generations for SECOR
(Millions of Somalia Shillings)

Category	FY 88	FY 89	FY 90	FY 91	FY 92
1. FX Auction	600	600	600	600	600
2. CIP	-	600	1,200	1,200	
Totals	600	1,200	1,800	1,800	600

Note: \$1 = Somalia Sh. 120

VII. FACTORS AFFECTING PROGRAM SELECTION AND DEVELOPMENT

A. Mobilizing the Cooperation of GSDR and Other Donors

Subsequent to AID/Washington approval of this document, the most critical requirement is to develop an action plan structuring a multi-donor support program for GSDR public sector reform with the GSDR and other donors. A two part process is recommended. USAID will convene discussions with the IMF, World Bank, UNDP, EEC, Italian, U.K., and FRG representatives in Somalia to describe the SECOR concept and to request their support and input into a final design. At the same time, USAID requests that AID/W coordinate similar discussions with donor head offices located in Washington, New York, and Europe. Based upon this exercise, USAID will present SECOR to the GSDR and request that a working group be appointed, consisting of prominent officials from various Ministries, organizations, and the private sector, to coordinate and complete the final design of the program.

B. Analytical Considerations

During the final design of SECOR a variety of economic, social, environmental, technical and institutional issues need to be examined to establish the feasibility of the proposed SECOR activities. These issues and the proposed approach USAID intends to employ in examining them in greater detail are listed below.

1. Social Analysis

Reforms aimed at improving the efficiency of the public sector, in a country where Government occupies center stage, will have a broad and significant impact on most Somalis'. In some cases it may mean improved social services, such as functioning primary schools and staffed health clinics. In others, it may mean less capital investment in new roads. The political, economic and cultural implications of a public sector reform program may be less apparent than the impacts mentioned above, but far more critical to consolidating and sustaining the momentum of such a program. The reform program will be judged by Somali's against certain expectations. These expectations will be examined in relation to each of the proposed activities. With respect to political implications, reforms have to be seen as successfully improving the general welfare, and not causing individual losses, at each step of the way. The economic implications are equally clear, the reform program should be seen as expanding the pie, not dividing it in a different way. Finally, the cultural implications of a public sector reform program are closely tied to Somalis' perceptions on why the reforms are being introduced and how they are put into effect.

The direct beneficiaries of the project include most of the 45,000 employees of the public sector, private sector firms which participate in either the Commodity Import Program or obtain GSDR contracts and/or investment opportunities, and rural communities which receive benefits from improved facilities in the infrastructure sector. Indirect beneficiaries include Somalis' who obtain improved social and economic services as a result of improved budgeting, revenue reforms, and/or civil service reforms. Those who will be adversely affected by public sector reform include those who have benefited from poor budgeting and accounting procedures and employees declared redundant as part of the civil service reform.

The design of SECOR can be expected to increase the participation of Somali's in the process of public sector reform by opening up discussions with the GSDR, private sector, and other donors to consider the most effective approach to a reform program. These discussions will permit equal opportunity to both men and women to air their views. With respect to the individual activities proposed for the Sector Grant, men may have greater opportunities to participate in the Program due to their numerical advantages in the civil service and in the private and infrastructure sectors. These factors will be examined more closely during design.

2) Economic Analysis

Alternative approaches to designing a program to support public sector reform have been considered by USAID. Briefly, these have included a direct cash grant to the public sector, an infrastructure grant which would generate local currency from private contractors for financing public sector reform, and a narrower focus on a single reform. Each of these alternatives have been discarded as inappropriate for providing a framework that will facilitate multi-donor support, GSDR commitment, and a mechanism of harnessing private sector resources to contribute to Somalia's development program. The economic analysis of SECOR will examine the benefits of the Grant in relation to its costs. Benefits are likely to include increased GSDR revenue, improved productivity of civil servants, and associated government services, maintaining Somalia's capital assets in the infrastructure sector, and expanded investment, employment, and income in the private sector. Costs will include: direct costs of the Grant financed technical assistance, training, increased GSDR budgets to support salary increases for civil servants, and more realistic operating budgets , and GSDR contribution of its personnel and equipment

Since the quantitative measurement of benefits may prove elusive, the analytical approach which is recommended is to calculate the value of benefits which would be necessary to obtain a minimum return, say 15%, on the level of investment proposed after a twenty year period. This value of benefits would then be examined in terms of what could be realistically achieved by the Grant.

3) Environmental Analysis

The proposed environmental threshold decision is contained in Annex B.

4) Technical Analysis

During the design of SECOR the technical feasibility of the various activities, specially those planned in the infrastructure sector, needs to be established. These analyses are outlined in Annex D Scope of Work for Further Design.

5) Institutional Analyses

An institutional analysis of the participating GSDR ministries, led by the Ministry of Finance; USAID; and, the private sector will be undertaken as part of SECOR design.

For the GSDR Ministries of Finance, Revenue, Education, and Labor and Sports, the institutional analysis will examine their existing organizational structure, personnel levels, and operating budgets. The institutional analysis will further investigate the conditions under which these organizations could be expected to be motivated to participate in a public sector reform program. In addition this analysis is expected to estimate the resource requirements which would be necessary for these organizations to effectively participate in a reform program.

The institutional analysis of USAID Somalia, will address the personnel requirements of the Mission to mobilize, manage, and monitor the resources required to implement SECOR. At the same time, this analysis will examine options for maintaining cooperation and coordination with other donors.

The institutional analysis of the private sector will assess the capabilities of the private sector to increase their investment and services. In the area of water development and distribution this analysis will build upon previous studies by Louis Berger International. In the area of road construction and maintenance, as well as agribusiness development more baseline information will be required. For water development and road maintenance, the analysis should examine the contractual arrangements and payment procedures which would be required to employ private sector firms.

C. Design Strategy

The strategy for completing the design of SECOR is based upon examining each of the proposed components separately prior to assembling the final project document. This approach will facilitate USAID's discussion with the GSDR and other donors on the issues and requirements for each of the proposed reform areas. The USAID Projects Office will have the responsibility for initiating and coordinating Mission design actions. A Mission Program Committee will

be established to review consultants' reports and develop issues for discussion with other donors and the GSDR as part of the consensus building which will be required to complete the design of SECOR. This Committee will be composed of the Program Officer, Program Economist, Commodity Management Officer, Engineer, and the Chief of the Rural Development and Refugee Affairs Office.

The phasing of the reviews, which will examine the viability of each of the program components, is planned over a six month period. The scopes of work for these reviews are contained in Annex D. Reviews which relate to public sector reforms will begin first, guided by Public Sector individual reviews on budget reform, revenue reform, and civil service reform. The initial review will examine the proposals for supporting budget rationalization reforms and is expected to require four weeks. Utilizing the findings of this review, both the civil service and revenue reform reviews could start simultaneously 2-3 weeks afterward. Two reviews are proposed for the Private Sector Development component. The first review will investigate the technical and financial viability of establishing and/or expanding private sector businesses.

For those businesses which are promising. this review will specify the commodity, technical assistance, and management requirements to get started. The second private sector review will utilize the findings of the first review to examine the financing and credit requirements as well as the institutional arrangements for supporting the private sector activities proposed under SECOR. An important housekeeping arrangement for each review is to require a draft report and exit meeting with the Program Committee be scheduled prior to the consultants' leaving country. This requirement is critical to minimize delays on subsequent reviews and to obtain enough information to permit ongoing dialogue with the GSDR and other donors.

D. Design Inputs

USAID anticipates intense design effort, requiring inputs from , REDSO/ESA, AID/Washington, Mission staff and contractors.

1) REDSO

USAID expects to draw heavily on REDSO resources for the final design. After the initial feasibility and technical analyses have been completed USAID expects the following services from REDSO.

PDO(Private Sector)	1.0 P.M
Social Scientist	.5 P.M
Environmental Officer	.5 P.M
Program Economist	.5 P.M

2) AID/W

USAID would welcome AID/W input into the final design effort. USAID feels that AID/W inputs will be particularly valuable in terms of developing the Policy Reform Agenda. USAID requests that ECPR discuss this issue and that suitable expertise be identified to assist USAID in the final design.

3) USAID

The Project Development Office will coordinate the design of SECOR and will be the principal design office. Strong support will come from USAID's Office of Rural Development and Refugee Affairs (RD/RA) which coordinates our civil service reform activities; as well as our Program Economist who coordinates our budgetary and tax reform activities. Support will also be required from USAID's Office of Engineering and the Supply Management Office. The Office of the Controller, and Program Office will also be required to give support for the final design.

4) Contractor Support

USAID expects to perform feasibility and technical analyses required for the final design by utilizing indefinite quantity contracts. One series of contract will address the Policy Reform Agenda and one will address the Private Sector Development Program. Following are a list of advisors and the level of effort required: (A detailed Scope of Work for the design effort is attached as Annex D.

Private Sector Development Program

Investment Banking Specialist.	2.5	P.M
Private Sector Development Specialist	2.0	P.M
Transport Equipment Specialist	0.75	P.M
Utility Specialist	1.5	P.M
Leasing Specialist	0.75	P.M
Transport Engineer	0.75	P.M
Water Engineer I	0.75	P.M
Water Engineer II	0.75	P.M
Telecommunication Specialist	0.75	P.M
Procurement Specialist	1.0	P.M
Social Scientist	1.0	P.M
Economist	1.0	P.M
Sub-total	12.75	P.M

Policy Reform Agenda

Public Policy Specialist	3.0	P.M
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Revenue Generation and Administration		
Public Finance Economist	1.5	P.M
Public Finance Economist	1.5	P.M
Agriculture Economist	1.5	P.M
Budget Rationalization		
Programming and Budget Specialist	1.0	P.M
Fiscal Management Specialist	1.0	P.M
Civil Service Reform		
O & M Specialist	1.5	P.M
Institutional Specialist	<u>1.5</u>	<u>P.M</u>
Sub-total	12.5	P.M
Grand Total	25.25	P.M

This level of effort suggests the need for approximately \$500,000 for the design effort, USAID expects to fund this effort out of a combination of PD/S and project funds, principally SOMTAD and PIPS. Currently USAID has \$100,000 obligated under PD/S for the design effort. Mission expects on additional \$160,000 in PD/S will be required. USAID will request this amount as part of our bilateral PD/S project for FY 88

AnnexesSomali Economic Rehabilitation
Sector Grant (649-0143)

A. Logical Framework	38-40
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G. Description of The UNDP Tax Policies and Administration Activity with The Ministry of Revenue	71-102
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LOGICAL FRAMEWORK FOR SUMMARIZING PROJECT DESIGN

Project Title: SOMALIA ECONOMIC REHABILITATION SECTOR GRANT (649-0143)

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program Goal:	<ul style="list-style-type: none"> - GSDR able to finance and maintain its development programs - Private sector increases its participation in Somalia's development 	<p>GDP figures</p> <p>Donor surveys and reports</p> <p>GSDR reports</p>	<ul style="list-style-type: none"> - GSDR leadership continues long-term support of private sector growth and fiscal responsibility. - Donor community continues leverage on GSDR toward privatization and the adoption of democratic principles of government.
Program Purpose:	<p>End of Project Status</p> <ul style="list-style-type: none"> - GSDR operating under a unified budget system - GSDR revenues increased to 8% of GDP in a manner consistent with its development objectives - GSDR civil service restructured to be more effective and responsive <p>opportunities for private sector established</p>	<ul style="list-style-type: none"> - GSDR data and reports. - Project evaluation. 	<ul style="list-style-type: none"> - World economy grows. - Donor community agrees on reform program and willing to provide financing and use programs as leverage to achieve goals. - GSDR leadership Political support to reform program. - SOMTAD successful in upgrading management capabilities of civil servants

LOGICAL FRAMEWORK FOR SUMMARIZING PROJECT DESIGN

Program Outputs:

- | | | | |
|---|--|-------------|---|
| 1. Improved budgeting and accounting system developed and tested in the MDF, MDR, and MOE | <ul style="list-style-type: none">- Standardized accounting procedures established- Unified budget system designed and tested- Recurrent budgets developed and tested for GSDR Water Distribution and road maintenance activities | MDF Budgets | Policy reform agenda between donors and GSDR agreed to. |
| 2. Revenue system modified to utilize and account for all appropriate sources of receipts | <ul style="list-style-type: none">- Inventory and analysis of potential sources of revenue for GSDR- Improved collection system- Revenue measures introduced for GSDR Water and Transport programs which incorporate alternatives to central government financing records | MDR Records | |
| 3. Public Service Unit established and operating to facilitate the GSDR civil service reforms | <ul style="list-style-type: none">- Set up Public Service Commission- Implement reorganization plan for MLS- Determine redundant personnel in consultation with operating ministries and develop strategy for education of reserved or separated employees- A comprehensive examination of the civil service wages salary/compensation system including recommendations for its improvement | | |

LOGICAL FRAMEWORK FOR SUMMARIZING PROJECT DESIGN

4. Mechanisms and procedures established to encourage and support private sector investment in medium term development activities

- Credit system designed and implemented
 - Medium term development opportunities identified and analyzed for private sector investment
 - Private investment expanded in water development and drilling to replace GSDR responsibilities
- Private sector contracting increased in GSDR road maintenance programs

Project Evaluation

Feasibility studies for final design confirm the private sector can implement program.

Other donors support activities for additional infrastructure development, e.g. Ports, electric power, etc.

Inputs:

- I. Private Sector Development Fund 30,000
- II. AEPRP 25,000
- III. Policy Reform Agenda 5,000
- IV. Contingent Grants 50,000 (L/C)

Project financial and monitoring reports

Donor community and GSDR agree to discuss policy reform issues

Project Environmental Examination

Project Country

Somalia

Project Title and Number:

Somalia Economic Rehabilitation (649-0143)

Funding:

\$50 million

Life of Project:

FY88-93

IEE Prepared by:

Edward W. Birgells
Project Development Officer

Environmental Actions Recommended:

Negative Determination

Major thrust of the Program will be funding public sector reforms through local currency generated by a Cash Sales Program and a Commodity Import Program. While anticipated activities may focus on water development and road maintenance, AID does not have control over the actual implementation. However, environmental procedures will be developed and included into implementation arrangements. AID will monitor the Program for any anticipated environmental effects.

Mission Director's Decision

Approved: _____

Disapproved: _____

Date: _____

Bureau Environmental Advisor,
AFR/TD/SDP Decision

Approved: _____

Disapproved: _____

Date: _____

I. Examination of the Nature, Scope and Magnitude of Environmental Impacts

A. Description of the Project

The Somalia Economic Rehabilitation Grant will attempt to rationalize GSDR operations and programs. The Grant provide technical assistance and training to the public sector. The grant proposes to utilize the private sector to fund the costs of the reform package, through a local currency generated through a Cash Sales Program and a Commodity Import Program. The local currency generated will be kept in an account administered by AID and will be used to fund agreed upon activities related to public sector reform. A considerable part of the items imported to Somalia under the CIP will be of a general nature. However, the Commodities may support program in the water development sector and in road maintenance and construction.

B. Identification and Evaluation of Environmental Impacts

Section 216.2 c(ix) of AID'S Environmental Procedures categorically excludes assistance provided under a Commodity Import Program when, prior to approval, AID does not have knowledge of the specific commodities to be financed and when the objective in furnishing such assistance requires neither knowledge, at the time the assistance is authorized, nor control, during implementation, of the commodities or their use in the host country. However, section 216.2(d) of these same procedures requires an environmental assessment for penetration road building or road improvement projects and for potable water and sewerage projects other than those that are small scale.

USAID anticipates the water development activity if implemented will focus on the following areas: small scale water point maintenance and rehabilitation, well drilling and rehabilitation and expansion of the Kismayo water system. It is expected that the following commodities will be imported to implement the program: Cement, pumps, spare parts drilling rigs, trucks, 4 wheel drive vehicles, casings, drilling chemicals, pipes and meters. The road maintenance and construction activity will require, heavy construction machinery, heavy vehicles and cement. USAID does not anticipate actively monitoring the day to day activities of the program. Technical assistance and training will be provided to the private sector and the GSDR to help implement institutional aspects of the program. Water Development Agency under the USAID funded Comprehensive Groundwater Development Project (649-0104) has had extensive experience working with a U.S. contractor (Louis Berger International) and with AID environmental regulations regarding water development.

Similary, the Civil Engineering Directorate, The Ministry of Public Works, has had extensive experience with Louis Berger International under the World Bank funded program. Nevertheless, USAID expects to develop proper environmental procedures during the project and to assure that these procedures are included in every contract executed by the GSDR with private sector contractor. Furthermore, AID will periodically monitor the activities to assure that procedures are adequate and that they are being adhered to. The final procedures will be developed as a part of The PAAD.

