PD BAI 785

649-0118
SOMALIA

1982 CIP

PAAD

FY 82

1

SOMALIA

COMMODITY IMPORT PROGRAM

PROGRAM ASSISTANCE APPROVAL DOCUMENT

649 - 0118

PAAD Committee

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Rene' R. Daugherty, Program Economist
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March, 1982

9/30/75 (TM 4:1) CLASSIFICATION: Att 1 to App 3B, Ch 3, HB 4

AID 1110-1 (8-66)

PAAD

DEPARTMENT OF STATE
AGENCY FOR
INTERNATIONAL DEVELOPMENT

PROGRAM ASSISTANCE
APPROVAL DOCUMENT

1. PAAD NO.
649-0118

2. COUNTRY
Somali Democratic Republic

3. CATEGORY
Commodity Financing - Standard Procedure

4. DATE
December 4, 1981

5. TO:
F. S. Ruddy
Assistant Administrator

6. OYB CHANGE NO.
N/A

7. FROM:
John W. Koehring, AAA/AFR/DR
Bureau for Africa

8. OYB INCREASE
None

TO BE TAKEN FROM:
N/A

9. APPROVAL REQUESTED FOR COMMITMENT OF:
$15,000,000

10. APPROPRIATION - ALLOTMENT
ESF

11. TYPE FUNDING: [ ] LOAN [XX] GRANT

12. LOCAL CURRENCY ARRANGEMENT: [XX] INFORMAL [ ] FORMAL [ ] NONE

13. ESTIMATED DELIVERY PERIOD
Sept. 1982-Feb. 1984

14. TRANSACTION ELIGIBILITY DATE
Grant Approval Date

15. COMMODITIES FINANCED

Commodities declared eligible under the A.I.D. Commodity Eligibility Listing will be eligible for A.I.D. financing.

16. PERMITTED SOURCE
U.S. only:
Limited F.W.:
Free World:
Cash:
Selected Free World $15,000,000 Code 941

17. ESTIMATED SOURCE
U.S.: $10,000,000
Industrialized Countries:
Local:
Other: Non US Code 941 $5,000,000

18. SUMMARY DESCRIPTION

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

Procurement under this grant will be restricted to commodities related to the agricultural and agro-industrial sectors and to private manufacturing activities, with the specific list to be agreed upon by the GSDR and A.I.D. Procurement will be both for the public sector (approximately 66%) and the private sector (approximately 34%).

A grant to the Government of the Somali Democratic Republic is hereby authorized in the amount of $15,000,000 for financing the items described above, subject to the following terms and conditions.

(cont'd)

19. CLEARANCES

	DATE
AFR/DR/EAP, SCole	3/4/82
AFR/EA, BKline	3/5/82
AFR/DP, TCornell	3/5/82
GC/AFR, TBork	3/4/82
SER/COM/ALI, WGillon	3/5/82
AFR/DR, NCohen	3/5/82
AFR/DP, JCoker	3/5/82
DAA/AFR, W. Haven North	

20. ACTION
[X] APPROVED [ ] DISAPPROVED

F S Ruddy MAR 9 1982
AUTHORIZED SIGNATURE DATE

Assistant Administrator for Africa
TITLE

CLASSIFICATION:

MAR 5 1982

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AAA/AFR/DR, John W. Koehring

SUBJECT: Somalia Commodity Import Program (649-0118)

Problem: Your approval is requested for a grant to the Government of Somalia (GSDR) in the amount of $15 million from Economic Support Funds for the FY 1982 Commodity Import Program (CIP). It is planned that the entire amount will be obligated in the current fiscal year.

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

The next two years (1978-79) were characterized by growing balance of payments difficulties, budget deficits and severe inflation. In 1980, recognizing the failure of economic policies since the revolution, the GSDR entered into a stabilization program with the IMF which involves several strict monetary and fiscal policy measures, including a GSDR commitment to phase out inefficient public enterprises. If successfully implemented, and the IMF is reportedly optimistic about results so far, it may be possible to achieve significant improvements in the Somali economy in the next few years.

The CIP grant is proposed as a short-term method of directly helping to alleviate Somalia's current balance of payment deficit, recently estimated by the GSDR at about $175 million annually.

Discussion: The CIP grant will (1) provide support for the IMF stabilization program, (2) stimulate growth of the Somali private sector, and (3) provide the country with access to a portion of the imports needed to improve economic performance.

Procurement under this grant will be restricted to commodities of Code 941 source and origin related to the agricultural and agro-industrial sectors, and to private manufacturing activities, with the specific list to be agreed upon by the GSDR and AID. Approximately 66% of the procurement will be for the public sector and 34% for the private sector.

Although $15 million will be authorized at this time in the PAAD, this amount is set by funding limitations rather than program needs. The PAAD includes an alternative program level of $20 million, with the additional $5 million to be added, if and when available, by amendments to the PAAD and Grant Agreement. The economic rationale fully supports a level of $20 million. The PAAD contains an illustrative list of commodities to be financed at both the $15 million and $20 million levels. Major items by sector include:

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

B. Private Sector - equipment for aluminum factory and oxygen plant, bulldozers, tractors and pumps.

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

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

— Adherence to the IMF stabilization program.

