PD-ABD-249
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SOMALIA

PROGRAM ASSISTANCE APPROVAL DOCUMENT

FOREIGN EXCHANGE SUPPORT PROGRAM

649-0144

JUNE 1988

CLASSIFICATION

AID 1120-1

PAAD

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE APPROVAL DOCUMENT

1. PAAD NO. 649-0144

2. COUNTRY SOMALIA

3. CATEGORY

Cash Transfer	$5,000,000
Commodity Financing	$16,000,000

4. DATE June 19, 1988

5. TO: AA/AFR, Charles Gladson

6. OYB CHANGE NO. N/A

7. FROM AFR/PD/EAP, Carol Peasley

8. OYB INCREASE N/A

TO BE TAKEN FROM: ESF

9. APPROVAL REQUESTED FOR COMMITMENT OF $21,000,000

10. APPROPRIATION -

11. TYPE FUNDING ☐ LOAN ☒ GRANT

12. LOCAL CURRENCY ARRANGEMENT ☐ INFORMAL ☒ FORMAL ☐ NONE

13. ESTIMATED DELIVERY PERIOD August 1988 - February 1990

14. TRANSACTION ELIGIBILITY DATE August 1, 1988

15. COMMODITIES FINANCED

Commodities under the A.I.D. Eligible Commodity Listing (including petroleum and petroleum products).

16. PERMITTED SOURCE

U.S. only:	
Limited F.W.:	Code 941 up to $7,000,000
Free World:	Code 899 up to $9,000,000
~~XXX~~:	for Petroleum

17. ESTIMATED SOURCE

U.S.:		
Industrialized Countries:		
Local:		
Other:	Non-U.S. Code 941	$7,000,000
	Non-U.S. Code 899	$9,000,000

18. SUMMARY DESCRIPTION

The purpose of the FY 1988 Foreign Exchange Support Program is to provide foreign exchange to repay debt and provide imports for productive economic activity. The program will encourage market-oriented activities, better debt management, and general support of the private sector.

The FY 88 ESF program will provide $5 million to the Central Bank of Somalia for the payment of debt, $9 million to the public sector for the purchase of petroleum, and $7 million for a commodity import program. Local currency will be generated by all elements except the $5 million for debt. The program will include covenants in three areas: improved debt information systems and management; tax reform aimed at promoting private sector productivity; and removal of regulations which impede private sector importation and distribution of CIP commodities. The program's conditionality is listed in Annex A of the PAAD.

Procurement of $7 million in commodities will be restricted to Code 941 in accordance with A.I.D. Eligible Commodity Listing (1986 edition). A waiver for Code 899 procurement of petroleum is included in the PAAD as Annex E.

19. CLEARANCES | DATE

20. ACTION

☐ APPROVED ☐ DISAPPROVED

AUTHORIZED SIGNATURE | DATE

TITLE

CLASSIFICATION:

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SOMALIA FOREIGN EXCHANGE SUPPORT PROGRAM

I. ECONOMIC OVERVIEW

A. Introduction

Somalia is one of the poorest countries in the world with a per capita income of approximately $280 per year The climate is harsh (primarily arid and semi-arid), and there are no immediately available mineral resources for earning foreign exchange. Less than two percent of the land is presently being cultivated; only about 13 percent is potentially arable, but its use is constrained by unavailability of water. At independence in 1960, Somalia inherited an extremely small industrial base. These factors contribute to the low growth rate of per capita GDP and increase Somalia's need for external sources of foreign exchange.

The majority of Somalia's economic activity occurs in the agricultural sector, which provides over 50 percent of GDP and over 90 percent of exports -- from livestock, bananas, and animal hides and skins. The manufacturing sector is growing, but growth is slow and this sector has generally provided less than 10 percent of GDP.

The country faces major economic difficulties which cannot be resolved quickly. Somalia has a large external debt ($1.4 billion), debt service payments which exceed the country's financial resources, a sizable trade deficit, and a large and growing domestic budget deficit. The country has been consistently faced with a devaluing currency. Inflation has been a continuing problem, averaging between 29 percent and 38 percent since 1985. Somalia relies heavily on the donor community to finance debt service and imports; the country also relies on donor-generated local currencies to finance budgetary needs.

The major export continues to be livestock, which has produced between 60-to-80 percent of total exports for the past three years. Extensive expansion of livestock exports, however, will be limited by ecological constraints and health considerations. Yearly export receipts are also dependent on economic and other policy decisions. In 1984, livestock exports dropped more than 50 percent because of a Saudi Arabian ban on imports of cattle from Somalia. Exchange rate distortions led to some decrease in livestock receipts in 1987. Continuation of exchange rate distortions and conflict in the North at the peak season for livestock exports could reduce receipts in 1988 to perhaps half the 1987 level.

The second major export is bananas. The dollar and percentage value of exports provided by bananas has been increasing steadily (to 20 percent of total exports in 1987). Expansion of banana production, however, has sometimes been at the expense of other crops and future fertility of the soil.

The very small industrial sector is expanding but is constrained by lack of steady and reliable power, foreign exchange for raw materials, machinery, and spare parts, skilled labor, and confidence in government policies.

B. Adoption of Market Oriented Policies

Somalia faces serious economic problems which it has been trying to solve for the past decade. In the 1980s Somalia embarked on an economic program which moved away from the socialist policies adopted in the 1970s and toward the use of market-oriented mechanisms. The government abolished the regulations requiring farmers to sell grains to the government parastatal at controlled prices. Most import licensing restrictions were abolished or unofficially relaxed. Some monopoly areas were abolished or liberalized.

Beginning in January 1985, a multiple exchange rate system was introduced, including a free market rate for most private sector transactions, allowing access to foreign exchange for imports, travel, and other purposes and providing more incentive to exporters.

Although several additonal policy changes were anticipated but not put into effect, (e.g., allowing private importation and distribution of petroleum and better budget control), the reliance on the market to set general prices and the development of mechanisms to set a market determined foreign exchange rate sent the proper signals and incentives to the economy. As a result of these policy changes, the economy's rate of growth increased from 2.4 percent in 1984 to 5.0 percent by the end of 1986.

C. Impact of Recent Economic Policies

In June 1987, as part of an IMF agreement, all exchange rates were unified with an auction system used as the market mechanism for determining the exchange rate. Exporters were required to surrender all export proceeds to the Central Bank at the most recent auction rate. However, just three months later on September 17, 1987, the pace of economic reform was slowed considerably when the government announced cessation of the auction mechanism. Politically the government apparently was not able to deal with the rate at which the shilling began to devalue and the absolute level it reached in August 1987. The government's action caused the IMF to suspend its agreement and A.I.D. to suspend disbursement of the FY 1987 program which had been signed just two weeks prior to the September action. Several other donors followed suit. On October 12, 1987, the government actually fixed the rate at SoSh 100 per dollar. (The rate at the last auction in September was SoSh 159.9 to the dollar.) The establishment of a fixed exchange rate in conjunction with large increases in government expenditures eventually led to further deterioration in economy including an increased rate of inflation and devaluation of the shilling on the free market.

In February 1988, the government also instituted price controls. This policy led to futher price increases, shortages, and a large black market in goods. The GSDR has de facto now admitted that price controls have not worked. Although the policy is still on the books, it is not generally being enforced and the government has established a committee to review price controls with a view to abolish them.

In the aftermath of the abolition of the foreign exchange auction and the pegging of the shilling at SoSh 100 per dollar, the private sector has lost all access to foreign exchange except through the parallel market and that portion of foreign exchange receipts exporters have been allowed to retain (which are frequently sold unofficially at parallel-market rates). Although the public sector is experiencing difficulties due to lack of foreign exchange and a growing debt, most of the burden of recent decisions is falling on the private sector. The average Somali is faced with inflation and shortages of certain staple commodities. Those requiring foreign exchange for travel, educational, or medical reasons have difficulty obtaining it. Many businesses are close to suspending operations for lack of foreign exchange for imported materials, and/or potential problems in selling at profits because of the high cost of parallel market foreign exchange and the possibility that output must be sold at a controlled price.

D. Prognosis for the Future

The entire dollar portion of Somalia's development program is financed by donors. In addition, donor-generated local currencies fund the entire shilling component of the development program and a sizable share of the recurrent budget. Despite this, the government continues to run a budget deficit financed through credit, thereby fueling inflation. Attempts to control expenditures are difficult because of inadequate budget practices. The 1988 budget reflects a desire to reduce expenditures but is unrealistic in magnitude: The budget shows an absolute decrease of 23 percent over 1987 and after adjusting for inflation (assuming a level of 40 percent), the decrease in real terms is even more significant. Tax collections relative to income are lower in Somalia than in other countries and are lower now than in the 1970s. The GSDR is attempting to control the budget deficit and in this regard has formed a tax reform commission charged with responsibility for reforming the tax system. Given the immediate need for revenues, the Ministry of Finance is mainly concerned with immediate increases in tax rates and only secondarily considering the long-range implications of the tax system on private sector productivity, growth, and eventual tax revenues.

For Somalia to resolve the long-term economic problems, the country will need to institute sound economic policies which encourage productive activity and return of foreign exchange to the country. This requires policies which inspire private sector confidence in the government, including removal of price controls and reinstitution of a market-oriented exchange system. Another critical area is true tax reform which considers the impact of taxes on the economy, not just as a source of revenue. Unfortunately, a reform program aimed at long-run productivity rather than immediate revenue gains which hurt the private sector will result in continued deficit financing and inflationary pressure. USAID considers long-run reform and a tax system which does not cripple the private sector to be sufficiently important to warrant USAID direct support through technical assistance and inclusion of conditionality in this program and the PL 480 program.

Another area where the government must change its policies and/or improve policy performance is in the area of debt. The government must gain a better understanding of the importance of establishing and maintaining a record of debt payment and must begin to budget for debt payments. (In many instances, government officials are not even aware of the size of various debts, the dates on which they are due, or the consequences of default.) The importance USAID places on this area, not only for surviving the short run but for creating a more positive outlook for the future, is indicated by the cash targetted to debt payment and conditionality aimed at improving debt management in this year's program. Even with sound policies, however, Somalia must receive large amounts of donor assistance for decades and frequent and liberal debt rescheduling, if not actual debt forgiveness, from countries and agencies able to do so. There is no quick or easy solution to Somalia's difficulties, and the donor community must recognize the need for a long-range outlook.

The GSDR is now aware that the new policies of last September and February have hurt, rather than helped the country, and is willing to consider changes. The policies adopted over the past nine months have resulted in the loss of many of the gains made during the first seven years of this decade. In addition, foreign exchange shortages have increased and become more of a constraint on both public and private sector activity. Conflict in the North will add to demands for foreign exchange and budget resources. Reintroduction of more appropriate policies will not result in immediate solutions to the country's problems, and in some instances may, in the initial adjustment period, appear to create additional difficulties. The GSDR is working toward a new IMF Agreement (probably with an interim "shadow" program) which would help provide a more solid framework for policy reform. Should Somalia reach agreement on either a "shadow" or Standby program with the IMF, a return to a more liberal, market-oriented foreign exchange regime will be a sine qua non, as will elimination of price controls. To re-establish a program with the Fund will require payment of over $50 million in arrears by August 1988 and a total of $85 million by December. Donor assistance directed at providing the needed foreign exchange and encouraging correct policies is critical at this time.

The actions of the government over the past few months indicate quite clearly that it recognizes the difficulties associated with trying to manage an economy and that a market approach has its virtues. While there is every indication that the government will adopt some form of market oriented mechanism for setting the foreign exchange rate, the discussions, negotiations, and ultimate agreement are likely to take some time as the government and the IMF work out a mechanism to fit the Somalia case. The most likely scenario is a rate pegged to a market-basket of currencies and adjusted periodically for relative inflation, differences between the official and parallel rates and other factors.

In the meantime, the country needs foreign exchange financing and incentives to deal with its numerous problems. The following program description delineates the several areas of assistance that are appropriate for A.I.D. at this time.

II. PROGRAM DESCRIPTION

A. Purpose

The purpose of the FY 1988 ESF grant is to provide foreign exchange to repay debt and provide imports for productive economic activity. The program will encourage market-oriented activities, better debt management, and general support of the private sector.

The FY88 ESF program will provide $5 million to the Central Bank for the payment of debt, $9 million to the public sector for the purchase of petroleum, and $7 million for a commodity import program. Local currency will be generated by all elements except the $5 million for debt. The program will include covenants in three areas: improved debt information systems and (eventually) management; tax reform aimed at promoting private sector productivity; and removal of regulations which impede private sector importation and distribution of CIP commodities.

The program will help alleviate the foreign exchange shortages which are slowing the economy, provide direct assistance to productive activities in the private sector through petroleum and other agro-industrial commodities, demonstrate support for a multi-donor effort to relieve Somalia's debt burden, and allow USAID to continue its dialogue with the government on the importance placed on prudent debt management, market-oriented economic policies, and general fiscal responsibility.

B. Program Elements

1. Debt Payment

Somalia has a publicly guaranteed, external debt of $1.4 billion. A total $108 million in debt was rescheduled in 1987. In 1988 $39 million has already been or is expected to be rescheduled as a result of the July 1987 Paris Club. Even after rescheduling, Somalia will need to make sizable payments in 1988 and 1989. Total debt due in 1988, including a bridge loan will be $196 million. Of this amount, over $82 million is not eligible for rescheduling even if a debt rescheduling program should occur this year; futhermore, comprehensive rescheduling cannot occur unless Somalia reaches some type of agreement with the IMF. Although data on debt are still being refined and final figures are not yet known, the GSDR will not be able to make all the payments owed in 1988 even with anticipated levels of donor assistance. Obtaining an IMF agreement is essential for obtaining debt relief needed this year as a result of the shortfall in donor resources.

The FY88 ESF program will provide up to $5 million for payment of PL 480 debt, debt to multilateral organizations, or for repayment of commercial bridge loans obtained for payment of multilateral debt. In addition to the $5 million in this program, the Mission anticipates reprogramming the FY 1987 funds for debt payment, thereby adding another $15 million. Given the magnitude of Somalia's debt, we recognize fully that the proposed level of ESF funding for debt will not resolve Somalia's debt difficulties. Nevertheless, we consider this effort an important adjunct to any multi-donor effort to provide assistance to relieve the impediments debt obligations have for donor assistance flows.

Somalia's debt burden will not be resolved unless several donors contribute toward debt payment and/or institute debt forgiveness if possible. Continued debt rescheduling is also essential. Failure to pay key debts, e.g., to the IMF, U.S., IBRD, and some others, could have more serious consequences. In addition, the establishment of an IMF program is contingent on Somalia meeting its arrears with the IMF, and a Fund program is needed before the World Bank will consider implementing the second phase of its Agricultural Sector and Adjustment Program. A Fund program also affects the size and availability of aid from other donors. USAID has talked with both the IMF and World Bank about the need for a coordinated-donor effort. The Italian Government has suggested a similar approach to the IMF. The Mission will be talking with other donors over the following weeks to encourage them to include cash for debt payment in their programs. USAID considers it more likely to achieve a multi-donor effort if we are willing to place some of our funds into debt repayment. In this sense, the FY 88 ESF funds represent "seed money," for use in encouraging others to provide funds for debt repayment.

Placing funds into debt repayment makes the GSDR more aware that the U.S. considers debt payment to be sufficiently important to consider it a priority use for the ESF program. Many GSDR officials do not understand the necessity of repaying debt unless faced with immediate cessation of a program in the absence of payment. (E.g., for the past three years, debts owed the United States were paid within hours, or a maximum of two days, before triggering Brooke or 620Q.) The GSDR also does not understand the advisability of paying arrears in installments rather than waiting until the total amount is too large to manage.

Reserving a portion of the program for debt payment also makes the entire area of debt repayment one in which the Mission can more easily carry on policy dialogue, including a covenant supporting better debt information, monitoring, and management. USAID has already identified better debt management as an area which is essential for eventual economic recovery and growth.

USAID will have one covenant dealing with better management of multilateral debt. The specific language for this covenant is as follows:

> The Grantee agrees to establish an improved debt information system and begin establishing a debt-management plan. The debt information system will assemble data on all debts owed over a three-year period, identified by creditor, amount owed, and date. The debt-management plan will institute a system whereby the Ministry of Finance determines all the debts owed in the upcoming year, and especially the upcoming quarter, identifies foreign exchange sources for debt payment, establishes priorities for debt payment, and ensures the foreign exchange is available for paying the priority debts when needed.

Another covenant is concerned with the domestic budget and its relationship to the private sector. At present, revenue is inadequate to deal with even a fraction of expenditures. The tax system relies heavily on custom taxes with no ability to increase reliance on income taxes without long-term reform. In addition, many taxes discourage industrial activity. USAID will include the following covenant in the grant agreement:

> The Grantee agrees to have the Tax Reform Commission examine the impact of all existing taxes and proposed changes on productivity in the private sector and will endeavor to ensure that the tax system encourages private sector growth.

2. <u>Petroleum Imports</u>

Somalia must import all its petroleum. The total value of petroleum imports is approximately $55 million per year, or approximately $4.5 million per month. Somalia recently imported approximately $7 million of petroleum financed by the World Bank Agricultural and Structural Adjustment Program (ASAP I). These funds were originally intended for disbursement at the time the foreign exchange auctions were suspended in September. Disbursement was, therefore, suspended until recently. Somalia recently imported petroleum under a "delayed payment" agreement with Kuwait. At present, the only other donor planning to provide petroleum is Italy.

Under the FY88 ESF program, USAID will provide $9 million in petroleum, or approximately two months of total petroleum needs based on past years. USAID and GSDR preference is for importation of diesel fuel to further support productive sectors. Both the agricultural and industrial sectors use diesel fuel. It is also needed by the power plant for electricity generation since one constraint facing industry has been frequent power interruptions, often caused by shortages of fuel.

The Mission considers petroleum to be an essential portion of the ESF package because of the importance of petroleum, specifically diesel, to the functioning of productive sectors. Military requirements are growing; consequently, provision of diesel under ESF for non-military use under this program increases in importance. The grant agreement will contain a covenant that states:

> The Grantee agrees that all petroleum purchased under this grant will be used for non-military purposes.

Although individuals may, in many instances, import petroleum for their own use, private sector importation for resale is not allowed and distribution of petroleum imports is made through the public sector. Consequently, the petroleum will be imported by the public sector's National Petroleum Agency using standard A.I.D. CIP regulations, including deposit of local currency. The petroleum will, however, be available for private-sector use through the existing distribution system.

3. Commodity Imports

The $7 million Commodity Import Program will finance agricultural and agro-industrial imports. We have focussed on agriculture because of its importance to the Somali economy and the gains in productivity in this sector the past several years). Of the $7 million for the CIP, $1.2 million will be available for public sector imports in the agro-industries. The decision to allocate a portion of the CIP to the public sector is based on the Ministry of Industry and Commerce's contention that many public-sector agro-industries provide essential inputs to private sector agro-industries. The remainder of the funds ($5.8 million) will be reserved for the private sector. Based on recent information from the Ministries of Agriculture, Livestock, Fisheries, and Commerce and Industry, anticipated demand for private sector imports in the agricultural and agro-industrial categories is between $10 and $15 million. Items identified for import include fertilizer, seeds, tractors, spare parts for irrigation, fishing gear, and various inputs and spare parts for agro-industries. Agro-industrial firms presently identified include a factory making implements for farmers, dairies, a processing plant for tomatoes, and companies making shoes from animal hides and skins.

As indicated in Table 1, the estimated dollar value of required public and private sector imports for 1988 (and potentially fundable with normal donor assistance) will be $477.6 million, of which, $307 million is for the Public Investment Program, financed primarily through donor loans and grants for projects. This leaves $170 million of imports to be financed through export proceeds, remittances, and non-project donor loans and grants. Approximately $55 million will be required for petroleum and, based on past experience, $50 to $60 million for food. That leaves $55 million to $65 million in imports of non project-related commodities.

Table 1: IMPORTS BY SOURCE AND USE - 1987 AND 1988

(U.S.Dols Millions)

	--1987	--1988
Cash Imports	110.90	87.90
Somali Sources	(71.51)	(65.00)
Grants	(16.70)	(5.00)
Loans	(22.70)	(17.90)
Grants in Kind	318.60	311.40
CIP	(45.30)	(56.40)
Food	(37.40)	(10.00)
PIP	(235.90)	(245.00)
Loans in Kind	69.90	78.30
CIP	(6.60)	(7.80)
Food	(3.70)	(8.50)
PIP	(59.60)	(62.00)
Total Imports	499.40	477.60

Source: Ministry of Finance and Treasury

A CIP of $7 million will not meet all private sector (or public sector) import requirements. When considering, however, that the Italian government is expected to provide some financing for private sector commodities, potentially $40 million, and the Japanese have a small program, we consider $7 million to be adequate to meet a significant portion of the needs of agriculture and agro-industries from within the total $55 to $65 million needed for non-project, non-fuel or food items.

USAID/Somalia has had three Commodity Import Programs, ending with the FY 1985 ESF program. (Annex C contains a brief summary of experience under these CIPs.) These CIPs were instrumental in providing needed foreign exchange for agriculture and industrial imports. The programs encouraged the introduction of new seed varieties, including watermelons which have become an export, provided spare parts and inputs for industries, tractors, and trucks, and funded construction of several new businesses and industries. The program stopped when the free market opened, making foreign exchange more readily available and allowing allocation of foreign exchange in a market-determined manner. The Mission anticipates eventual return to a market-oriented exchange system, with introduction and implementation of adequate measures for allocating foreign exchange to the private sector through the banking system under a new IMF program. At present, however, there is no such mechanism, and although

USAID would prefer having a market system allocate foreign exchange resources, the Mission considers this to be an appropriate time to reintroduce a CIP as an interim measure, even with its need for administrative procedures as a method of resource allocation. At present, this is the only mechanism through which A.I.D. can help finance private sector imports, thereby preventing several productive enterprises from potentially suspending operations and indicating to both the GSDR and private sector that A.I.D. maintains its commitment to the private sector.

At present, industrial production in Somalia averages only 25 percent to 30 percent of installed capacity. Factors contributing to low utilization include a shortage of raw materials, fuel, and spare parts-- all due to lack of foreign exchange-- and a lack of skilled manpower. A CIP will help alleviate the difficulties caused by the shortage of raw materials and spare parts.

To encourage the government to remove impediments to productive imports, we will seek the following covenant in the grant agreement:

> The Grantee agrees to ensure that no rules, regulations, or other impediments prohibit or hinder private sector importation and distribution of commodities eligible for private sector importation under the CIP and that where such impediments are found, the Grantee will endeavor to remove them.