Annex C

MACROECONOMIC DATA AND TABLES

Table I	Somalia:	External Gap Analysis, 1986-1989
Table II	Somalia:	Summary Balance of Payments, 1981-1987
Table III	Graph:	Somalia External Public Sector Debt
Table IV	Somalia:	External Debt Service Obligations, 1986-1990
Table V	Somalia:	Summary of Central Government Operations, 1982-1986
Table VI	Graph:	Tax Revenues By Source

Table 1

Somalia : External Gap Analysis 1986-1989
(US \$ Millions)

	(Actual)			
	<u>1986</u>	<u>1987</u>	<u>1988</u>	<u>1989</u>
<u>TOTAL FINANCING GAP WITHOUT AID</u>				
A. <u>Current Account Receipts</u>	<u>136</u>	<u>142</u>	<u>159</u>	<u>176</u>
Exports	99	115	131	146
Private transfers	37	27	28	30
B. <u>Current Account Payments :</u>	<u>445</u>	<u>490</u>	<u>473</u>	<u>480</u>
Imports	363	431	429	444
of which :				
• Food	58	55	50	48
• Petrol	44	50	52	60
• Other non PIP	90	100	110	121
• PIP-related	173	226	217	205
Services (net)	70	59	44	36
of which :				
• Interest	(45)	(36)	(33)	(32)
• IMF/AMF charges	(16)	(12)	(11)	(6)
C. <u>Current Account Deficit (B-A) :</u>	<u>297</u>	<u>348</u>	<u>314</u>	<u>304</u>
D. <u>Capital Repayments on Debt :</u>	<u>67</u>	<u>224</u>	<u>153</u>	<u>120</u>
Repayment of Principal	57	61	55	54
Net Repurchases from IMF	7	13(a)	40	42
Net Repurchases from AMF	3	38(b)	22	-
Reduction of Arrears	-	112	36	24
E. <u>Increase in Reserves</u>	<u>-14</u>	<u>8</u>	<u>7</u>	<u>5</u>
F. <u>Private Capital/Errors and Omissions</u>	<u>33</u>	-	-	-
G. <u>Total Financing Requirements (C+D+E+F) :</u>	<u>383(c)</u>	<u>580</u>	<u>474</u>	<u>430</u>

(a) including \$5 million arrear payments.

(b) including \$15 million arrear payments

(c) official grants and loans amounted to \$330 million and \$80 million was financed by accumulation of arrears.

Table 2: SOMALIA: SUMMARY BALANCE OF PAYMENTS, 1981-1987 (in millions of U.S. dollars)

	1981	1982	1983	1984	1985	Prog. Revised		Estimates
						(4/24/86)	(9/86)	
	1986	1986 (3)	1987					
CURRENT ACCOUNT BALANCE	-95	-131	-147	-145	-131	-169	-130	-141
Exports (FOB)	114	137	100	62	93	130	108	120
Livestock	(98)	(106)	(72)	(33)	(66)	(95)	(75)	(83)
Bananas	(6)	(14)	(15)	(14)	(13)	(15)	(17)	(19)
Others	(10)	(17)	(13)	(15)	(14)	(20)	(16)	(18)
Imports (CIF)	-422	-484	-450	-406	-394	-425	-407	-431
Trade Balance	-308	-347	-350	-344	-301	-295	-299	-311
Services (net)	-1	9	4	-47	-55	-82	-76	-64
(of which: interest payments)	(-10)	(-14)	(-21)	(-44)	(-55)	(-79)	(-62)	(-59)
Transfers (net) (1)	214	207	199	246	225	208	245	234
Official	150	157	148	174	205	178	225	212
Private	50	64	51	72	20	30	20	22
CAPITAL ACCOUNT (NET)	82	87	61	6	81	52	55	91
Official	79	123	100	46	119	62	75	91
Private (2)	3	-36	-39	-40	-38	-10	-20	
OVERALL BALANCE	-13	-44	-86	-139	-50	-117	-75	-50
Financing	13	44	86	139	50	117	75	50
Central Bank	33	64	47	13	28	-11	-14	-57
of which: IMF	(30)	(34)	(44)	(-3)	(32)	(-5)	(-7)	(-28)
Commercial bank	-20	-20	39	29	-32	12	10	--
Arrears	--	--	--	71	-98	-18	-10	-19
Debt relief	--	--	--	26	152	--	--	--
Financing Gap	--	--	--	--	--	134	89	126

Sources: Data for 1981 through 1984 and 1986 Program data are from "Somalia - Review Under Stand-By Arrangement and Request for Waiver of Performance Criteria," IMF, April 25, 1986, Tables 5 and 9.

Export breakdown for 1984 and 1985 is estimated. Data for 1985, 1986(revised), and 1987 (est.) are from "Somalia - Staff Staff Report for the 1986 Article IV Consultation," August 27, 1986

(1) Totals for 1981 and 1982 do not add.

(2) Includes net errors and omissions

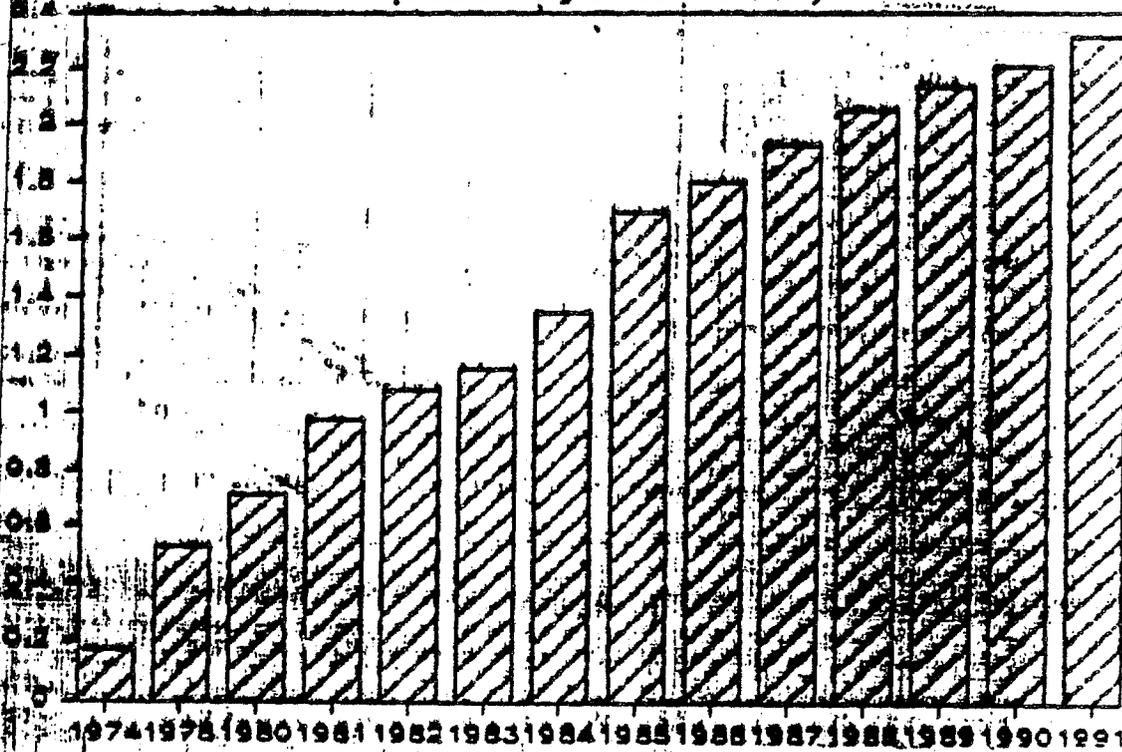
(3) More recent, unpublished IMF statistics indicate recorded imports for 1986 are closer to \$92 million, with recorded remittances increasing to \$35 million. The two almost exactly offset each other. The change in the value of exports and remittances is presumed to be due to smuggling or under-invoicing of exports to avoid remitting 50% of the true value of exports to the Central Bank at the low, official rate. The un-reported export value is being remitted through the external accounts in the free market.

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GRAPH 1

Somalia: External Public Sector Debt (Outstanding Disbursed Debt)



Sources: Staff Report for the 1986 Article IV Consultation, IMF August 27, 1986, for years 1984 through 1991. For 1974 to 1983, various IMF reports.

Table 4.5
SOMALIA: EXTERNAL DEBT SERVICE OBLIGATIONS, 1986-90 ^{1/}
(In thousands of U.S. dollars)

1986
A. 2

	1986			1987			1988			1989			1990		
	Prio.	Int.	Total												
I. Organizations	47334.4	23337.9	72714.3	74094.3	22932.5	91228.8	82325.3	26493.3	103220.6	39322.9	14934.1	74437.0	37504.1	11944.3	51448.4
A. Multilateral	40143.0	22549.8	62712.8	64521.1	19140.1	83661.2	72922.1	17851.5	90833.6	49949.7	12236.6	62186.3	29412.6	9409.4	37922.2
African Dev. Bank	406.9	438.0	844.9	677.9	547.2	1245.1	677.9	498.0	1176.0	677.9	428.9	1106.9	647.9	329.8	1077.7
African Dev. Fund	67.3	257.2	324.7	76.1	379.3	455.4	132.1	341.6	473.7	186.6	366.4	553.0	333.0	364.8	697.8
Arab Fund	3753.3	3875.6	7648.7	5643.2	2643.3	8306.5	6448.8	3249.7	9718.5	2828.9	3721.6	6550.5	7812.6	3758.8	10743.4
European Invest. Bank	0.0	28.4	28.4	0.0	34.7	34.7	292.2	37.3	241.7	204.1	38.5	242.6	784.6	37.5	822.1
IBRD	843.3	1637.2	2500.5	1134.9	1774.7	2911.6	1743.1	1746.3	3489.4	1427.2	1744.9	3177.8	1627.2	1739.8	3369.0
IFAD	0.0	173.5	173.5	0.0	228.4	228.4	0.0	247.8	247.8	94.0	271.4	365.4	323.7	279.3	633.0
Islamic Dev. Bank	473.5	211.1	684.6	423.3	200.7	624.0	423.3	198.0	621.3	423.3	188.0	611.3	377.1	171.0	548.1
OPEC Fund	3502.3	133.0	3637.5	3502.3	116.6	3619.1	3502.3	98.2	3600.7	3502.3	79.9	3582.4	3502.3	64.6	3564.1
UNF(incl. Trust Fund)	20493.0	12894.6	41387.6	27783.0	18350.0	46133.0	32273.0	8373.0	40646.0	27883.0	5405.0	43010.0	14950.0	2645.0	17595.0
Arab Monetary Fund	2633.0	2700.0	5333.0	23276.0	2721.0	26197.0	21977.0	3023.0	25002.0	0.0	0.0	0.0	0.0	0.0	0.0
B. Bilateral	7213.4	2788.1	10001.5	9573.2	2892.4	12465.6	9573.2	2843.8	12417.0	9573.2	2697.3	12270.7	8091.3	2534.7	12762.2
Kuwait Fund	1313.1	1222.6	2535.7	3472.9	1354.9	5027.8	3472.9	1383.6	5056.5	3472.9	1337.3	5010.2	3991.2	1278.6	5269.8
Saudi Fund	5900.3	1565.5	7465.8	5900.3	1537.5	7437.8	5900.3	1460.2	7366.5	5900.3	1360.2	7260.5	5900.3	1256.1	7156.4
II. Countries	61376.8	37234.1	100450.9	62861.3	30141.3	93002.6	65395.0	27316.0	92621.0	64873.3	24856.6	89731.9	63131.3	22377.5	85508.8
A. OECD countries	22026.2	19574.1	41594.3	20048.4	18878.9	37917.3	22096.0	17493.8	37983.8	24576.6	16300.3	40957.1	25241.5	14827.0	40079.5
France	2313.0	5333.7	7646.7	2775.7	3477.1	6252.8	3328.0	3633.3	6963.3	3591.0	2724.8	6315.8	3074.3	2275.8	5350.1
Italy	16672.7	6306.0	23058.7	15631.1	16294.6	31925.7	14948.7	5333.0	20301.7	17344.7	4678.2	22034.9	17948.7	3833.0	21803.7
Japan	0.0	44.8	44.8	0.0	149.5	149.5	0.0	329.0	329.0	0.0	394.3	394.3	0.0	394.3	394.3
USSR	3034.3	9409.6	12444.1	3041.6	9247.7	12289.3	3613.3	8778.5	12591.8	3626.9	8791.2	12212.1	4198.3	8523.9	12522.2
B. Other	21493.3	8287.8	29781.1	24168.7	4537.1	28705.8	25339.6	3466.8	28817.4	23043.3	2874.9	27928.4	27109.6	2141.2	29250.8
Abu Dhabi	10123.0	2838.7	12963.7	10123.1	2433.7	12556.8	10123.1	2046.7	12170.0	10123.1	1643.7	11766.8	10123.1	1238.7	11363.8
Algeria	100.0	14.0	114.0	100.0	12.0	112.0	100.0	10.0	110.0	100.0	0.0	100.0	100.0	0.0	100.0
P.R. of China	3775.0	0.0	3775.0	6433.3	0.0	6433.3	10974.9	0.0	10974.9	10974.9	0.0	10974.9	13161.3	0.0	13161.3
Iran	2351.1	3342.3	5693.4	2951.0	169.1	3120.1	2951.0	825.5	2876.5	2951.0	682.0	2733.0	2951.0	538.9	2509.4
Mozambique	4011.0	1827.0	5838.0	2223.9	937.9	3161.8	1648.4	431.1	1519.5	801.3	446.7	1247.9	641.0	288.3	929.3
Yugoslavia	1631.2	243.6	1874.8	1631.2	162.4	1793.6	1631.2	131.3	1762.7	1631.2	100.3	1731.7	1631.2	69.6	1700.8
C. Debt relief ^{2/}	7044.3	9833.3	16917.6	7044.2	5166.8	12211.0	7044.2	4614.7	11658.9	4915.0	4042.3	8277.3	0.0	3880.3	3880.6
France	78.4	776.1	854.5	78.4	537.4	615.8	78.4	548.7	627.1	71.5	540.1	611.6	0.0	534.1	534.1
Italy	1110.4	2491.2	3601.6	1110.4	1482.4	2592.8	1110.4	1646.2	2756.6	1100.4	1638.0	2738.4	0.0	1616.3	1616.3
U.K.	5644.3	4497.7	10142.0	5644.3	1122.3	6766.6	5644.3	624.0	6268.3	2632.2	123.4	2755.6	0.0	0.0	0.0
U.S.A.	211.0	2110.5	2327.5	210.9	1044.5	2015.4	210.9	1781.8	1992.7	210.9	1758.8	1969.7	0.0	1734.0	1734.0
D. Special bilateral	10019.0	1538.7	12157.7	10000.2	1538.7	12138.9	10000.2	1538.7	12138.9	10000.2	1538.7	12138.9	10000.2	1538.7	12138.9
Belgium	426.3	0.0	426.3	407.7	0.0	407.7	407.7	0.0	407.7	407.7	0.0	407.7	407.7	0.0	407.7
U.S.S.R.	10192.5	1538.7	11731.2	10192.5	1538.7	11731.2	10192.5	1538.7	11731.2	10192.5	1538.7	11731.2	10192.5	1538.7	11731.2
Total	108753.2	64612.0	173365.2	136975.8	52174.0	189149.8	147860.3	40011.3	195071.6	124198.2	37796.7	163908.9	102633.4	34341.8	136977.2

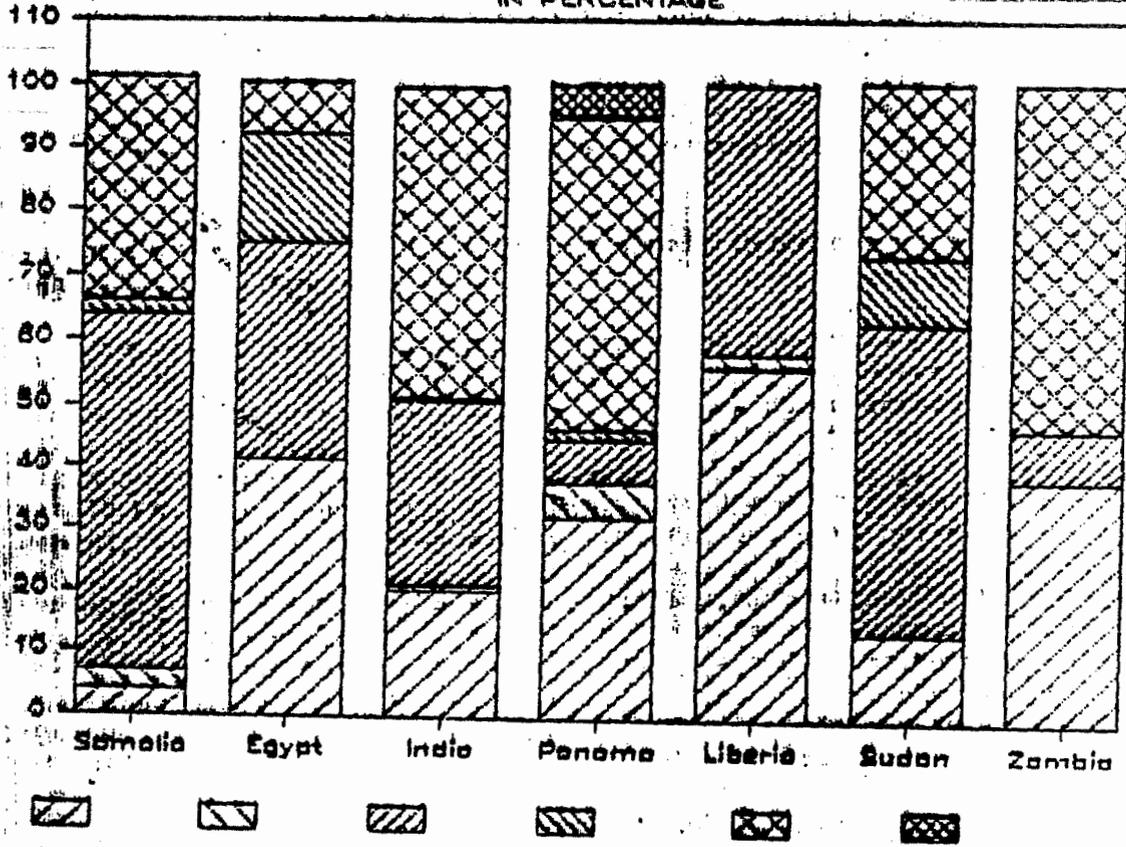
Covers medium and long-term debts only; service obligations on external debt outstanding at end-1985.