— Efforts to improve the efficiency of public enterprises in the agricultural and agro-industrial sectors, including progress in phasing out inefficient state enterprises.

— Reform of investment code and other policy actions to encourage foreign and domestic private investment.

— Economic incentives to encourage the retention of skilled personnel in agriculture and related industries.

— Policy reforms to stimulate private savings.

— Steps to ensure the proper functioning of the foreign exchange allocation and import licensing systems.

— Efforts by the GSDR to pursue with the World Bank the formation of a Consultative Group for Somalia under IBRD auspices to stimulate and coordinate future donor assistance to Somalia. (This covenant was added as a result of the ECPR meeting on this CIP grant.)

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

Commodities provided to the private sector will be financed by normal commercial banking procedures. Counterpart funds generated by these sales will be deposited into a special account(s) and used for development purposes, as illustrated above. Disbursement of the grant will be within a 24 month period from the grant agreement date and will be through standard AID Letter of Commitment/Letter of Credit procedures. The Project Committee is satisfied that implementation arrangements

outlined in the PAAD are fully adequate, and no special problems are perceived in the disbursement of the grant.

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

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

This activity was included in the FY 1982 Congressional Presentation (Africa Annex, page 211) in the amount of $15 million. No further notification to the Hill is required.

Recommendation: That you sign the attached PAAD, thereby authorizing the proposed CIP grant to Somalia in the amount of $15 million.

Clearances:
AFR/DR/EAP, SCole
AFR/EA, BKline 3/5/82
GC/AFR, TBork
AFR/DP, TCornell 3/5/82
SER/COM/ALI, WGil
AFR/DR, NCohen
AFR/DP, ICoker 3/5/82

/s/ W. Haven North

Drafted:AFR/DR/EAP, MGilbert:dph:2/24/82

6

Addendum

As a result of the Africa Bureau's meeting of the Economic Committee for Project Review (ECPR) on January 12, 1982, the following additional points are incorporated in this PAAD and will be included in the Grant Agreement.

Add to Section I.C., Terms and Conditions (page 4): — Take steps to pursue with the World Bank the establishment of a Consultative Group for Somalia under World Bank auspices.

Add to Section VIII. A. Administrative Entities (page 31): 3. Evaluation - Within a 6-9 month period after execution of the Grant Agreement, an evaluation mission comprising representatives of the GSDR, USAID/Somalia and REDSO/EA (Nairobi) will (1) assess progress in compliance with covenants under this CIP and (2) verify arrangements and procedures established to implement the CIP and programs generated by local currency proceeds.

TABLE OF CONTENTS

		Page
I.	SUMMARY AND RECOMMENDATION	1
	A. Problem	1
	B. U.S. Response	2
	C. Terms and Conditions	3
	D. Grant Administration	4
	E. The Exchange Rate Question	4
	F. Recommendations	5
II.	POLITICAL CONSIDERATIONS	5
	A. Political and Social Overview	5
	B. U.S. - Somali Relations	6
	C. U.S. Interests and Objectives	6
	1. Peace in the Horn of Africa	6
	2. Humanitarian Assistance	6
	3. Economic Stability and Growth	6
	4. Prospects for Oil	6
III.	U.S. ECONOMIC ASSISTANCE PROGRAM	7
	A. A.I.D. Strategy	7
	B. A.I.D. Program Elements	7
	1. Development Assistance	7
	2. P.L. 480 Assistance	8
	3. Regional Projects	9
	4. Economic Support Funds (ESF)	9

		Page
IV.	OVERVIEW OF OTHER DONOR ACTIVITIES IN SOMALIA	9
V.	SURVEY OF THE SOMALI ECONOMY	11
A.	Structure and Development of the Somali Economy	11
1.	General Characteristics	11
2.	Economic Potential	12
3.	Productive Sectors	12
a.	Agriculture	12
b.	Industry	13
c.	Foreign Trade	14
B.	Economic Development 1969-1977	14
C.	Recent Trends in Economic Performance	15
1.	Recent Growth Trends	15
2.	Factors in Recent Economic Performance	15
a.	Poor Performance of the Agricultural Sector	15
b.	GSDR Development Philosophy	17
3.	Balance of Payments, Exchange Rates, Foreign Exchange Reserves and External Debt	18
a.	Balance of Payments	18
b.	Exchange Rates	18
c.	Foreign Exchange Reserves	19
d.	External Debt	20
4.	Central Government Budget	20
5.	Money, Credit and Prices	21