If the exchange rate remains at its present level of SoSh 100 per dollar, those persons receiving CIP dollars will have windfall profits. At present we expect that the shilling will be devalued toward a market level by the time our CIP funds are ready for disbursement. While it may be a number of months beyond that before the new rate is truly realistic, the potential for substantial windfall profits should be declining before implementation of the CIP. Nevertheless, the potential remains and is a problem we have recognized since we began exploring options for the FY 1988 ESF program. USAID considers a CIP with an overvalued shilling as an interim measure to assist the private sector in gaining access to needed imports.

USAID has considered auctioning CIP dollars to let a market-mechanism determine the value of the CIP dollars. The Mission has had sufficient experience with auctions here (both cash and food), however, to recognize that several auctions are required before the system works in a market-oriented manner. It is possible for an initial auction to set a rate lower than the present exchange rate unless a floor price is set. Since A.I.D. would not have sufficient auctions for CIP dollars to reach the "market" stage, the Mission does not consider an auction preferable to use of a fixed, overvalued exchange rate, especially since an auction is a also management and staff intensive operation. Any attempt to control the price at which CIP goods are resold would be an additional step backward by implicitly endorsing price controls. Another potential method would be for USAID to calculate a "market-determined" rate, discount it by the added costs associated with a CIP, and use that rate. In the absence of a free market, however, such a rate is virtually impossible to determine. The parallel market is thin and influenced by speculation for capital flight. This procedure is contrary to A.I.D. general policy as well. A.I.D. also does not consider it inappropriate for the U.S. Government to try to determine the appropriate exchange rate in Somalia.

III. RELATIONSHIP TO MISSION STRATEGY AND U.S. INTERESTS

USAID's strategy is to assist with short-term balance of payments problems while helping build the resource and institutional base for sustained, long term development. With the importance of agriculture to the economy, the primary focus of USAID project assistance is this sector (including livestock). Within the constraints of the Somali political situation, the Mission has tried to focus attention on private sector development as a mechanism for improving long-run productivity. At present, this is done primarily through dialogue with the government designed to remove constraints to private sector activity, i.e., price controls, mechanisms for helping the private sector obtain foreign exchange, project assistance and training through PIPS and SOMTAD, and distribution through the private sector food auction of most PL 480 commodities.

The focus of the ESF program is consistent with USAID's strategy. The focus of the CIP (agriculture and agro-industry) will reinforce and assist our major project emphasis: agriculture. Conditionality under the ESF program is also coordinated with other programs; the PL 480 program contains a self-help measure designed to ensure that the GSDR examine the impact of taxes on productivity in agriculture and agro-industries. The similar covenant in the ESF program will reinforce the need for reform. It is also consistent with the desires of the GSDR as articulated by the Ministry of Finance and Revenue, which has requested assistance for debt, petroleum, and a commodity import program directed primarily to the private sector. The program has been designed in coordination with a GSDR committee comprised of one member each from the Ministry of Finance and Revenue, the Ministry of Agriculture, the Central Bank, and the Ministry of Industry and Commerce. All endorse the need for assistance with debt, petroleum, and a CIP focused on agriculture and agro-industry, with the major portion of CIP financing going to the private sector. The U.S. - Somali Bilateral Consultative Committee has endorsed this program configuration. The need for tax reform aimed at improving private sector productivity was considered especially important by the representatives from the Ministries of Agriculture and Industry and Commerce. They were also concerned with ensuring private sector importers did not face impediments to importation or distribution.

Somalia's strategic location in the Horn of Africa along the vital shipping route between the Persian Gulf and Europe makes it particularly important to the United States. The U.S. encourages Somalia's movement toward a closer relationship with the West. Also important is Somalia's role in rapprochement with Ethiopia and maintenance of peace in the Horn. Other aspects of the relationship between our two governments are the GSDR's provision of military access rights to the USG under a 1980 Agreement, and the USG's military and economic assistance to Somalia. Military assistance focuses on providing the GSDR with the training, leadership capability, and material needed to defend itself against outside aggression. Economic assistance focuses on short-term economic stabilization, building a base for long term development, as well as current humanitarian considerations such as resettlement of refugees.

IV. STATUS OF THE IMF PROGRAM

In June 1987 Somalia signed a new Standby Agreement with the IMF. In addition to the Standby, there was a Structural Adjustment Facility. Since a major underpinning of the reform program had been unification of exchange rates under a market-determined mechanism, cessation of cash auctions and the announcement September 17, 1987 that the rate would be set at SoSh 100 per dollar suspended both the Standby and the Structural Adjustment Facility.

An IMF team visited Somalia in March 1988 for Article IV consultations. At that time, GSDR officials and the IMF team discussed policy issues in general and the types of steps necessary to re-establish a Fund Agreement. A new program would require substantial initial devaluation of the shilling with introduction of a system of adjustment to establish and maintain a realistic rate and elimination of price controls. A shadow program under which the GSDR would receive no financing from the IMF but during which it would receive assistance in formulating economic targets to improve recordkeeping and budgeting was proposed. Policy changes would need to be made during the period of the shadow program, and the IMF would monitor the GSDR's ability to adhere to reforms.

On May 6, the IMF declared Somalia ineligible to receive financing. If and when Somalia repays its arrears to the Fund (presently approaching $50 million) and meets other conditions necessary for a program, Somalia will again be voted eligible.

On April 25 the GSDR made a decision to invite the IMF team to return to Somalia to continue discussions with a view toward reaching agreement if possible on a new Standby. A two-person team came in May and continued the March discussions. The GSDR appears interested in having a shadow program, leading to a new Agreement in 1989. This will require changes in exchange rate policy and elimination of price controls. No formal decision has been announced by the GSDR as of this writing. The GSDR recently announced, however, that price controls were not working as intended and were under review. They have also cabled the Fund requesting a program and promising to announce a substantial devaluation and discuss the new mechanism: an exchange rate pegged to a market basket of currencies, adjusted periodically by factors such as relative inflation and introduction of a new mechanism for allocating available foreign exchange. There will also be only one legal exchange rate for all transactions and a 100 percent export surrender requirement. An announcement is expected within the next few days or, at most, weeks and will be followed by a return visit of a Fund team which will shape the Shadow program.

V. OTHER DONOR PROGRAMS

The cessation of cash auctions resulted in suspension of a large portion of donor aid because many donors were either channeling their aid through the auction or were using the auction rate for determining the shilling value of a commodity import program or other activity. Some donors have reached agreement with the GSDR on suspended programs and new programs, but many are still in the discussion or pre-discussion stage. The FRG and GSDR recently reached agreement to disburse the U.S. Dols 2.9 million of commodity aid which remained when the program was suspended in September. The funds will be sold at the last auction rate of SoSh 159.9 per dollar. Discussions on a new two-year aid program with the FRG was scheduled to be held in June. The GSDR and World Bank resolved all remaining concerns over the U.S. Dols 7.8 million in petroleum imports, which recently arrived in country. World Bank ASAP funds intended for the auction remain on hold as do the funds for the U.S. FY 1987 ESF, however, and the World Bank announced its intention of suspending all activities except technical assistance unless the U.S. DOLS 2 million is replaced in the Citibank ASAP auction account. At present, Bank officials are making agreement with the fund a pre-condition for further discussion on ASAP II. Assuming domestic political difficulties can be resolved, the Italian government plans to give approximately $40 million in commodity aid and additional project aid. Italy has promised an additional $16 million of "emergency" food and petroleum.

VI. MACRO-ECONOMIC SITUATION

A. Background:

Somalia is a large but sparsely populated country with one of the lowest per capita incomes of any African country: approximately $280 per year. The per capita income has changed little in the past several years. The natural resource base is extremely limited, with no known mineral or fossil fuels. Its low and irregular rainfall and rugged terrain, including a hot and arid coastal plain, rugged mountains and plateaus and lowlands of varying rainfall and fertility, create a harsh and fragile environment for agriculture. The climate is harsh, and the country suffers from periodic droughts. Approximately 13 percent of the land is considered potentially arable but less than two percent of the potentially arable land is under cultivation because of the present unavailability of water.

Somalia has a large and growing external debt ($1.4 billion in disbursed, publicly guaranteed, external debt). Although over $100 million in bilateral debt was rescheduled during 1987, Somalia ended 1988 with sizable arrears to multilateral and bilateral donors. (According to Central Bank figures, $82.4 million was in arrears to multilateral agencies and $22.5 million to bilateral donors.) Rescheduling terms were liberal but covered only debt payments owed prior to October 1984. Consequently, Somalia still has substantial debt payments to make in 1988: over $180 million. As illustrated by Table 2, Somalia not only has a large imbalance between donor aid (private transfers and official capital inflow) and debt payments (interest under the services account, official capital outflows, and IMF, AMF, and bridge loans shown at the bottom of the table), but Somalia has also been facing a large and continuing trade deficit. (Based on preliminary estimates, imports in 1987 were $499 million, with exports only $93 million.) Somalia must rely on donor assistance in repaying debt as well as for financing imports, which are typically three-to-five times exports.

Somali did not have a written language until 1973 and consequently anyone gaining an education prior to that was taught in Italian (primariy) or English. During the 1970s there was a tremendous push for literacy, and the GSDR estimates the literacy rate then at about 40 percent. Most persons place the adult literacy rate now at about 17 percent. The low literacy rate and the difficulty in relying on written communication compound the economic problems, including the lack of reliable data.

Somalia's economic difficulties emanate from policies begun in the socialist era of the 1970s and debts incurred during a 1977-78 war with Ethiopia. Periodic droughts have exacerbated the situation. In the middle of 1983, Saudi Arabia placed a ban on all livestock exports from Somalia, which was later modified to include only cattle. The resulting decrease in exports and increased Central Government spending added to an already staggering burden.

Table 2: SOMALIA BALANCE OF PAYMENTS ESTIMATES: 1983 - 1989

	1983	1984	1985	1986	Prog 1987	Est 1987	Projected 1988	1989
Exports (f.o.b.)	100.00	62.00	93.00	94.70	113.61	93.13	98.88	101.87
Livestock	72.00	33.10	66.00	62.40	74.32	58.20	59.96	61.77
Bananas	15.00	14.10	13.00	17.00	21.81	20.53	24.08	24.81
Other	13.00	14.80	14.00	15.30	17.48	14.40	14.84	15.29
Imports (c.i.f.)	-450.00	-406.00	-373.00	-357.00	-403.80	-499.40	-459.70	-355.26
Cash imports	-206.00	-156.00	-99.00	-108.10	-105.00	-110.90	-70.00	-60.08
Grants in Kind	-147.00	-151.00	-158.00	-140.60	-215.40	-318.60	-311.40	-216.38
Loans in kind	-97.00	-99.00	-116.00	-108.30	-83.40	-69.90	-78.30	-78.80
Trade Balance	-350.00	-344.00	-280.00	-262.30	-290.19	-406.27	-360.82	-253.40
Services (net)	4.00	-47.00	-55.00	-69.57	-50.56	-65.05	-71.04	-71.39
Interest		-44.00	-49.00	-60.32	-47.56	-52.00	-59.97	-61.06
Other		-3.00	-6.00	-9.25	-3.14	-13.05	-11.07	-10.33
Transfers (net	199.00	246.00	224.00	232.70	288.40	378.30	346.40	252.39
Private	51.00	72.00	20.00	37.00	27.00	35.00	30.00	30.93
Official	148.00	174.00	204.00	195.70	261.40	343.30	316.40	221.46
Current Account	-147.00	-145.00	-111.00	-99.17	-52.35	-93.02	-85.46	-72.40
excl. off. transf.	-295.00	-319.00	-315.00	-294.87	-313.75	-436.32	-401.86	-293.86
Capital Acct (net)	61.00	6.00	61.00	12.18	62.16	27.26	15.72	17.20
Official	100.00	46.00	73.00	64.21	62.16	57.22	15.72	17.20
Inflows	107.00	106.00	122.00	124.30	123.40	120.30	78.30	78.81
Outflows	-7.00	-60.00	-49.00	-60.09	-61.24	-63.08	-62.58	-61.61
Private (net)	-39.00	-40.00	-12.00	-52.03	0.00	-29.96	0.00	0.00
Overall Balance	-86.00	-139.00	-50.00	-87.00	9.81	-65.76	-69.74	-55.20
Financing	86.00	139.00	50.00	87.00	-9.81	65.76	69.74	55.20
Central Bank	47.00	13.00	28.00	15.00	-45.20	-23.52	-74.68	-45.27
Reserves	2.00	9.00	-2.00	16.00	-8.00	3.70	0.00	0.00
IMF	44.00	-3.00	32.00	-7.00	-0.20	-12.02	-41.98	-45.27
Other	1.00	7.00	-2.00	6.00	-37.00	-15.20	-32.70	0.00
AMF						-25.90	-22.00	0.00
Bridge Loan						10.70	-10.70	0.00
Commercial Bank	39.00	29.00	-32.00	-8.00	0.00	0.00		
Arrears	0.00	71.00	-98.00	80.00	-116.50	-18.47	-50.20	-50.20
Debt Relief	0.00	26.00	152.00	0.00	152.00	107.75	39.00	0.00
Current Debt Service	0.00	0.00	43.00	0.00	67.00	48.36	39.00	
Arrears	0.00	26.00	109.00	0.00	85.00	59.39		
Unidentified					-0.11			
GAP							155.62	150.67

Since the late 1970s, Somalia has tried to improve economic performance. Many government owned factories and industries were turned over to the private sector. Virtually all price and import controls were lifted with the exception of those on government owned or controlled enterprises. Nevertheless, the country has little leeway for error. After beginning economic reforms, including liberalizing of grain sales which resulted in substantial increases in corn and sorghum production, and opening a free market allowing a market mechanism to set the exchange rate and allocate foreign exchange, Somalia began last September to reinstitute some of the earlier controls. In September 1987 Somalia abandoned its market-oriented system for allocating foreign exchange. As a result, the private sector has had virtually no access to foreign exchange since then. In February 1988 price controls on many commodities were introduced in an attempt to lower the increasing rate of inflation. The predicatable result was increased inflation and shortages.

B. Productive Sectors:

1. Agriculture:

The agricultural sector, and specifically livestock raising, is the dominant sector in the economy, providing employment to two-thirds to three-fourths of the population. Between 50 percent and 60 percent of GDP originates in the agricultural sector, with approximately 70 percent of agricultural production provided by livestock. Nomadic livestock grazing is the traditional occupation of most Somalis. About half of the population is nomadic or semi-nomadic, depending on livestock for their livelihood and concentrated in the central and northern regions. In terms of exports, livestock is even more important, providing between 60 percent to 80 percent of the total value of exports in the past three years. As indicated earlier, because of present difficulties in the North, the 1988 figure may be $30 to $40 million short of prior year earnings and the estimate given in Table 2.

Crop production contributes approximately 15 percent of GDP, with the major crops being maize, sorghum, bananas, and sugarcane. Crop production is now contributing from 17 percent to 25 percent of export proceeds, primarily from bananas. Roughly one-fourth the population consists of settled farmers, most of whom are found in the southern Shebelli river valley and in the higher rainfall Bay region. Rainfed cropping occurs on between 700,000 and 1,000,000 hectares each year. Expansion in productivity can be achieved through improved varieties of seed and increased and appropriate utilization of fertilizer. Between 50,000 and 150,000 hectares of land receive some form of irrigation, but all except approximately 20,000 hectares receives only uncontrolled flood irrigation. The major small-holder, rainfed crop is sorghum. Maize, the other major crop, is grown on both rainfed and irrigated land. Crops grown in the relatively small areas of controlled irrigation include bananas, maize, rice, and sugar cane.

Although both sedentary agriculture and livestock production face natural, ecological constraints to growth, there is nevertheless potential for expanded production due to expansion of irrigation facilities and rehabilitation of existing facilities. Agricultural acreage and yields per acre can increase with more appropriate methods; the same is true for the value of livestock. A major constraint is lack of imported inputs. For example, Somalia has one of the lowest rates of fertilizer utilization in Africa. Another import required for increasing yield per acre in the short term is better seed varieties. With regard to livestock, lack of sufficient quantities of imported veterinary drugs and appropriate quarantine facilities lower the acceptability and value of the animals and Somalia's access to big markets.

Somalia also has untapped potential in fishing. The country has a 3,300-km coastline, with yield projections of approximately 180,000 tons of fish a year; however, Ministry of National Planning figures estimate approximately 19,600 tons caught in 1984, 16,500 tons in 1985, and 18,300 tons in 1986, the last year for which data are available. This sub-sector requires nets, small boats, and (for long-term expansion) increased capacity for canning and freezing for export.

USAID intends to assist the agricultural sector by expanding production and improving productivity through commodities financed through the FY 1988 CIP, e.g., seed crops, spare parts for irrigation equipment, fertilizer, tractors and tractor spare parts, and assistance to domestic industries providing materials to agriculture (small equipment and bags for sugar, fertilizer, and grains).

2. Industry:

At independence Somalia had virtually no industrial base -- a large sugar mill and a few medium-sized plants. Although the industrial sector is still relatively small, contributing 13 percent of GDP, according to the Planning Department at the Ministry of Industry and Commerce, and virtually no exports, the sector has developed considerably since its small beginning. The country now produces such diverse goods as nails, prefabricated building materials, polythene bags for agro-industrial use (sugar and cotton); the country has several soft-drink bottling plants, cosmetics factories, furniture factories, dairies, and plants for canning meat, fish, and fruits. There is a dairy industry. And Somalia also produces leather and plastic shoes, household utensils, soap, cigarettes, and matches.

The majority of formal manufacturing and industry is owned or controlled by the public sector, with that sector providing between 65 percent and 85 percent of industrial value added. The period of socialism during the 1970s was difficult for the private sector with that sector losing 60 percent of its establishments between 1974 and 1982 (according to the

World Bank, Somalia: Industrial Policies and Public Enterprise Reform) while the public sector lost only 20 percent of its establishments. Beginning in 1980, the private sector began to move back into areas from which it had previously been proscribed. Expansion has been slow and difficult for both the public and private sectors, however, because of shortages of trained manpower, lack of stable power sources, myriad taxes (for the private sector), and general difficulties in obtaining foreign exchange for raw materials, machinery and spare parts. Although it varies greatly among factories, average capacity utilization for both public and private sectors has been 25 percent and 30 percent for several years and now may be as low as 5 to 10 percent. Increased diversity in industry and an increase in capacity utilization of existing industries will not only provide increased employment and government tax revenues, but it may also lead to more production by export-oriented industries, particularly in areas of agricultural processing.

By focussing the CIP on agriculture and agro-industry, we intend to alleviate some of the difficulties of agro-industrial firms such as the bag factory, the dairy industry, companies using Somali hides and skins as inputs, e.g., several shoe factories, and a factory making small implements for farmers (hoes and similar articles).

C. Balance of Payments Analysis:

1. Foreign Exchange Regime and Policies

Prior to 1985 Somalia had essentially a fixed exchange rate, pegged variously to the dollar or the SDR. Beginning in 1985, a multiple exchange-rate system was introduced under an IMF program. An official exchange market remained for use solely for government transactions. It was financed through official transactions of other governments, e.g., sale of dollars by embassies in Somalia, and through the portion of export proceeds which the exporter was required to surrender to the Central Bank at the official rate: 35 percent in 1985 and 50 percent thereafter. A free market was opened, and buyers and sellers were free to negotiate individual prices for foreign exchange. Virtually all private sector transactions took place on the free market, which was funded from remittances, foreign exchange accounts of expatriate citizens and companies, and the percentage of export receipts not surrendered to the Central Bank at the official rate. (Although the surrender requirement lowered total return to exporters, their ability to utilize the free market for exchanging a portion of their proceeds gave more incentive than had existed in many previous years.) Retained export earnings could be used only to fund imports. Remittances and foreign exchange from expatriate residents and companies could fund imports or could be sold for transfer outside the country for any purpose. A third rate, the commercial bank rate, also existed but remained essentially fixed and was little used. Foreign exchange sold to the Central Bank at the official rate (and the commercial bank rate) was not sufficient to meet the government's requirements for debt payment, petroleum purchases and payment for embassies abroad. Thus, the Central Government sometimes used the free market to purchase needed foreign exchange. As part of the Agreement with the IMF in 1985, the GSDR agreed to periodic devaluation of the official rate and unification of all rates. This process was delayed, resulting in suspension of the 1985 Agreement and a later "extension" of the 1985 Agreement in 1986, in which the GSDR agreed to unify all exchange rates under some form of market-determined mechanism.

Beginning in September 1986, free-market foreign exchange for imports was augmented by donor cash auctions, funded by the World Bank-managed Agricultural Sector and Adjustment Program (ASAP), USAID, and Italy, and for two auctions, the GSDR. Auctions were held twice a month with approximately $5.3 million auctioned per month. The auction not only provided additional foreign exchange for imports and resulted in some appreciation in the free market rate, but it also offered the GSDR a potential mechanism to use after unification. GSDR officials were reluctant to unify under the then existing free market, fearing volatility, and the IMF was willing to consider alternative options. Only two were mentioned to USAID and discussed seriously with the GSDR. In initial discussions in December 1986 the GSDR and IMF focused attention on these two: use of an expanded version of the donor-funded import auctions or an exchange rate pegged to some market-basket of currencies, with a formula for frequent adjustment to keep the exchange rate from becoming over-valued.

The GSDR chose the auction option. On June 16, 1987, the free market and official exchange market were unified, with the exchange rate determined by an expanded version of the former donor auctions. (There were actually two auction systems: the expanded version of the donor-funded auction which provided cash for imports and also set the rate at which the banking system changed foreign exchange into shillings, and a second auction intended to finance service payments but which had not been carefully planned and was only beginning to function adequately - at best - by mid-September 1987. Thus, most travel, educational expenses, and medical expenses were funded through the parallel market, contributing to the disparity between the parallel rate and auction rate.) The auctions continued until September 17 when the GSDR announced cessation of auctions for determining the exchange rate. On October 12 the exchange rate was officially set at SoSh 100 per dollar. (The September 16 auction rate was SoSh 159.9 per dollar; thus, the shilling was appreciated by 60 percent.)

Various reasons have been given for abolition of the auction system.

1. Initial statements indicated government concern that the auction system had caused devaluation of the shilling, which in turn was raising prices.

The shilling did, indeed, devalue over the period of the auction, from SoSh 133 per dollar at the first auction under the unified system (June 16, 1987) to SoSh 149 per dollar September 3, and finally SoSh 159.9 per dollar at the last auction. Nevertheless, the rate of inflation decreased during that period. The shilling value at the last auction was lower that the rate of the free market when it closed and approximately the same as the rate in June 1986 before the World Bank announced its intention to auction dollars for import. (During the period from June 1986 until Sepmber 1987 inflation exceeded 30 percent.) There are also several other reasons for the devaluation.