1985 Paris Club rescheduling.

ce: Ministry of Finance, External Debt Unit.

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TAX REVENUES BY SOURCE IN PERCENTAGE



Annex D

DETAILED SCOPES OF WORK FOR THE DESIGN
OF SOMALIA ECONOMIC REHABILITATION
SECTOR GRANT (649-0143)

A. INTRODUCTION

USAID anticipates utilizing its own resources and several Indefinite Quantity Contracts (IQC'S) or Personal Services Contracts (PSC'S) to do the feasibility and technical, financial, economic, social and administrative analyses necessary to complete the SECOR Program. The work will follow the parameters described in The Policy Reform Agenda and The Private Sector Development Program.

B. PUBLIC SECTOR REFORMS

The SECOR grant proposal will contain a public sector reform agenda that will consist of the following three elements: (1) civil service reform; (2) revenue generation and administration; and (3) budget rationalization. The design work for this agenda will require the services of two public policy specialist with extensive experience and training in both public administration and economics.

1. Public Policy Specialist

The function of the public policy specialists (PPS) will be to carry out the following two principal assignments: (1) the consolidation and integration of a series of technical feasibility studies to be conducted on all three agenda elements prior to actual design work; and (2) the writing of the grant proposal, incorporating the technical feasibility studies and all other sections as required by AID project proposals.

a. Statement of Work

Based upon a review of the work of other consultants, a review of literature on other similar projects, and discussions with the GSDR, private sector representatives, and other donors the PPS team will prepare a report for USAID. This report will:

- (i) Describe in detail, the key public sector policy issues and the parameters for addressing them within the structure of a sector grant.
- (ii) Recommend an agenda for taking action to resolve the issues.
- (iii) Develop ways in which the Policy Reform Agenda may be implemented over a five to ten year time frame. In doing this the PPS team may give different scenarios, relative costs and benefits of each scenario, and options for addressing each scenario.

- (iv) Specify a list of technical assistance, training, equipment, and supply requirements necessary to accomplish the reform agenda.
- (v) Incorporate any other information as required by standard AID regulations governing project paper submissions.

b. Level of Effort and Expertise Required

It is anticipated that 3PM of assistance will be required. The members of the PPS team should have a graduate degree in economics and public administration. They should have 5-10 years experience in developing countries, working on public sector reform issues, preferably at senior levels of government and preferably on donor-funded projects.

2. Civil Service Reform

The GSDR and the donor community have discussed the Civil Service Reform (CSR) for several years. SECOR will attempt to establish a Civil Service Commission as well as undertaking organizational reform within the Ministry of Finance, Ministry of Revenue and Ministry of Education. The analysis required under this study will rely heavily on work being done under the SOMTAD Project.

a. Statement of Work

- (i). Analyse and describe the needs of the GSDR in terms of CSR, in the light of past work and the current work under SOMTAD and other donor activity.
- (ii). Perform an institutional and structural analysis of the Ministries of Finance, Revenue, and Education. This analysis should consist of a comprehensive examination of the present civil service organization in each of these ministries, and their present operating budgets. This comprehensive examination will analyze the following: the number of employees at each level; job positions and job categories at each level; pay scales and other compensation schemes; policies/practices governing hiring, promotions, transfers, and separations.
- (iii). Design a time-phased program to reorganize the three ministries in ways consistent with the overall objectives of SECOR. The reorganization program should be realistic and depict achievable outputs over a specified time-frame of no more than five years. The program should also recommend appropriate levels of technical assistance, training, equipment, and operating budgets that would be required by each ministry to achieve the specified targets. The program may also present different reform scenarios, the relative costs and benefits of each scenario, and give options for progress under each scenario.

- (iv). Design program to establish a functioning civil service commission. The program should depict achievable outputs during a specified time-frame not to exceed five years. It should also prescribe the technical assistance, training, studies, equipment, and operating budgets that would be required to implement such a program.

b. Level of Effort and Expertise Required

To carry out the above assignment will require the services of two specialists who have both extensive (5-10 years) experience in analyzing and restructuring civil service organizations, policies, or practices, in third world countries. Both specialists should have done a good portion of their work in Africa, and should have graduate training in public administration, public policy formulation, and economics.

3. Revenue Generation and Administration

In order to domestically finance the public sector reform program it will be necessary for GSDR revenues to be increased. This revenue increase should be achieved in ways that are consistent with GSDR development objectives, i.e., the additional taxes should not result in undue disincentives to production or exports, and there should be a general understanding of who will bear the burden of existing and additional taxes. It is also essential that the tax system be buoyant and elastic so that revenues will naturally increase, with inflation and GDP growth.

At the present time the revenue system is deficient in several respects. Although it appears that the GSDR places a high priority on increased revenue generation. It is not clear that the Ministry of Revenue (MOR) has the capability to analyse the tax policy issues as they relate to overall development objectives. Furthermore, the MOR is unable to enforce policies and regulations that now exist as part of Somalia's tax codes. An analysis is needed to determine what changes are needed in GSDR tax policies and what types of technical assistance, training, further analyses, equipment, and supplies, are needed to strengthen the GSDR's capacity to analyze tax issues and formulate tax policy. In addition, an analysis is needed to determine what changes are needed to strengthen the institutional capability of the MOR to tighten its control over and more carefully enforce, existing policies and practices in revenue collections.

a. Statement of Work

The study will include the following tasks:

- (i) The analysis of the existing tax system, in both policy and practice, recommendations for improvements, and identification of areas for further study. This includes: 1) an analysis of the tax base and assessment of the level of tax efforts, 2) the analysis of issues related to the impact of the system on incentives to produce and export, 3) the analysis of import taxes to differentiate between revenue generation and import projection objectives and to identify

ways of simplifying the rate structure, 4) an assessment of the buoyancy and elasticity of the tax system, and 5) the preliminary identification of tax measures to increase revenue in ways that are consistent with overall development objectives.

- (ii) An assessment of the capability of the GSDR to analyze tax issues and formulate tax policy. Based on this assessment, recommend technical assistance and training to strengthen the analytical capabilities of the MOR.
- (iii) The analysis of issues related to local revenue generation and the decentralization of government services. This includes: 1) the identification of all taxes at the regional, district, and village levels, 2) assessment of overall GSDR policy regarding local revenue generation, and recommendations for improvements, 3) identification of local revenue generation measures that could help alleviate GSDR budget constraints and improve the level of government services at the local level, and 4) identify technical assistance and training needs to increase the GSDR capacity to address issues related to local revenue generation.
- (iv) A study of the possibility of an earmarked tax on livestock export to finance selected government services to the livestock sector. This will include: 1) an estimate of the cost of existing and planned services to the livestock sector, 2) a preliminary assessment of the livestock export market (products, quantities, destinations, competitiveness), 3) an assessment of the impact of existing export taxes and a possible earmarked tax on the competitiveness of livestock exports, and 4) recommendations regarding the design, administration and possible uses of an earmarked tax.
- (vi) An analysis of enforcement, and delineation of realistic alternative actions for strengthening institutional capability of the GSDR in general, and the MOR in particular, for imposing tighter control over the entire process of revenue collection and disbursement.

b. Level of Effort and Expertise Required

The above tasks will require a three person team for a period of six weeks. The team will consist of:

- i. A public finance economist to analyze overall tax policy and assess GSDR capacity to analyze tax issues, and formulate tax policy, and enforce tax regulations. This person would also be the team leader. He should have several years of experience advising governments on public finance policy issues in developing countries, preferably Africa.
- ii. A public finance economist with special expertise in local revenue generation. This person should have several years of experience as a public finance economist in developing countries.

- iii. An agricultural economist with expertise in the analysis of livestock export markets. This person should have experience in analyzing African livestock export markets. He should also be familiar with the use of earmarked taxes to pay for services related to the production and marketing of agricultural exports, e.g., francophone West African countries.

4. Budget Rationalization

The GSDR has not published a budget in recent years. The last publicly available document is the Minister of Finance's budget statement of Parliament at the beginning of 1986. This document includes a summary budget for 1985 which divides the budget into four broad categories for each ministry. There is no evidence that there is final reconciliation between budgeted amount and what was actually spent. There is also no evidence that there is an annual budget exercise that systematically relates resource allocations to government programs and objectives. Finally, the GSDR excludes the receipt and expenditure of donor-generated counterpart funds which make up most of the budgets of the economic and social ministries.

The objective of this analysis is to analyze the existing budget and accounting system of the GSDR, recommend improvements, and design a technical assistance and training project to introduce an effective and comprehensive budget and accounting system.

a. Statement of Work

- (i) Describe the GSDR budget system as it is supposed to work and as it actually works. Recommend improvements in the budgets system based on established budgeting principles, including PPBS. Particular attention should be given to setting up a comprehensive budget that covers the receipt, disbursements, and use of all counterpart funds.
- (ii) Describe the GSDR expenditure control system as it is supposed to work and as it actually works. Recommend improvements to 1) improve accountability and 2) establish a clear and timely link between actual expenditures and budgeted line items.
- (iii) Identify technical assistance, training, additional analyses, equipment, and supplies, for introducing improved budgeting and expenditure control methods in the GSDR.

b. Level of Effort and Expertise Required

A two person team will be needed for a period of four weeks:

- (i) A programming and budgeting specialist with experience in working with British and other budgeting systems used in developing countries. This person should be able to deal with the political and public policy issues related to changing budgeting systems, specially the introduction of comprehensive budget.

- (ii) A fiscal management specialist to analyze the GSDR system of expenditure controls. This person should have previous experience working with central government budgets in developing countries.

PRIVATE SECTOR TEAM

a. Statement of Work

- (i) Analyze the needs for financing and credit by businessmen describing to the extent possible formal and informal existing credit mechanisms and their constraints and limitations. Based on this analysis, recommend options for providing credit for types of commodities proposed for the infrastructure sector.
- (ii) Develop an administrative mechanism for implementing the SECOR Private Sector Development Program (PSDP). The mechanism should take into account the institutional constraints of the GSDR and the potential manpower limitations of USAID. Any administrative mechanism should be focussed purely on the Program and should limit institutional strengthening of the GSDR.
- (iii) Feasibility, cost analysis and technical analysis will be performed for the activities anticipated under SECOR. This will include analysis for the Kismayo Water System, Bardere-Jilib Road, Mogadishu-Adale Road, private sector water development and road maintenance as well as the possibility of equipment leasing entity.
- (iv) Institutional analyses must be performed on the feasibility of the private sector undertaking the major activities described. A program of technical assistance and training should be developed for both the private sector and the GSDR in terms of contracting with the private sector.

b. Level of Effort and Expertise Required

- (i) Investment Banking Specialist (2.5 P.M). Advisor will be responsible for establishing credit mechanism and for overall administrative mechanism. Specialist should have senior level qualifications in similar type work with extensive experience in the third world the Mid-east and Africa.
- (ii) Private Sector Development Specialist (2.0 P.M). Advisor will review potential enterprises as well as make recommendations for the technical assistance and training resources necessary to achieve project objectives. Specialist should have extensive experience in development of business in the third world, especially in the Mid-East and Africa.
- (iii) Social Scientist (1.0 P.M). Advisor will review suggested interactions in light of socio-cultural conditions and make recommendations concerning socio-cultural feasibility. Advisor should have graduate degree in a relevant social science with Somali experience.

- iv. Transport Equipment Specialist. (75 P.M.). Advisor will determine equipment and supply needs for private sector road maintenance and construction. Advisor will develop road maintenance activity and suggest technical assistance and training needs for the private sector and the Ministry of Public Works.
- v. Water Engineer I (75 P.M.). Advisor will determine final design of Kismayo Water System.
- vi. Water Engineer II (75 P.M.). Advisor will develop P.S. water development component, suggesting equipment needs, technical assistance and training needs for the private sector and the Water Development Authority (WDA).
- vii. Utility Specialist (1.5). Advisor will review institutional capability of Kismayo Water Authority make recommendations and design a program to develop the Authority to make it self-sufficient over time. The advisor will also determine the technical assistance and training needs of the Authority.
- viii. Procurement Specialist (1.0) Develop the GSDR procurement system. Make recommendations for improving the system. Design a program for contracting between the GSDR and the private sector. Program should include technical assistance and training needs.
- xi. Telecommunications Specialists (75 P.M). Advisor will put together equipment list and specifications for satellite station.
- x. Economist (1.0 P.M). Advisor will establish economic feasibility of suggested enterprises.

ANNEX E
ILLUSTRATIVE LIST OF ACTIVITIES IN THE INFRASTRUCTURE SECTOR

a. Water Development

(i) Drilling and Rehabilitation of Wells

Projections, developed by Louis Berger International, to 1990, indicate a growth in water consumption to over 1.5 billion cubic meters, compared to approximately 1.2 billion cubic meters currently consumed. The lions share, approximately 78% of water consumption will come from river diversion, 14 percent will come from ground depression such as wars and berkads. Water from drilled and hand-dug wells will account for approximately eight percent of the total consumption. This will require a drilling program consisting of approximately 180 wells per year by 1990, well above the current administrative and technical capacity of the GSDR to implement. If improved maintenance and rehabilitation procedures can be instituted, the needed new production could be lessened considerably. In addition, if current regulations can be modified, the private sector can take a more active role in the maintenance and rehabilitation program and eventually undertake the majority of the well drilling operations in the country.

The Water Development Agency (WDA) and The Ministry of Minerals and Water Resources are now seriously considering a program which will enable them to transfer some of the government owned wells to the private sector. (See FB/23/00650/87). The WDA and the Ministry will need technical assistance to establish ways on best implementing this program. SECOR could provide the technical assistance and training to the GSDR to implement this Program. In addition to technical assistance to community groups and individuals, SECOR could fund a well maintenance and rehabilitation program through the private sector. Components of the program would include: (i) a survey to determine the precise location and condition of non-operational wells; (ii) the rehabilitation or abandoned or non-operational wells; (iii) routine private sector contract maintenance program for rehabilitated wells; (iv) routine well operations program.

Concurrently, SECOR could fund equipment needs for an active private sector well-drilling program. WDA has had good results from the number of wells drilled by the private sector under the Comprehensive Groundwater Development Project. There is no reason to believe the private sector could not significantly increase the number of wells dug for WDA on a contract basis as well as, for other donors and organizations. From our preliminary investigations the limiting factor appears to be the availability of foreign exchange for drilling rigs and spare parts to assure continuous operations. In addition financing will have to be addressed, since many of the "big-ticket" items needed, such as rotary drilling rigs costing approximately \$500,000 each will require financing.