Page

6. Economic Planning 22

a. Implementation of the Three Year Plan 22

b. The New Five Year Plan and Its Priorities 23

VI. THE PROPOSED GRANT AND ITS RATIONALE 25

A. The Proposed Grant 25

B. The Grant Rationale 25

1. Support for Policy Reform 25

2. Support for the Private Sector 27

3. Support for Economic Growth 27

VII. MARKET ANALYSIS 29

A. Import Community 29

1. Private Sector 29

2. Public Sector 29

B. Import Statistics 29

VIII. GRANT ADMINISTRATION AND IMPLEMENTATION 31

A. Administrative Entities 31

1. GSDR 31

2. A.I.D. 31

B. A.I.D. Import Procedures 31

1. Procurement and Financing Procedures 31

2. Commodities to be Financed 31

3. Procurement Restrictions/Limitations 32

C. Disbursement Period 32

D. Port Clearance and Inland Transportation 32

E. Arrival Accounting and End-Use Monitoring 32

		Page
F.	Commodity Import Procedures	33
	1. Licensing System	33
	2. Import Controls	33
G.	GSDR Allocation and Control of CIP Funds	33
H.	Implementation Schedule and Pipeline Analysis	34
	1. Implementation Schedule	34
	2. Pipeline Analysis	34
IX.	OTHER CONSIDERATIONS	34
A.	Impact on U.S. Balance of Payments	34
B.	Counterpart Generation	34
C.	Internal Financial Effects	35
D.	Use of U.S. Government Excess Property	35
E.	Relationship to Overseas Private Investment Corporation (OPIC) and U.S. Export-Import Bank Activities	35
F.	Use of Procurement Consultant	35

LIST OF ANNEXES

ANNEX I Statistical Tables
ANNEX II Statutory Checklist
ANNEX III Request for Assistance
ANNEX IV Initial Environmental Examination
ANNEX V Illustrative List of Commodities to be Financed
ANNEX VI Draft Grant Agreement
ANNEX VII Assistance to the Sugar Industry
ANNEX VIII Letter to the Minister of Industries

Bibliography

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SOMALIA: COMMODITY IMPORT GRANT

I. SUMMARY AND RECOMMENDATION

A. Problem

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

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

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

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

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

— Abolition of the franco-valuta system1/ and the establishment of a two-tier exchange rate.

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

— The imposition of quantitative restrictions on government borrowing.

— A commitment to contain government expenditures and to improve tax collections.

— A commitment to raise interest rates to more realistic levels.

— A commitment to review agricultural producer prices as circumstances warrant.

— A commitment to phase out unprofitable and inefficient public enterprises.

These policy measures stand in sharp contrast to the policies and strategy of the past. If fully implemented, they could lead to further economic reform and a turn-around in Somalia's economic performance.

The GSDR is already moving on its commitments with respect to interest rates, producer prices and public enterprises. Lending and borrowing rates were recently raised by up to 50 percent. Producer prices paid by the Agricultural Development Corporation for staple commodities were raised by up to 67 percent and the price paid to banana producers was doubled. The public enterprises dealing with the importation of construction materials, kitchen utensils and textiles have been abolished and their functions turned over to the private sector. There is also evidence that they are tightening up on tax collections.

B. U.S. Response

In consideration of the problems of the Somali economy outlined above, the GSDR response thereto, and the objectives of U.S. economic assistance to Somalia, A.I.D. proposes to grant the Government of the Somali Democratic Republic $15 million from the Economic Support Fund in Fiscal Year 1982. This grant will be utilized through a Commodity Import Program (CIP) to provide short-term balance of payments relief through the financing of imports critical to the productivity of the Somalia economy. The rationale for this CIP rests on three key points.

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

Second, the CIP will provide direct support for a renewed emphasis upon the private sector. We will reserve a portion of the CIP to finance private investment projects already submitted to and approved by the Somali Development Bank (SDB), but which lack a foreign exchange resource to finance required machinery and spare parts. Increasingly, the GSDR is looking to the private sector to support economic growth, a development that is fully

reflected in recent policy changes related to producer prices, more reasonable exchange rates, and the abolition of certain public enterprises. A.I.D. sees the FY 1982 CIP as an important tool for encouraging and supporting this trend.

Third, the CIP will provide general support for economic growth. Because of the inappropriate policies which eroded export performance and expanded the requirement for food imports, Somalia simply does not have access to the foreign exchange that it requires to improve its economic performance.

The CIP will generate counterpart funds which will be deposited in a special account in the Central Bank of Somalia. Their use will be jointly determined by A.I.D. and the GSDR. The majority of such funds will be utilized to support the development projects in the GSDR budget. This will provide a much needed, non-inflationary source of financing for GSDR development activities. A portion will be utilized to support the local currency costs of Kismayo Port Rehabilitation, and to strengthen the capacity of the Somali Development Bank to make credit available to the private sector particularly for agricultural investment.

C. Terms and Conditions

The Government of the Somali Democratic Republic recognizes that, in recommending this form of program assistance to make financial resources available for investment in the economy, the U.S. Government, for its part, anticipates strict adherence to the IMF stabilization exercise. Second, we have made clear in our negotiations that continued efforts to expand the market economy and encourage investment in the private sector were absolutely vital to economic growth, given the limited capability of Somali public institutions and poor performance of public enterprises during the 1970's.