There was large expansion in credit to both the public and private sectors during ths period; the banking system was not supposed to allow credit for the shilling payment for auction dollars but nevertheless did, thereby allowing persons to bid higher than otherwise.

The amount of foreign exchange available in the auctions was less than the total amount than had previously been available for private sector imports through the combination of donor auctions and the free market because all export proceeds were being surrendered to the Central Bank; the GSDR was supposed to contribute some export proceeds to the auctions, thereby supplementing the donor amount, but no GSDR contributions were made until the September 3 auction and the amount fell far short of previous funding through the free market.

There was no longer a free market to use between auctions; the intention under unification was for the banking system to sell foreign exchange between auctions at the most recent auction rate. The banking system, however, had no foreign exchange, partly from an unexpected decrease in export proceeds, partly from the failure of the service auction, which was to be funded from remittances and expatriate funding, not the Central Government, and partly because of the extremely large needs of the Central Government for foreign exchange.

2. A second reason concerns control over allocation of foreign exchange. Such control can be an important political tool which had been lost through the auction system.

Under the fixed exchange system adopted subsequent to the September 17 announcement there has been no mechanism introduced for allocating foreign exchange to the private sector through the banking system. In addition, the impact on potential exports was noticed immediately as exporters began refusing to ship livestock at the lower shilling remuneration. On October 20 the Central Bank issued a circular allowing exporters to retain 40 percent of their export proceeds for use for their own imports. This change resulted from meetings to determine mechanisms for increasing exports. It was also introduced as a mechanism for providing some foreign exchange for private sector imports. The 40 percent of retained export proceeds goes immediately into a special account at the Commercial and Savings Bank to be used - theoretically - only for the exporter's own imports. (It is, of course, possible to import and "resell" to someone else.) Since mid-September 1987 the private sector has had access to foreign exchange only through the parallel market, which is considered to be extremely thin, and the 40 percent of export earnings retained.

The SoSh 100 per dollar exchange rate represents a "cheaper" price per dollar than has prevailed since July of 1985 when the free market rate averaged SoSh 101 per dollar for the month. When adjusted for inflaton, the change in the exchange rate represents an even greater revaluation upward. Tables 3A and 3B show exchange rates since 1977 by year, with the official rate adjusted for inflation (1977 = 100). Based on this, the official rate now is is worth considerably more now than in 1977. Even were the figures to be further adjusted to reflect changes in inflation in Somalia's major trading partners, the relative impacts would not be changed. Even though it appears as if the official rate has devalued, in real terms (adjusted for inflation) it has not. Table 4 shows exchange rates since 1985 by month, including the average auction rate by month from the inception of donor cash auctions in September 1986. Parallel market rates are given for the period since unification of exchange rates in June 1987. Graphs 1 through 3 show the relative relationships between the various exchange rates and show exchange rates in actual versus real terms.

TABLE 3A: FOREIGN EXCHANGE RATES - 1977 TO MAY 1988

(U.S. Dol/SoSh)

DATE		OFFICIAL RATE	OFFICIAL RATE ADJUSTED FOR INFLATION	COMMERCIAL BANK RATE	FREE MARKET RATE (1)
1977		6.295	6.295	N.A. (3)	N.A
1978		6.295	5.749	N.A.	N.A.
1979		6.295	4.038	N.A.	N.A.
1980		6.295	2.387	N.A.	N.A.
1981	(2)	6.295/12.59	1.99/3.983	N.A.	N.A.
1982		15.206	3.589	N.A.	N.A.
1983		17.556	2.784	N.A.	N.A.
1984		26.000	2.265	N.A.	N.A.
1985	(Jan.)	36.000	3.025	85.0	88.26
1985	(Dec.)	42.000	2.805	85.0	114.63
1986	(Jan.)	42.000	2.677	85.0	114.76
1986	(Dec.)	90.500	4.623	90.5	142.48
1987	(Jan.)	90.500	4.308	90.5	149.36
1987	(June 3)	90.500	3.733	90.5	171.66
1987	(June 16)	133.100	5.491	133.1	N.A.
1987	(Sept. 16)	159.900	6.418	159.9	N.A.
1987	(Oct. 12)	100.000	4.027	N.A.	N.A.
1988	(Jan.)	100.000	3.509	N.A.	N.A.
1988	(May)	100.000	2.570	N.A.	N.A

(1) Average for month.
(2) Split rate was used, with most imports at higher rate.
(3) N.A. stands for not applicable.

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

TABLE 3B: FOREIGN EXCHANGE RATES - 1977 TO MAY 1988

(U.S. Dol/SoSh)

DATE		OFFICIAL RATE	OFFICIAL RATE ADJUSTED FOR INFLATION	COMMERCIAL BANK RATE	FREE MARKET RATE (1)
1977		0.1589	0.1589	N.A. (3)	N.A
1978		0.1589	0.1739	N.A.	N.A.
1979		0.1589	0.2477	N.A.	N.A.
1980		0.1589	0.4189	N.A.	N.A.
1981	(2)	.158/.079	0.22/.25	N.A.	N.A.
1982		0.0658	0.2786	N.A.	N.A.
1983		0.0570	0.3592	N.A.	N.A.
1984		0.0385	0.4416	N.A.	N.A.
1985	(Jan.)	0.0278	0.3306	0.0118	0.0113
1985	(Dec.)	0.0238	0.3566	0.0118	0.0087
1986	(Jan.)	0.0238	0.3735	0.0118	0.0087
1986	(Dec.)	0.0110	0.2163	0.0110	0.0070
1987	(Jan.)	0.0110	0.2321	0.0110	0.0067
1987	(June 3)	0.0110	0.2679	0.0110	0.0058
1987	(June 16)	0.0075	0.1821	0.0075	N.A.
1987	(Sept. 16)	0.0063	0.1558	0.0063	N.A.
1987	(Oct. 12)	0.0100	0.2483	N.A.	N.A.
1988	(Jan.)	0.0100	0.2850	N.A.	N.A.
1988	(May)	0.0100	0.3891	N.A.	N.A

(1) Average for month.
(2) Split rate was used, with most imports at higher rate.
(3) N.A. stands for not applicable.

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

Table 4: EXCHANGE RATES BY MONTH - JANUARY 1985 THROUGH MAY 1988

-----Date----	Official Rate(1) (On Fifteenth --Day of Month)--- SoSh/$	$/SoSh	Free Market Rate (2) (Average For ----Month)---- SoSh/$	$/SoSh	--Auction-- (3) SoSh/$	$/SoSh	Parallel ---Rate--- (4) SoSh/$	$/SoSh
January 1985	35.64	0.0281	88.26	0.0113	N.A.	N.A.	80 to 100	.0125 to .10
February	36.14	0.0277	88.48	0.0113	N.A.	N.A.	N.A.	N.A.
March	37.13	0.0269	91.56	0.0109	N.A.	N.A.	N.A.	N.A.
April	37.13	0.0269	92.83	0.0108	N.A.	N.A.	N.A.	N.A.
May	37.13	0.0269	93.86	0.0107	N.A.	N.A.	N.A.	N.A.
June	39.70	0.0252	97.63	0.0102.	N.A.	N.A.	N.A.	N.A.
July	40.20	0.0249	101.46	0.0099	N.A.	N.A.	N.A.	N.A.
August	40.20	0.0249	102.09	0.0098	N.A.	N.A.	N.A.	N.A.
September	40.20	0.0249	100.31	0.0100	N.A.	N.A.	N.A.	N.A.
October	40.20	0.0249	107.43	0.0093	N.A.	N.A.	N.A.	N.A.
November	40.20	0.0249	109.83	0.0091	N.A.	N.A.	N.A.	N.A.
December	42.08	0.0238	114.63	0.0087	N.A.	N.A.	N.A.	N.A.
January 1986	42.08	0.0238	114.76	0.0087	N.A.	N.A.	N.A.	N.A.
February	53.96	0.0185	122.90	0.0081	N.A.	N.A.	N.A.	N.A.
March	57.92	0.0173	138.63	0.0072	N.A.	N.A.	N.A.	N.A.
April	61.88	0.0162	148.96	0.0067	N.A.	N.A.	N.A.	N.A.
May	65.84	0.0152	152.56	0.0066	N.A.	N.A.	N.A.	N.A.
June	69.80	0.0143	155.21	0.0064	N.A.	N.A.	N.A.	N.A.
July	73.76	0.0136	153.40	0.0065	N.A.	N.A.	N.A.	N.A.
August	77.76	0.0129	137.66	0.0073	N.A.	N.A.	N.A.	N.A.
September	81.68	0.0122	138.98	0.0072	105.00	0.0095	N.A.	N.A.
October	85.69	0.0117	141.46	0.0071	99.90	0.0100	N.A.	N.A.
November	89.57	0.0112	139.96	0.0071	98.20	0.0102	N.A.	N.A.
December	89.57	0.0112	142.48	0.0070	109.40	0.0091	N.A.	N.A.
January 1987	89.57	0.0112	149.36	0.0067	122.30	0.0082	N.A.	N.A.
February	89.57	0.0112	150.76	0.0066	122.60	0.0082	N.A.	N.A.
March	89.57	0.0112	153.48	0.0065	119.10	0.0084	N.A.	N.A.
April	89.57	0.0112	157.60	0.0063	125.89	0.0079	N.A.	N.A.
May	89.57	0.0112	162.51	0.0062	139.75	0.0072	N.A.	N.A.
June 3	89.57	0.0112	171.66	0.0058	145.00	0.0069	N.A.	N.A.
June 16	133.10	0.0075	N.A.	N.A.	133.10	0.0075	160 to 180	.0062 to .0055
July	134.57	0.0074	N.A.	N.A.	134.57	0.0074	160 to 180	.0062 to .0055
August	139.37	0.0072	N.A.	N.A.	139.37	0.0072	160 to 180	.0062 to .0055
September 3	148.57	0.0067	N.A.	N.A.	148.57	0.0067	160 to 180	.0062 to .0055
September 16	159.90	0.0063	N.A.	N.A.	159.90	0.0063	180 to 200	.0062 to .005
October 12	100.00	0.0100	N.A.	N.A.	N.A.	N.A.	200 to 220	.005 to .0045
November	100.00	0.0100	N.A.	N.A.	N.A.	N.A.	240 to 260	.0042 to .0038
December	100.00	0.0100	N.A.	N.A.	N.A.	N.A.	270 to 280	.0037 to .0036
January 1988	100.00	0.0100	N.A.	N.A.	N.A.	N.A.	240 to 280	.0042 to .0036
February	100.00	0.0100	N.A.	N.A.	N.A.	N.A.	250 to 260	.004 to .0038
March	100.00	0.0100	N.A.	N.A.	N.A.	N.A.	240 to 280	.0042 to .0036
April	100.00	0.0100	N.A.	N.A.	N.A.	N.A.	260 to 290	.0038 to .0034
May	100.00	0.0100	N.A.	N.A.	N.A.	N.A.	300 to 310	.0033 to .0032

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

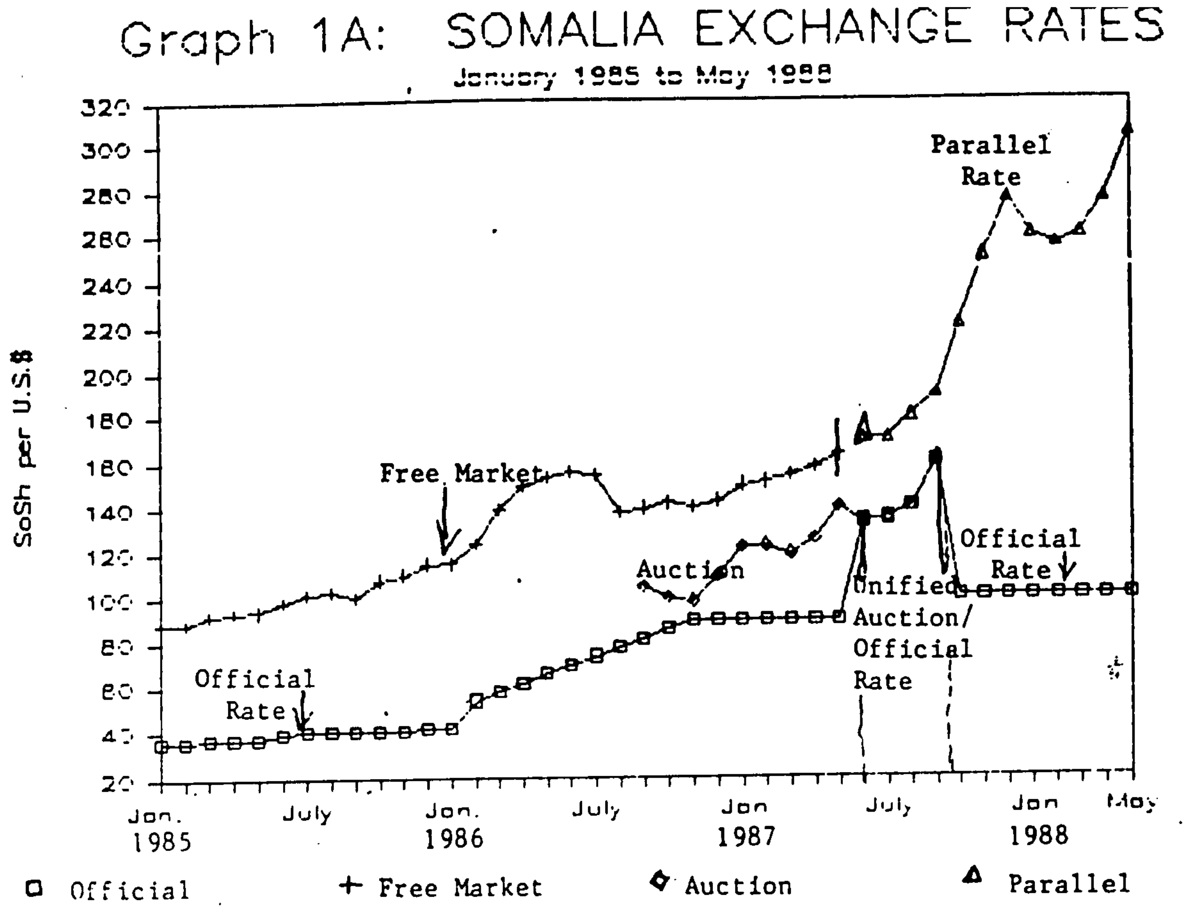
(1) Official rate used is one for selling dollars.

(2) The free market rate is the average for each month.

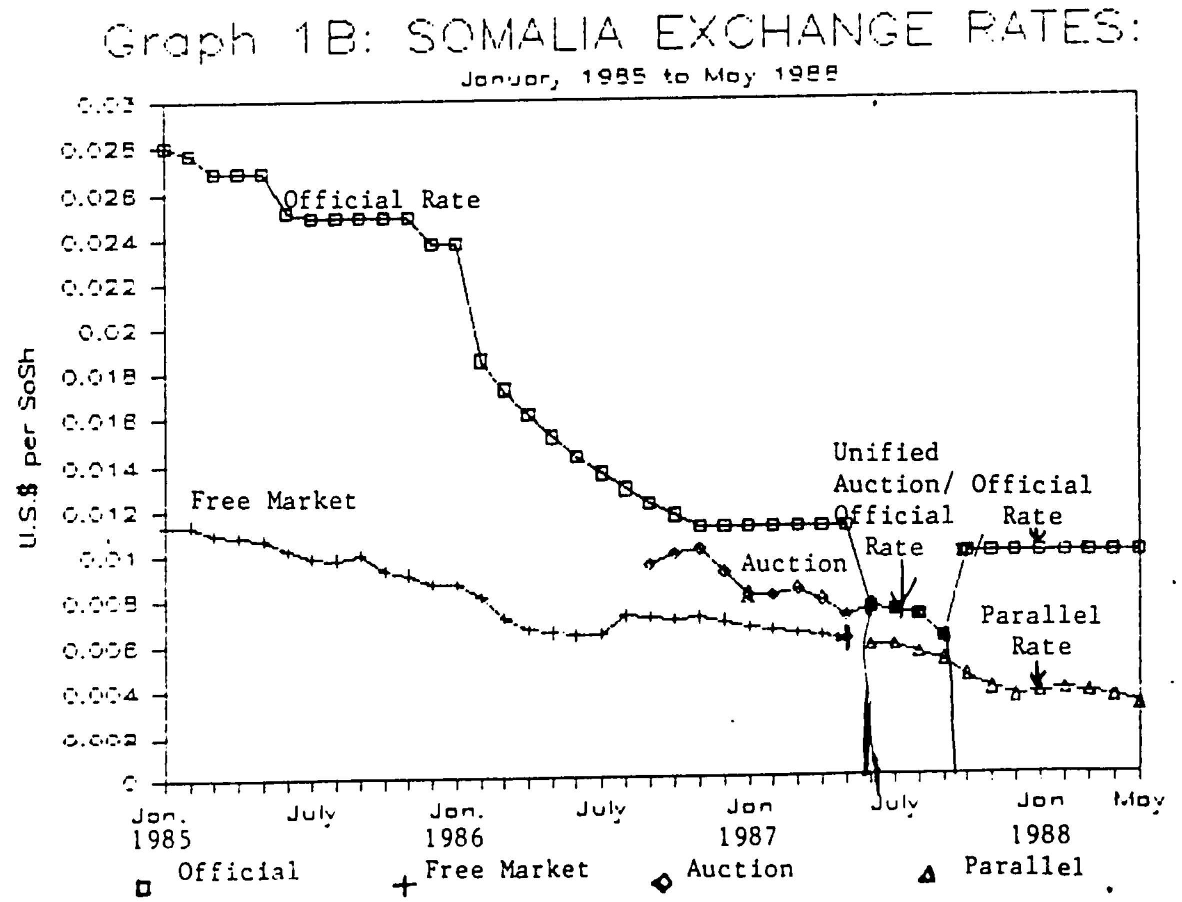
(3) Unless a day of the month is specified, the auction rate is the average of the two auctions

(4) While the free market existed, the parallel rate was virtually identical to the free market rate

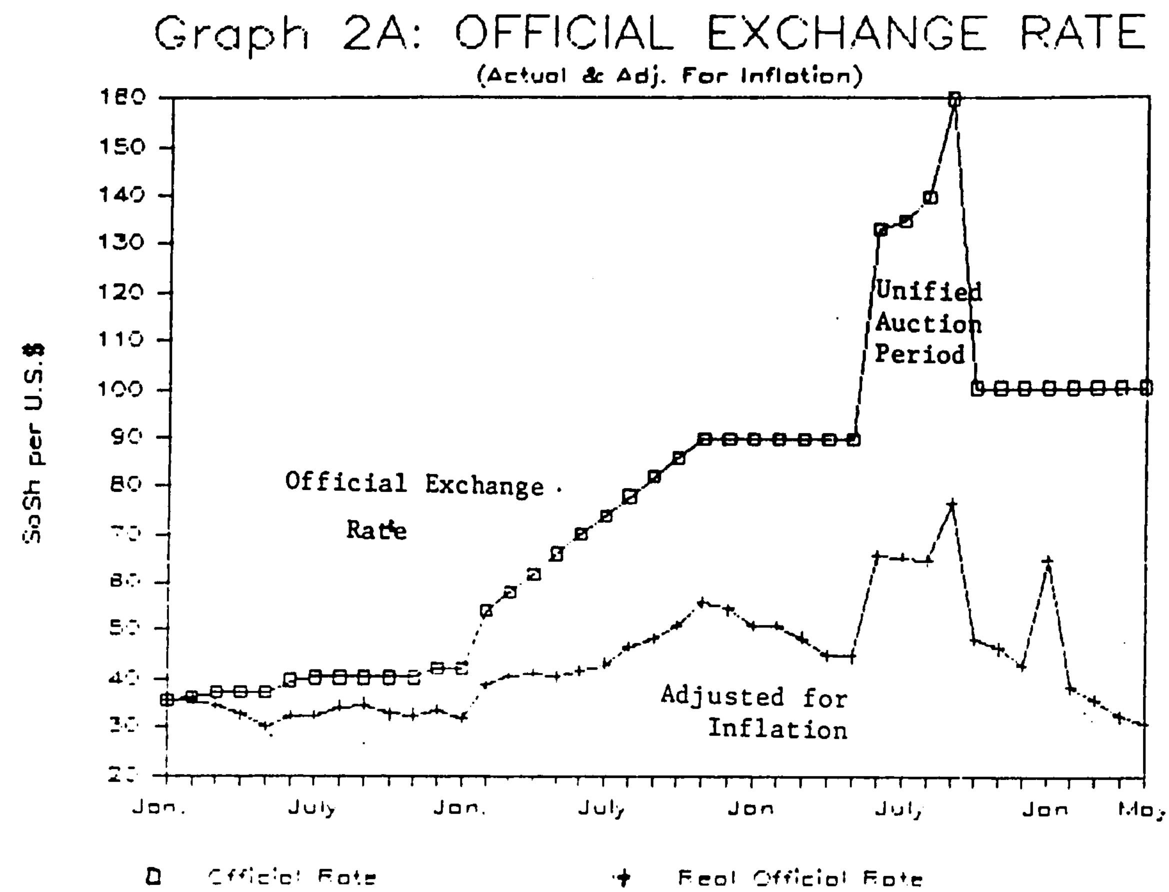
(5) N.A. stands for "not applicable."