Local currency costs associated with the program could initially be financed from shillings generated through the Cash Sales Program or the CIP. Such an arrangement should be on a declining basis. The intention is to make the program dependent upon an effective decentralized user fee program.

(ii) Water Distribution Systems

A second area in which SECOR may assist in the water development sector is the rehabilitation and development of the Kismayo Water Supply. At the request of the Minister of Minerals and Water Resources, USAID will soon undertake a field appraisal of the costs involved in the new design of the physical system. SECOR could fund the equipment costs of rehabilitating the system through private Somali contractors, if a program can be established that will assure that the operation and replacement costs of the system can be assured. SECOR would provide the resources to establish and strengthen the Kismayo Water Authority, in an attempt to establish a viable, long-term institutional capacity to run as a modern public sector utility. Kismayo is the capital of the Lower Jubba region and is the third largest center of population in Somalia. Successfully implementing the Kismayo Water Program would demonstrate to the GSDR the importance of user fees and calculating recurrent costs into development activities. The Kismayo water activity will also serve as direct link to private sector development in the Lower Jubba. Local currency for the activity could be generated through the Sector Grant and would be contingent upon an agreed upon program of reform and user fees being designed and implemented. USAID expects technical assistance would be needed to supervise the construction contract. The technical assistance, training and equipment will also be needed to strengthen the Authority to make it an effective utility.

Currently, AID is funding the reconstruction of the Kismayo Port. In addition, Kismayo will benefit as one of the three regional quarantine centers under the Livestock Marketing and Health Project. The EEC has pledged to assist the GSDR with the construction of the Kismayo-Laboi road which will serve as a link in opening Somalia to Kenya. Kismayo will also serve as a key commercial center, benefiting from the potential development of the Jubba Valley. All these factors make it crucial that an adequate supply of water for both domestic and commercial purposes be developed if the Kismayo region is to be developed in the long-term.

b. Road Maintenance and Reconstruction

Somalia has a 7,000 kilometer network of primary and secondary roads. This network covers the country and is a vital link in national, and local development. The network is in need of extensive repair, since in its present condition, goods and services cannot be transported over extensive sections of the network in a cost effective manner. In essence a comprehensive maintenance program must be initiated to prevent the loss of Somalia's considerable investment in roads.

In 1985 The World Bank funded a study that provided for a five year plan for the maintenance and rehabilitation of the nations road system. The plan addressed the policy, organizational and equipment needs required to put the road network into reasonable condition. In 1985 prices, the total cost of the maintenance program amounts to \$50.2 million of which \$32.7 million was foreign exchange. This figure does not include the cost of reconstruction of several sections of the National Highway system amounting to an additional \$20.2 million. The Council of Ministries accepted the conclusions and recommendations of the study in March, 1986 and have requested donor support to assist in financing the required road maintenance program. The organizational changes that have been enacted include: i) elevating the Civil Engineering Division (CED) of the Ministry of Public Works and Housing from a department to a Directorate; ii) attracting qualified staff; iii) developing management and technical training programs, and iv) drafting a Road Act and Road Traffic Act to strengthen the legal foundation of Somalia's highway related responsibilities. v) LBI is developing a user fee schedule for funding an on-going road maintenance program.

To date donor support for the maintenance reconstruction program includes:

- (i) The World Bank is currently funding a program of technical assistance and training to the CED, and restoration of the bridge network on National Highway 1 between Bullo Burti and Beled Weyne.

The EEC is currently funding several road/bridge design contracts in the Jubba and Shebelli Valleys. Furthermore, it is providing a grant of ECU 3.0 million for road maintenance equipment and materials for use on the Afgoi-Jilib road link.

In addition, the GSDR has made application to the African Development Bank for assistance amounting to approximately \$26.0 million for the reconstruction of the Balad-Jowhar Road; and for a five year maintenance program essentially for National Highway 1 linking Mogadishu with Hargeisa in the north.

USAID believes the private sector could be used extensively in the maintenance program, and could work similarly to the water development program. The program has the advantage of having an experienced contractor currently operating in Somalia. In addition the GSDR considers this a high priority area and has already initiated major institutional and organizational changes necessary to get an effective program off the ground. AID involvement would be contingent upon the implementation of the fuel user fee and the actual earmarking of these fees for road maintenance. In addition to road maintenance is the definite potential for the development of private sector capacity for road construction.

c. Telecommunications

The Ministry of Post and Telecommunications has requested AID assistance in the preparation of a materials list and cost figures to

upgrade or replace the Somali earth station to make it compatible with the new generation of satellites. In October 1985, USAID contracted with Teleconsult to perform the required analyses. Under SECOR resources could be made available to fund the necessary equipment and provide assistance to the Ministry of Post and Telecommunications to upgrade or replace the Somali earth station at Karaan.

Annex F

Mogadishu 04180

Ministry of Fisheries Continues Move Towards
Increased Privatization.

Mogadishu 04179

Minister of Education Speech at Donor
Coordination Sub-Committee on Primary Education.

Letter FB/23/00650/87

From The General Manager of Water Development
Agency.

VZCZCMGI *
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 DE RUFEMG #4180 110 **
 ZNR UDUUU ZZH

R 201121Z APR 87
 FM AMEMBASSY MOGADISHU
 TO RUEHC / SECSTATE WASHDC - 7135
 INFO RUEHNR / AMEMBASSY NAIROBI 8205
 BT
 UNCLAS MOGADISHU 04180

CLASS: UNCLASSIFIED
 CHRG: AID 4/15/87
 APPRV: DIR: LACOHEN
 DRFTD: DIR: LACOHEN:ASH
 CLEAR: NONE
 DISTR: DIR CDA D/D
 AGE PROG ECON
 PROJ

AIDAC

FCR ARF/EA, AFR/TR/AGR; ST/AGR; NAIROBI FCR REDSO/ESA

E.O. 12356: N/A

SUBJ: MINISTRY OF FISHERIES CONTINUES MOVE TOWARD
 - INCREASED PRIVITIZATION

1. ON 15 APRIL, MINISTER OF FISHERIES REED OPENED HOUSE
 AT COASTAL DEVELOPMENT PROJECT COMPOUND FOR PROJECT
 SENIOR STAFF AND INVITED USAID OFFICIALS.

2. PROJECT MANAGER TOOK USAID STAFF ON TOUR OF PROJECT
 COMPOUND WHICH INCLUDED VEHICLE WORKSHOP AND PARTS
 WAREHOUSE FOR ANCIENT COLLECTION OF FRENCH, BRITISH AND
 JAPANESE VEHICLES; SUPPLY WAREHOUSES FOR ROPES, NETS,
 FLOATS, HOOKS, ANCHORS, BOAT PARTS AND OTHER FISHING
 SUPPLIES; SOVIET-BUILT ICE PLANT WHICH WAS BOTH SELLING
 CRUSHED ICE TO LOCAL PRIVATE SECTOR AND BILLING BOXES
 (BUILT WITH USAID COUNTERPART) FOR TRUCK PICK-UP OF
 FRESH FISH FROM CONTROL PORTS FROM ADALE ON NORTH TO
 BRAVA ON SOUTH FOR HAULING BACK TO MOGADISHU ON
 CONSIGNMENT FOR SALE TO WHOLE SALERS.

3. MINISTER THEN CONDUCTED TOUR OF NEW COASTAL
 DEVELOPMENT PROJECT BUILDING JUST COMPLETED AND FUNDED
 FROM AID-GENERATED COUNTERPART. BUILDING INCLUDES
 OFFICES, TRAINING CENTERS, CONFERENCE ROOM.

4. MINISTER ADAM MCEAMED ALI BRIEFLY DESCRIBED ORIGIN
 OF PROJECT AS RESETTLEMENT OF DROUGHT VICTIMS IN FISHING
 VILLAGES WITH SOVIET HELP AND THEN ABANDONMENT AND
 COLLAPSE WITH SOVIET DEPARTURE WHEN HE CAME TO MINISTRY
 IN 1984, HE ASKED FOR AND RECEIVED USAID ADVICE THROUGH
 TEAM FROM ISTI FUNDED UNDER POLICY INITIATIVES AND
 PRIVITIZATION STUDIES PROJECT. THE ISTI TEAM DEVELOPED
 A SPECIAL PROGRAM FOR CDP:

- A. RESETTLING SECONDARY-SCHOOL LEAVERS AND
 SEPARATED
 - CIVIL SERVANTS AND TRAINING THEM AS FISHERMEN;

- B. PROVIDING SERVICES AND EXTENSION FOR PRIVATE
 SECTOR
 - FISHERMEN AND FISH-RELATED BUSINESSES.

5. SINCE RECEIPT OF THE ISTI REPORT IN JULY 1985, THE

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UNCLAS

CDP HAS MOVED STEADILY TOWARD THE GOAL OF ACCOMPLISHING THE TASKS RECOMMENDED IN APPENDIX 2 OF THE REPORT.

A. THE FISHERY TRAINING SCHOOL OF EL AHMED (NORTH OF BRAVA) HAS BEEN REORGANIZED AND RE-EQUIPPED AND GRADUATED TWO CLASSES OF 72 SCHOOL-LEAVERS WHO RECEIVED A FIBERGLASS BOAT AND FISHING GEAR AND ARE NOW SETTLED NEAR THE SCHOOL.

B. ALL FISHING COOPERATIVES HAVE BEEN GIVEN AUTHORIZATION TO ORGANIZE IN ANY WAY THEIR MEMBERS DESIRE, AS COOPERATIVES, AS INDIVIDUALS, AS COMPANIES, OR AS PARTNERSHIP.

C. IN KEYEMBO, KISMAYO, BRAVA, EL AHMED, MERA, MOGADISHU, WARSHEBO, ADALE, HOBYO, LAS QORE, BERBERA THE CDP PROVIDES ICE PLANTS AND COLD STORAGE SO THE FISHERMEN CAN SELL TO WHOLESALERS FOR ICED TRUCKING TO INLAND TOWNS. (IN PAST EIGHT MONTHS THERE HAS BEEN A 1,000 PER CENT INCREASE IN FRESH FISH SALES IN HARGEISA FROM BERBERA.)

6. THE MINISTER REQUESTED USAID BRING ANOTHER CONSULTANT TO EVALUATE CDP PROGRESS AND RECOMMEND A 2--3 YEAR PROGRAM OF ACTIVITIES.

7. USAID DIRECTOR REVIEWED WHAT HELP USAID HAS PROVIDED THROUGH COUNTERPART. HE NOTED THAT THIS YEAR MOST OF THE EFFORT WOULD BE THE FIRST YEAR OF TWO FOR FUNDING CONSTRUCTION OF AN ALL-WEATHER ROAD FROM MOGADISHU TO ADALE FOR MINISTRIES OF FISHERIES AND OF LIVESTOCK BY CONTRACT THROUGH THE MINISTRY OF PUBLIC WORKS. THE CONSULTANT REQUESTED WOULD BE BROUGHT THROUGH HIPS AND, SUBJECT TO MINISTRY AND USAID AGREEMENT, HIS PROGRAM COULD BE FUNDED THROUGH COUNTERPART FUNDING. IT WAS ALSO NOTED THAT PRIVATE EX FISHERIES REQUIREMENTS MIGHT BE FUNDED THROUGH A PROJECT NOW UNDER DESIGN FOR POSSIBLE 1988 START. RAWSON

BT

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UNCLAS SECTION 02 OF 02 MOGADISHU 04179

TECHNICAL AND VOCATIONAL EDUCATION IN ORDER TO INCREASE THEIR CAPACITY AND ENHANCE ECONOMIC DEVELOPMENT. TO DO THIS THE MINISTRY DECIDED TO IMPROVE THE EXISTING TECHNICAL AND VOCATIONAL SCHOOLS BY: -

- A) REVISING AND UNIFYING THE CURRICULUM OF TECHNICAL AND VOCATIONAL EDUCATION.
- B) UPGRADING TEACHER QUALITY.
- C) PRODUCTION AND DISTRIBUTION OF INSTRUCTIONAL MATERIALS.
- D) IMPROVING THE QUALITY AND QUANTITY OF EQUIPMENT.
- 5. STRENGTHENING THE SUPERVISORY AND MANAGERIAL FUNCTIONS OF THE SYSTEM.
- 6. DEVISING STRATEGIES TO MAXIMIZE THE EFFICIENT USE OF THE RESOURCES AVAILABLE TO US.
- 7. IMPROVING DONOR COORDINATION AND SUPPORT BY ELIMINATING WASTAGE AND REDUNDANCY.
- 8. IMPROVING THE PRIMARY SYSTEM AT THE LOCAL LEVEL THROUGH DECENTRALIZATION AND STRENGTHENING THE LOCAL ADMINISTRATION. FIVE ELEMENTS ARE BASIC TO THIS DECENTRALIZATION PROGRAM: LOCAL RESPONSIBILITY FOR TEACHER TRAINING, SUPERVISION, PLANNING, MATERIAL DISTRIBUTION AND STORAGE, AND SCHOOL BUILDING.

TO ATTAIN THIS GOAL WILL REQUIRE INCREASED STAFF DEVELOPMENT AND SUPPORT FOR THE LOCAL OFFICES.

THE FOCAL POINT OF THIS PLAN OF EDUCATION IS PRIMARY EDUCATION FOR THAT IS THE AREA THAT NEEDS THE GREATEST ATTENTION AT THIS TIME. HOWEVER, AS THE EXPERIENCES OF NATIONS THROUGHOUT THE WORLD HAVE SHOWN, NO PROGRAM OF EDUCATION FOR CHILDREN CAN SUCCEED WITHOUT CONCOMITANT SUPPORT FOR THE DEVELOPMENT OF LITERACY IN THE ADULT COMMUNITY. TO THIS END THE MINISTRY OF EDUCATION WILL ALSO STRESS THE IMPORTANCE OF NONFORMAL EDUCATION. ADULT LITERACY PROGRAMS WILL BE LINKED WITH PRIMARY EDUCATION AND WHEREVER THERE IS A PRIMARY SCHOOL, THERE TOO WILL THERE BE EVENING CLASSES FOR ADULTS. IN ADDITION, FAMILY LIFE CENTERS WILL TEACH WOMEN HOME BASED ACTIVITIES TO SUPPORT THE WELFARE OF THE HOME AND FAMILY.

THE SUCCESS OF THIS AMBITIOUS, HEROIC PLAN WILL LARGELY DEPEND ON OUR EFFORTS, BUT YOUR SUPPORT AND ASSISTANCE IS ESSENTIAL. WITH OUR EFFORTS AND YOUR CONTINUED AND INCREASED SUPPORT WE MAY BE ON THE THRESHOLD OF A NEW ERA IN EDUCATION. A DECADE AGO THIS COUNTRY LAUNCHED AN EDUCATIONAL CAMPAIGN THAT WAS SO SUCCESSFUL IT ATTAINED INTERNATIONAL RECOGNITION AND ACCLAIM. PERHAPS TOGETHER WE CAN BRING FORTH ANOTHER GREAT CAMPAIGN THAT WILL RETURN US TO THE HEIGHTS OF PAST ACCOMPLISHMENTS.

UNCLAS

I CANNOT CONCLUDE MY SPEECH WITHOUT THANKING YOU FOR YOUR GENUINE INTEREST AND EFFORTS. I WISH TO PARTICULARLY THANK THE GOOD OFFICES OF UNICEF FOR SPONSORING THIS GATHERING. I HOPE THAT WILL NOT BE THE LAST OF SUCH MEETINGS, THAT WE WILL MEET AGAIN AND WORK TOGETHER FOR THE DEVELOPMENT OF EDUCATION IN SOMALIA.
UNQUOTE.

4. BASED ON DISCUSSIONS WITH IBRD, UNICEF, ILES STAFF, AND THE MINISTRY, USAID WILL HAVE A PRIMARY EDUCATION COMPONENT IN THE FY 1988 NEW START PID, NOW IN PREPARATION. RAWSON

BT

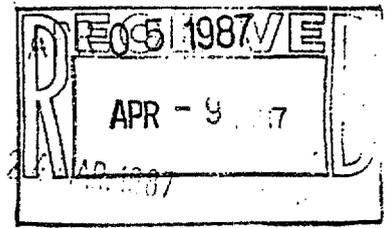
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UNCLAS

PROJ - Biggells/w m/r/n
We need a prompt reply. RA
جمهورية الصومال الديمقراطية
وكالة تنمية المياه
ص. ب. ٥٢٥

Jamhuuriyadda Dimoqraadiga Soomaaliya
WAKAALADDA FORUMARINTA BIYAH
S. B. 525 - Tel. 80024 - 80863 - 81379
Taar. WABI



WATER DEVELOPMENT AGENCY
P. O. Box 525 - MOGADISCIO

Lr. FS/23/00650/87
Taar. _____
Ujeeddo: _____

ACTION COPY
ACTION TAKEN Letter to WDA
Signature [Signature] Date 30 March 24, 1987
871440

Mr. L. Cohen
Mission Director
USAID, Somalia

Dear Mr. Cohen:

The Water Development Agency and the Ministry of Minerals and Water Resources are now in a position to consider the implementation of a program which enables them to transfer some of the government owned water wells to the private sector.