The USAID Mission believes the CIP can become an important element of our multi-annual strategy in Somalia to increase production and productivity in agriculture and agro-industrial enterprises. Thus USAID/Somalia has initiated discussions with the GSDR at the Ministry of Industry level (see Annex VIII) leading to performance standards which could be included as covenants under the grant agreement. These performance standards will reflect certain objectives which A.I.D. and the GSDR agree are consistent with and necessary to achieve economic reform and a greater reliance upon market forces and the private sector. Although the specific wording of the covenants has not yet been agreed with the Ministry of Planning, the following list is illustrative of the types of covenants which could be included in the grant agreement to serve as a basis for a continuing policy dialog. Discussions with the Ministry of Planning are expected to begin shortly.

Covenants

- Adhere to the IMF stabilization program to reduce government expanditures and borrowing, establish more realistic exchange rates, and align prices and interest rates to realistic market rates.
- Review the management of public enterprises in the agriculture and agro-industrial sector in order to determine ways to improve efficiency in operations, and investment policy decisions.
- Where indicated by such reviews and where considered necessary to achieve development objectives, make progress towards phasing out inefficient public enterprises with first priority on the agriculture sector which is vital to economic growth.

— Undertake initial steps toward investment code reform and other policy measures in order to encourage foreign and domestic private investment in developing the economy, particularly in agriculture.

— Increase emphasis on management and technical training programs and establish economic incentives to encourage retention of technically qualified personnel in agriculture and related industries.

— Undertake a review of government policy reforms necessary to encourage increased private savings and investment.

— Take necessary steps to assure that its foreign exchange allocation and import licensing systems work efficiently and permit private importers, including small value importers, to participate fully in this program.

D. Grant Administration

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

E. The Exchange Rate Question

The IMF has, over the short term, sanctioned a two-tier exchange rate for Somalia. Under this system (see section on exchange rates) certain essential imports may be brought in under a preferential exchange rate (presently approximately SoSh 6.2 per $1). The rationale behind this preference was to reduce the impact of devaluation on the lower income groups (food and medicines) and to subsidize certain types of investment deemed critical to the economy (chemicals, raw materials, spare parts and agricultural inputs). The GSDR is committed to move to a single higher rate at some point in the future. Consultations with the IMF are scheduled for this month, so it is possible that the issue may be resolved before the implementation of the CIP begins.

If the two-tier system is applied to imports under the CIP, counterpart will be generated at two different rates. USAID/Somalia believes that so long as the dual rate system is official GSDR policy and law, and so long as the IMF sanctions the system and it is consistently applied to all donors and all imports of a given class, A.I.D. should consider each applicable rate to be the "highest rate that is not unlawful" and therefore consistent with the bilateral and CIP provisions on exchange rates.

F. Recommendations

USAID/Somalia recommends that a fifteen million dollar ($15,000,000) grant be authorized to the Government of the Somali Democratic Republic for financing the importation of selected commodities and commodity related services primarily to strengthen agricultural production and productivity.[1/]

II. POLITICAL CONSIDERATIONS

A. Political and Social Overview

Somalia became an independent country in 1960 when the former British Somaliland Protectorate and the UN Trust Territory of Somalia (administered by Italy) were joined together to become the Somali Republic. In 1969, military officers seized control of the government.

The new government decreed that henceforth the country would be known as the Somali Democratic Republic, closed the National Assembly, declared political parties to be illegal, vested legislative and executive power in a 24 member Supreme Revolutionary Council (SRC) which was composed of army and police officers, and hoped to bring ethnic Somalis in Ethiopia, Kenya and Djibouti into association with the GSDR under one flag.

The only legal political party, the Somali Revolutionary socialist Party (SRSP), was established in 1976, and in 1979 the current constitution was put into effect. National Assembly elections were held in December of 1979, but real authority remains in the hands of the President and a few close associates.

Operating under what the GSDR has described as a policy of "scientific socialism", the government, at its inception, began strengthening its ties with the Soviet Union and the military assistance relationship between the two countries expanded. A Treaty of Friendship and Cooperation between Somalia and the Soviet Union was concluded in 1974.

Ethnic Somalis reside beyond Somalia's borders in Ethiopia, Kenya and Djibouti. Tensions with Ethiopia began increasing in the mid-1970's when Somalia, which does not recognize the 1963 internatinal boundary endorsed by the Organization of African Unity, set out to redeem the Ogaden area of Ethiopia. Government backed insurgencies, which had occurred in the mid-1960's commenced anew in late 1975, and in July of 1977 Somalia's regular army invaded and occupied most of the Ogaden. Subsequently the Soviet Union embargoed shipments of arms to Somalia, and in November of 1977, President Siad abrogated the Friendship Agreement. The Soviets then switched their full support to Ethiopia, supplying arms and Cuban troops. It was enough to turn the tide, and in March of 1978, Somali troops were forced to withdraw.