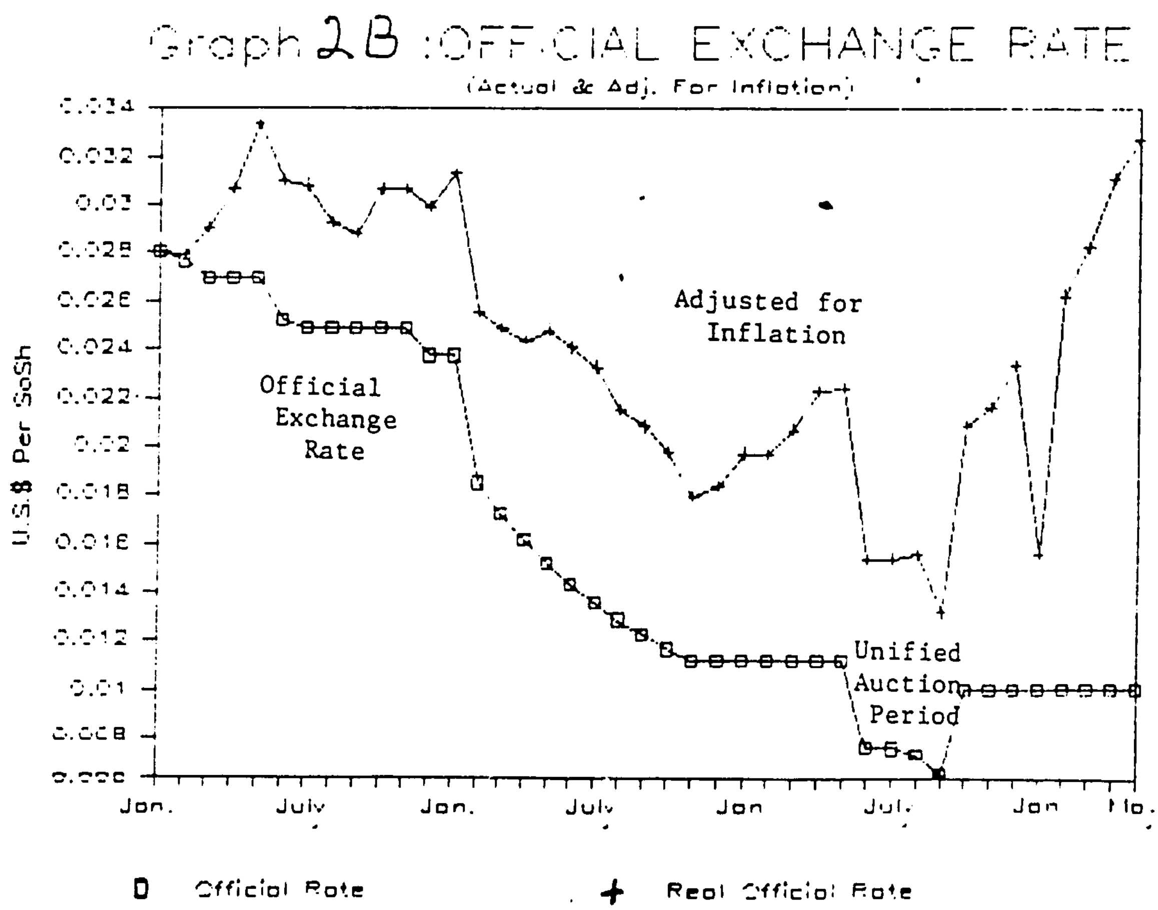
Graph 1A: SOMALIA EXCHANGE RATES
January 1985 to May 1988
SoSh per U.S.$
Parallel Rate
Free Market
Auction
Official Rate
Unified Auction/ Official Rate
Official Rate
Jan. 1985
July
Jan. 1986
July
Jan 1987
July
Jan 1988
May
Official
Free Market
Auction
Parallel



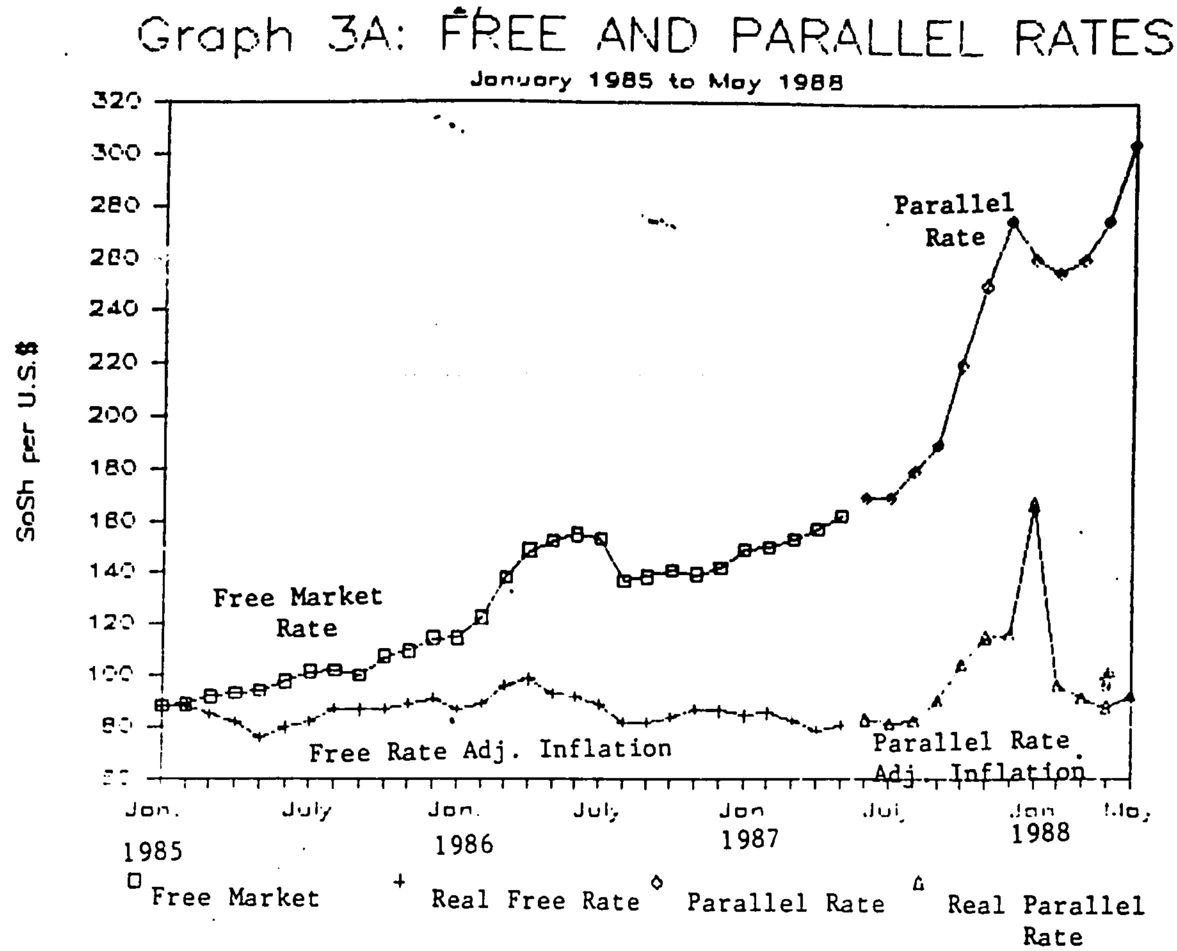
Graph 1B: SOMALIA EXCHANGE RATES:
January 1985 to May 1988
U.S.$ per SoSh
Official Rate
Free Market
Unified Auction/ Official Rate
Official Rate
Auction
Parallel Rate
Jan. 1985
July
Jan. 1986
July
Jan 1987
July
Jan 1988
May
Official
Free Market
Auction
Parallel

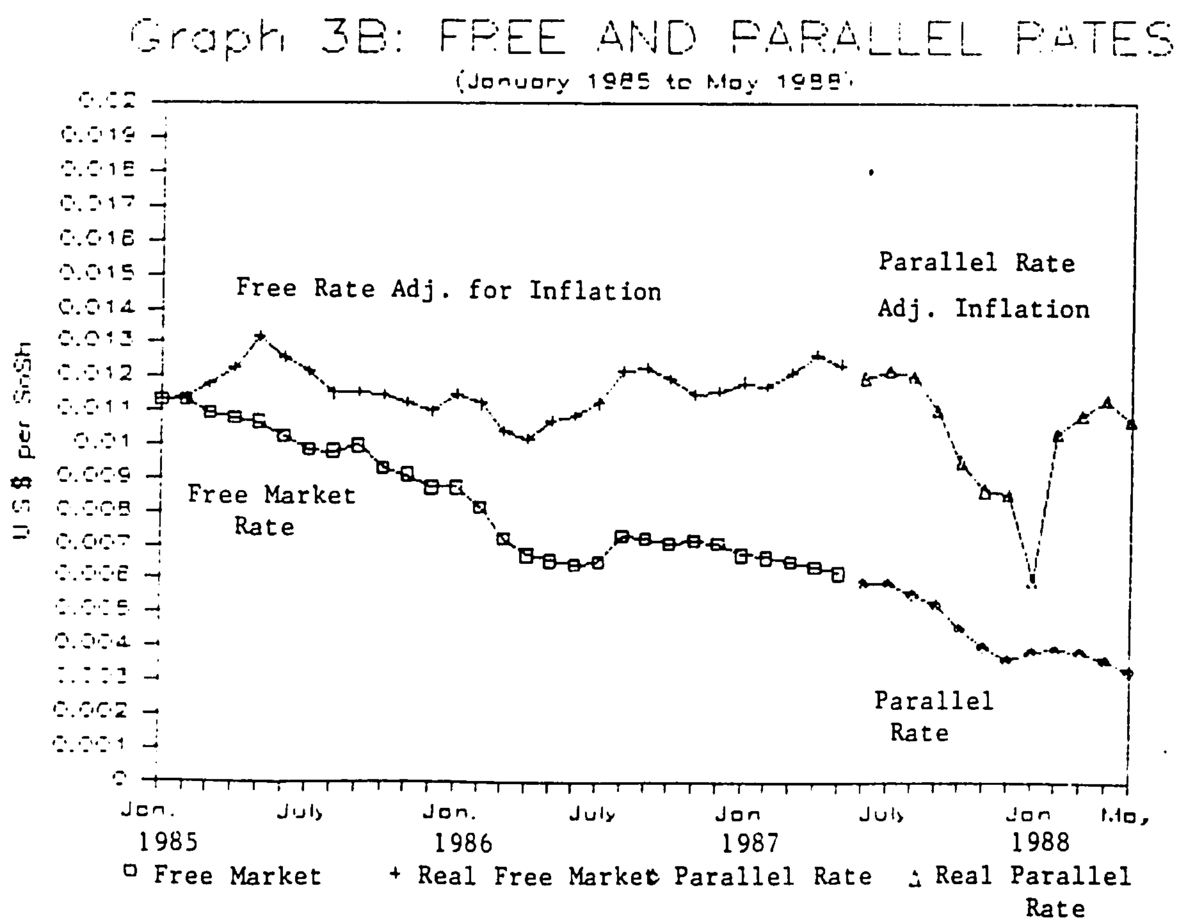


Graph 2A: OFFICIAL EXCHANGE RATE
(Actual & Adj. For Inflation)
SoSh per U.S.$
Official Exchange Rate
Unified Auction Period
Adjusted for Inflation
Jan. July Jan. July Jan July Jan May
Official Rate
Real Official Rate



Graph 2B :OFFICIAL EXCHANGE RATE
(Actual & Adj. For Inflation)
U.S.$ Per SoSh
Adjusted for Inflation
Official Exchange Rate
Unified Auction Period
Jan. July Jan. July Jan July Jan Ma.
Official Rate
Real Official Rate


Graph 3A: FREE AND PARALLEL RATES
January 1985 to May 1988
SoSh per U.S.$
Parallel Rate
Free Market Rate
Free Rate Adj. Inflation
Parallel Rate Adj. Inflation
Jan. 1985
July
Jan. 1986
July
Jan 1987
Jul
Jan 1988
May
Free Market
Real Free Rate
Parallel Rate
Real Parallel Rate


Graph 3B: FREE AND PARALLEL RATES
(January 1985 to May 1988)
U.S.$ per SoSh
Free Rate Adj. for Inflation
Parallel Rate Adj. Inflation
Free Market Rate
Parallel Rate
Jan. 1985
July
Jan. 1986
July
Jan 1987
July
Jan 1988
May
Free Market
Real Free Market
Parallel Rate
Real Parallel Rate

2. External Debt:

Somalia has a publically guaranteed external debt of $1.4 billion. Based on the Paris Club debt rescheduling in July 1987 Somalia received $108 million in debt relief in 1987: slightly over $48 million in current debt service and almost $60 million on arrears. In 1988 Somalia is scheduled to receive $39 million in relief on current debt service. Despite rescheduling, however, interest and principal owed in 1988 will be more than $180 million, which exceeds exports of goods (normally about $100 million but expected to be lower in 1988) and services (about $13 million) plus private transfers (remittances) of $30 million. A summary of debt owed in 1988 and 1989 is as follows:

Table 5: SUMMARY OF DEBT OWED IN 1988 AND 1989 (IN MILLIONS OF U.S. DOLLARS)

	1988		1989	
	Interest	Principal	Interest	Principal
Non-Resched.				
-IMF	10.49	41.98	8.26	45.27
-AMF	3.00	22.00	0.00	0.00
-Other Mult.	6.43	15.61	6.84	15.26
Bilateral (incl. spec. funds)	26.57	42.98	24.37	42.35
Other	.	4.00	.	4.00
Int. on 1987-88 resched.	4.50		6.50	
Int. on arrears after resch.	6.00		4.00	
Int.on new borrowings	2.98		4.16	
Int. on gap			6.93	
Bridge Loan		10.70		
TOTAL	59.97	137.27	61.06	106.88

(Comment: The principal under "other multilaterals" includes $2.9 million owed the IMF Trust fund in 1988 and $2.92 million for 1989.)

A more complete breakdown of debt by creditor is given in Table 1 in Annex B.

3. Exports and Imports:

Exports continue to be approximately one-fourth to one-fifth the level of imports. The disparity between exports and imports, and the resulting trade deficit, is illustrated in Graph 4. As shown in Table 6, the majority of imports go for the Public Investment Program and are financed by donor loans and grants. Somali resources (public and private) finance between 10 percent and 15 percent of total imports. The remaining imports are financed through grants and loans to both the public and private sectors. Petroleum is a major import, requiring approximately $55 million yearly.

The major export continues to be livestock. This heavy reliance on one sector has in the past and is continuing to make Somalia extremely vulnerable. Livestock exports dropped by more than 50 percent in 1984 when Saudi Arabia introduced a ban on cattle imports from Somalia. As a result, total exports dropped by 38 percent. (See Graph 5 and Table 6.) Introduction of the SoSh 100 per dollar exchange rate decreased incentives for export and are partially attributable for the slight drop in livestock exports in 1987 over 1986 and the large decrease compared with the level anticipated at the beginning of 1987 (based on IMF program figures).

Although livestock exports for 1988 are projected at $60 million, approximately the 1987 level, receipts could be less than half this amount. The present exchange rate and system are acting as to discourage to exportation. The GSDR has, in fact, held several meetings to determine methods of increasing the financial incentives for exporters. The recent difficulties in the North will add to the decrease in exports if exporters cannot easily take their livestock to Northern ports in the next few weeks. The peak export season (the yearly Hajj) is approaching. Any exports intended for the Hajj which are not made at that time represent a permanent loss in export receipts unless a presently new and unknown market emerges elsewhere.

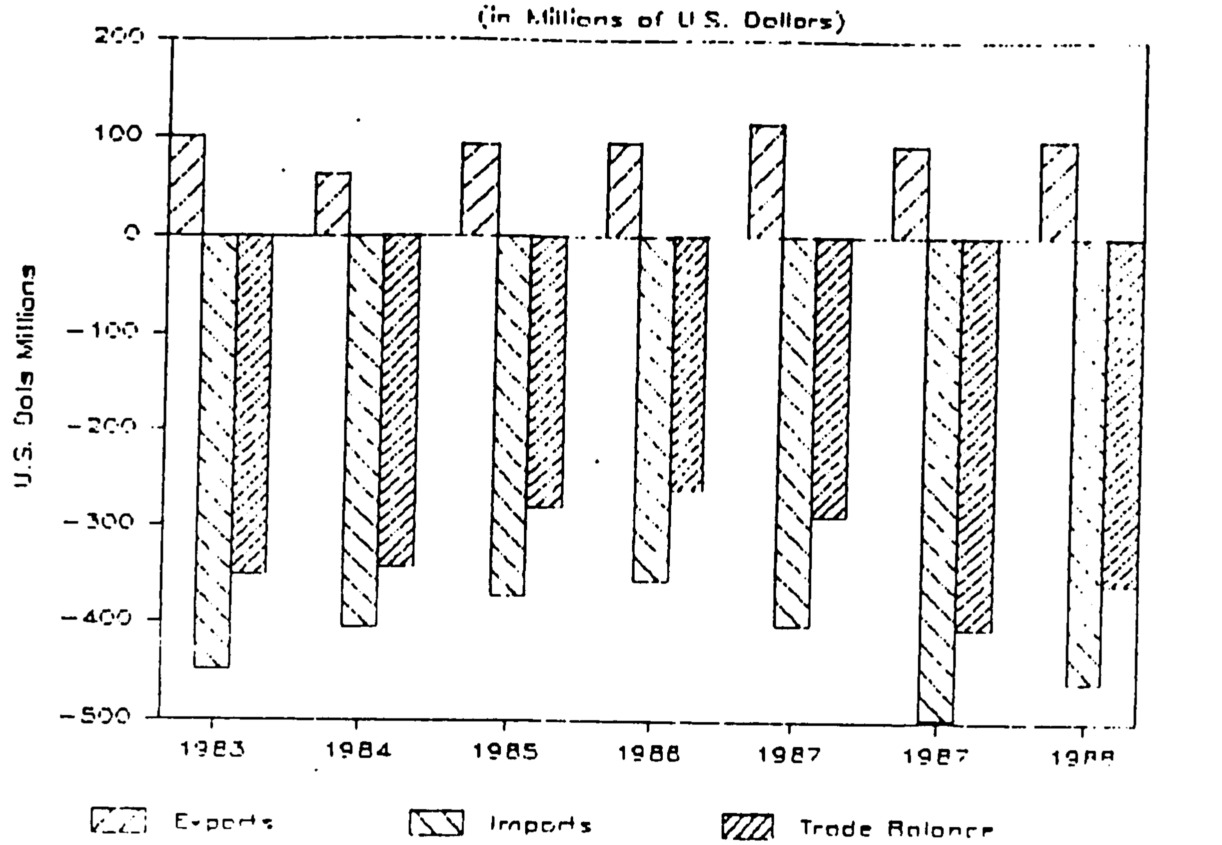
Bananas are the second major export earner. Banana exports have increased in both value and percent, providing 22 percent of total receipts in 1987. Bananas are grown privately under a joint venture between a Somali organization and an Italian company. Although banana exports are helping increase export receipts, there is some evidence that the banana crop may be causing permanent or at least long range deterioration of the soil.

Hides and skins are the next highest revenue raiser, providing 5 percent to 6 percent of total export receipts. Legally, exportation of animal hides and skins is done through a monopoly. Removal of the monopoly status for exports could potentially increase these exports by 100 percent. (See Graph 5 for changes in total exports and the relative importance of various exports.

GRAPH 4

EXPORTS, IMPORTS, AND TRADE BALANCE

(in Millions of U.S. Dollars)



GRAPH 5

EXPORTS BY CATEGORY (1983 TO 1989)

(in Millions of U.S. Dollars)

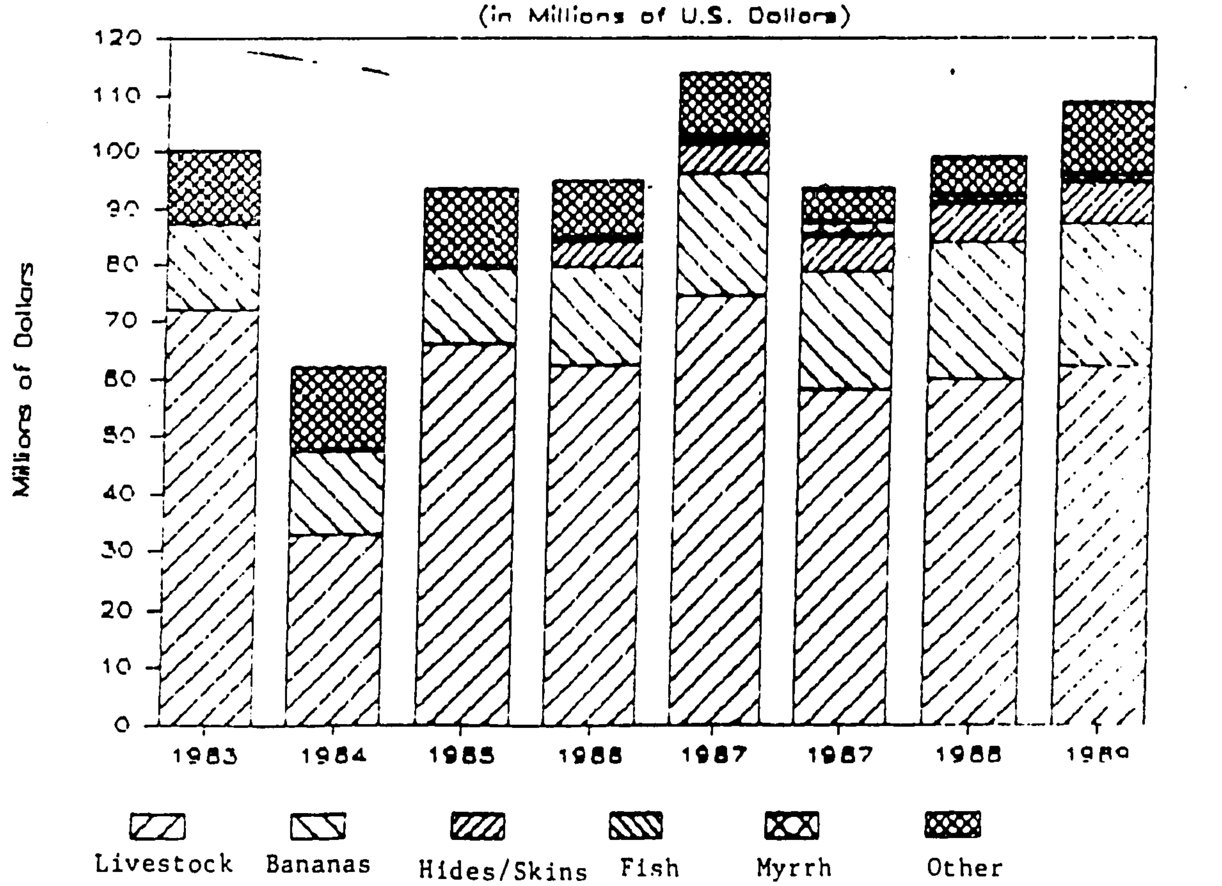


Table 6:TRADE ESTIMATES: 1983 TO 1988 (U.S. DOLS MILLIONS)

	Prog.	-----Projected----					
	1983	1984	1985	1986	1987	1987	1988
Exports f.o.b.	100.00	62.00	93.00	94.70	113.61	93.13	98.88
Livestock	72.00	33.10	66.00	62.40	74.32	58.20	59.96
Bananas	15.00	14.10	13.00	17.00	21.81	20.53	24.08
Other	13.00	14.80	14.00	15.30	17.48	14.40	14.84
Hides & Skins				4.20	4.80	5.86	6.28
Fish				0.60	0.69	0.59	0.73
Myrhh				0.60	0.69	1.91	0.73
Other				9.90	11.30	6.04	7.10
Imports c.i.f.	-450.00	-406.00	-373.00	-357.00	-403.10	-499.40	-477.60
Cash imports	-206.00	-156.00	-99.00	-108.10	-105.00	-110.90	-87.90
Somali Resources			-47.00	-37.00	-38.50	-71.50	-65.00
Grants			-46.00	-55.10	-32.50	-16.70	-5.00
Loans			-6.00	-16.00	-34.00	-22.70	-17.90
Grants in kind	-147.00	-151.00	-158.00	-140.60	-214.70	-318.60	-311.40
PIP			-113.00	-70.90	-172.00	-235.90	-245.00
CIP			-34.90	-47.70	-17.00	-45.30	-56.40
Food			-10.10	-22.00	-25.70	-37.40	-10.00
Loans-in-kind	-97.00	-99.00	-116.00	-108.30	-83.40	-69.90	-78.30
PIP			-59.00	-64.00	-54.00	-59.60	-62.00
CIP			-37.00	-24.30	-18.40	-6.60	-7.80
Food			-20.00	-20.00	-11.00	-3.70	-8.50

Note: Total imports for 1988 in this table differ from those in Table 1, which gives a lower total level: $459.7 million. The difference is in expected cash imports.