A reference to this matter has been in the study of LBI on the private sector participation in Somalia's water resource development. This study recommends a ten-year program of water industry development for Somalia to be carried out in three phases.

However, the study needs further assessment in order to be more realistic and easily applicable. The Water Development Agency is planning to transfer some of the state owned existing water wells to the private sector but to implement this idea there are a lot of options to consider and lot of questions to answer. Among these are the following:

1. Total or partial transfer of the property ownership - to whom to transfer? community like village committees or a single person? How can the investment cost be recovered or should WDA has to drop it or it has to transfer on a loan pay-back bases of the investment?
2. Partial transfer of the ownership on share holding bases and if so what share will be given or be transferred to the private sector?
3. Contracting first the operation of a substantial portion of its wells to the Somali private communities.

4. What is the best beneficial role to be assumed by WDA in order to have an effective water resource development program in Somalia ?

These and other points are the key issues to be addressed before we proceed the implementation of our plan. To address these issues the Agency needs to get inputs from donor communities in order to achieve a successful implementation of this program, therefore , we hereby formally request USAID to assist us in the implementation of this program. The kind of assistance we need can be the following but not limited to; lay down a step by step implementation plan to operate and maintain the water wells in Somalia and introduce a water use legislation.

Eng. Ahmed Mohamoud Handulle

[Handwritten Signature]
The General Manager,
Water Development Agency

cc: Ministry of Minerals and
Water Resource
Mogadishu

ACTION/DISTRIBUTION		
OFFICE	INFO	ACTION
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Annex G

Description of UNDP Tax Policies and Administration Activity with The
Ministry of Revenue.

PROJECT OF THE GOVERNMENT OF THE
DEMOCRATIC REPUBLIC OF SOMALIA

Title :Tax Policies and Administration
Number :SOM/86/003/A/01/01 Duration : 2 years
Primary Function :Institution Building
Secondary Function :Direct Support
Sector (ACC Class and Code) :UNDP:02 - General Development Issues
Sub-Sector (ACC Class and Code) :UNDP:0230 - Public Administration
Government Implementing Agency :Ministry of Revenue
Executing Agency :United Nations Department of Technical
Cooperation for Development
Estimated Starting Date :1 January 1987 Project Site : Mogadishu
Government Inputs :(In Kind) : So. Shs 911,000
UNDP Inputs :US \$ 617,000

This Project Document and its annexes constitute the Agreement among the Signatories.

_____ Date _____
on behalf of the Government

_____ Date _____
on behalf of the Executing Agency

_____ Date _____
on behalf of the United Nations
Development Programme

PART I. LEGAL CONTEXT

This Project Document shall be the instrument referred to as such in Article 1, paragraph 1, of the Assistance Agreement between the Government of Somalia and the United Nations Development Programme, signed by the parties on 16 May 1977 (Annex 5).

The Government Implementing Agency shall for the purpose of the Standard Basic Agreement, refer to the Government Co-operating Agency described in the Agreement.

PART II. THE PROJECT

PART III. Development Objective

To contribute to the Somali Democratic Republic's economic recovery programme through enhancing the Government's capacity in revenue collections and mobilization of new revenue sources.

PART IIB. Immediate objectives

- 1) Identification of additional taxable sources in order to expand the tax base and thus contribute to achieving annual growth of 20 percent in revenue collection.
- 2) Establishment of tax audit systems and investigation procedures supported by relevant guidelines and manuals in order to reduce cases of tax and customs duties under-assessment, under-valuation and under-collection.

3) Senior and middle-level staff counterparts trained and qualified to carry out the functions and responsibilities related to above immediate objectives

PART IIC. Special consideration

None

PART IID. Background and Justification

Against a background of virtual stagnation in economic activity and mounting financial imbalances, the Government of the Democratic Republic of Somalia launched, in mid-1983, a significant adjustment effort. Over the next two and half years, policies pursued contributed to a pick-up in economic activity and a reduction in domestic and external financial imbalances. In 1984, the economic and financial crisis re-emerged with a slowdown in economic activity, a sharp decline in exports, a steeply rising inflation, a large budgetary deficit and a worsening in the external sector position. Demand management policies also suffered a set back with, on the budgetary side, a slippage in the revenue collection and a sharp rise in expenditures. The overall budget deficit quadrupled, rising from So.Shs 1.3 billion in 1983 to So.Shs 5.0 billion in 1984.

In view of the growing imbalances, the Somali Government adopted a major adjustment programme in 1985 with a renewed commitment to sustain policy reforms to reduce inflation and the balance of payments deficit and stimulate economy activity. The core of the adjustment programme comprises a major devaluation, the establishment of a free foreign exchange market for most non-government transactions, the virtual elimination

of export and import restriction, the dismantling of price controls and fiscal and monetary measures to constrain demand through increasing revenue and limiting government expenditure, and reducing the rate for monetary expansion. The programme also includes an acceleration of the reform of public enterprises, and reform of the banking system.

On the fiscal front, the Government adopted a number of tax measures that are expected to contribute to expanding the revenue base and improving the elasticity of the tax system. These measures include the abolishment of exemption from import duties enjoyed by many public enterprises, the conversion of specific import and export duties to an ad valorem basis, the levying of ad valorem import duties on the basis of letters of credit, the introduction of surcharges of 20 percent on non-essential imports and 50 percent on imports through external accounts, and the introduction of general sales tax. Furthermore, in order to avoid loss of customs duties due to under-invoicing of letters of credit, an up-to-date list for imported goods denominated in US dollars has been established. Customs duties are levied on the basis of the prices in the letters of credit or the price list, which is ever higher. Finally, the Government has revised the manner in which the public enterprises are taxed, replacing the turnover tax, share of profit tax and the charges on depreciation with an income tax.

To complete the above-mentioned tax measures, the Government has emphasized the need for structural and administrative reforms to improve tax administration and audit. Extraordinary

measures have been taken to improve revenue collection among which:

- a door-to-door real estate property inventory;
- abolishment of the "Concordato" system of negotiating tax liability;
- increased penalties for property and import/export tax evasions.

The proposed project will, therefore, help the newly established Ministry of Revenue in its efforts to mobilize additional financial resources for the Government's economic recovery programme. It will also help the customs and tax departments in developing expertise, designing methods and training personnel to handle tax administration issues and implementation procedures, with full efficiency and effectiveness, thereby netting more revenue and reducing losses on account of tax evasion and tax avoidance.

The most critical constraint to tax administration and implementation procedures lies in the lack of an in-house technical and professional capability for tax information gathering, collection and audit. To help streamlining and strengthening the Ministry of Revenue's capability in this areas, the services of tax policy, administration and customs advisors, supplemented by personnel training are required during the period 1 January 1987 - 31 December 1988. However, the technical support that this contribution will make possible will be crucial for the return of Somalia to sustained economic recovery and growth. The main elements of the required support are indicated in the next part of the present Document.

PART II E. Outputs

Related to immediate objective 1:

- 1:1 Revised regulations concerning tariff exemptions on imports, income tax structure rationalization and international transactions valuation and assessment;
- 1:2 Format of reporting from district offices to directorates to Ministry of Revenue;
- 1:3 Sales tax extension to retail trade, improved income and property taxes collection and introduction of selective excise duties to imports and domestic production;

Related to immediate objective 2:

- 2:1 Computerized programme for tax and Customs duties assessment, valuation and collection;
- 2:2 Gathering of global and individual information from directorates concerned, especially tax and customs;
- 2:3 Handbook and guidelines for tax administration covering tariff, excise, income and property assessment valuation, collection audit, investigation and prosecution;

Related to immediate objective 3:

- 3:1 Training and seminar programmes in all key areas to attain self-reliance in customs and tax administration;

PART II F. Activities

Related to the outputs of immediate objective 1:

- 1.1:1 Redesign revenue collection and control registers at the district, regional and Ministry levels;
- 1.2:1 Prepare model variance statements, inspection guidelines and testing and use;
- 1.3:1 Design alphabetical indexes and special ledger cards to identify tax payers with more than one income;
- 1.3:2 Compare and monitor information provided by taxpayers' clients or purchasers;

Related to the outputs of immediate objective 2:

- 2.1:1 Revise tariff classification, property valuation and income tax assessment to conform to harmonized computerized system;
- 2.2:1 Establish programmed audit systems at regional and Ministry levels;
- 2.3:1 Draw up guidelines and manuals on tariff, excise, income and property tax systems methods and procedure;

Related to the output of immediate objective 3:

- 3.1:1 Identify suitable training courses and select staff for overseas training;
- 3.1:2 Select suitable participants for group training/study tours and select countries and organization for the purpose

3.1:3 Design and conduct in-house training programmes;

PART II G Inputs

A. Government inputs

The project budget covering the Government's contribution is shown as Annex 1.

1. Assignment of National Staff

National staff either holding responsibilities for components of project delivery or to be assigned as counterparts or support staff are listed below:

24 m/m services of one Senior official, Director of Statistics and Research of the Ministry of Revenue to be the Project National Director;

60 m/m services of three Senior officials from the General Directorate of Customs, Direct Taxation and Indirect Taxation, to act as national counterparts for international staff;

144 m/m services of national professional staff to be assigned to project.

48 m/m services of typists

24 m/m services of drivers

2. Premises and equipment

The Government will arrange for appropriate and sufficient office space to accommodate project management and staff and will provide necessary office materials for project's facilitation.

3. Local travel

The Government will arrange for appropriate transport for national staff in order to facilitate project implementation.

B. UNDP Inputs

The project budget covering the UNDP's contribution is shown as Annex 2.

1. Assignment of international staff

11.01 12 m/m services of a Tax Policy Adviser and Chief Technical Adviser responsible for overall project management, advising on tax policy issues, designing new systems and improving existing ones, and training national counterparts;

11.02 24 m/m services of an Adviser in Tax Administration, responsible for advising on practical steps necessary to implement, direct and indirect taxation issues, helping in designing tax information systems and training national counterparts;

11.03 24 m/m services of an Adviser in Customs and Excise Administration responsible for advising on assessment and valuation techniques helping in improving clearance procedures and training national counterparts;

Job descriptions with required qualifications and duties are attached as Annex 3 (A-C)

2. Assignment of support staff

13.01 72 m/m services of secretaries/typists;

13.02 24 m/m services of drivers;

3. Official travel

A total of \$ 6,000 is provided to meet the cost of travel, during assignment, by international staff.

4. Mission cost

\$ 3,000 is provided for mission to be fielded by DTCD.

5. Training

A total of \$69,000 is provided for the following activities:

- 31.00 Fellowships and short study tours to selected developing countries to study operational systems;
- 32.00 Seminars and group training courses;
- 33.00 In-service training;

6. Equipment

\$ 60,000 is provided for the purchase of the following major items:

3 minicomputers, one each for the Directorates of Customs, Direct Taxation and Indirect Taxation;

2 small vehicles;
2 manual typewriters;
1 photocopier;
books and training aids;

7. Miscellaneous

Provision for miscellaneous expenses arising during project implementation including those for operation and maintenance of equipment is \$ 9,000.

PART II H. Preparation of Work Plan

A detailed workplan for the project will be prepared by the Adviser in Tax Policy/CTA and agreed with the Government, UNDP and Executing Agency not later than four months after project's inception. The agreed workplan will be attached to the project Document as an annex and will be considered as part of that document. A tentative workplan (Annex 4) will provide guidance in the preparation of the detailed workplan.

PART II I. Preparation of the Framework for effective Participation
of National and International staff in the Project

The respective roles of the national and international staff will be determined by their supervisors, by mutual discussion and agreement at the beginning of the project, and set out in a framework for effective participation of national and international staff. The framework, which will be attached to the Project Document as an annex, will be reviewed from time to time. The respective roles of the national and international staff shall be in accordance with the established concept and specific purposes of technical cooperation. The Tax Policy Adviser/Chief Technical Adviser and the Project National Director shall jointly decide on selecting acting CTA for the second year of the project.

PART II J. Development Support Communications

The success of the project will depend in part on the activities prosecuted by the Government to communicate to concerned parties the implications of changes in tax administration and implementation procedures. The Ministry of Revenue and other concerned Government bodies should coordinate relevant information addressing enterprises and the public.

PART II K. Institutional Framework

The central tax and customs collecting body in Somalia is the Ministry of Revenue which is headed by a Minister. The Ministry of Revenue is composed of the following departments and directorates:

- a) Secretariat Office of the Minister
- b) Department of Statistics and Research
- c) Department of Inspection and Control
- d) General Directorate of Direct Taxation responsible for property, income and business profit taxation
- e) General Directorate of Indirect Taxation responsible for sales, excise, registration and other indirect taxes.
- f) General Directorate of Customs responsible for import and export duties as well as stamp taxes.

The Directorates of Direct and Indirect Taxation coordinate the activities of 13 districts and 17 regions entrusted with the assessment and collection of taxes. However, the bulk of custom and tax assessment and collection activities is located in Mogadishu. The Ministry of Revenue will coordinate with other Government bodies related activities.

PART II L. Prior obligations and prerequisites

The Government will undertake to assign suitable counterparts to work with the international project staff. During execution of the project the Government will, prior to the recruitment of each expert, confirm the nomination and availability of a suitable counterpart or counterparts.

The Project Document will be signed by the Resident Representative on behalf of UNDP and UNDP assistance to the project will be provided subject to UNDP satisfaction that the prerequisites stated above are likely to be fulfilled. Failing such fulfilment UNDP may, at its discretion either suspend or terminate its assistance.

PART II M. Future UNDP assistance

No further UNDP assistance is envisaged. This project has been conceived as a catalytic and time-limited input to the Government's renewed efforts as described in the development and immediate objectives.

PART III. Schedules of Monitoring, Evaluation and Reports

A. Tripartite Reviews

The project will be subject to annual tripartite review in accordance with the policies and procedures established for this purpose by UNDP, for monitoring project and programme implementation. The first such review should take place within 12 months of the arrival of the first international expert.

B. Evaluation

The need for an evaluation will be determined in course of project implementation. The organization, terms of reference and timing of the evaluation will be decided by consultation between the Government, UNDP and DTCD.

C. Progress and Terminal Reports

The project management will submit six-monthly progress reports in accordance with UNDP policies and procedures for monitoring projects and programme implementation. With every second report, and prior to each TPR meeting, the project management shall submit an internal evaluation report in accordance with the standard format. A terminal report will be submitted by the CTA three months prior to the end of his assignment.