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

B. U.S. - Somali Relations

Following the withdrawal of Somali troops from the Ogaden, President Siad Barre looked to the West for military equipment and economic aid, and U.S. - Somali bilateral relations began to improve. Substantial U.S. economic assistance programs were initiated. In August, 1980, a U.S. - Somali agreement authorized the United States armed forces to use facilities at the air and sea ports of Berbera and Mogadishu. For its part the United States agreed to provide Somalia with significant economic aid as well as foreign military sales credits. In May of 1981 President Siad privately visited the United States and met with Secretary of State Haig.

C. U.S. Interests and Objectives

1. Peace in the Horn of Africa

A negotiated settlement of the Somali-Ethiopian Ogaden conflict and regional stability are major U.S. foreign policy objectives. Withdrawal of all regular Somali forces from the Ogaden was a Congressional condition for proceeding with Somalia's military assistance program, and Somali officials have stated that they will not send troops back into the Ogaden. However, no discussions aimed at obtaining a negotiated settlement have yet been initiated.

Relations between Kenya and Somalia have warmed recently, and reciprocal ministerial level visits have begun.

2. Humanitarian Assistance

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

3. Economic Stability and Growth

The development potential of the Somali economy has not been realized to date due to external factors and recognized weaknesses in the past management of the economy. The GSDR is currently seeking to resolve its economic difficulties and to move toward self-sustaining economic growth. Somali success in this effort constitutes an important U.S. objective in both a political and economic sense.

4. Prospects for Oil

U.S. and foreign firms are exploring for commercial oil deposits in Somalia. Although there have not yet been any wet holes, geological formations provide encouragement. Significant oil finds would provide relief for Somalia's foreign exchange problems.

III. U.S. ECONOMIC ASSISTANCE PROGRAM

A. A.I.D. Strategy

A.I.D.'s economic assistance program in Somalia focuses on the agricultural sector. This concentration on agriculture is appropriate in that the sector both provides a livelihood for 80 percent of the population (the vast majority of whom are extremely poor), and constitutes the economic base upon which Somalia's future development depends. The 1984 CDSS now in draft clearly identifies the poor performance of this sector as the key contributing factor in Somalia's current economic difficulties, and as the highest priority which must be addressed to facilitate improved economic growth and well being in the future.

The CDSS identifies several key constraints to the improved performance of the agricultural sector. These are:

- A shortage of budgetary and foreign exchange resources with which to support development;
- Inadequate information and data on which to base policies to achieve increased productivity;
- An insufficient human resource base to support increased agricultural productivity;
- An imbalance between population, animals and the rangeland resource base;
- Inadequate infrastructure, inputs and services; and
- Inappropriate government policies with respect to the sector in particular and the economy in general.

B. A.I.D. Program Elements

The present A.I.D. program for Somalia consists of the following four major assistance categories, including the proposed commodity import program.

1. Development Assistance

A.I.D. resumed its bilateral assistance program to Somalia in FY 1978 with an obligation of $3.2 million for an agricultural extension and training project. Development assistance obligations increased to $10

million in FY 1979, with the start of five new projects, three in the agriculture and livestock sectors, one in rural health and the fifth in a drought victims settlement activity. The obligation level was $12.3 million in FY 1980, as one new project in the agriculture sector began and second year funding was provided to projects started the previous fiscal year. In FY 1981, $12.6 million was obligated all for incremental funding of previous years' projects. The life-of-project United States Government contribution to the seven development assistance projects started through FY 1981 totals $69,266,000.

U.S. assistance in the agriculture sector focuses on strengthening the institutional capacity of GSDR entities to carry out appropriate agriculture and livestock research activities, and to implement land and water resources management programs with the objective of attaining increased food self-sufficiency and its corollary benefit of improving the income of small-scale farmers. Three of USAID's agriculture projects are also co-financed by the World Bank, as well as having other donor inputs.

In the health sector, AID projects are designed to diversify the availability of health services to rural and nomadic populations in the field of preventive and curative medicine. Improving rural access to health care is to be achieved through the development of a comprehensive community based health delivery system. Community based systems also are intended to provide potable water for rural families.

No new development assistance projects are planned for FY 1982 funding, but two new activities presently in the preliminary design stage are being proposed for FY 1983. One of these projects, in the agricultural sector, is intended to strengthen the institutional capability of the Ministry of Livestock to combat livestock losses brought on by animal diseases. The second project is intended to address Somalia's mid-level trained manpower shortage through providing academic training in the U.S. to various GSDR ministerial staffs in such fields as economics, statistics, project design and rural development administration. It is expected that the combined life-of-project commitments to these two new projects will be in the 17 to 18 million dollar range.