Table 6: Trade Estimates: 1983 To 1988 (U.S. DOLS MILLIONS)

D. General Economic Conditions

1. Inflation and Prices

Controlling inflation is a major priority of the Somali government since prices have increased rapidly this entire decade. Performance in this area has improved since 1984 when inflation on a yearly rate was 92 percent. Since then, inflation has been between 30 and 35 percent per year. (Table 7 shows inflation rates by year since 1981.)

Table 7: YEARLY INFLATION FOR MOGADISHU
1981 to 1987

Year	Percent Inflation
1981	45
1982	23
1983	36
1984	92
1985	38
1986	34
1987	29

Note: Inflation rates are calculated by taking a twelve-month moving average, i.e., by taking the inflation rate since the same month the previous year, summing the results for each calendar year, and dividing by twelve.

Source: Ministry of National Planning

Somalia began 1987 with a program designed to reduce inflation to 22 percent. The year ended with an overall rate of just under 29 percent, better than the performance of the preceding years. However, the rate of inflation increased dramatically at the end of the year due at least partially to lack of foreign exchange resulting from fixing the exchange rate at SoSh 100 per dollar. Had price increases continued at the January through September level for all of 1987, the rate of inflation would have been 25 percent. Prices began increasing rapidly in November and are continuing to rise at a faster rate than a year ago. This is shown in Table 8, which gives general and food price increases by month since December 1986 and also shows the percentage increase over the same month the previous year. The GSDR introduced price controls on selected foods and other items February 5. Prices of controlled items have increased significantly since then, adding to the inflation fueled by the

Table 8: MOGADISHU CONSUMER PRICE INDEX - DEC, 1986 TO MAY 1988: JAN 1987 = 100

	General CPI	Monthly Percentage Increase	Year to Date Increase	Increase Since Same Month Previous Year	Food	Monthly Percentag Increase	Year to Date Increase	Increase Since Same Month Previous Year
Jan 1986	100.00	4.76%	4.76%	31.84%	100.00	5.59%	5.59%	13.74%
Feb	104.53	4.53%	9.51%	36.36%	104.37	4.37%	10.21%	18.66%
Mar	109.28	4.54%	14.48%	33.60%	107.75	3.23%	13.77%	17.84%
Apr	114.52	4.80%	19.97%	32.71%	115.60	7.28%	22.06%	20.58%
May	123.95	8.24%	29.85%	31.74%	123.70	7.01%	30.62%	15.51%
June	127.51	2.87%	33.58%	36.67%	127.86	3.36%	35.01%	23.02%
July	130.48	2.33%	36.69%	38.81%	126.09	-1.38%	33.14%	19.93%
Aug	126.96	-2.70%	33.00%	42.23%	120.61	-4.35%	27.35%	28.95%
Sept	129.05	1.65%	35.19%	46.81%	124.97	3.62%	31.96%	42.69%
Oct	128.29	-0.58%	34.40%	37.29%	122.35	-2.10%	29.19%	33.44%
Nov	122.03	-4.88%	27.84%	30.44%	113.45	-7.28%	19.79%	24.25%
Dec 1986	[illegible]	2.24%	30.71%	30.71%	118.08	4.08%	24.68%	24.68%
Jan 1987	132.19	5.94%	5.94%	32.19%	128.77	9.06%	9.06%	28.77%
Feb	131.97	-0.24%	5.69%	26.15%	127.59	-0.92%	8.05%	22.24%
Mar	139.05	5.47%	11.48%	27.28%	137.61	7.85%	16.54%	27.71%
Apr	149.94	7.06%	19.34%	30.02%	155.99	13.36%	32.11%	34.94%
May	148.16	-0.50%	18.74%	19.53%	156.44	0.29%	32.48%	26.46%
June	[illegible]	1.22%	20.20%	17.62%	158.01	1.00%	33.82%	23.58%
July	155.29	7.54%	24.45%	19.01%	156.44	-0.99%	32.48%	24.07%
Aug	164.40	5.88%	31.76%	29.50%	158.43	1.28%	34.18%	31.36%
Sept	158.81	-3.40%	27.28%	23.06%	158.90	0.29%	34.57%	27.14%
Oct	158.70	-0.32%	26.87%	23.39%	155.72	-2.00%	31.88%	27.28%
Nov	163.84	3.56%	31.39%	34.34%	162.97	4.65%	38.02%	43.65%
Dec	177.24	8.18%	42.13%	42.13%	177.10	8.67%	49.98%	49.98%
Jan 1988	181.65	2.43%	2.43%	37.42%	183.01	3.34%	3.34%	42.12%
Feb	199.02	9.56%	12.22%	50.92%	208.58	13.97%	17.78%	63.48%
Mar	214.09	7.57%	20.72%	53.92%	225.72	8.22%	27.45%	64.03%
Apr	236.06	10.27%	33.11%	58.54%	257.43	14.05%	45.36%	65.03%
May	248.93	5.07%	39.86%	67.41%	270.29	5.00%	52.62%	72.78%

Source: Ministry of Planning

lack of foreign exchange. In 1987 food prices rose 21% from the end of January through April, while the increase for the corresponding period this year is 41%, almost twice as high. Controls were placed at producer/importer, wholesale, and retail levels. The controlled prices are listed in Table 2 in Annex B. Prices for selected commodities in various parts of Somalia, as published by the Food Early Warning System of the Ministry of Agriculture are given in Table 3, Annex B, which shows prices above controlled levels.

Enforcement of some price controls is being relaxed, and as is evident in Table 3 in Annex B as well as by the food price increases in Table 8, controls were never completely successful even while the authorities were attempting active enforcement. Recently, officials announced that they were unofficially removing controls on live animals. Many officials have acknowledged that it is impossible to enforce the controls. Indeed, the Ministry of Planning bases its monthly consumer price index (and hence inflation rates) on actual prices being charged in markets in and near Mogadishu, not on the controlled prices. (See Table 7) The GSDR is exploring various methods of increasing the amount of foods now in short supply and of reducing the pressure on prices through other mechanisms than price controls, e.g., more stringent monetary and fiscal control. A key condition of resuming an IMF program will be suspension of price controls.

2. Domestic Budget

Since 1984 tax and nontax revenues have been sufficient to finance only about half the ordinary budget. The Public Investment Program is financed almost solely from donor loans and grants. Table 9 shows the domestic budget from 1982 through 1988 (projected). As the Table shows, the imbalance between revenues and expenditures did not become serious until 1984 and is attributable to a decrease in tax collections relative to GDP and an increase in expenditures, a large portion of which is now in the PIP and which would not be spent in the absence of donor grants and loans. (The "project" category under grants is used almost solely for the PIP and represents the shilling value of project foreign exchange. Part of the large increase in 1987 is attributable to large disbursements that year for the special Italian aid FAI program.) Many recurrent (ordinary) expenditures appear under the investment budget, however, and are therefore difficult to separate. In addition, the large and growing PIP is creating recurrent costs for the future which Somalia will not be able to finance without significant and continued donor aid.

The ordinary (recurrent) budget is growing rapidly and since 1984 has exceeded the GSDR's tax and nontax revenue sources. Financing of this difference comes from donor-generated local currencies and credit from the banking system. In 1987 financing of the deficit was primarily

Table 9: SUMMARY OF CENTRAL GOVERNMENT BUDGET

(in Millions of SoSh)

	1982	1983	1984	1985	Rev. Est. 1986	Prel. Est 1987	Budget 1988
Total Revenue and grants	3,816	5,359	5,959	12,116	20,388	39,129	38,573
Revenue	2,588	4,075	3,774	5,220	9,595	9,705	12,000
Tax	2,275	3,371	2,979	4,577	8,517	8,372	10,439
Import duty	1,275	2,198	1,816	2,551	4,656	4,307	5,600
Export duty	123	124	37	89	83	66	100
Other taxes	877	1,049	1,126	1,937	3,778	3,999	4,739
Nontax	313	704	795	643	1,078	1,333	1,561
Grants	1,056	1,106	1,980	6,620	10,418	28,933	26,573
CIP incl. oil, food, & donor cash auctions)	600	901	620	2,504	5,317	3,551	2,100
Project	456	205	1,360	4,116	5,101	25,382	24,473
Transfers from local auth.	172	178	205	276	375	491	
Total Expenditures	(5,366)	(6,636)	(10,464)	(18,134)	(29,368)	(61,770)	(47,802)
Ordinary expenditures	(2,750)	(4,539)	(7,165)	(9,924)	(16,152)	(24,776)	(13,386)
Wages and Salaries			(2,150)	(2,152)	(2,149)	(2,202)	(2,343)
Domestic Interest			(385)	(486)	(648)	(895)	(200)
Foreign interest accrued	0	0	(540)	(1,167)	(3,295)	(3,958)	(4,554)
Cash Payments					(461)	(720)	(1,098)
Changes in arrears, pre-resched					(2,834)	(3,238)	(3,456)
Other Expenditure			(4,090)	(6,119)	(10,060)	(17,721)	(6,289)
Investment Expenditure	(2,461)	(1,920)	(3,124)	(7,940)	(12,830)	(36,493)	(34,416)
Domestic Development Budget	(348)	(498)	(604)	(1,372)	(3,131)	(4,687)	(3,818)
Public investment program	(2,113)	(1,422)	(2,520)	(6,568)	(9,699)	(31,806)	(30,598)
Transfers to Local Authoritie	(155)	(177)	(175)	(270)	(386)	(501)	
Overall Deficit, commitment basis							
Excluding grants	(2,606)	(2,383)	(6,690)	(12,638)	(19,398)	(51,574)	(35,802)
Including grants	(1,550)	(1,277)	(4,505)	(6,018)	(8,980)	(22,641)	(9,229)
				300	(57)		(300)
Overall Deficit Cash Basis							
(excl. grants	(2,606)	(2,383)	(5,485)	(13,778)	(16,621)	(49,633)	(32,646)
Incl. grants	(1,550)	(1,277)	(3,505)	(7,158)	(6,203)	(20,700)	(6,073)
Financing	(1,550)	(1,277)	(3,505)	(7,158)	(6,203)	(20,700)	(6,073)
Foreign (net)	1,724	1,572	940	5,033	6,355	6,259	1,256
Debt Reschuled						(5,327)	(3,899)
Domestic Financing	174	295	(2,565)	(2,125)	152	(14,441)	(4,817)

Source: IMF

through the latter. (Local currency generations from donor grants and loans in 1987 are estimated at slightly under SoSh 11 billion, of which approximately SoSh 4.7 billion financed development expenditures, SoSh 4.6 billion was transfered to the Treasury for general budgetary expenditures, SoSh 1.4 billion was used for debt service, with the remainder going for unidentified uses. Of these local currency funds, approximately SoSh 3.55 billion were generated through grants and the balance from loans. Local currency generations in 1987 were lower than anticipated and than were received in 1986 due to suspension of many donor grants and loans, including the cash auction.)

Regardless of the cause of the reduced ratio of revenue to GDP and the increase in expenditures relative to GDP (from 18.8 percent of GDP in 1985 to 34.6 percent in 1987), the result has been a steadily increasing ratio of debt (excluding grants) to GDP and an increase in net credit to the public sector. Given the extreme increase in expenditures in 1987, and hence in the deficit, the resulting increase in net credit to the public sector was quite large. (In 1987 net credit to the public sector was 4.6 percent of GDP, whereas for all other years since 1982, with the exception of 1984 when the country was hurt by the Saudi Arabia ban on cattle exported from Somalia, the ratio has been less than one percent. For 1984 it was four percent.)

The use of donor-generated local currency for financing expenditures has resulted in reduced attention to the need for general budget control (reductions in expenditures and an improved tax system giving incentives for business as well as raising revenue) and has often added to inflation when the grant generating the shillings was made to the government rather than the private sector. This is because the GSDR essentially creates money when providing the shilling counterpart for public sector grants. The result has been pressure on prices and a decrease in the value of the Somali Shilling vis-a-vis other currencies.

At present Somalia has one of the lowest levels of tax effort (amount of tax collected as a percentage of a country's total income) of any developing country. This is a recent occurrence, however. In the 1970s, the ratio of government revenue to GDP (a measure of taxes and charges collected relative to a country's income) was between 13 and 19 percent. By 1984 the ratio had dropped to 6.1 percent and it has remained near that level. According to <u>World Development Report - 1987</u> Somalia's ratio of revenue to GNP was 13.7 percent in 1972, essentially identical to the average for low income countries reported at 13.8 percent in the Report. For 1985, the average ratio for all low income countries reported in the Report was 15.6 percent, while Somalia's ratio of revenue to GDP was 5.7 percent.

As opposed to declining revenue trends, expenditures have risen greatly in absolute terms and as a percentage of GDP. In 1984 expenditures were approximately 17 percent of GDP. In 1986 and 1987 they were approximately 22 percent and 35 percent respectively. Since 1982, there has been little change in the ordinary budget as a percentage of GDP. Indeed, wages and salaries of government workers have not even risen in nominal terms and have decreased in real terms (adjusted for inflation). The increase in the ratio of expenditures to GDP has been primarily in the development budget, particularly the Public Investment Program, which was approximately four percent of GDP in 1983 and 1984, seven percent in 1985 and 1986, and over 18 percent in 1987. One area of the ordinary budget which has increased greatly is the portion labelled "other expenditures." This is the most difficult portion for the GSDR budgetary authorities to monitor since even more detailed budget lists do not disaggregate this category. (In the 1988 projected budget, the MOFR has reduced this line item to almost a third its 1987 level.) Some of the increase in both the ordinary and investment budgets has resulted from inflation, with the need to increase expenditures just to provide the same real level of services or activities. This is not only understandable, but is essential in some instances as certain activities/services should be maintained at a steady level.

3. Monetary Policy and the Banking System:

(a) Government Owned Financial System

The Somali financial system includes the banking system, comprised of the Central Bank of Somalia (CBS) and one commercial bank, the Commercial and Savings Bank of Somalia (CSBS), along with three other financial institutions; the Somali Development Bank (SDB), the postal savings system, and the State Insurance Company of Somalia (SICOS). All these institutions are government owned. There are no branches of foreign banks located in Somalia.

(b) Monetary Policy

In general monetary policy in Somalia has been extremely expansionary, thereby fueling inflation and allowing Central Government expenditures to continue exceeding revenues. Credit to both public and private sectors has been increasing, especially in recent years. Interest rates have been raised several times, but they continue to be below the rate of inflation, and the increases in interest rates lag behind inflation, resulting in a declining real interest rate. The Somali authorities revised rates upward in December 1979, June 1981 and 1982, and January 1983. The last set of revisions occurred in January 1985. At that time, lending rates were raised by 3-11 percent bringing them to a range of 15-20 percent depending on the usage and customer. Savings rates were raised by 4-7 percent to produce a range of 12-18 percent depending upon length of maturity. However, inflation reached 92 percent in 1984 and then stabilized in the high 30 percent range for much of 1985/86.

(c) Recent Monetary Developments:

The difference between what the IMF projected for the country in 1987 and the actual results helps place the economic events of 1987 into perspective.

In late 1986/early 1987, the IMF and the Government agreed in principle to a financial program that would incorporate funding from a stand-by arrangement and a Structural Adjustment Facility. Tables 10 and 11 present the ex ante figures projected or programmed as a result of the 1987 financial program, "1987 Proj", and the ex post estimates, "1987 (est)", taken in early 1988, of what actually transpired during the year.

The projected Fund program was extremely ambitious. It anticipated a 200 percent increase in total revenues and grants with the grant portion increasing by some 250 percent. Expenditures were to increase by 73 percent. In absolute terms the increase in financing requirements after grants doubled from 6 billion shillings to 12 billion under the program. An 8 billion shilling financing gap was identified--a gap that the Fund apparently believed could be covered. It was to be financed almost exclusively by external financing and not by domestic credit expansion.

Under the program net credit to the Government was to be reduced by about 8 percent and administered increases in interest rates were anticipated. Net domestic credit was targeted to grow by 7.3 percent of broad money at the beginning of the year. This was felt to be consistent with an expansion of broad money of about 13 percent. With the reduction in net credit to the Government, credit for the rest of the economy could grow by 18 percent which was considered ample to attain a real GDP growth rate of about 4 percent. Inflation was anticipated to be slightly less than 19 percent for the year, about half the experience of the previous two years. Broad money normally is defined as M1 plus M2. As used here, however, broad money excludes foreign currency deposits and counterpart funds because in the Somali context these two particular sources of funds have a 100 % reserve requirement and therefore do not finance domestic credit and cannot lead to a multiplier effect that like that with other sources of broad money in a fractional reserve banking system. In the various tables this narrow definition is termed "Local currency liability".

Unfortunately, the anticipated program with the Fund was implemented but suspended within three months; , the new auction system did not provide the foreign exchange required; and the Government expenditures increased by more than 100 percent over the previous year or 20 percent (11 billion shillings) above the Fund's original program target. As discussed elsewhere in the PAAD, the abandonment of the auction system in September led to the withdrawal of anticipated foreign exchange. As a result of these events and actions, as well as others, the Government had to resort to further domestic deficit financing on a large scale during the last three months of the budget year.

As Table 10 indicates, after grants are included, it is estimated that the Government in 1987 still had to finance a 20.7 billion shilling deficit: 6.3 was financed by foreign borrowings; 5.3 was covered by debt relief; and 9.1 was financed with domestic resources. Of the domestic resources, 8.1 billion shillings was financed by domestic credit expansion. This represented an increase of 135 percent in domestic credit to the government compared to the previous year. (See Table 11 in the text and Table 4 in Annex B). At the same time domestic credit to the private sector expanded by 240 percent. These large credit increases to the public and private sectors produced an unprecedented 149 percent expansion of total domestic credit in 1987. As a percentage of broad money narrowly defined (i.e., Local Currency Liability), credit increased by 59 percent rather than the 7.3 percent figure originally targeted under the program. Broad money increased by an even larger 175 percent, well in excess of the original 13 percent target (See Table 5 of Annex B).

Inflation remained in the 20-30 percent range for several months in 1987. However, by the end of the year and into 1988, the large domestic credit expansion has been fueling inflation. Indications are that as of mid-1988, prices are increasing at an annualized rate in the 90 to 100 percent range.

E. Conclusions:

As the data and analysis indicate, the economic situation faced by Somalia is grim. The country is faced with limited resource endowments and little infrastructure; it also began independence in 1960 with fewer human resource skills than most countries. The depth and breadth of the problems are in part a result of the government's experimentation with a planned economy in the 1970s and its rejection of market mechanisms beginning in September 1987.

Fortunately, there have been positive and unmistakable signs over the past few months which indicate that the government is accepting, however slowly, that some market oriented measures must be adopted to deal with the problems of the economy. The re-opening of discussions with the IMF demonstrates the evolution of the government's thinking. Within this changing mindset and "ambience", USAID believes there are several avenues of opportunity for A.I.D. This foreign exchange support program comes at an appropriate time to assist the GSDR as it considers adjustments in its economic policies.

Table 10

Somalia: Summary of Central Government Operations, 1986-87

Fiscal Year Ending Dec. 31	1986	1987 Est	1987 Proj	Change 87 Est-86	Change 87 Proj-86	Difference Proj & Est
	(In millions of Somali shillings)					
Total revenue and grants	20388	39129	40600	18741	20212	1471
Revenue	9595	9705	12700	110	3105	2995
Grants	10418	28933	27900	18515	17482	-1033
Transfers	375	491	0	116	-375	-491
Total expenditure	29368	61770	50700	32402	21332	-11070
Ordinary expenditure	16152	24776	17900	8624	1748	-6876
Investment expenditure	12830	36493	32800	23663	1[illegible]70	-3693
Domestic development budget	3131	4687	3400	1556	269	-1287
Public Investment Program	9699	31806	29400	22107	19701	-2406
Transfers	386	501	0	115	-386	-501
Overall deficit, commitment basis						
Excluding grants	-19398	-51574	-38000	-32176	-18602	13574
Including grants	-8980	-22641	-10100	-13661	-1120	12541
Change in domestic counterpart of external interest arrears (excluding debt relief)	2834	1941	-1900	-893	-4734	-3841
Other adj. to cash basis	-57			57	57	0
Overall deficit, cash basis						
Excluding grants	-16621	-49633	-39900	-33012	-23279	9733
Including grants	-6203	-20700	-12000	-14497	-5797	8700
Financing	6203	20700	12000	14497	5797	-8700
Foreign (net)	6355	6259	4500	-96	-1855	-1759
Drawings	7725	13737	11900	6012	4175	-1837
Amortizations	-1370	-7478	-7400	-6108	-6030	78
Domestic	-152	9114	-500	9266	-348	-9614
Bank System (net)	657	8177		7520	-657	-8177
Use of cash balances	0	0		0	0	0
Other domestic	-809	937		1746	809	-937
Debt relief	0	5327	0	5327	0	-5327
Financing gap	0	0	8000	0	8000	8000

Source: IMF

Est = Preliminary estimate of actual performance.
Proj = Projected or programmed targets developed by the IMF and the Government.

Table 11

Somalia: Monetary Survey, December 1981-December 1987.