Project Budget Covering
Government Contribution in Kind

(In Somali Shillings)

	Total		1987		1988	
	m/m	So. Sh	m/m	So Sh.	m/m	So. Sh
1) <u>Government Staff</u>						
- Director of Department	24	72000	12	36000	12	36000
- Senior counterparts	60	120000	30	60000	30	60000
- Staff counterparts	144	259200	72	129000	72	129600
- Typists	48	72000	24	36000	24	36000
- Driver	24	30000	12	15000	12	15000
 Component Total	 300	 553200	 150	 276500	 150	 276600
2) <u>Premises and equipment</u>		240000		120000		120000
3) <u>Local travel</u>		40000		20000		20000
4) <u>Sundry</u>		77800		38900		38900
 Grand Total	 300	 911000	 150	 455500	 150	 455500

PROJECT BUDGET COVERING UNDP CONTRIBUTION

(in US Dollars)

			<u>Total</u>		<u>1987</u>		<u>1988</u>
11	<u>PROJECT PERSONNEL</u>						
11.01	Adviser in Tax Policy/CTA	12 m/m	90,000	12 m/m	90,000	-	-
11.02	Adviser in Tax Administration	24 m/m	175,000	12 m/m	85,000	12 m/m	90,000
11.03	Adviser in Customs and Excise Administration	24 m/m	175,000	12 m/m	85,000	12 m/m	90,000
13.00	Administrative Support Personnel	96 m/m	30,000	48 m/m	14,400	48 m/m	15,600
15.00	Local travel		6,000		3,000		3,000
16.12	Mission cost		<u>3,000</u>		-		<u>3,000</u>
19.00	<u>Component Total</u>		<u>479,000</u>		<u>277,400</u>		<u>201,600</u>
30	<u>Training</u>						
31.00	Fellowship		50,000		30,000		20,000
32.00	Seminars		13,000		8,000		5,000
33.00	In-service		<u>6,000</u>		<u>3,000</u>		<u>3,000</u>
39.00	Component Total		<u>69,000</u>		<u>41,000</u>		28,000
40.00	<u>EQUIPMENT</u>						
41.00	Expendable		7,000		5,000		2,000

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ANNEX 2

42.00	Non Expendable	<u>53,000</u>	<u>50,000</u>	<u>3,000</u>
49.00	Component Total	<u>60,000</u>	<u>55,000</u>	<u>5,000</u>
50.00	<u>Miscellaneous</u>			
51.00	Maintenance	3,000	1,500	1,500
53.00	Sundry	<u>6,000</u>	<u>3,000</u>	<u>3,000</u>
59.00	Component Total	<u>9,000</u>	<u>4,500</u>	<u>4,500</u>
99.00	GRAND TOTAL	<u>617,000</u>	<u>377,900</u>	<u>239,100</u>

Annex 3 A

Request from the Government of the Democratic
Republic of Somalia

Project: Reform in Tax Policies and Revenue Administration

JOB DESCRIPTION

Post Title: Adviser in Tax Policy/Chief Technical Adviser

Duration: 12 months

Date Required: January 1987

Duty Station: Mogadishu

Duties: The Adviser will be attached to the Ministry of Revenue where under the general direction of the Director of the Department of Statistics and Research and in close cooperation with the Directorates of Direct Taxation, Indirect Taxation and Customs and in collaboration with international and national staff he will assist in:

1. reviewing the national tax and customs systems with a view to streamlining assessment, valuation and collection systems and procedures;
2. quantifying the expected yield of selective taxes and customs and excise duties to be introduced and/or extended in Somalia;
3. determining the price effect of those measures;
4. developing appropriate management reporting systems at the districts, departments and directorates levels;
5. setting up tax audit system and investigation procedures;
6. drafting relevant legislation, rules and regulations;
7. coordinating the work of the advisers in tax and customs administration;
8. enhancing the tax and customs skills of national staff through training techniques and organization of seminars; and
9. performing any other duties that may be entrusted to him from time to time by the Ministry of Revenue.

Qualifications: Advanced university degree in economics with specialization in taxation; wide experience in tax policy and administration at the national level; previous experience in comparable work in Somalia or in countries with similar economic and fiscal circumstances.

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Languages:

English; knowledge of Italian desirable.

Background
Information:

The Government of the Democratic Republic of Somalia has undertaken a major recovery programme comprising policy reforms to reduce inflation, the budget and balance of payments deficits and stimulate economic activity. The programme calls for the implementation of fiscal measures to constrain demand through increasing revenue and limiting Government expenditure. In order to achieve these objectives, the Ministry of Revenue is in the process of strengthening further its revenue generation and administration capacity through expert assistance in tax and customs policy and administration. The present project provides for United Nations assistance in the above-mentioned field areas.

Annex 3 B

Request from the Government of the Democratic
Republic of Somalia

Project: Reform in Tax Policies and Revenue Administration

JOB DESCRIPTION

Post Title: Adviser in Tax Administration

Duration: 12 months with possibility of extension

Date Required: January 1987

Duty Station: Mogadishu

Duties: The Adviser will be attached to the Ministry of Revenue where under the general direction of the Director of the Department of Statistics and Research and in close cooperation with the Directorates of Direct and Indirect Taxation and in collaboration with the international and national staff he will assist in:

1. designing practical steps necessary to implement direct and indirect tax revenues, including organizational changes in Tax Directorates;
2. organizing a tax audit unit and methods of investigation;
3. designing data processing and other information systems for tax assessment, collection and audit purposes, with emphasis on cross-checking of information collected by different units of the Tax and Customs Directorates;
4. reviewing the existing tax legislation with emphasis on assessment and collection procedures, and the system of penalties;
5. preparing guidelines and manuals in selected work areas;
6. redesigning forms, registers, etc.
7. training national counterparts on-the-job and through in-house seminars; and
8. performing any other duties that may be entrusted to him from time to time by the Ministry of Revenue.

Qualifications: Advanced university degree in economics with specialization in tax administration; wide experience in tax administration at the national level; previous experience in comparable work in Somalia or in countries with similar economic and fiscal circumstances.

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Languages: English, knowledge of Italian desirable.

Background Information: The Government of the Democratic Republic of Somalia has undertaken a major recovery programme comprising policy reforms to reduce inflation, the budget and balance of payments deficits and stimulate economic activity. The programme calls for the implementation of fiscal measures to constrain demand through increasing revenue and limiting Government expenditure. In order to achieve these objectives, the Ministry of Revenue is in the process of strengthening further its revenue generation and administration capacity through expert assistance in tax and customs policy and administration. The present project provides for United Nations assistance in the above-mentioned field areas.

Annex 3 C

Request from the Government of the Democratic
Republic of Somalia

Project: Reform in Tax Policies and Revenue Administration

JOB DESCRIPTION

Post Title: Adviser in Customs and Excise Administration

Duration: 12 months with possibility of extension

Date Required: January 1987

Duty Station: Mogadishu

Duties: The Adviser will be attached to the Ministry of Revenue where under the general direction of the Director of the Department of Statistics and Research and in close cooperation with the Directorate of Customs and in collaboration with international and national staff he will assist in:

1. improving and streamlining clearance procedures, especially for air travelers;
2. designing steps to be taken for the implementation on imports of selective excise duties;
3. the introduction into Somalia of bonded warehouses;
4. assessment techniques of excise duties, including physical surveillance;
5. improving customs valuation;
6. training national counterparts on-the-job and through in-house seminars; and
7. performing any other duties that may be entrusted to him from time to time by the Ministry of Revenue.

Qualifications: Advanced university degree in economics with specialization in custom and excise administration; wide experience in customs and excise administration at the national level; previous experience in comparable work in Somalia or in countries with similar economic and fiscal circumstances.

Languages: English, knowledge of Italian desirable.

/....

Background
Information:

The Government of the Democratic Republic of Somalia has undertaken a major recovery programme comprising policy reforms to reduce inflation, the budget and balance of payments deficits and stimulate economic activity. The programme calls for the implementation of fiscal measures to constrain demand through increasing revenue and limiting Government expenditure. In order to achieve these objectives, the Ministry of Revenue is in the process of strengthening further its revenue generation and administration capacity through expert assistance in tax and customs policy and administration. The present project provides for United Nations assistance in the above-mentioned field areas.

PROJECT WORK PLAN

ACTIVITIES	Responsibilities	1987				1988			
		I	II	III	IV	V	VI	VII	VIII
<u>Related to Immediate Objective One and its outputs</u>									
1.1 Redesign revenue collection and control registers at the district, regional and Ministry levels	Govt/DICD	-----							
1.1 Prepare model variance statements, inspection guidelines and testing and use	Govt/DICD		-----						
1.1 Design alphabetical indexes and special ledger cards to identify tax payers with more than one income.	Govt/DICD		-----						
1.2 Compare and monitor information provided by taxpayers clients or purchasers	Govt/DICD		-----						
<u>Related to Immediate Objective Two and its outputs</u>									
1.1 Revise tariff classification, property valuation and income tax assessment to conform to harmonized computerized system	Govt/DICD			-----					
2.1 Establish programmed auditsystems at regional and Ministry levels	Govt/DICD				-----				
3.1 Draw up guidelines and manuals on tariff, excise, income and property tax systems methods and procedure	DICD					-----			
<u>Related to Immediate Objective Three and its output</u>									
1.1. Identify suitable training courses and select staff for overseas training	Govt/DICD		-----						
1.2. Select suitable participants for group training/ study tours and select countries and organization for the purposes.	Govt/DICD			-----					
1.3. Design and conduct in-house training programmes	DICD	-----							

Annex 5

ORGANIZATION OF THE PROJECT

General Responsibilities

1. The Government, the UNDP and the Executing Agency shall jointly be responsible for the execution of the project and the realisation of its objectives as described in Part II of this Project Document.
2. The Government shall provide to the project the national project personnel, training facilities, land, buildings, equipment and other required services and facilities. It will designate the Government Co-operating Agency named in the cover page of this document, which will hereinafter be referred to as the "Co-operating Agency" and which will be directly responsible for the implementation of the Government contribution to the project.
3. The UNDP undertakes to complement and supplement the Government's participation and will provide through the Executing Agency the required expert services, training, equipment and other services within the funds available to the project.
4. Upon commencement of the project the Executing Agency may be requested to assume primary responsibility for execution. However, that primary responsibility shall be exercised in consultation and in agreement with the Co-operating Agency. Arrangements to this effect shall be stipulated in the project Work Plan as well as for the transfer of this responsibility to the Government or to an entity designated by the Government during the execution of the project.
5. Part of the Government's participation may take the form of a cash

contribution to UNDP. In such cases, the Executing Agency will provide the related services and facilities and will account annually to the UNDP and to the Government for the expenditure incurred.

Participation of the Government

6. The Government shall provide to the project the services, equipment and facilities in the quantities and at the same times specified Work Plan. Budgetary provision - either in kind or in cash - for the Government's participation so specified shall be set forth in the Project Budgets.

7. The Co-operating Agency shall in consultation with the Executing Agency assign a director for the project on a full-time basis. He shall carry out such responsibilities in the project as are assigned to him by the Co-operating Agency.

8. The estimated cost of items included in the Government contribution, as detailed in the Project Budget, shall be based on the best information available at the time of drafting this Budget proposal. It is understood that price fluctuations during the period of execution of the project may necessitate an adjustment of said contribution in monetary terms; the latter at all times shall be determined by the value of the services, equipment and facilities required for the proper execution of the project.

9. Within the given number of man-months of personnel services described in the Work Plan minor adjustments of individual assignments of project personnel provided by the Government may be made by the Government in consultation with the Executing Agency, if this is found to be in the best interests of the project.

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10. The Government shall continue to pay the local salaries and appropriate allowances of national project personnel during the period of their absence from the project while in UNDP fellowships.

11. The Government shall defray any customs duties and other charges related to the clearance of project equipment, its transportation, handling storage and related expenses within the country. It shall be responsible for safe custody of the equipment, its installation and maintenance, insurance, and replacement if necessary, after delivery to the project site.

12. The Government shall make available to the project - subject to existing security provisions - any published and unpublished reports, maps, records and other data which are considered necessary to the implementation of the project.

13. The Government shall assist all project personnel in finding suitable housing accomodation at reasonable rents.

14. The services and facilities specified in the Work Plan which are to be provided to the project by the Government by means of a contribution in cash shall be set forth in the Project Budget. Payment of this amount shall be made in local currency to the UNDP in accordance with the Schedule of Payments by the Government.

15. Payment of the above-mentioned contribution to the UNDP on or before the dates specified in the Schedule of Payments by the Government is a pre-requisite to commencement or continuation of project operations.

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Participation of the UNDP and of the Executing Agency

16. The UNDP shall provide the project through the Executing Agency the services, equipment and facilities described in the Work Plan.

Budgetary provision for the UNDP contribution as specified shall be set forth in the Project Budget.

17. The Executing Agency shall consult with the Government, on the candidature of the Chief Technical Adviser (CTA) who, under the direction of the Executing Agency, will be responsible in the country for the Executing Agency's participation in the project. The CTA shall supervise the experts and other Agency personnel assigned to the project, and the on-the-job training of national project personnel. He shall be responsible for the management of all equipment provided to the project from UNDP funds.

18. The Executing Agency, in consultation with the Government, shall assign international staff and other personnel to the project as specified in the Work Plan, select candidates for fellowships and determine standards for the training of national project personnel.

19. Fellowships shall be administered in accordance with the fellowships regulations of the Executing Agency.

20. The Executing Agency may, in agreement with the Government and UNDP, execute part or all of the project by subcontract. The selection of sub-contractors shall be made, after consultation with the Government, in accordance with the Executing Agency's procedures.

21. All material, equipment and supplies which are purchased from UNDP resources will be used exclusively for the execution of the project, and will remain the property of the UNDP in whose name it will be held by the

Executing Agency. Equipment supplied by the UNDP shall be marked with the insignia of the UNDP and of the Executing Agency.

22. Arrangements may be made, if necessary, for a temporary transfer of custody of equipment to local authorities during the lifetime of the project, without prejudice to the final transfer.

23. Prior to the completion of UNDP assistance to the project, the Government, the UNDP and the Executing Agency shall consult as to the disposition of all project equipment provided by the UNDP. Title to such equipment shall normally be transferred to the Government, or to an entity nominated by the Government, when it is required for continued operation of the project or for activities following directly therefrom. The UNDP may, however, at its discretion, retain title to part or all of such equipment.

24. At an agreed time after the completion of UNDP assistance to the project, the Government and the UNDP, and if necessary the Executing Agency, shall review the activities continuing from or consequent upon the project with a view to evaluating its results.

Facilities, privileges and immunities

UNDP and Executing Agency personnel

25. In accordance with the agreement concluded by UNDP and the Government concerning the provision of assistance, the personnel of UNDP and other United Nations organisations associated with the project, shall be accorded facilities, privileges and immunities specified in the said agreement.

/....

Subcontractors and their personnel

26. The Executing Agency's contractors and their personnel (except Government nationals employed locally) shall:

- (a) Be immune from legal process in respect of all acts performed by them in their official capacity in the execution of the project;
- (b) Be immune from national service obligation;
- (c) Be immune together with their spouses and relatives dependent on them from immigration restrictions;
- (d) Be accorded the privileges of bringing into the country reasonable amounts of foreign currency for the purpose of the project or for personal use of such personnel, and of withdrawing any such amounts brought into the country, or, in accordance with the relevant foreign exchange regulations, such amounts as may be earned therein by such personnel in the execution of the project;
- (e) Be accorded together with their spouse and relatives dependent on them the same repatriation facilities in the event of international crises as diplomatic envoys.

27. All personnel of the Executing Agency's contractors shall enjoy inviolability for all papers and documents relating to the project.

28. The Government shall either exempt from, or bear the cost of, any taxes, duties, fees or levies which it may impose on any foreign firm or organisation which may be retained by the Executing Agency and on the foreign personnel of any such firm or organisation in respect of:

/....

- (a) The salaries or wages earned by such personnel in the execution of the project;
- (b) Any equipment, materials and supplies brought into the country for the purposes of the project or which, after having been brought into the country, may be subsequently withdrawn therefrom;
- (c) Any substantial quantities of equipment, materials and supplies obtained locally for the execution of the project, such as, for example, petrol and spare parts for the operation and maintenance of equipment mentioned under (b) above, with the provision that the types and approximate quantities to be exempted and relevant procedures to be followed shall be agreed upon with the Government and, as appropriate, recorded in the Work Plan; and
- (d) As in the case of concessions currently granted to UNDP and Executing Agency's personnel, any property brought, including one privately owned automobile per employee, by the firm or organisation or its personnel for their personal use of consumption or which, after having been brought into the country, may subsequently be withdrawn therefrom upon departure of such personnel.

29. The privileges and immunities to which such firm or organisation and its personnel may be entitled, referred to in the paragraphs above, may be waived by the Executing Agency where, in its opinion or in the opinion of the UNDP, the immunity would impede the course of justice and can be

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waived without prejudice to the successful completion of the project or to the interest of the UNDP of the Executing Agency.

30. The Executing Agency shall provide the Government through the Resident Representative with the list of personnel to whom the privileges and immunities enumerated above shall apply.

Annex H

Concept Cables

State	205248	-	Somalia Program Week Decisions and Conclusions.
Mogadishu	07281	-	Proposed Agenda For Mini-Donors Meeting Somalia.