2. <u>P.L. 480 Assistance</u>

P.L. 480 assistance to Somalia was resumed in FY 1978 along with development assistance and continues through FY 1982. Title I food assistance through FY 1981 aggregated to a value of $50.5 million, with the food being used to partially offset food shortfalls affecting both the urban and rural populations. Title II food assistance has been provided since FY 1978 to meet the emergency food needs of over a million refugees who have fled from the periodic conflicts in the Ogaden area. Title II refugee and food-for-work assistance since FY 1978, directly through A.I.D. or through U.S. contributions to the World Food Programme (WFP), total $55 million, exclusive of freight costs.

In FY 1982, Title I assistance, programmed at $15 million, will be used for the purchase of wheat flour, edible oil and rice. Though the level of Title II refugee assistance for the year is not definitely known, as it is dependent on the outcome of the refugee census, it is estimated it will have a value of between $10 to $20 million.

3. Regional Projects

Somalia benefits from several centrally funded or regional projects providing assistance in:

— Manpower training.

— Family health.

— Poultry development.

— Expanded program of immunization.

— Artificial insemination.

4. Economic Support Funds (ESF)

Fifteen million U.S. dollars in ESF funding will be provided in FY 1982 under the Commodity Import Program proposed herein. It will make foreign exchange available to support increased agricultural production, provide a source of support for the country's domestic budget and support policy reforms directed towards an enhanced role for the private sector and market forces.

In FY 1980, Economic Support Funds were used for a Grain Transport Grant of $5 million to pay the transportation costs of Title I commodities shipped that year. The GSDR, due to a severe foreign exchange shortage, was unable to pay for the shipment of commodities.

In FY 1982, ESF dollar funding also will be requested to finance a portion of the rehabilitation of port facilities at Kismayo. Kismayo Port is the only one serving the southern part of the country, a major agricultural area in Somalia.

IV. OVERVIEW OF OTHER DONOR ACTIVITIES IN SOMALIA

Somalia has attracted the interest of a wide variety of donors. In 1980, counting the "UN family" as one entity, Somalia received technical assistance from some 15 multinational and bilateral donors. Some 21 donors (multilateral and bilateral) provided capital and commodity assistance in the same year. A number of donors were also actively providing food aid in 1980.

The UN family, the Federal Republic of Germany, Italy and the United States were the major providers of technical assistance concentrating upon agriculture, education, industry and health.

As is indicated in Table I, Somalia received technical assistance commitments totaling $121 million in 1980. Assuming that one third of these commitments were disbursed in that year, the actual inflow amounted to $40 million.

The World Bank/IDA and various Arab donors lead in the provision of capital and commodity assistance related to agriculture, infrastructure, agro-industries and petroleum supply. Table II indicates that, in 1980, Somalia had multiyear commitments amounting to $962 million. Assuming that one-fifth were disbursed in 1980 this would have resulted in an inflow of $192 million. Much of this, of course, would have been earmarked for specific activities. Only a small number of donors, in addition to the IMF, have offered commodity assistance or balance of payments support. These include OPEC, the Islamic Development Bank, the Arab Monetary Fund, West Germany and Iraq. Both the number of such donors and the level of support provided is expected to grow as the stabilization exercise gains momentum.

V. SURVEY OF THE SOMALI ECONOMY

A. Structure and Development of the Somali Economy

1. General Characteristics

Somalia is located on the Horn of Africa between the latitudes 11 degrees 30' N and 1 degree 30' S. The length of its coastline is 3,000 kilometers and its area is 63.8 million hectares. The country supports an indigenous population of about 4.2 million of whom 60 percent are nomads, 20 percent are settled rural dwellers and 20 percent are urban. In addition, Somalia has a huge refugee population with some 650,000 (mostly women and children) living in camps and an estimated 300,000 - 700,000 living with kinsmen or in the countryside.

The Somali economy is dominated by the agricultural sector. While reliable statistics are difficult to come by, it is estimated that the agriculture sector generates 60 percent of Gross Domestic Product (GDP) and employs 80 percent of the labor force. Manufacturing, mining, construction and public utilities account for 10 percent of GDP and 7 percent of the labor force, while services (mostly governmental) account for 30 percent of GDP and 13 percent of the labor force.

Somalia clearly lacks the development potential of many other countries of Africa such as Sudan, Nigeria, Mozambique and Zaire. At the same time, the country is not without its assets and advantages. It has large areas of land which have yet to be brought under cultivation and a fisheries potential that is virtually unexploited. It also has a homogenous ethnic population and a favorable location in relation to affluent Middle Eastern markets (with which it has close cultural and commercial ties). Though not abundantly endowed with resources, Somalia has the potential to provide its population with a standard of living much higher than that which they now enjoy.

Somalia is, however, among the very poorest countries of the world. GNP per capita stood at $185 (estimated) in 1978 and has very likely stagnated or declined since that time.[1/] Life expectancy at birth is 41.4 years for males and 44.6 years for females. Infant mortality is 177 per thousand births and nutritional levels are deficient particularly among rural inhabitants and nomads. At 19, Somalia's Physical Quality of Life Index is among the lowest in the world.