	1981	1982	1983	1984	1985	1986	1987 Est.	1987 Proj.	% Diff
	(In millions of Somali shillings)								
Net Foreign Assets	821.88	347.40	-1061.60	-2585.60	-2212.60	-9680.10	-10421.70	-10653.6	-2.2%
Domestic Credit	4545.70	5023.80	5260.80	9616.20	11516.90	13904.30	34591.70	14852.00	132.9%
Government (net)	2249.60	2100.00	1805.00	4378.10	5421.80	6079.10	14255.90	5579.1	155.5%
Public Enterprises	1721.50	1300.00	1163.00	1511.20	2071.20	3730.40	6408.90	9272.9	-30.9%
Private Sector	574.60	1623.80	2292.80	3726.90	4023.90	4094.80	13926.90		
Money and Quasi-Money	4366.40	4994.60	5348.10	6677.80	11606.90	16051.70	37163.20	18640.2	99.4%
Money	3619.30	3911.10	4156.50	5077.60	8821.60	11360.80	28975.60		
Currency outside banks	1891.00	1455.70	1355.50	1899.80	3787.50	5169.10	12326.90		
Demand Deposits	1728.30	2455.40	2801.00	3177.50	5034.10	6191.70	16648.70		
Quasi-Money	747.10	1083.50	1191.60	1600.20	2785.30	4690.90	8187.60		
Other items (net)	1001.18	376.60	-1148.90	352.80	-2302.60	-11827.50	-12993.70	-14441.80	-10.0%
Valuation Adjustments	161.90	-514.10	-1551.60	-1447.00	-6124.10	-19104.60	-25262.20	-32593.8	-22.5%
Medium/L.Term Loans	750.28	988.20	1318.80	2059.80	3655.10	8077.80	9257.50	13781.3	-32.8%
Other Items (net)	89.00	-97.50	-916.10	-260.00	166.40	-800.70	3011.50	4370.7	-31.1%
Central Bank				-957.70	-645.50	-267.70	2965.10		
Commercial Bank				697.70	811.90	-533.00	46.40		
Memorandum item:									
Local currency liability*	4366.40	4994.60	5348.10	6622.60	9436.80	13043.60	35856.40	14752.3	143.1%

Source: IMF and A.I.D. Staff Estimates.
-The Net Foreign Assets in this table may differ from other Monetary Survey Tables by the amount of the Medium/L. Term Loan figures found under Other Items (Net).
-"Proj" =IMF Projected figures in early 1987 for potential program.
-"est" = Estimate of actual performance in early 1988.
-% Diff assumes objectives or targets were the Projected values.
-The Public Enterprises figure for 1987 includes the Private Sector.
*Local Currency Liability:
-This figure used for broad money upon which Table 3 is based is a narrower interpretation of Money plus Quasi money by the exclusion of foreign currency deposits and counterpart funds which have a 100 percent reserve requirement and therefore do not finance domestic credit. It is equivalent to Money and Quasi Money for 1981-83.

VII. PROGRAM RESOURCES:

1. Foreign Exchange:

In accordance with Agency procedures, dollar disbursements for various portions of the program will be placed into separate accounts at a U.S. commercial bank designated by the GSDR. Funds from the various portions of this ESF program will not be commingled with funds from any other source.

2. Local Currency:

Under the FY 1985 and FY 1986 ESF programs, local currencies were generated from all program elements. Under the FY 1985 CIP USAID required local currency from both the public and private sectors of the CIP (including the petroleum) and had as a condition the necessity for the central government to ensure that agencies and ministries purchasing CIP commodities were alloted sufficient shillings for the counterpart generations. Under the FY 1988 program local currency will be generated by both CIP portions of the program: the $9 million for petroleum and the $7 million for agricultural and agro-industrial imports. It will not be required of the $5 million for cash.

Local currency generated from cash transfers in Somalia is potentially quite inflationary. Local currency generations from cash (and sometimes for commodities going to the public sector) essentially constitute newly created money, i.e., the Central Bank creates a bank balance for the appropriate Ministry. The shillings do not come from tax revenues or other, previously existing sources. Even under past IMF programs, these local currency "creations" did not come under the ceilings on net credit to the public sector. In the case of a cash transfer used to pay debt, there is no corresponding increase in goods and services available in Somalia to offset the increase in the amount of shillings yet the shillings are available for immediate use, and given the continual budget shortfalls, the shillings enter the economy very rapidly. For this reason and since A.I.D. and U.S. regulations do not require the generation of local counterpart for cash transfers, we will not require the GSDR to deposit an equivalent amount of local currency for the $5 million cash grant for debt payment. Since the $5 million will never enter the Somalia economy but will instead be paid directly from a U.S. bank to the creditor(s), the effect vis-a-vis inflation will be neutral.

Rather than follow past CIP practices for petroleum, we will employ the procedures required by the World Bank for commodity purchases by government agencies, including the National Petroleum Agency (NPA). Under the regulations for ASAP I, all government agencies purchasing commodities were to deposit the local currency equivalent prior to opening of the letter of credit, and the shillings were to be provided by the agency receiving the commodities, not the central government. If this procedure works as intended, the NPA would need to deposit shillings (profits) from previous sales of petroleum. Thus, the ESF program would provide $9 million in petroleum while the NPA would provide the Central Government with $9 million in already-existing shillings. Once those shillings were spent for development programs or other activities, the result would be neutral.

Assuring that the government does not simply provide a loan which is potentially inflationary can be quite difficult as the IMF discovered when it examined ASAP/I. The IMF learned that under ASAP/I the Somali owned banking system extended a loan to the NPA equal to the $7.8 million value of the imported petroleum. When the NPA sold the petroleum it appears that it used these funds for its operations rather than retiring the debt it incurred earlier with the government back. Thus, from the original $7.8 million of petroleum, it appears that the NPA spent $15.6 million, $7.8 million from the loan and $7.8 million from the sale of the petroleum. In the Somali's economic context the failure to repay the original loan extended by the government is inflationary.

Had there been an IMF agreement in place of the time of the importation of the oil, credit ceiling restrictions undoubtedly would have prevented the original loan from being made to the NPA, thereby eliminating the inflationary impact.

Even delaying deposit of the counterpart for the ESF petroleum until NPA has actually sold the petroleum, and requiring that the shilling deposit come from actual profits will not solve the problem created above as there is no mechanism for ensuring that the banking system will not simply extend another loan. In addition delaying deposit will result in the same time-intensive effort involved in ensuring deposit of PL 480 currencies. We assume there will be an IMF shadow program in place by the time the letter of credit for ESF petroleum is opened, thus mitigating the effect.

Regardless, for the $9 million to be inflationary, the Government must truly consider it to be funding in addition to its already planned expenditures. Given general budgeting practices in this country, with 25 percent to 50 percent of total expenditures placed in a category labeled "other," total expenditures are rarely affected by available revenues, including donor-generated local currency. In recent years expenditures have also not been limited by IMF credit ceilings. The expenditures are too critical from a political or social standpoint to be defrayed. Therefore, we think that the $9 million simply will be considered as part of any domestic deficit budget financing package and hence could not be considered inflationary. If a shadow agreement is reached with the Fund, credit ceilings will be placed on the government, with some amount of sterilization likely. Such an action would provide more assurance that the funds are not inflationary.

Even if these funds were considered additional, it would be quite difficult to estimate the marginal impact upon the price level. The lack of quality and sufficient data do not allow for any reasonable forecasting to be made. It is our view that the government will be more concerned with and constrained by the total amount of domestic deficit financing required and not influenced by a funding source which would represent only about a 3.8 percent increase in credit as a percent of broad money narrowly defined, if the funds were valued at 150 Somali shillings to the dollar, and a 2.5 percent increase in credit with the exchange rate of 100 to 1. Historical data simply is not adequate to allow any strong conclusions to be reached.

Under the $7 million CIP, the private and public sectors will be treated equally and as the private sector was treated under the Fy 1985 CIP: 40 percent of the shilling deposit made when the letter of credit is opened and the remaining 60 percent made upon arrival of goods. The portion of the funds used for a typical agricultural CIP program will result in the transfer of funds from one group to another--the government in the latter case. Rather than an inflationary impact, the transfer may cause a momentary deflation if the government holds the money for any significant time. With such a cash-starved economy, the local currency generations will be spent almost immediately and the result will be essentially neutral.

USAID will be using the same procedures for the public sector agro-industries as for the private sector in the belief that any public sector agencies wanting to partake of the CIP should meet similar criteria to those of the private sector. One of them is the availability of sufficient local currency to make the advance deposit and the final deposit. To some degree, this is a test of economic viability. While we cannot be certain that these parastatals will not receive loans from the banking system, it is less likely that agro-industries will receive such loans than for NPA to receive one.

Assuming devaluation over the course of program disbursement, we expect the program will generate approximately two billion Somali shillings. As required under the Foreign Assistance Act, a portion of the generated shillings will go into the USAID trust fund for use in general operating expenses of the USAID development program in Somalia. The remaining funds will be used for mutually agreed-on development activities. A further explanation of USAID local currency programming procedures and the specific details concerning project-related expenditures for all USAID-generated local currencies during the past 15 months will be detailed in ANNEX D.

VIII. GRANT ADMINISTRATION AND IMPLEMENTATION

A. Administrative Entities

1. GSDR

The overall administrative responsibility for the grant, which will include preparation of reports and assure compliance with A.I.D. requirements, will rest with the Ministry of Finance. The Ministry of Finance in cooperation with the Central Bank will be responsible for ensuring that grant funds provided for debt payment are expended only for eligible uses under this program and will provide USAID with necessary documentation regarding use of these funds. For the commodity import program, the Ministry of Finance in cooperation with the Commercial and Savings Bank of Somalia will control the disbursement of funds through the issuance of a Financing Request to A.I.D.

2. A.I.D.

Overall responsibility for administration of the program will rest with the Office of Project Development and Services (PDS). A Commodity Management Officer in PDS will administer the program with support from REDSO/ESA and AID/Washington. The Commodity Management Officer will be responsible for implementing A.I.D. CIP policies, regulations and procedures.

USAID/Somalia's Commodity Management Officer departed in June 1988. The Mission is seeking a replacement but no one has been assigned as of the preparation of the PAAD. Although an experienced CMO is essential to the implementation of the CIP, the Mission will be able to handle implementation until January 1989 with REDSO TDY assistance. After January 1989 a direct hire or PSC CMO must be on board. Assuming that a CMO replacement will not arrive until January, the implementation of the CIP will be as follows:

August 88:	CIP Agreement signed by GSDR/USAID.
Sept. 88:	CPs met by GSDR.
Oct. 88:	Implementation Letter No. 1, Commodity Procurement Instruction (CPI) and Financing Request (FR) completed.
Nov. 88:	L/COMM issured by AID/W and accepted by U.S. bank.
Dec. 88:	Applications accepted by CIP Special Committee.
Feb. 89:	Local Currency Deposits made and instructions for L/Cs to be issued by U.S. bank.

REDSO/ESA CMO assistance will be required to issue Implementation Letter No. 1, CPI, and FR.

Importer applications could be accepted by the Special Committee as early as October 1988.

Solicitation for petroleum refined products will be handled by AID/W (SER/OP/COMS) after receiving specifications from the National Petroleum Agency in November 1988.

B. A.I.D. Import Procedures

1. Procurement and Financing Procedures

A.I.D.'s standard procurement and financing procedures, as set forth in A.I.D. Regulation 1, will be followed under the CIP portion of the grant. GSDR public sector purchasing practices include a mixture of formal competitive bidding, negotiated solicitations, and proprietary procurement. Normal commercial trade practices similar to the negotiated procurement provisions of A.I.D. Regulation 1 will be used for private sector procurement. Financing of all goods and related services will be carried out through a single Bank Letter of Commitment (L/COMM). The selected U.S. bank will be authorized by the approved applicant (Commercial and Savings Bank of Somalia) to issue Letters of Credit on its behalf.

2. Commodities to be Financed

Commodities under the A.I.D. Commodity Eligibility Listing (1986 Edition) will be eligible for A.I.D. financing and will be included in all Commodity Procurement Instructions. However, utilization of the resources made available under this grant will be more restricted. Public sector purchasing will be for $9 million of petroleum products, primarily diesel; and $1.2 million for raw materials, spare parts and machinery for agricultural or agro-industrial use. $5.8 million in private sector imports will be restricted to imports related to the development of the agricultural sector or agro-industries.

3. Procurement Restrictions/Limitations

This grant will be restricted to A.I.D. Geographic Code 941 source and origin for commodities and related services except for petroleum products which will be Code 899. A source/origin waiver will be required for the petroleum products. (See Annex E.) Local agents are not required by Somali regulations. Thus, there is no conflict with A.I.D. Regulation 1 requirements that U.S. suppliers may sell directly to importers. The provisions of A.I.D. Regulation 1 regarding commodity eligibility review, and both prior review and post audit will apply to all transactions.

C. Disbursement Period

The proceeds of the grant are expected to be disbursed within an 18 month period after the grant is signed. The terminal disbursement date, therefore, will be set 18 months from the grant agreement date and the terminal date for requesting disbursement authorizations will be set at 12 months from the grant agreement date.

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

D. Port Clearance and Inland Transportation

The ports of Mogadishu and Berbera often have periods of congestion when vessels arrive back-to-back to deliver refugee, PL480 Title 1, and other donor commodities. Limited port support equipment and lack of fuel exacerbates the congestion problem. Presently, the majority of the vessels obtain berthing space for off-loading in less than a week. The off-loaded goods usually clear the port areas within a few weeks. The standard A.I.D. 90 days port clearance and the 12 months utilization period requirements will apply. There will be continuous follow-up by USAID and the host government with the buyers to assure compliance with these requirements.

E. Arrival, Accounting and End-Use Monitoring

Since 1974 the Somalia Shipping Agency has been appointed by the GSDR to handle the monitoring and accounting of all imported goods. It is the agency's responsibility to notify the public and private importers when their goods arrive and provide notification of quantities and types of goods. After the importers have been notified, it is their responsibility to arrange for clearance and movement of goods out of the port. Public sector importers normally have their own vehicles and manpower to expedite clearance of their goods. Private importers use their own resources or hire a freight forwarder to clear and move the goods. The importers under the FY85 CIP received and cleared their goods with no significant difficulties.

F. Commodity Import Procedures

Under this commodity import program, private importers are required to solicit proforma estimates (by telex or other means) from three or more suppliers, if possible. Supported by required documentation, the importers will submit their financial applications to the CIP Special Committee for review and approval through the USAID's Commodity Management Division in PDS. The committee members will be representatives of the Ministry of Finance and Revenue, the Ministry of Industry and Commerce, the Ministry of Agriculture, the Ministry of Livestock and Fisheries, the Central Bank of Somalia, the Commercial and

Savings Bank of Somalia, and USAID. Once the importer's application is approved, the committee will notify the supplier in writing of the approval and determine the exact amount of local currency to be deposited into the CIP Special Account. The local currency will cover the cost of the foreign exchange and U.S. banking charges. After deposit of local currency, the importer will give the CIP Special Committee a copy of the bank deposit slip, then the committee will instruct the Somali Commercial and Savings Bank, in writing, to advise their U.S. correspondent bank to issue a letter of credit on the behalf of the importer. All written correspondence will be signed by USAID and the GSDR before issuance. The importer will be responsible for all local banking charges. The importer will pay all duties, port charges, and demurrage, and will have to clear the commodities out of the port within 90 days, and sell or use the commodities within a year.

Public sector importers will be required to procure commodities by formal tender which is advertised in the United States, except for spare parts for on-hand equipment. Public and private sector importers will use the same procedures to submit their CIP applications. Issuance of letters of Credit are the same for public and private importers. The National Petroleum Agency will deposit 100 percent of shilling requirements for petroleum before the letter of credit is opened. For other public sector importers a 40 percent deposit will be required before a letter of credit is opened with the remaining 60 percent due upon arrival of the imports -- the same as for private sector importers.

G. OTHER CONSIDERATIONS

A. Impact on U.S. Balance of Payments

The short-term impact of this grant on the U.S. balance payments position will be minimal. In the medium to long term, the CIP may assist some U.S. exporters to re-establish their former markets in Somalia and permit developing countries to establish new market positions. The majority of goods to be imported will be from Code 941 countries except for petroleum products which will be from Code 899.

B. Internal Financial Effects

See local currency section of this PAAD.

C. Use of U.S. Government Excess Property

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

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

Neither institution currently supports any activities in Somalia.

ANNEX A

PROPOSED CONDITIONALITY FOR FY 1988 ESF AGREEMENT

A. Conditions Precedent:

1. Prior to any disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the GSDR will, except as the parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

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

(b) A statement designating the U.S. bank(s) and account numbers into which each of the three portions of the Grant will be disbursed by A.I.D. and confirming that funds in each of these accounts will be kept separate from all other funds of whatever source;

(c) Evidence that the Grantee has established separate Special Accounts in the Central Bank of Somalia for deposit of the Somali Shillings generated by each separate portion of the A.I.D.-provided foreign exchange;

(d) Evidence that the Grantee has established separate accounts at DDD for the CIP-generated local currency.

(e) Evidence that the Grantee has designated one member each from the Ministry of Finance and Revenue, the Ministry of Industry and Commerce, the Ministry of Agriculture, the Ministry of Livestock and Fisheries, the Central Bank of Somalia, and the Commercial and Savings Bank of Somalia to serve on the CIP Special Committee to review and approve commodity import applications under the grant.

2. Prior to disbursement of any foreign exchange for the petroleum, the GSDR shall provide evidence that it has deposited into the Special Account opened for that purpose the Somali shilling equivalent of the foreign exchange to be disbursed at the highest rate per U.S. dollar not unlawful that is available to anyone in Somalia at the time of deposit.

B. Covenants:

1. The Grantee agrees to establish an improved debt information system and begin establishing a debt-management plan. The debt information system will assemble data on all debts owed over a three-year period, identified by creditor, amount owed, and date. The debt-management plan will institute a system whereby the Ministry of Finance determines all the debts owed in the upcoming year, and especially the upcoming quarter,

identifies foreign exchange sources for debt payment, establishes priorities for debt payment, and ensures the foreign exchange is available for paying the priority debts when needed.

2. The Grantee agrees to have the Tax Reform Commission examine the impact of all existing taxes and proposed changes on productivity in the private sector and will endeavor to ensure that the tax system encourages private sector growth.

3. The Grantee agrees to ensure that no rules, regulations, or other impediments prohibit or hinder private sector importation and distribution of commodities eligible for private sector importation under the CIP and that where such impediments are found, the Grantee will endeavor to remove them.

4. The Grantee agrees that all petroleum purchased under this grant will be used for non-military purposes.

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ANNEX B

ECONOMIC TABLES AND SUPPLEMENT

This annex provides supplemental tables to the text, including additional tables on debt, price controls, and monetary policy. Table 1 provides debt by creditor. The total at the end of the "services" column (Total Service/Principal) corresponds to the category in Table 2 in the text labeled "interest" under "Services." Similarly, total "principal" corresponds to official outflows under the Capital account in text Table 2. Other service payments are given in Table 6. The majority are negative, primarily attributable to costs of Somali embassies abroad. The only significant revenue raiser in the service category is Somali Airlines. Capital inflows in text Table 2 reflect donor loans and grants, including commodity import programs and food aid.

Tables 2 and 3 in this annex refer to price controls, no longer enforced officially. As indicated in the text, Table 2 gives the controlled prices as announced. Table 3 gives retail prices in various areas of Somalia and is collected by the Food Early Warning System (FEWS) of the Ministry of Agriculture. FEWS began publishing actual prices in early March. As the prices in the FEWS report indicate, price controls were not being enforced. Additionally, USAID considers it noteworthy that a government Ministry (the Ministry of Agriculture utilizing FEWS) actually distributed information noting the unenforcement of price controls.

Given the importance of agriculture and of exports to the economy, several additional tables are provided giving exports by destination, banana production, crop yields and acreage, composition of land use, and other agricultural information.

ANNEX B: Table 1: SOMALI DEBT BY CREDITOR: 1988 AND 1989 (In Millions of U.S. Dollars)

CREDITOR	1988 Service Acct. (Interest Payments)	1988 Principal	1989 Service Acct. (Interest Payments)	1989 Principal
NON RESCHEDULABLE	19.92	15.61	15.10	15.26
IMF Total (1)	10.49	2.90 (2)	0.26	2.92 (2)
Arab Monetary Fund AMF (3)	3.00	See Footnote (3)	0.00	See Footnote (3)
Other Multilaterals	6.44		6.83	
ADB	0.50	0.68	0.43	0.68
ADF	0.36	0.13	0.37	0.19
EIB	0.04	0.20	0.04	0.20
IDA	1.75	1.30	1.74	1.43
IFAD	0.25	0.00	0.27	0.09
Islamic Dev. Bank	0.19	0.42	0.18	0.42
Arab Fund	3.25	6.47	3.72	5.83
OPEC Fund	0.10	3.50	0.08	3.50
POTENTIALLY RESCHEDULABLE	26.57	42.97	24.37	42.35
Paris Club	22.31	29.15	20.44	28.79
France	3.04	3.53	2.72	3.59
Italy	5.35	14.95	4.67	17.36
Japan	0.33	0.00	0.39	0.00
U.S.A.	8.98	3.61	8.59	3.62
1985 Paris Club	4.61	7.06	4.06	4.22
France	0.55	0.08	0.54	0.07
Italy	1.66	1.11	1.64	1.10
U.K.	0.62	5.66	0.13	2.83
U.S.A.	1.78	0.21	1.76	0.21
Comparable Treatment	4.26	13.82	3.93	13.56
Special Bilateral	2.84	9.57	2.70	9.57
Kuwait Fund	1.38	3.67	1.34	3.67
Saudi Fund	1.46	5.90	1.36	5.90
Algeria	0.01	0.10	0.01	0.10
Iraq	0.83	2.05	0.68	2.05
Romania	0.45	1.07	0.44	0.80
Yugoslavia	0.13	1.03	0.10	1.03
Egypt Ctprt		4.00		4.00
Interest on 1987-88 rescheduling	4.50		6.50	
Interest on 1987 arrears after rescheduling	6.00		6.00	
Interest on new borrowing (4)	2.56		2.36	
Interest on unfunded gap in 1988 and 1989 (see Table 2 in Text)			3.38	
Total Service/Principal Payments	59.55	62.58	57.71	61.61

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Continuation

ANNEX B: Table 1: SOMALI DEBT BY CREDITOR: 1988 AND 1989 (In Millions of U.S. Dollars) .

CREDITOR	1988 Service Acct. (Interest Payments)	1988 Principal	1989 Service Acct. (Interest Payments	1989 Principal
International Monetary Fund		41.98		45.27
Arab Development Bank		22		
Bridge Loan		10.7		
TOTAL DEBT	59.55	137.26	57.71	106.88

(1) The majority of IMF principal is listed after total Service/Principal payments.
Only the amount owed the Trust Fund is included under Principal

(2) Includes only principal owed the IMF Trust Fund.

(3) Principal owed the Arab Monetary Fund is treated like the IMF: included after normal payments

(4) The "gap" mentioned is the same as the financing gap in Table 2 in the text.