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STATE 205248

2-1986

ACTION: AID INFO: CDA ECON

VZCZCMG0335
PP RUEHMG
DE RUEHC #5248/01 1811521
ZNR UUUUU ZZH
P 301618Z JUN 86
FM SECSTATE WASHDC
TO AMEMBASSY MOGADISHU PRIORITY 5386
BT
UNCLAS SECTION 01 OF 04 STATE 205248

LQ 819
02 JUN 86 0520
CN: 52267
CHRG: AID
DIST: AID

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E.O. 12356: N/A

TAGS:

SUEJECT: SOMALIA PROGRAM WEEK DECISIONS, AND CONCLUSIONS

1. SUMMARY. THE SOMALIA PROGRAM UNDERWENT INTENSIVE REVIEW DURING THE WEEK OF MAY 26, 1986. THIS CABLE RECORDS THE KEY DECISIONS, CONCLUSIONS AND ACTION ASSIGNMENTS RESULTING FROM THIS REVIEW. ALL SESSIONS WERE CHAIRED BY DAA/AFR LARRY SAIRS. THE MISSION WAS REPRESENTED BY DIRECTOR LOUIS COHEN, PROGRAM OFFICER AKIM MARTINEZ, PROGRAM ECONOMIST MEREDITH SCOVILL, AND IDI ROGER GARNER. THE WEEK PROVIDED AN OPPORTUNITY FOR BOTH AID/W AND THE MISSION TO AIR THEIR VIEWS COMPLETELY AND THOROUGHLY AS REGARDS THE ACTION PLAN, ABS AND PROPOSED SHEBELLI WATER MANAGEMENT PROJECT IN PARTICULAR. THERE WERE SEVERAL MAJOR DECISIONS. AS REGARDS THE ACTION PLAN, WE AGREED THAT WHILE THE PLAN GAVE A GOOD SENSE OF DIRECTION AND STEPS PLANNED, THE MISSION SHOULD DEVELOP A CONCEPTUAL FRAMEWORK FOR ITS POLICY DIALOGUE IN CONJUNCTION WITH A WORLD BANK ARRANGED MINI-DONORS CONFERENCE THIS SUMMER AND IN ADVANCE OF THE CONSULTATIVE GROUP PLANNED FOR THIS FALL. WE ALSO AGREED TO INCREASE THE PROPORTION OF NON-PROJECT ASSISTANCE TO BETTER REFLECT SOMALIA'S NEEDS AND CAPACITY. FURTHER, WE DECIDED TO TURN DOWN THE NEW

START FY 1988 EHRFUNDED PRIMARY EDUCATION PROJECT. FINALLY, WE AGREED TO CONSIDER THE POSSIBILITY OF ADDING SOMALIA TO THE LIST OF COUNTRIES ELIGIBLE FOR AFRICA ECONOMIC POLICY REFORM PROGRAM ASSISTANCE. CONCLUSIONS AND DECISIONS DESCRIBED BELOW WERE REVIEWED AND CLEARED WITH THE MISSION DIRECTOR DURING AN OFFICIAL WRAPUP SESSION CHAIRED BY DAA SAIRS. END SUMMARY.

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2. PROGRESS TO DATE

CONCLUSION: WHILE SOMALIA HAS MADE IMPRESSIVE PROGRESS IN LIBERALIZING GRAIN PRICES, COMMODITY MARKETS, AND FOREIGN EXCHANGE TRADING, PUBLIC FINANCES REMAIN SERIOUSLY OUT OF BALANCE. TO CORRECT THESE BALANCES, THE U.S. IN CONSORT WITH OTHER DONORS, MUST MOVE BEYOND THE CURRENT PIECEMEAL APPROACH TO A MORE COMPREHENSIVE ECONOMIC REFORM PROGRAM THAT INCLUDES:

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REDUCTION OF GOVERNMENT ACTIVITIES AND PARASTATAL REFORM

- REDUCTION OF CIVIL SERVICE AND INCREASED SALARIES
- BUDGET RATIONALIZATION
- REVENUE ENHANCEMENT
- FOREIGN EXCHANGE MANAGEMENT
- DEBT MANAGEMENT
- TRIMMING OF PUBLIC INVESTMENT PLAN
- EFFECTIVE DONOR RESOURCE ALLOCATION

WITH EACH DONOR PROCEEDING IN PIECEMEAL FASHION, IT IS VERY HARD TO ASSESS WHAT THE BEST APPROACH IS TO SUCH DIFFICULT ISSUES AS: A FOREIGN EXCHANGE AUCTION SYSTEM, PARASTATAL REFORM, AND BUDGET RATIONALIZATION. THEREFORE, IT IS IMPERATIVE THAT THE MAJOR DONORS MEET PRIOR TO THE FALL 1986 CONSULTATIVE GROUP TO SORT OUT AND PRIORITIZE THE MAJOR OBJECTIVES FOR SOMALIA.

3. ACTION PLAN TARGETS.

CONCLUSION: IN THE ABSENCE OF AN AGREED UPON POLICY REFORM FRAMEWORK AMONG DONORS, THE POLICY AND PROGRAM PRIORITIES SET FORTH IN THE ACTION PLAN APPEAR APPROPRIATE ON THE WHOLE. SPECIFIC DECISIONS ON EACH TARGET AND ISSUE IDENTIFIED IN THE ISSUES PAPER ARE AS FOLLOWS:

A. STABILIZATION,

- WE WILL PUSH FOR A MINI-DONOR MEETING NEXT MONTH TO TAKE UP THE ISSUE OF ESTABLISHING A COMMON POLICY REFORM

FRAMEWORK AS PART OF IMPLEMENTING AN IMF/WB SPECIAL STRUCTURAL ADJUSTMENT PROGRAM. THE TIMING IS PROPITIOUS BECAUSE THE IMF PROGRAM IS PRECARIOUS AND A NEW STANDBY MUST BE NEGOTIATED IN THE NEXT SEVERAL MONTHS, AND THE CONSULTATIVE GROUP MEETING WILL BE HELD IN THE FALL 1986. AID/W WILL FOLLOW UP ON THIS WITH THE WORLD BANK SHORTLY AND PROPOSE THAT THE WORLD BANK TAKE THE LEAD IN PREPARING FOR A MINI-DONOR MEETING EARLY THIS SUMMER TO REACH A COMMON UNDERSTANDING OF THE POLICY ISSUES THAT MUST BE ADDRESSED AND TO ENSURE THAT THEY ARE ADEQUATELY ANALYZED AND RECOMMENDATIONS MADE BEFORE THE CG. THIS WOULD BE DONE IN LINE WITH BAKER PLANS FRAMEWORK. WE SHOULD ALSO WORK TO ENSURE THAT KEY DONORS HAVE A CHANCE TO REVIEW THE SCOPE OF DOCUMENTATION PRIOR TO THE CG.

- MISSION NEEDS TO DEVELOP AN AGENDA WITH A RECOMMENDED U.S. POSITION AND COMMUNICATE TO AID/W BY JULY 7. OBVIOUS AREAS INCLUDE: FOREIGN EXCHANGE AUCTION, FOOD AID, CIVIL SERVICE REFORM, USE OF LOCAL CURRENCY

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ACTION: AID INFO: CDA ECON

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PP RUEHMG
RR RUEHC #5248/02 181102Z
ZNR UUUUU ZZH
P 301618Z JUN 86
FM SECSTATE WASHDC
TO AMEMBASSY MOGADISHU PRIORITY 5389
BT
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GENERATIONS AND SOMALI BUDGET RATIONALIZATION.

- ALSO WE WILL CONTINUE TO ENCOURAGE DONORS TO USE THEIR LOCAL CURRENCY FOR ON-BUDGET EXPENSES AND EXPLORE WAYS TO USE LOCAL CURRENCY DIRECTLY TO SUPPORT REFORM NEEDS, INCLUDING POSSIBILITY OF USING DA TO PURCHASE LOCAL CURRENCY FOR PROJECT LOCAL COSTS AND FUNDING RECURRENT COSTS AS PART OF CIVIL SERVICE REFORM.

B. PRIVATIZATION (FOR THE PETROLEUM SECTOR AND BANKING, AND PRIVATIZING THE PETROLEUM SECTOR) ARE REASONABLE ELEMENTS BUT THE FUTURE DIALOGUE ON THE MORE AD HOC REFORMS OF THIS KIND SHOULD TAKE PLACE IN THE CONTEXT OF A COMPREHENSIVE REFORM PROGRAM. WE WILL LOOK TO CONSOLIDATE GAINS AND ALLOW THE PRIVATE SECTOR TO RESPOND TO LIBERALIZATION, WHILE WE CONCENTRATE OVER THE NEXT YEAR OR TWO ON PUBLIC SECTOR BUDGET RATIONALIZATION.

C. AGRICULTURE PRODUCTIVITY, LIVESTOCK AND IRRIGATION PRIORITIES ARE APPROPRIATE. FOOD AID REMAINS PROBLEMATIC, SINCE TIMING AND AMOUNT OF U.S. AND OTHER DONOR FOOD SHIPMENTS CAN CREATE DISINCENTIVE EFFECTS AND UNDERMINE GRAIN MARKETING LIBERALIZATION AND EXPANSION OF LOCAL PRODUCTION. WE WILL SUGGEST FOOD AID BE PLACED ON MINI-DONOR GROUP AGENDA.

4. PROJECT IMPLEMENTATION.

CONCLUSION: DELAYS IN IMPLEMENTATION CAN BE DIRECTLY TRACED BACK TO STRUCTURAL PROBLEMS OF PUBLIC SECTOR FINANCIAL IMBALANCES AND CIVIL SERVICE INEFFICIENCIES. DONOR PROJECT PROLIFERATION AND LOOSE LOCAL CURRENCY PROGRAMMING BY MOST DONORS EXACERBATES THE PROBLEM. THIS SUGGESTS A NEED FOR DONORS TO LIMIT THE NUMBER OF TRADITIONAL PROJECTS, ALLOCATE LOCAL CURRENCY GENERATIONS FOR ON BUDGET PRIORITIES (CONSISTENT IF NOT IN SUPPORT OF REFORM OBJECTIVES), AND TO EXPLORE SECTORAL ASSISTANCE APPROACHES.

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PROJECTS, DESPITE IMPLEMENTATION DIFFICULTIES, PROVIDE AN IMPORTANT ENTRY TO OPERATING MINISTRIES WHICH CAN BE HELPFUL ALLIES IN PROMOTING REFORMS. THERE ARE OTHER WAYS TO DEAL WITH LINE MINISTRIES THAN THROUGH

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TRADITIONAL TA PROJECTS, THOUGH.

DECISION - MISSION WILL EXPLORE PERFORMANCE-BASED SECTOR ASSISTANCE POSSIBILITIES FOR ESF OR DA FUNDING AND FOR OTHER DONOR PROGRAMMING AS AN OPTION TO TRADITIONAL PROJECT ASSISTANCE, IN VIEW OF IMPLEMENTATION PROBLEMS. THE SHEBELLI WATER MANAGEMENT PROJECT SHOULD NOT, HOWEVER, BE THE TEST PROJECT FOR THIS CONCEPT.

5. SHEBELLI WATER MANAGEMENT ECPR DECISION:

THE PID WAS APPROVED (SEE STATE 190126) WITH THE FOLLOWING PP DESIGN GUIDANCE:

THE PP INTRODUCTION WILL SET THE CONTEXT FOR A LONG TERM AID COMMITMENT TO SHEBELLI WATER MANAGEMENT (APPROXIMATELY DOLS 50 MILLION OVER 10 YEARS), BUT DETAILED PP DESIGN WILL FOCUS ON PHASE I ACTIVITIES (APPROXIMATELY DOLS 12-15 MILLION FOR FIVE YEARS). THE PURPOSE OF PHASE I IS TO LEARN HOW TO GO ABOUT IMPROVING WATER MANAGEMENT AND INCLUDES INTERVENTIONS REQUIRED TO ACHIEVE THE PURPOSE. PHASE I WILL INITIATE SOFTWARE PROJECT COMPONENTS (T.A. AND TRAINING IN WATER MANAGEMENT AND SUPPORTIVE IRRIGATED RESEARCH) AND WILL INCLUDE FUNDS FOR LIMITED IRRIGATION SYSTEM UP-GRADING, AS WELL AS DESIGN STUDIES FOR PHASE II. PHASE II WILL BE AUTHORIZED WHENEVER THE NECESSARY HANDS-ON EXPERIENCE IN SYSTEM MANAGEMENT HAS BEEN OBTAINED, THE INSTITUTIONAL FRAMEWORK FOR LARGER SCALE REHAB HAS BEEN ESTABLISHED, AND DESIGN STUDIES HAVE BEEN COMPLETED. THUS, PHASE II MAY OVERLAP WITH PHASE I DURING IMPLEMENTATION. AUTHORIZATION OF PHASE I IS EXPECTED DURING FY 87, AND WILL TAKE PLACE IN AID/W.

6. FY 1988 ABS REVIEW DECISIONS

KEY DECISIONS MADE DURING THE REVIEW OF THE FY 1988 ABS WERE:

A. TO DROP PROPOSED NEW-START IN THE EHR SECTOR (IMPROVING EFFICIENCY OF PRIMARY EDUCATION PROJECT, 649-0142).

THIS DIFFICULT DECISION IS BASED ON THE FACT THAT BILATERAL INVOLVEMENT IN PRIMARY EDUCATION LIES OUTSIDE THE APPROVED CDSS STRATEGY AND WOULD PUT ADDITIONAL DEMANDS ON MISSION STAFF AND BUDGET AT A TIME WHEN WE CANNOT AFFORD TO SPREAD OUR LIMITED RESOURCES, NOT THAT EDUCATION IS NOT CRITICAL IN SOMALIA. THE MISSION SHOULD NOT UNDERTAKE A NEW PROJECT FUNDED UNDER EHR IN FY 88. CONSIDERATION SHOULD BE GIVEN INSTEAD TO

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ACTION: AID INFO: CDA ECON

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ZNR UUUUU ZZH
P 301618Z JUN 86
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TO AMEMBASSY MOGADISHU PRIORITY 5390
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CN: 52269
CHRG: AID
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INCREASED SECTORAL OR PROGRAM ASSISTANCE AIMED AT GIVING AID SOME LEVERAGE TO INFLUENCE GSDR POLICY REFORMS, PARTICULARLY IN CIVIL SERVICE REFORM, WHILE AT THE SAME TIME SUPPORTING STABILIZATION OBJECTIVES.

B. TO CONTINUE TO LIMIT PORTFOLIO DIVERSITY AND PROLIFERATION.

IT WAS AGREED THAT THE MISSION IS MAKING SATISFACTORY PROGRESS IN THE REDUCTION OF THE NUMBER OF ACTIVITIES IN ITS PORTFOLIO. WITH THE DECISION TO ABORT THE NEW EHR PROJECT (PRIMARY EDUCATION) PROPOSED FOR FY 88 FUNDING, THE BUREAU WAS SATISFIED THAT PORTFOLIO DIVERSITY IS BEING CONTAINED.

C. TO KEEP FOOD FOR PROGRESS AND AEPRP OPTIONS OPEN FOR FY 1987.

ALTHOUGH THE MISSION'S EXISTING FOOD FOR PROGRESS (FFPR) PROPOSAL HAS BEEN TURNED DOWN BY AID/W, THE MISSION MAY PURSUE THE POSSIBILITY OF DEVELOPING A NEW FFPR PROPOSAL FOR FY 1987. USE OF AN AEPRP IS ANOTHER MODALITY THAT THE BUREAU SHOULD CONSIDER MAKING AVAILABLE TO SOMALIA NOW THAT CONTINUED HIGH RESOURCE LEVELS ARE NOT ASSURED.

D. PL 480 TITLE I. IT WAS AGREED THAT WHILE WE NEED TO MAINTAIN OUR AID LEVELS TO SOMALIA, TOO MUCH FOOD IS BEING SHIPPED WHICH SOMETIMES ACTS AS A DISINCENTIVE TO PRODUCTION. THEREFORE, FVA/FFP IS TO EXPLORE THE POSSIBILITY OF OBTAINING COTTON OR OTHER NON-FOOD COMMODITIES UNDER THE TITLE I PROGRAM.

E. TO ADJUST OYB AND CONTINUE TO PUSH FOR SDA FUNDS.

THE TABLES BELOW SHOW THE CHANGES WHICH WERE AGREED UPON BETWEEN THE MISSION AND AFRICA BUREAU FOR THE FY 86 OYB, THE FY 87 PROPOSED OYB AND FY 88 AAPL ON A PROJECT-BY-PROJECT BASIS. THESE RECOMMENDATIONS, HOWEVER, ARE SUBJECT TO FINAL AFR BUREAU WRAP-UP REVIEW AND CANNOT BE CONSIDERED FINAL UNTIL RECONFIRMED BY AA/AFR. FUNDING WILL BE REQUESTED FROM SECTION 106 (SDA) ACCOUNT IN FY 88 FOR THE FVO DEVELOPMENT PARTNERS PROJECT (6492133) AS INDICATED IN THE MISSION'S ABS. IN ADDITION, SDA FUNDING WILL BE REQUESTED FOR THE POLICY INITIATIVES AND PRIVATIZATION PROJECT (649-0132),

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CURRENTLY FUNDED UNDER FSF, AND ANY NEW CIVIL SERVICE REFORM SECTOR GRANT.