1/ Based on a shadow exchange rate of SoSh 10.0 per U.S. dollar. At a more realistic exchange rate, GNP per capita would be even lower. At SoSh 18.0 per dollar for example, GNP per capita falls to $103.

2. Economic Potential

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

Some 540,000 hectares now are cultivated under rainfed conditions. With appropriate investments and the provision of improved inputs and agricultural services, the productivity of this land could be considerably increased. In addition, there are at least 500,000 hectares of land with good quality soils and in rainfall zones that could support a farming system similar to that presently practiced in cultivated areas. Significant increases in production and productivity, however, would require extensive investment in infrastructure, particularly access roads and domestic water supply. Provision would also have to be made for social services, agricultural services and agricultural inputs.

Some 160,000 hectares are presently under controlled and uncontrolled irrigation. Again, with appropriate investment in infrastructure, inputs and services, this land could be made more productive. It is estimated that the area under controlled irrigation could be expanded to 250,000 hectares.

Fisheries also have a considerable unexploited potential. The known resources of Somalia are believed capable of sustaining catches of up to 180,000 tons per year through artisanal inshore and commercial offshore fishing. This compares with a 1978 fish production of only 4,000 tons.

The productivity of the livestock sector could also be increased with additional investment and the provision of social and productive services to increase offtake rates. The livestock sector, however, is near its potential in terms of the number of individuals who earn their livelihood from it, and the number of animals it can support. Presently some 2.4 million nomads earn their livelihood from livestock, and with current population growth rates and trends in rural-urban migration, their numbers will grow to 3.4 million or more by the year 2000. Somalia's rangelands cannot absorb such increases without becoming degraded and losing their productive capacity. Accordingly, new opportunities in rainfed and irrigated agriculture and in fisheries will have to be found for the incremental nomadic population.

3. Productive Sectors

a. Agriculture (See Tables III-V)

Livestock and bananas, Somalia's most important exports, produce between 80 and 90 percent of the nation's foreign exchange earnings.

Livestock exports increased in terms of value over the period 1971 to 1980. By 1980, however, only in the case of cattle did export volumes exceed their 1972, pre-drought level. (See Table III.) Banana production and exports continued to decline in terms of volume. (See Table IV.) Production of staples (maize, rice, sorghum and beans) declined from 294.0 thousand metric tons in 1970 to 277.0 thousand metric tons in 1980. This decline was recorded in the face of an estimated population growth rate of 3.1 percent per annum. Only rice and sugar cane appear to have performed well over the last few years. (See Table V.)

b. Industry

Manufacturing, mining, construction and public utilities account for 10 percent of gross domestic product and employ 7 percent of the labor force. The composition of this sector reflects the GSDR policy of establishing import substitution industries and export industries based on livestock, fisheries and agricultural products.

The most important import substitution industries are involved in the production of textiles and sugar. An oil refinery opened in February of 1979, but was forced to close in the fall of 1980 when war broke out between Iraq and Iran. Other import substitution industries include grain processing, the manufacture of edible oil, matches, cigarettes, leather and footwear, packaging materials, aluminum utensils, pharmaceuticals, detergents and electrical fittings.

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

While there is some private ownership in the industrial sector, the bulk is publicly owned. The public enterprises have been plagued by poor management and both forms of ownership have suffered from input shortages (both domestic and imported) and excess capacity. Accordingly, overall performance of this sector has been poor in recent years.

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

As has already been noted, a portion of the CIP will be directed, with the cooperation of the Somali Development Bank, toward the revitalization of the private sector. The public sugar, cotton and foundry enterprises will also receive some limited CIP support, the cotton and sugar enterprises because of their potential as savers of foreign exchange and the foundry because of its potential as a supplier of simple agricultural inputs. USAID/Somalia is generally concerned, however, about the economic efficiency of many of Somalia's import substitution industries and will be cautious of its involvement in this area.

The refinery construction and operations were financed with Iraqi aid, and Iraq was the sole source of crude oil until the supply was interrupted by conflict with Iran.

c. Foreign Trade

Somalia's principal exports are livestock and bananas. These accounted for 79 percent and 6 percent, respectively of 1980 export earnings. Other exports include hides and skins and myrrh. Major imports (1979) include food and tobacco (19 percent) intermediate goods (27 percent) and capital goods (34 percent). Though not reflected fully in the import statistics,petroleum imports are also substantial. Currently refined imports are running at an annual rate of $120 million. Principal trading partners are Italy, Saudi Arabia, the United Kingdom, and West Germany. The United States currently plays a minor role in Somalia's foreign trade.

B. ECONOMIC DEVELOPMENT 1969 - 1977

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

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

Growth performance, however, was poor. The nationalized industries suffered from problems related to management, input supply and efficiency. Food production stagnated and banana production declined while food imports rose. The economy remained overly dependent upon an export base that was subject to climatic and external influences beyond Somali control. The rate of growth in Gross Domestic Product amounted to only about 2.5 percent per annum in real terms over the period 1972-1978, a rate below population growth. Even more

important, the growth rate amounted to only about one percent per annum in the productive sectors while services (government employment) grew at 6 to 7 percent per annum.