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Table 2. Somalia: Controlled Prices, 1988 1/

(In-Somali Snillings)

Item Price	Import and Producer	Wholesale	Consumer Retail
(For Whole Country)			
Flour 1 kg	30.00	33.00	35.50
Rice 1 kg	42.00	46.50	49.45
Local spaghetti (1 kg)	54.00	59.00	64.00
Imported spaghetti (1 kg)	70.00	77.00	82.00
Sugar (1 kg)	67.00	74.00	79.00
Corn (1 kg)	20.00	22.00	24.00
Sorghum (1 kg)	18.00	20.00	21.00
Beans (1 kg)	61.55	64.65	69.15
Edible Oil quantities	99.00	109.00	117.00
Cement 100 kg	1,473.00	1,620.00	1,733.00
Wood 1 cum	36,000.00	39,606.00	42,378.00
(For Mogadishu Province Only)			
Camel meat (1 kg)	....	....	94.50
Beef meat (1 kg)	....	....	108.00
Sheep meat (1 kg)	....	....	150.60
Camel milk (1 lt)	....	....	35.00
Cow milk (1 lt)	....	....	40.50
Powder milk (1 kg)	....	....	565.00
Eggs (per egg)	....	....	12.50
Fish grade 1	....	....	65.00
Fish grade 2	....	....	40.50
Fish grade 3	....	....	37.00
One camel	27,000.00	28,350.00	30,334.50
One cow	10,260.00	10,773.00	11,527.10
One goat	2,835.00	2,976.75	3,185.15
One black headed sheep	4,185.00	4,394.25	4,701.85
One chicken	229.50	241.00	297.90
Construction steel (100 kg)	7,924.00	8,716.00	9,327.00
Construction stone (1 Load)	....	....	3,500.00
Construction sand 1 load	....	....	2,000.00
Lime stone	....	....	7,000.00
Gravel	....	....	8,000.00
Ceiling material (1 piece)	829.00	912.00	916.00
Imported paint	329.00	362.00	387.00

1/ Prices become effective February 7, 1988, but were announced Feb, 5.
2/ Retail Prices of imported Sugar were recently raised to SoSn. 110 kg.

ANNEX B Table 3 :RETAIL PRICES FOR SELECTED AREAS OF SOMALIA (SoSh/kg)

STATION	--MAIZE-- March 10-20	--MAIZE-- April 1-10	-SORGHUM- March 10-20	-SORGHUM- April 1-10	--FLOUR-- March 10-20	--FLOUR-- April 1-10	--RICE-- March 10-20	--RICE-- April 1-10	SESAME SEED March 10-20	SESAME SEED April 1-10	--COWPEAS-- March 10-20	--COWPEAS-- April 1-10	-IMP. OIL- March 10-20	-IMP. OIL- April 1-10	SESAME OIL March 10-20	SESAME OIL April 1-10	---SUGAR--- March 10-20	---SUGAR--- April 1-10
Kismayo	33.4	40.5	39.2	33.8	40.0	55.0	80.0	108.0	N.A.	N.A.	76.8	83.2	114.4	160.0	250.0	264.0	224.4	259.9
Jilib	27.8	29	N.A.	N.A.	45.0	50.0	90.0	90.0	106.8	106.8	70.4	83.2	135.0	167.0	254.0	280.0	N.A.	250.0
Boale	34.3	40.2	27	29.7	60.0	51.0	87.1	89.0	N.A.	85.4	60.3	98.6	174.0	179.0	240.0	240.0	N.A.	281.1
Genale	26.1	27	N.A.	N.A.	40.0	N.A.	N.A.	80.0	106.8	89.0	64.0	64.0	120.0	160.0	250.0	250.0	N.A.	N.A.
Dinsor	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Bardera	26.5	29.3	23	23	40.0	48.0	81.1	92.0	68.0	68.0	61.0	75.6	130.0	150.0	240.0	240.0	175.0	208.0
Johar	35.2	35.2	34.6	33.8	38.4	54.5	58.2	70.0	98.8	83.8	70.2	65.1	117.6	128.2	254.0	250.0	N.A.	N.A.
Balad	30.8	33.9	26.1	29.8	40.0	47.5	N.A.	85.5	94.5	114.8	60.4	69.6	164.4	180.0	260.0	222.0	206.6	249.0
Mogadishu	31.5	33.8	29.4	33.3	35.5	43.9	61.2	117.5	106.8	106.8	69.0	66.4	117.0	123.7	241.5	248.0	200.0	259.0
Lugh	26.9	22.1	26	27.8	30.6	30.8	N.A.	100.0	N.A.	N.A.	65.9	78.1	125.0	142.0	N.A.	N.A.	185.0	180.0
Baidoa	28.8	39.3	27.5	32.7	40.0	50.0	80.0	120.0	N.A.	N.A.	75.6	75.6	130.0	130.0	300.0	300.0	N.A.	240.0
Bulo Berti	26.9	36.5	29.8	32.6	N.A.	N.A.	100.0	100.0	N.A.	N.A.	N.A.	92.5	117.5	130.0	253.3	275.0	N.A.	190.0
Hoddur	35.1	35.1	24.8	27	44.0	50.0	95.0	120.0	106.8	106.8	51.2	51.2	126.0	147.0	N.A.	N.A.	200.0	240.0
Belet Weyn	26.9	30.3	34.6	39.2	N.A.	N.A.	90.0	96.4	85.2	103.3	74.0	74.0	160.0	122.4	280.0	229.5	160.0	221.2
Dusa Mareb	N.A.	N.A.	31.1	N.A.	50.0	N.A.	109.5	N.A.	N.A.	N.A.	55.5	N.A.	150.0	N.A.	N.A.	N.A.	139.0	N.A.
Galcaio	25.2	32	35.6	29.7	50.0	52.5	93.6	105.2	N.A.	N.A.	45.1	58.2	141.0	156.5	N.A.	N.A.	130.0	147.0
Garowe	N.A.	N.A.	N.A.	N.A.	50.0	N.A.	120.0	N.A.	N.A.	N.A.	N.A.	N.A.	200.0	N.A.	N.A.	N.A.	N.A.	N.A.
Borama	32.6	44.4	32.2	47.9 *	60.0	60.0	120.0	120.0	N.A.	N.A.	N.A.	N.A.	250.0	N.A.	N.A.	N.A.	120.0	152.0
Hargeisa	39.2	43.5	43.5	52.2 *	45.0	50.0	80.0	103.0	N.A.	N.A.	79.2	107.0	159.0	160.0	N.A.	N.A.	110.0	156.0
Burao	N.A.	N.A.	43.5	60 *	56.7	61.5	90.0	115.0	N.A.	N.A.	N.A.	N.A.	150.0	170.0	N.A.	N.A.	130.0	180.0
Erigavo	N.A.	N.A.	36	60 *	52.5	56.5	106.7	120.0	N.A.	N.A.	N.A.	N.A.	200.0	N.A.	N.A.	N.A.	126.7	120.0
Qardho	N.A.	N.A.	N.A.	N.A.	50.0	60.0	81.1	101.5	N.A.	N.A.	N.A.	N.A.	150.0	150.0	N.A.	N.A.	132.2	135.0

(1) Except where noted by "*", prices are for white maize and red sorghum. "*" denotes white sorghum.
(2) Prices for rice are for imported rice except for Johar.

Source: Food Early Warning System (FEWS) of the Ministry of Agriculture; prepared in collaboration with the Marketing Unit, Planning Department

ANNEX B

Table 4: Annual Percentage Change of Monetary Aggregates

	1981	1982	1983	1984	1985	1986	1987 Est	1987 Proj
Net Foreign Assets		-57.7%	-405.6%	-143.6%	14.4%	-337.5%	-7.7%	-10.1%
Domestic Credit		10.5%	4.7%	82.8%	19.8%	20.7%	148.8%	6.8%
Government (net)		-6.7%	-14.0%	142.6%	23.8%	12.1%	134.5%	-8.2%
Public Enterprises		-24.5%	-10.5%	29.9%	37.1%	80.1%	71.8%	
Private		182.6%	41.2%	62.5%	8.0%	1.8%	240.1%	
Money Supply (Money+Quasi)		14.4%	7.1%	24.9%	73.8%	38.3%	131.5%	16.1%
Local Currency Liability		14.4%	7.1%	23.8%	42.5%	38.2%	174.9%	13.1%
Medium/L. Term Loans		31.7%	33.5%	56.2%	77.4%	121.0%	14.6%	

Source: Table 2, Text

ANNEX B

Table 5: Monetary Aggregate Changes as Percent of Broad Money at Beginning of Period

	1981	1982	1983	1984	1985	1986	1987 Est	1987 Proj
Net Foreign Assets		-10.9%	-28.2%	-28.5%	5.6%	-79.1%	-5.7%	-7.5%
Domestic Credit		10.9%	4.7%	81.4%	28.7%	25.3%	158.6%	7.3%
Government (net)		-3.4%	-5.9%	48.1%	15.8%	7.0%	62.7%	-45.7%
Public Enterprises		-9.7%	-2.7%	6.5%	8.5%	17.6%	20.5%	
Private		24.0%	13.4%	26.8%	4.5%	0.8%	75.4%	
Broad Money *		14.4%	7.1%	23.8%	42.5%	38.2%	174.9%	13.1%

Source: Table 2, Text

* : Broad Money at end of Previous Year = "Beginning of Period" for current year where broad money is defined as local currency liability as defined in Table 2 and text.

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Table 6 Somalia: Services Account: Other Services, 1984-93 (in US$ millions) 17:29

	1984	1985	1986	Projected 1987 Prog	Est. 1987	1988	1989	1990	1991	1992	1993
SERVICES(net)	-3.0	-6.00	-9.25	-3.14	-13.05	-11.07	-10.33	-10.88	-11.41	-11.97	-12.57
Credits Total	53.0	48.10	22.30	23.08	13.04	13.46	13.87	14.78	15.74	16.77	17.87
Int'l Org & Off.			10.90	11.28	4.51	4.65	4.80	5.05	5.31	5.58	5.87
Transport. 1/			6.00	6.21	6.21	6.41	6.61	7.08	7.60	8.15	8.73
Travel 2/			0.50	0.52	0.50	0.52	0.53	0.57	0.61	0.66	0.70
Other 2/			4.90	5.07	1.82	1.88	1.94	2.08	2.23	2.39	2.56
Debits Total	-56.1	-54.10	-31.55	-26.22	-26.09	-24.52	-24.21	-25.66	-27.15	-28.74	-30.43
Freight+Ins.3/			...	...	...	...	...	...	...	...	...
TA Service 4/			-0.75	-0.75	-0.75	...	...	...	...	...	...
Embassy outlays			-21.90	-19.00	-19.63	-20.26	-20.89	-22.18	-23.55	-25.01	-26.56
Travel 2/			-2.00	-2.07	-1.31	-1.35	-1.39	-1.49	-1.60	-1.72	-1.84
Other 5/			-6.90	-4.40	-4.40	-2.91	-1.93	-1.99	-2.00	-2.01	-2.03
Intn'l Org.			-4.00	-4.00	-4.00	-2.50	-1.50	-1.55	-1.55	-1.55	-1.55
Thm. LaRue			-1.50		-0.88						
Growth Rates:											
Oth Ser (net/nom.		...	...	...	...	...	...	5.33%	4.89%	4.91%	4.94%
OthSer(net)Real 6/		...	...	...	...	...	...	2.16%	1.73%	1.76%	1.78%
Foreign Inf 7/			3.70%	3.50%	2.90%	3.20%	3.10%	3.10%	3.10%	3.10%	3.10%

1/ Includes estimated Somalia Airlines Receipts

2/ Estimated

3/ Not included because imports are reported on CIF basis. Some imports L/C financed thru the auction may not have included I&F component.

4/ Technical assistance component of IBRD ASAP loans estimated at US$ 1.5 mn.(Before 30%)

5/ Includes past dues of US 4 mn to UN, OAU , and Arab League and non-recurrent services from Thomas LaRue valued at US$ 1.5 mn. Contributions to international organizations are etimated at US$ 4,2.5, and 1.5 in 87-89.

6/ Deflated by Trading partners inflation.

7/ Unadjusted for changes in the exchange rate. (WEO)

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Table 7. Somalia: Number and Value of Livestock Exports, 1976-87

	Sheep ('000)	Goats ('000)	Cattle ('000)	Camels ('000)	Total Livestock ('000)	Total value, f.o.b. 1/ (millions of So. Sh.)
1976	374	374	74	37	859	301.9
1977	461	442	54	35	992	299.5
1978	728	723	73	21	1,545	570.6
1979	579	616	79	17	1,291	474.1
1980	829	951	86	21	1,886	639.5
1981	701	787	116	15	1,619	1,001.9
1982	730	719	157	15	1,621	1,511.9
1983	559	557	44	8	1,168	1,129.3
1984	367	367	8	4	746	670.8
1985	709	748	42	7	1,506	5,247.6
1986	567	567	56	9	1,199	4,421.7
1987	588 2/	582 2/	47	20	1,237	...

Sources: Data provided by the Livestock Marketing and Health Project; and the Central Bank of Somalia.

1/ Exchange transaction records.
2/ The Livestock Marketing and Health Project estimates that there were 300,000 head of unrecorded exports of goats and sheep during 1987.

Table 8. Somalia: Distribution of Livestock Exports by Major Points of Destination

(In percent)

	Sheep	Goats	Camels	Cattle			
	Saudi Arabia			Saudi Arabia	Egypt	North Yemen	United Arab Emirates
1976	89	88	100	92	...	...	...
1977	91	91	100	98	...	...	...
1978	93	93	100	100	—	—	—
1979	88	86	100	93	...	...	...
1980	89	86	100	94	...	...	...
1981	92	89	100	90	...	...	...
1982	90	91	100	93	...	...	...
1983	95	95	100	50	...	...	...
1984	92	92	100	—	...	...	...
1985	94	94	100	—	...	...	...
1986	93	93	100	—	52	48	—
1987	...	...	...	...	14	85	1
				...	...	...	...

Source: Livestock Marketing and Health Project.

Table 9 . Somalia: Production of Main Agricultural Crops, 1980-87

(In thousands of metric tons)

	1980	1981	1982	1983	1984	1985	1986	1987 1/
Maize	110.5	142.0	150.0	235.0	270.1	280.0	382.0	334.3
Rice paddy	17.0	19.1	20.0	3.0	4.2	15.0	17.7	16.0
Sorghum	140.5	222.0	235.0	120.0	221.2	260.0	251.3	255.5
Wheat	1.2	1.0	1.2	1.3	1.3	1.3	...	...
Beans	9.3	12.6	15.0	20.8	15.0	15.0	12.7	24.4
Staples (total)	288.5	396.7	421.2	380.1	511.8	571.3	663.7	630.2
Sesame	38.4	53.0	57.0	59.5	46.0	60.0	52.4	50.4
Groundnuts	2.9	4.0	3.2	3.0	4.7	5.0	0.6	2.6
Vegetables	27.2	27.0	28.0	29.0	30.0	30.0	32.0	...
Seed cotton	2.7	2.0	3.3	2.7	2.7	2.7	2.7	3.3
Sugarcane	419.5	378.2	483.2	449.7	342.3	444.0	278.0	425.0
Sugar (raw)	39.9	47.5	50.8	47.5	52.2	52.0	27.5	40.8 2/
Roots and tubes	35.4	36.5	37.6	38.7	39.8	40.0	41.1	...
Citrus	17.6	18.0	18.0	18.6	19.0	19.4	21.6	...
Dates	9.0	9.0	9.0	9.2	9.4	9.5	9.5	...
Other fruits	128.0	131.0	134.0	136.0	138.0	138.0	140.0	...
Nonfood crops	1.5	1.1	1.8	1.5	1.5	1.5	1.5	...

Source: Ministry of Agriculture, Yearbook of Agricultural Statistics 1986/87, and Food Outlook No. 6.

1/ Preliminary
2/ The recovery in sugar production in 1987 reflected the end of the draught and improved availability of fuel. The 1987 preliminary estimate is based on the Juba sugar project as output of the Jowhar factory was marginal in both 1986 and 1987.

Table 10 Somalia: Area, Production and Yield--Major Crops

MOA	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Maize										
Production (000s T)	107.7	108.2	110.0	142.0	150.0	235.0	270.0	280.0	382.0	
Area (000 H)	148.7	147.5	109.0	197.0	209.0	300.0	350.0	350.0	247.2	
Yield (T/H)	0.7	0.7	1.01	0.7	0.7	0.8	0.8	0.8	1.5	
Rice										
Production (000 T)	8.0	8.7	11.3	12.7	13.3	2.0	2.8	10.0	11.8	
Area (000s H)	9.0	4.8	5.9	5.7	6.0	1.0	1.3	5.0	3.2	
Yield (T/H)	0.9	1.8	1.9	2.2	2.2	2.0	2.2	2.0	3.7	
Sorghum										
Production (000s T)	141.1	140.0	140.0	222.0	235.0	120.0	221.2	260.0	251.3	
Area (000s H)	420.1	460.8	456.8	517.0	540.0	475.0	445.0	520.0	376.5	
Yield (T/H)	0.3	0.3	0.3	0.4	0.4	0.3	0.5	0.5	0.7	
Beans										
Production (000s T)	10.1	8.2	9.3	12.6	15.0	20.8	15.0	15.0	12.7	
Area (000s H)	21.8	16.6	18.5	25.9	27.0	27.0	27.0	27.0	28.9	
Yield (T/H)	0.5	0.5	0.5	0.5	0.6	0.8	0.6	0.6	0.4	
Sesame										
Production (000s T)	40.0	40.6	38.4	53.0	57.0	60.0	46.0	60.0	52.4	
Area (000s T)	75.0	80.0	83.0	90.0	90.0	91.0	92.0	92.0	100.3	
Yield (T/H)	0.5	0.5	0.5	0.6	0.6	0.7	0.5	0.7	0.5	
Groundnuts										
Production (000s T)	2.8	2.8	3.0	4.0	3.2	3.0	4.7	5.0	0.6	
Area (000s H)	1.9	2.4	2.5	2.6	3.0	3.0	3.0	3.2	0.9	
Yield (T/H)	1.5	1.2	1.2	1.5	1.1	1.0	1.6	1.6	0.7	
Vegetables										
Production (000s T)	26.5	26.5	26.5	27.0	28.0	29.0	30.0	30.0	32.0	
Area (000s H)	3.6	3.7	3.8	4.2	4.3	4.5	4.6	4.6	4.9	
Yield (T/H)	7.4	7.2	7.0	6.4	6.5	6.4	6.5	6.5	6.5	
Cotton										
Production (000s T)	2.2	2.7	2.7	2.0	3.3	2.7	2.7	2.7	2.7	
Area (000s H)	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	12.0	
Yield (T/H)	0.2	0.2	0.2	0.2	0.3	0.2	0.2	0.2	0.2	
Sugar (raw)										
Production (000s T)	32.6	26.1	39.9	47.5	50.8	47.5	52.2	52.0	27.5	
Area (000s H)	3.5	3.0	6.6	8.2	8.5	9.3	9.8	9.8	5.1	
Yield (T/H)	9.3	8.7	6.0	5.8	6.0	5.1	5.3	5.3	5.4	
Tubers										
Production (000s T)	33.3	34.3	35.4	36.5	37.6	38.7	39.8	40.0	41.1	
Area (000s H)	3.0	3.1	3.2	3.4	3.5	3.6	3.7	3.7	3.8	
Yield (T/H)	11.1	11.1	11.1	10.7	10.7	10.8	10.8	10.8	10.8	
Citrus										
Production (000s T)	17.1	17.4	17.6	18.0	18.0	18.6	19.0	19.4	21.6	
Area (000s H)	2.3	2.3	2.3	2.3	2.3	2.4	2.5	2.6	2.9	
Yield (T/H)	7.4	7.6	7.7	7.8	7.8	7.8	7.6	7.5	7.4	
Dates										
Production (000s T)	7.0	9.0	9.0	9.0	9.0	9.2	9.4	9.5	9.5	
Area (000s H)	1.4	1.8	1.8	1.8	1.8	1.8	1.9	1.9	1.9	
Yield (T/H)	5.0	5.0	5.0	5.0	5.0	5.1	4.9	5.0	5.0	
Wheat Production (000s T)	1.2	1.2	1.2	1.0	1.2	1.3	1.3	1.3		
Area (000s H)	3.5	3.5	3.5	3.5	3.5	3.6	3.6	3.6		
Yield (T/H)	0.3	0.3	0.3	0.3	0.3	0.4	0.4	0.4		

Source: Ministry of Agriculture, Department of Planning and Statistics.

Table 11. Somalia: Area and Composition by Type of Land Use, 1986

(Thousands of Hectares)

Region	Total area	Nonculti-vated (%) 1/	Culti-vated (%) 2/	Total Cultivated Area	Rainfed (%)	Irrigated (%)	Cropped Area 3/ (% of Cultivated) Gu-season	Der-season 4/
Northwest regions 5/	4,480	98.0	2.0	90.3	100.0	0.0	45.0	18.0
Central and North-east regions 6/	32,820	99.9	0.1	32.5	100.0	0.0	31.0	...
East								
Hiraan	3,400	99.2	0.8	28.3	54.1	45.9	80.0	51.0
Middle Shebelli	2,080	94.5	5.5	113.7	76.3	23.7	82.0	29.0
Banaadir	80	100.0	--	--	--	--	--	--
Lower Shebelli	2,770	92.9	7.1	197.0	84.9	15.1	72.0	39.0
Lower Juba	4,900	99.4	0.6	26.5	38.9	61.1	81.0	45.0
Middle Juba	1,870	97.1	2.9	54.6	91.0	9.0	71.0	31.0
Gedo	4,470	99.1	0.9	39.4	95.9	4.1	89.0	16.0
Bay	4,120	94.1	5.9	244.4	100.0	0.0	87.0	6.0
Bakool	2,630	98.5	1.5	38.9	100.0	0.0	90.0	--
Total	63,620	98.6	1.4	865.6	89.3	10.7	75.0	22.0

Source: Ministry of Agriculture, Department of Planning and Statistics.

1/ Includes pasture, forest, woodland and other land.
2/ Includes arable land, permanent crops and fallow land.
3/ Includes actually planted and harvested land.
4/ There are two rainy seasons in Somalia. Gu season runs from April through June and Der season runs from October through November.
5/ Awdal, West Gabeed.
6/ Togdheer, Sanaag, Sool, Bari, Nugaal, Muduug, Galgaduud.