PROJECT NUMBER	PROJECT TITLE	-	-	REVISED FY86 OYB	PLANNED 87 BUDGET	FY PROPOSED	AMT
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(DOLS THOUSANDS)

ARDN:

649-0109	LIVESTOCK MKTG	-	-	2,000	3,000	200	
649-0109	LIVESTOCK MKTG						
	ESTIMATED REOB	-	-	2,000	-	-	
649-0126	AG RIS & ANALYSIS			0	0	0	
649-0129	SHEBELLE WATER MGT-			0	5,900	9,100	
649-0134	JUBA DEV STUDIES	-	-	550	0	0	
649-0138	PVO DEV PARTNERS	-	-	5,434	2,438	720	
649-0510	PDS	-	-	450	200	250	

ARDN SUBTOTAL	-	-	-	8,434	11,538	10,278	
PLUS ESTIMATED REOB.	-	-	-	2,000	-	-	

POP

649-0131	FAMILY HEALTH	-	-	2,838	2,772	0	
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POP SUBTOTAL	-	-	-	2,838	2,772	0	
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HE

649-0138	PVO DEV PARTNERS			1,500	1,100	0	
649-0138	PVO DEV PARTNERS	-	-	3,100	-	-	
	PLUS ESTIMATED REOB.						

HE SUBTOTALS	-	-	-	1,500	1,100	0	
PLUS ESTIMATED REOB.	-	-	-	3,100	-	-	

FHR

649-0119	MGT TNG FOR DEV	-	-	2,000	3,000	4,472	
649-0510	PDS	-	-	0	0	250	

EHR SUBTOTALS	-	-	-	2,000	3,000	4,722	
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SDA

649-0132	POLICY INIT & PRIV			0	0	1,000	
649-0138	PVO DEV PARTNERS	-	-	0	0	1,000	
649-XXXX	CIVIL SERV REFORM	-	-	0	0	1,410	

SDA SUBTOTALS	-	-	-	0	0	3,410	
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DA TOTALS	-	-	-	14,772	18,410	18,410	
PLUS ESTIMATED REOB.	-	-	-	5,100	-	-	

ESF

649-0130	FX MARKET SUPPORT	-	-	21,011	0	0	
BT							

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STATE 205248/04

ACTION: AID INFO: CDA ECON

VZCZCMG0338
 PP RUEHMC
 DE RUEHC #5248/04 1811622
 ZNR UUUUU ZZH
 P 301618Z JUN 86
 FM SECSTATE WASHDC
 TO AMEMBASSY MOGADISHU PRIORITY 5391
 BT
 UNCLAS SECTION 04 OF 04 STATE 205248

LOC: 722 848
 22 JUL 86 0528
 CN: 58270
 CHRG: AID
 DIST: AID

AIDAC

649-0132	POLICY INIT & PRIV-	1,000	2,000	0
649-0139	FX MARKET SUPPORT -	0	28,000	0
649-0143	ESF PROGRAM SUPP II	0	0	35,000
ESF TOTALS	- - -	22,011	30,000	35,000
COUNTRY TOTALS	- - -	36,783	48,410	53,410
PLUS ESTIMATED REOB.	-	5,100	-	-
COUNTRY TOTALS FOR DA & ESF INCLUDING FY 86 DEOBS/REOBS	- - -	41,883	48,410	53,410

AFRICAN REFUGEE ASSISTANCE

649-0140 REFUGEE SETTLEMENT- 1,500 2,500

7. LIVESTOCK MARKETING AND HEALTH PROJECT LOP FUNDING INCREASE.

-- FOLLOWING THE ABS REVIEW, AID/W PROJECT COMMITTEE STAFF AND MISSION MANAGEMENT MET 5/29 TO DEVELOP A RECOMMENDATION ON THE DOLS 8.36 MILLION LOP FUNDING SUPPLEMENT REQUESTED BY THE MISSION. AS A RESULT OF THIS MEETING, THE AA/AFR DELEGATED AUTHORITY (STATE 181157) FOR APPROVAL OF A PP AMENDMENT TO THE FIELD WHICH WILL ADD DOLS 6.5 MILLION, FOR A NEW LOP FUNDING OF DOLS 17.5 MILLION. THE ADDITIONAL FUNDS WILL BE USED TO COMPLETE CONSTRUCTION OF THE THREE QUARANTINE STATIONS ACCORDING TO SCALED DOWN SPECIFICATIONS (18,000 HEAD OF CATTLE EACH), AND TO MEET REQUIREMENTS OF THE LIVESTOCK INVESTMENT FUND COMPONENT. THIS MORTGAGE SUPPLEMENT WILL BE PAID OFF BY REOBLIGATION OF APPROXIMATELY DOLS 2 MILLION OF ARDN FUNDS RECOVERED FROM OTHER PROJECTS IN THE PORTFOLIO IN FY 86, AND BY POSTPONING FY 87 AND FY 88 PAYMENTS TOWARDS THE REMAINING ARDN MORTGAGE IN THE PVO PARTNERS PROJECT (IF NECESSARY). SEVERAL ADDITIONAL CONCERNS WERE DISCUSSED, WHICH WERE INCORPORATED IN THE AA/AFR DELEGATION OF AUTHORITY CABLE AS PP AMENDMENT DESIGN GUIDANCE.

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2. RECAP OF FOLLOW UP ACTION ASSIGNMENT:

1. THE MISSION SHOULD DEVELOP AN AGENDA OF KEY POLICY ISSUES FOR THE MINI DONORS MEETING AND SUBMIT IT TO

AID/W BY JULY 7.

II. MISSION SHOULD DEVELOP PRELIMINARY POLICY FRAMEWORK OF ITS OWN WHICH OUTLINES THE DIRECTION THE USG SHOULD TAKE.

III. AID/W WILL CONTACT THE WORLD BANK TO DISCUSS THIS SCENARIO AND ENCOURAGE THE BANK TO ORGANIZE THE MINI DONORS MEETING AS SOON AS POSSIBLE TO DEVELOP A COMMON POLICY FRAMEWORK.

IV. DONOR FOOD AID SHOULD BE PLACED ON THE MEETING'S AGENDA.

V. MISSION SHOULD EXPLORE SECTOR ASSISTANCE TO SUPPORT NEEDED CIVIL SERVICE REFORM.

VI. MISSION SHOULD NOT DEVELOP NEW ESF/DA ACTIVITIES THAT DO NOT SUPPORT THE REFORM AGENDA. IT SHOULD TARGET FUTURE DA TOWARDS CIVIL SERVICE REFORM TO THE EXTENT PRACTICAL.

VII. THE MISSION SHOULD SEEK TO CONSOLIDATE ITS GAINS IN PRIVATE SECTOR. PL 480 SHOULD FOCUS ON PRIVATE SECTOR PARTICIPATION, AND ESF SHOULD BE AIMED AT PUBLIC SECTOR REFORM. WE SHOULD ALSO FOCUS ON RATIONALIZING PUBLIC SECTOR FINANCES.

VIII. AID/W WILL REVIEW THE POSSIBILITY OF ADDING SOMALIA TO THE LIST OF COUNTRIES ELIGIBLE FOR AEPFP ASSISTANCE AND LOOK INTO NON-FOOD COMMODITY POSSIBILITIES UNDER TITLE I. WHITEHEAD

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

VZCZCMGI *
 PP RUEHC
 DE RUEHMG #7281/01 189 **
 ZNR UUUUU ZZH
 P 080711Z JUL 86
 FM AMEMBASSY MOGADISHU
 TO SECSTATE WASHDC PRIORITY 2287
 BT
 UNCLAS SICTION 01 OF * MOGADISHU 07281

CLASS: UNCLASSIFIED
 CHRG: AID 7/7/86
 APPRV: DIR: LACGEN
 DRFTD: PROG: AMARTINEZ
 CLEAR: PROG: MSCOVILL
 DISTR: DIR CDA PROG

AIDAC

E.O. 12356: N/A
 SUBJECT: PROPOSED AGENDA FOR MINI DONORS MEETING -
 SOMALIA

REF: STATE 205248

THE PROPOSED AGENDA FOR SOMALIA MINI DONOR MEETING
 FOLLOWS:

1. FOREIGN EXCHANGE AUCTION:

- MAINTINANCE OF THE FREE MARKET RATE OF EXCHANGE.

RECOMMENDED POSITION: THE MISSION BELIEVES THAT IT IS
 EXTREMELY IMPORTANT THAT THE EXCHANGE RATE UNIFICATION
 IS DONE AT THE FREE MARKET RATE (AND REMAINS FREE
 MARKET.)

2. FOOD AID:

A) ELIMINATION OF SUBSIDY OF FOOD COMMODITIES SOLD
 THROUGH THE PUBLIC SECTOR, BY USING A MORE REALISTIC
 PRICING MECHANISM (MOVING TOWARDS IMPORT PARITY.)

B) CHANNEL MORE DONOR FOOD AID THROUGH THE PRIVATE
 SECTOR.

RECOMMENDED POSITION: THE SUBSIDIES INCLUDED BY GSDR IN
 DONOR FOOD AID SERVES AS A DISINCENTIVE TO FARMERS AND
 DISTORTS THE CONSUMER EATING HABITS. DONOR SHOULD
 PRESENT A UNITED FRONT TO REQUEST THAT DONOR FOOD BE
 PRICED AT IMPORT PARITY AND DISTRIBUTED, AS MUCH AS
 POSSIBLE, THROUGH THE PRIVATE SECTOR.

3. CIVIL SERVICE REFORM:

A) COMPULSORY RETIREMENT OF MEN AT THE AGE OF SIXTY
 (60) AND WOMEN AT THE AGE OF FIFTY-FIVE (55), OR EITHER
 SEX AFTER 25 YEARS OF GOVERNMENT SERVICES. (THESE
 STANDARDS ARE BASED ON THE ILO CONVENTION.)

B) ESTABLISHMENT OF A CIVIL SERVICE COMMISSION.

C) ADOPTION OF A REVISED PAY SCALE FOR CIVIL SERVANTS
 THAT ALLOW FOR THE RECRUITMENT AND RETENTION OF
 QUALIFIED INDIVIDUALS. ALSO TO ESTABLISH A PROMOTION
 PROGRAM BASED ON MERIT.

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D) REDUCTION OF THE TOTAL NUMBER OF CIVIL SERVANTS BY AT-LEAST, 5,000 PER ANNUM OVER THE NEXT FOUR YEARS. THE RECRUITMENT OF NEW EMPLOYEES SHOULD BE LIMITED TO THOSE SKILLS NOT AVAILABLE FROM REDUNDANT LABOR.

E) STRENGTHEN THE INSTITUTIONS INVOLVED IN THE TRAINING OF CIVIL SERVANTS AND THOSE INVOLVED IN MANAGEMENT OF ENTREPRENEURIAL ACTIVITIES.

F) DEVELOP A COMPREHENSIVE PLACEMENT SYSTEM FOR THE CIVIL SERVICE BASED ON SYSTEMATIC MANPOWER PLANNING.

RECOMMENDED POSITION: THE REFORM OF THE SOMALI CIVIL SERVICE SHOULD BE ACCORDED A HIGH PRIORITY AT THE CG MEETING. DONORS SHOULD EARMARK LOCAL CURRENCY, TO THE EXTEND POSSIBLE, TO FINANCE SALARY INCREASES OVER A BRIDGING PERIOD UNTIL INCREASED GSDR REVENUES CAN FUND THE NEW SALARY LEVELS IN EXCHANGE FOR THE ADOPTION OF REFORM MEASURES. IN THIS CONNECTION, IT IS IMPERATIVE THAT REDUCTION IN FORCE ACCOMPANY SALARY INCREASES.

4. USE OF LOCAL CURRENCY GENERATIONS:

A) U.S. GENERATED LOCAL CURRENCY WILL CONTINUE TO BE ADMINISTERED BY THE DOMESTIC DEVELOPMENT DEPARTMENT (DDD) AND USED TO SUPPORT THE DEVELOPMENT BUDGET.

B) OTHER DONOR-GENERATED LOCAL CURRENCIES SHOULD CONTINUE TO BE REFLECTED IN THE NATIONAL BUDGET AND/OR THE DEVELOPMENT BUDGET. THOSE LC INCLUDED IN THE DEVELOPMENT BUDGET WILL BE ADMINISTERED BY THE DDD.

C) SPECIAL LC ALLOCATIONS SHOULD BE MADE IN SUPPORT OF THE CIVIL SERVICE REFORMS.

D) THE PUBLIC INVESTMENT PROGRAM (PIP) TO BE PRESENTED AT THE CG MEETING AND THE GSDR CONTRIBUTION FINANCED PRIMARILY WITH DONOR-GENERATED LC SHOULD BE KEPT LEAN AND THE NUMBER OF PROJECTS LIMITED. DONORS SHOULD AVOID HAVING PROJECTS ACTIVITIES OUTSIDE OF THE PIP.

RECOMMENDED POSITION: ALL DONOR GENERATED LOCAL

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CURRENCY SHOULD BE REFLECTED IN THE BUDGET, EITHER ORDINARY OR DEVELOPMENT BUDGET. ALL DONOR GENERATED LOCAL CURRENCY SHOULD BE DEPOSITED INITIALLY IN A SPECIAL BANK ACCOUNT TO INSURE ITS INTEGRITY. TECHNICAL ASSISTANCE SHOULD BE PROVIDED TO THE DOMESTIC DEVELOPMENT DEPARTMENT AS WELL AS TO THE BUDGET DEPARTMENT OF THE MINISTRY OF FINANCE.

5. SOMALI BUDGET RATIONALIZATION:

A) DEVELOP AND IMPLEMENT A MECHANISM TO BUDGET SOMALIA'S FOREIGN EXCHANGE REQUIREMENTS (TO INCLUDE REVENUES AS WELL AS EXPENSES.)

B) IN THE SHORT-TERM, IDENTIFY AND CORRECT THE MOST GLARING, INEFFICIENCIES IN TAX ADMINISTRATION AND SIMPLIFY CUSTOMS RATES. IN THE LONG-TERM, REVISE THE ENTIRE TAX STRUCTURE.

C) REDUCE BUDGET DEFICIT BY ADOPTING MEASURES TO ELIMINATE SUBSIDIES AND UNNECESSARY EXPENDITURE, AND INCREASE TAX COLLECTION. RECOMMENDED POSITION: BASED ON RECENT DIFFICULTIES REGARDING BUDGET RATIONALIZATION ENCOUNTERED BY A RECENT WB TEAM, THE GSDR WITH DONOR ASSISTANCE SHOULD IMPLEMENT A SYSTEM THAT PROVIDES PROMPT AND ACCURATE REVENUE AND EXPENDITURE DATA. DONORS SHOULD DISCUSS THE BEST METHOD OF PROVIDING THIS TECHNICAL ASSISTANCE. IN ADDITION TO INCREASED REVENUES, OVERALL TAX REFORM SHOULD BE ACCORDED HIGH PRIORITY.

6. PRIVATE SECTOR SUPPORT:

A) MAINTENANCE OF THE FREE MARKET RATE OF EXCHANGE.

B) APPROVAL OF REGULATIONS FOR THE ESTABLISHMENT OF PRIVATE BANKING AND INSURANCE INSTITUTIONS.

C) REPEAL OF CURRENT REGULATION REGARDING IMPORTATION AND DISTRIBUTION OF PETROLEUM PRODUCTS AND ALLOWING THE PRIVATE SECTOR TO IMPORT AND DISTRIBUTE PETROLEUM PRODUCTS.

D) LIFTING OF THE MONOPOLY ON HIDES AND SKINS. THUS, ALLOWING FOR THE PRIVATE SECTOR TO ENTER THE INDUSTRY.

E) ESTABLISHMENT OF A FULLY-PRIVATIZED CHAMBER OF COMMERCE.

RECOMMENDED POSITION: LIBERALIZATION OF THE ECONOMY SHOULD REMAIN A HIGH PRIORITY IN THE DONORS' AGENDA. IN THIS CONNECTION, DONORS SHOULD INCLUDE THE BREAKING OF MONOPOLIES AND ELIMINATING OF INEFFICIENT PARASTATALS IN THEIR CONDITIONALITY AND POLICY DIALOGUE AGENDA. THE ESTABLISHMENT OF PRIVATE BANKS SHOULD BE ACCORDED A HIGH PRIORITY.

7. PROJECT VS. PROGRAM ASSISTANCE:

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- THE NUMBER OF PROJECTS AS WELL AS THE TOTAL DOLLAR COST OF THE PIP SHOULD BE MAINTAIN AT MANAGEABLE LEVELS. DONORS SHOULD PROVIDE AS MUCH NON-PROFIT ASSISTANCE AS POSSIBLE.

RECOMMENDED POSITION: CONDITIONED ON A FAVORABLE REVIEW OF THE FX AUCTION MECHANISMS, DONORS SHOULD CONSIDER TRANSFERRING PROJECT AND COMMODITY ASSISTANCE TO THE AUCTION. HIRSCH

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