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Table 12 Somalia: Production and Export of Bananas, 1978-87

	Area cultivated 1/ (thousand hectares) Total area	Producing area	Production (thousand metric tons)	Yield (metric tons per producing hectare)	Export volume (thousand metric tons)	Value of exports, f.o.b. 2/ (millions of So. Sh.)	Export unit value, f.o.b. (So. Sh. per metric ton)	Nominal Producer Price (So. Sh. per metric ton)
1978	6.8	5.1	87.3	17.1	57.5	70.2	1,221	...
1979	6.0	4.8	72.7	15.1	55.5	68.5	1,234	560
1980	4.6	2.6	60.4	23.2	35.4	46.6	1,316	660
1981	3.6	2.9	69.0	23.8	34.3	66.2	1,930	1,700
1982	4.3	2.8	72.0	25.7	50.7	153.6	3,030	1,850-2,150
1983	4.4	2.8	85.0	30.4	62.4	234.4	3,756	2,386
1984	4.6	3.0	106.0	35.3	47.9	283.9	5,927	3,465
1985	5.1	2.8	110.0	39.3	45.3	506.3 5/	11,176	9,684
1986	6.2	3.9	93.9	24.1	57.9	1,477.3 5/	25,515	13,223
1987	6.1	4.2 3/	100.0 4/	23.8	64.0	...	...	19,584 6/

Sources: SOMALFRUIT; and Ministry of Agricultural, Yearbook of Agricultural Statistics 1986/87.

1/ Producing area is less than total area, as replanting is required every 3-4 years.
2/ Does not agree with balance of payments figures, which are based on exchange control data.
3/ At end November 1987.
4/ Preliminary estimate by SOMALFRUIT.
5/ Central Bank of Somalia.
6/ Nominal producer price was reduced to 14,700 in the latter part of 1987 in the wake of the introduction of the exchange rate of

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Table 13 Somalia: Monthly Banana Exports, 1986-87

	1986				1987			
	Exports (tons)	Value (US$s000)	Share (%) Mid.East	Share (%) Italy	Exports (tons)	Value (US$000)	Share (%) Mid.East	Share (%) Italy
January	2,844	796	70	30	2,976	908	0	100
February	3,679	1,177	31	69	5,421	1,882	12	88
March	4,759	1,523	26	74	5,535	1,953	11	89
April	5,072	1,623	32	68	4,143	1,456	22	78
May	3,442	1,101	33	67	5,617	1,965	16	84
June	5,071	1,420	38	62	2,912	897	14	86
July	3,735	896	73	27	4,563	1,398	59	41
August	4,454	1,069	74	26	5,174	1,622	31	69
September	5,858	1,640	18	82	4,065	1,292	21	79
October	5,655	1,662	17	83	7,296	2,248	22	78
November	6,201	1,930	29	71	7,673	2,306	18	82
December	7,173	2,198	43	57	8,630	2,603	36	64
Total	57,943	17,037	38	62	64,004	20,532	23	77

Source: SOMALFRUIT.

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Table 14. Somalia: Quantity of Fish Output, 1974-85

(In tons)

	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987
Coastal fishing 1/	5,278	3,548	4,000	4,000	4,255	4,390	5,280	7,724	4,067		
Deep-sea fishing	4,550	335	3,880	10,330	5,268	4,340	5,915	11,915	12,399		
Fish	3,400	235	3,080	8,530	4,792	3,904	5,356	11,363	11,938		
Crustaceans	1,150	100	800	1,800	476	436	559	552	461		
Total	9,828	3,883	7,880	14,330	9,523	8,730	11,195	19,639	16,466		

Source: Ministry of National Planning.

1/ Fish catch of the cooperatives.

ANNEX C

SUMMARY OF PAST COMMODITY IMPORT PROGRAMS

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

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

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

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

In 1984, all ESF was obligated for Kismayo Port Rehabilitation.

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

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

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

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

In April 1986, AID amended CIP III to allow up to $8.2 million of additional GSDR purchases of petroleum and petroleum products.

ANNEX D

Local Currency Management and Use

I. Overall Local Currency Programming

USAID/Somalia's local currency programming and accountability procedures are documented in a Memorandum of Understanding, signed by USAID and the Ministry of Finance and Revenue and in a newly issue Mission Order. Based on A.I.D. regulations, different rules apply to local currency generations depending on the generating program and the form in which aid is provided. E.g., ESF-generated local currencies can be used in a wider range of projects than can PL 480 currency. In addition, use of ESF-generated local currancy for such activities as debt payment differ from year to year and on whether the local currencies were generated from a cash transfer or a commodity.

USAID/Somalia jointly programs local currencies made available through PL 480 and ESF programs. ESF-generated local currencies go into a special account from which they are eiher transferred to the Domestic Development Department (DDD) for use in financing development projects or for other uses such as debt. A.I.D. is the only donor in Somalia currently budgeting its local currency generations and monitoring the use of these funds.

II. Project Programming

DDD funds for development projects in the approved Public Investment Program (PIP) are jointly programmed annually on a calendar year basis. First priority in the use of funds is given to USAID dollar supported bilateral projects; funding levels for these projects are reached based on (1) USG and A.I.D. rules and regulations regarding the use of generated local currencies; (2) USAID project manager and GSDR implementing agency discussions regarding local currency needs for the coming year and agreement on a proposed budget; (3) Ministry of National Planning review of the proposed budget, a project work plan, and available monitoring and evaluation information; (4) Ministry of Finance and Revenue review; and (5) availability of funds as discussed with USAID senior management.

Once USAID and the GSDR agree on funding levels for bilateral projects, the GSDR presents a list of additional projects for funding consideration. This list includes both GSDR proposed activities and other donor efforts. USAID and representatives of the Ministry of Finance and Revenue (MOFR) consider these projects in light of (1) appropriateness for funding (e.g., development orientation, other donor programs and/or implementation by a reliable GSDR entity); (2) previous implementation experience; and (3) availability of funds. (USAID now is also considering these projects in light of our staff capacity to monitor them in accordance with Washington's increasing requirements for local currency accountability.)

Discussions regarding activities to be funded include a joint analysis of funds remaining from the previous year and anticipated generations for the year in question. Consideration is also given to non-project requirements for the funds (e.g., debt repayment) and to the longer term implications of current programming decisions (e.g., anticipated future year trends in generations and the need for carry over of current funds to future years, if any).

Joint programming of local currency generations although highly supportive of USAID development strategy and GSDR development priorities, is very staff intensive. Approximately 75% of the ESF and PL 480 generated local currency goes to USAID projects and support although percentages for ESF vary from year to year. The overwhelming share of local currency funds for projects goes to agriculture and livestock activities in accordance with both USAID's and the GSDR's development focus on food production and economic self-sufficiency.

All generated local currency for USAID projects comes from the GSDR's development budget. However, it should be noted that some development project budgets do pay some recurrent costs. For example, some project agreements allow for the payment of salaries for project (ministry) staff from the project's local currency budget in addition to the allowances and bonuses that are paid as incentive to work on the project. Local currencies are used to support the (DDD), the branch of the MOFR that serves as the secretariat to the GSP. Until September 1987, USAID funded a full time expatriate Finance Advisor to the DDD to work strictly on local currency matters; a replacement for this position will soon be sought. Local currency support is provided to this advisor (for housing, rent and support services) through the Trust Fund. The DDD, with the assistance of its advisor, and the GSP have major responsibility for the management of local currency at the present time.

Once the annual budget is established and signed by the Minister of Finance and Revenue (MOFR) and the USAID Director, the MOFR takes the lead in contacting projects and initiating review of specific line items in each budget. A joint GSDR/USAID Committee (the Generated Shillings Proceeds Committee - or GSP) meets to review proposed annual line items as well as requests for quarterly disbursement. Once the GSP agrees on a request for disbursement, the MOFR prepares minutes of the agreement which are signed by the Minister of Finance and Revenue and the USAID Director. Their signatures authorize the MOFR to request release of funds by the Central Bank to each project.

III. Management

USAID is now receiving a copy of each bank statement regarding local currency generations. For those generations not deposited directly to DDD, e.g., ESF, we are receiving bank statements for the initial receiving accounts. For all accounts in DDD we receive bank statements giving deposits into and releases from each account as well as all other necessary documentation to verify transactions.

Beginning in FY 1988, separate local currency accounts are established for each ESF or PL 480 program for each year. These procedures for documentation and responsibility are outlined in a Memorandum of Understanding signed by the USAID and the Ministry of Finance and Revenue. At the present time, the Mission is putting into operation a computerized local currency data tracking system into which transfers will be entered on a monthly basis and may thus be compared with available generations and with amounts approved by the GSP.

For bilateral projects, USAID project managers are being asked to keep abreast of the receipt and use of funds for project uses. USAID is initiating a new procedure requiring project managers to confirm in writing to USAID GSP representatives that project bank accounts are credited in the appropriate amount agreed to in the GSP meeting minutes. For non-USAID projects, we are not aware of actual receipt unless project staff contacts us (which ordinarily occurs when there is a problem). Given staffing constraints and GSDR sensitivities regarding USAID interference in local currency budgets, we do not -- and do not intend to -- track local currencies beyond their release to individual project bank accounts.

At the present time, two USDH and two FSN USAID staff members represent the Mission on the GSP and spend from 10-50 percent of their time (depending on their positions within the Mission and the time of year) on local currency issues. These four staff members have primary responsibility for the programming and release of funds. Other Mission staff (i.e., the appropriate program managers for each source of local currency generations) have primary responsibility for the initial generation and deposit of funds, while each project manager is responsible for the monitoring of local currency at the project level (for bilateral projects only). In addition, the Program Office, the Controller's Office and the Project Development and Support Office are actively involved with the Director's Office in the development and implementation of USAID policy on local currency to ensure all factors are considered in programming and monitoring local currency. The roles and responsibilities of each USAID staff member involved in local currency is outlined in a Mission Order on Local Currency issued during the last year.

IV. <u>USAID Operating Expenses</u>

Approximately 15 percent of local currency generations budgeted for 1988 will be used for either the USAID Operating Expenses Trust Funds or the USAID Project Support Fund. The 1988 Trust Fund expenditure levels are exceptionally low, resulting from the suspension of the 1987 ESF Program. This decrease in Trust Funds is having a serious negative impact on USAID operations since all housing rents (USDH and contractor), local staff salaries and other local expenses (electricity, telephone, etc.) are paid from this fund. In 1988, USAID has needed to make up the shortfall in local currency Trust Funds by exchanging dollars for local currency.

V. Near Future Local Currency Options and Plans

Our local currency programming options at this time are quite limited. Thus, for the present time at least, USAID will continue to projectize almost all generations jointly with the GSDR. Non-project uses will be limited to debt repayment and similar activities. For the time being, we do not have sufficient confidence in the GSDR's budgeting and accounting procedures that we could agree to allocate local currency generations as general program assistance on a sector basis. At the same time, we do not have sufficient staff to be able to monitor the actual end use of all generated local currency. Even with USAID bilateral projects, our local currency tracking capabilities are limited by staff time as well as GSDR willingness to open their books completely to us.

At present, USAID/Somalia tracks the local currency to the point where it is released into the bank accounts of the specific projects in the approved local currency budget. Tracking funds after release to project accounts is particularly difficult because the practices of the banking system here, which is entirely in the public sector, are irregular and not up to private sector standards. Over the coming year, we will be moving to improve our local currency accountability within the Mission in the following ways:

(1) tracking all local currencies from initial generation and deposit in a receiving account to final deposit in an activity account, either for projects through the MOFR's Domestic Development Department or for some other purpose such as debt repayment, through completion and maintenance of a computerized monitoring system;

(2) determining appropriate use of local currency for debt payment and similar expenses based on overall economic consideration;

(3) improving USAID project managers' skills and willingness in actively participating in annual local currency budgeting and in tracking local currency disbursements in project implementation including documenting within the Mission the receipt of local currencies by USAID projects as described above;

(4) providing project managers with quarterly statements of amounts deposited into their projects' accounts;

(5) encouraging more frequent audits of USAID projects for both dollar and local currency expenditures;

(6) encouraging GSDR project counterparts to share as fully as possible with USAID their local currency expenditures;

(7) during annual programming for 1989, limiting the number of non-USAID projects funded to those in which USAID has the greatest confidence of acceptable budgeting and accountability skills. (The number of non-USAID projects in 1988 is considerably less than in 1987; this trend will continue.)

In the past year, we have issued a local currency Mission Order which is helping us improve our internal organization and communications on local currency by explicitly stating roles and responsibilities. More dramatic steps are not contemplated at the present time, given our internal staffing constraints and, our lack of confidence in the GSDR's budgeting, accountability, and banking systems.

Also at the present time, there are no plans to allocate any local currencies directly to the Somali private sector. Given the current political environment and the complete lack of private banking in Somalia, methods of allocating credit impartially to the private sector is limited. In addition, since the GSDR owns and largely controls (with USAID concurrence) local currencies, it is most interested in devoting generations to its own, public sector, priority uses.

VI. Local Currency Uses

The following provides releases of generated local currency by generating program, sector, and project from January 1987 through March 1988. Also provided is a summary of all uses of local currencies generated from the FY 1986 ESF Program.

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ANNEX E

MEMORANDUM

DATE: June 8, 1988

TO: ACTION MEMORANDUM FOR THE ADMINISTRATOR

FROM: AA/AFR, CHARLES GLADSON

SUBJ: Source/Origin Waiver: Code 899 Procurement of Petroleum and Petroleum Products - Somalia FY 1988 CIP Component of the Foreign Exchange Support Program

Problem: A source/origin waiver for the commodity and commodity-related services other than transportation, including insurance and inspection, is required to allow the procurement of up to $9.0 million of petroleum and petroleum products from countries included in the AID Geographic Code 899, and Code 935 for inspection.

Discussion: The purpose of the FY1988 ESF Grant is to provide foreign exchange to repay government debt and stimulate productive economic activity through commodity imports. The program will provide $5 million to the Central Bank for the payment of debt, $9 million for purchase of petroleum, and $7 million for agricultural and agro-industrial imports. The availability of diesel fuel for operation of agricultural tractors, water pumps, and trucks for movement of agricultural products is essential for the productive sectors of the economy to operate. Thus, as part of a multi-donor effort to assure that the productive sectors have the necessary inputs and materials to achieve sustained economic growth, the ESF Grant will provide a $9 million dollar CIP for the purchase of diesel fuel. The fuel will be imported by the public sector since private firms cannot directly import fuel; however, the private sector will be able to purchase the fuel.

Somalia's historical trading relationships are with the Gulf States. Saudi Arabia and Dubai are the main suppliers of Somalia's fuel oil and petroleum products. A source/origin waiver for the commodity and commodity-related services including insurance and inspection is required to allow financing of Code 899 petroleum imports under this grant. It is extremely unlikely that petroleum supplies could be obtained from anywhere else. The only Code 941 source from which Somalis would purchase petroleum realistically is Egypt; however, it is highly unlikely that Egypt could fulfill Somalia's needs for procurement on a timely basis. Until recently, petroleum from the U.S. was ineligible for AID financing because of the shortage in the U.S. While it is no longer inelibible, it is highly unlikely that petroleum and petroleum products will be available from the U.S. Under the FY85 CIP, a solicitation was sent to U.S. suppliers for $10 million worth of refined petroluem products. No offers were received and a waiver was approved for Code 899 procurement.

Primary Justification: The justification for this source/origin waiver for the commodity and commodity-related services other than transportation is that circumstances exist, in accordance with Handbook 1, Supplement B, Chapter 5B.4.a(7), which have been determined to be critical to achieving the GSDR's balance of payments objectives. The FY 1988 Foreign Exchange Support Program provides balance of payments support for Somalia. For the reasons discussed above, these objectives will not be achieved unless petroleum and petroleum products are financed under this program, and the commodities and commodity-related services permitted, except transportation, are of Code 899 source/origin and Code 935 for inspection. If necessary, transportation waivers will be considered by SER/AAM/TRANS as per AID regulations.

Your approval is required for this waiver because the commodity and incidental services element, exclusive of transportation costs, will exceed $5 million.

Recommendation: That you approve a source/origin waiver from Code 941 to Code 899 to allow the commodity procurement, insurance, and inspection (Code 935 also allowed for inspection) up to $9.0 million of petroleum and petroleum products for the FY 1985 CIP (649-0125), and certify that "exclusion of procurement from Free World countries other than the cooperating country and countries included in Code 941 would seriously impede attainment of U.S. foreign policy objectives and objectives of the foreign assistance program."

ANNEX F

Initial Environmental Examination

Country:	Somalia
Program Title and Number:	Somalia Foreign Exchange Support Program 649-0144
Funding:	$21.0 million
Life of Program:	1988 - 90
IEE Prepared By:	Tom Lofgren, USAID/Somalia
Environmental Action Recommended:	Categorical Exclusion

Action Recommended by: Tom Lofgren, USAID/Somalia

Bureau Environmental Advisor: Bessie L. Boyd
AFR/TR

Approved: ______________________
Disapproved: ______________________
Date: ______________________

GC/AFR Concurrence:

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I. Program Description

This program will provide $21 million in Economic Support Funds to repay debt and provide imports for productive economic activity. The program will provide $5 million as a cash tansfer to pay government debt and $16 million for a commodity import program. The commodity import program includes $9 million for petroleum imports by the public sector and $7 million for agricultural and agro-industrial imports for the public sector ($1.2 million) and the private sector ($5.8 million).

Commodities will be selected from the list of eligible in Handbook 15, Appendix B. No pesticides will be imported and the Mission will inform the GSDR of any potentially hazardous materials or uses once they become known.

II. Recommended Environment Action

As a contribution to the Somali government for purposes not related to carrying out specifically identifiable projects, the $5 million cash transfer component of this program qualifies for a categorical exclusion under Seciton 216. (c)(2)(vi) of A.I.D.'s Environmental Procedures.

In accordance with A.I.D. Regulation 16 Section 216.2 (c) (IX) assistance under a commodity import program is eligible for categorical exclusion from environmental procedures when, "prior to approval, A.I.D. does not have knowledge of the specific commodities to be financed and when the objective in furnishing such assistance required neither knowledge, at the time the assistance is authorized, nor control, during implementation, of the commodities or their use in the host country." As the commodity import component of the program fulfills both the qualifications cited above it should be granted a categorical exclusion and be exempt from any further environmental procedures.

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5C(1) - COUNTRY CHECKLIST Somalia - FY 1988

Listed below are statutory criteria applicable to: (A) FAA funds generally; (B)(1) Development Assistance funds only; or (B)(2) the Economic Support Fund only.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1987 Continuing Resolution Sec. 526. Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully? — No

2. FAA Sec. 481(h). (This provision applies to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government), has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without — NA

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

5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? — No

6. FAA Secs. 620(a), 620(f), 620D; FY 1987 Continuing Resolution Secs. 512, 560. Is recipient country a Communist country? If so, has the President determined that assistance to the country is important to the national interests of the United States? Will assistance be provided to Angola, Cambodia, Cuba, Iraq, Syria, Vietnam, Libya, or South Yemen? Will assistance be provided to Afghanistan without a certification? — No

7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? — No

8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with OPIC? — No

9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? (b) If so, has any deduction required by the Fishermen's Protective Act been made? — No

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Congressional enactment, within 30 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (a) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, and to prevent and punish drug profit laundering in the country, or that (b) the vital national interests of the United States require the provision of such assistance?

3. Drug Act Sec. 2013. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to Congress listing such country as one (a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country? NA

10. <u>FAA Sec. 620(q); FY 1987 Continuing Resolution Sec. 518</u>. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1987 Continuing Resolution appropriates funds?

(a) (a) No

(b) No

11. <u>FAA Sec. 620(s)</u>. If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the percent of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.)

Yes, taken into account by the Administrator at time of approval of Agency OYB.

12. <u>FAA Sec. 620(t)</u>. Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

NO

13. <u>FAA Sec. 620(u)</u>. What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operating Year Budget? (Reference may be made to the Taking into Consideration memo.)

While Somalia was in arrears as of June 1988, this was taken into consideration.

14. <u>FAA Sec. 620A</u>. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism?

NO

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15. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? NO

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

17. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) NO

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

19. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

Somalia was represer and failed to disassociate itself. This was taken into account at time of approval of OYB.

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20. FY 1987 Continuing Resolution Sec. 528. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States? NO

21. FY 1987 Continuing Resolution Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? NO

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

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

2. Economic Support Fund Country Criteria

FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? NO

STATUTORY CHECKLIST

3(A)2 - NONPROJECT ASSISTANCE CHECKLIST

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

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED? — Yes / Yes

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1987 Continuing Resolution Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project.

   A CN will be sent to the Hill authorization will not be mad until the 15-day waiting period has expired without objection.

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

   N/A.

3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided?

   No.

   Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

   N/A

4. FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.	Program funds for the private sector CIP will increase the flow of international trad foster private initiative and competition, discourage monop-olistic practices, and improve technical efficiency.
5. FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	Code 941 for private sector CIP will provide a resource for imports of U.S. origin.
6. FAA Secs. 612(b), 636(h); FY 1987 Continuing Resolution Secs. 507, 509. Describe steps taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.	U.S. does not own local currencies.
7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?	No.
8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?	N/A
9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?	N/A
10. FY 1987 Continuing Resolution Sec. 532. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution?	No.

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

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

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

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

(vi)(A) 75 percent of the foreign currencies generated by the sale of such imports by the government of the country shall be deposited in a special account established by that government and, except as provided in subparagraph (B), shall be available only for use in accordance with the agreement for economic development activities which are consistent with the policy directions of section 102 of the FAA and which are the types of activities for which assistance may be provided under sections 103 through 106 of the FAA; Yes.

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B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? — Yes.

b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities? — No.

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? — Yes. Yes.

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

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

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

2. Nonproject Criteria for Development Assistance

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

N/A

b. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Is assistance being made available (include only applicable paragraph which corresponds to source of funds used; if more than one fund source is used for assistance, include relevant paragraph for each fund source):

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value;

(1) N/A

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

f. ISDCA of 1985 Sec. 207. Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country (1) is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin American (the "Treaty of Tlatelolco"), (2) cooperates fully with the IAEA, and (3) pursues nonproliferation policies consistent with those of the United States? — No.

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

h. FY 1987 Continuing Resolution. If assistance is in the form of a cash transfer to any country which receives in excess of a total of $5 million as cash transfer assistance in the current fiscal year: (a) are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) will all local currences that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account to be used in accordance with FAA Section 609 (which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available)? — (a) Yes. (b) N/A improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

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

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

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is:	N/A
(i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;	N/A
(ii) concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;	N/A
(iii) research into, and evaluation of, economic development processes and techniques;	N/A
(iv) reconstruction after natural or manmade disaster and programs of disaster preparedness;	N/A
(v) for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;	N/A
(vi) for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.	N/A

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(5) [120-21] for the Sahelian region; if so, (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multi-donor development plan which calls for equitable burden-sharing with other donors; (b) has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom)?

N/A

c. FAA Sec. 107. Is special emphasis placed on use of appropriate technology (defined as relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

N/A

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

This program recognize the private sector's need for imports to expand domestic economic production.

e. FAA Sec. 101(a). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

Yes.