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

C. RECENT TRENDS IN ECONOMIC PERFORMANCE

1. Recent Growth Trends

In recent years, Somalia's economy has been characterized by rapidly increasing budget deficits, sharply rising prices and increasing balance of payments difficulties which have led to a critical loss of foreign exchange reserves and an inability to sustain a level of imports essential to development. It has already been noted that from 1972 to 1978, real growth in Gross Domestic Product was less than population growth. While no data on GDP or GNP performance are available for 1979-1982, there is little reason to expect that there has been an improvement in the growth performance of the economy over this period. On the contrary, it seems likely that growth performance weakened.

2. Factors in Recent Economic Performance

a. Poor Performance of the Agricultural Sector

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

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

It is generally agreed that a key factor is the failure of the GSDR to provide adequate price incentives to producers. In the case of food crops, the GSDR has attempted in the past to keep food prices low for the benefit of urban consumers. Accordingly, it held producer prices down and at times (through the Agricultural Development Corporation) resorted to compulsory deliveries.

The short-term production impact of such price policies is debatable. It is likely that small Somali producers are constrained in the short run by a lack of access to technology and inputs which inhibits response to price changes.

Over the longer run, however, it is clear that producer prices do have an impact. Low producer prices reduce a producer's income and thus reduce his ability to invest in the physical and human capital necessary to expand his output. It is here that the price policies of the past have had their most severe impact.

The GSDR recently raised the producer prices of food crops purchased by the Agricultural Development Corporation by up to 67 percent. Though these prices remain below world market levels at realistic exchange rates, the increases are an encouraging step, particularly in light of the fact that simultaneous with their implementation, certain restrictions on marketing were eliminated and the utilization of compulsory deliveries abolished.

In the case of bananas, producer prices were held low until 1980 in order to mobilize resources for development. This fact, coupled with shortages of inputs and reluctance of expatriate (Italian) farmers to replace or expand their investments led to a rapid decline in production and exports.

In recent months, the GSDR has indicated a strong interest in revitalizing this sector. A banana Development Unit within the National Banana Board became operational in April of 1980. This unit is seeking to improve cultivation practices and to promote the more intensive use of fertilizers, pesticides and agricultural machinery. Though the degree to which it can be attributed to the operation of this unit is unknown (as prices were also raised in 1980), it is encouraging to note that banana yields were nearly doubled in 1980. (See Table IV.) Substantial price increases were also announced in April 1981 and June 1981 with the June increase doubling the April price of SoSh 820 per metric ton.

Only in the case of livestock have prices been left to the determination of market forces. This no doubt accounts, in large measure, for the relatively superior performance of this sector vis-a-vis food crops and bananas.

Another key factor in the poor performance of the agricultural sector is Somalia's shortage of domestic budgetary resources and foreign exchange. Given its budgetary position, Somalia remains dependent upon donors to make available both foreign exchange and local currency contributions to projects, as well as technical assistance.

Likewise, the balance of payments constraint precludes the importation of items critical to increased agricultural productivity. A recent study undertaken by the Ministry of Agriculture revealed that while Somalia could productively use over 200,000 tons of fertilizer annually, only about 5,000 tons are currently imported

because of foreign exchange limitations. Other inputs such as agricultural equipment and spares, construction machinery and cement remain in short supply and are similarly affected by foreign exchange shortages.

The poor performance of the food-crop portion of the agricultural sector coupled with a rapidly increasing population has resulted in a growing food import bill. As can be seen in Table VI, non-refugee food imports have been rising rapidly in recent years. Given the poor performance of the export sector, the rising import bill for consumables further weakened the balance of payments position and reduced the capacity of the economy to afford imports critical to capital investment in agriculture. Thus, from a balance of payments - food production viewpoint, Somalia is caught in a vicious circle which must somehow be broken.

Vast distances and a sparsely distributed population also raise costs and compound the problem of agricultural development. The issue is further complicated by a weak human resource base. The population at large lacks critical skills and there is a shortage of middle level manpower to design, manage and implement agricultural development activities. Both GSDR attention and financial resources have been devoted to the massive refugee influx which has resulted from drought and border conflict with Ethiopia.[1/]

b. GSDR Development Philosophy

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

1/ Defense expenditures, while still increasing are no longer accelerating at the rapid rate of 1977-1978. In 1981 they very likely declined in real terms

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

a. Balance of Payments

Table VII summarizes Somalia's balance of payments performance over the period 1976-1980. Exports grew significantly over the period 1976-1980, in large measure a result of the continued recovery of the livestock herd from the 1974-1975 drought. Imports, however, grew at a much more rapid rate resulting in an ever increasing trade balance deficit.

A good portion of this growing import bill, however, was sustained by external grants and loans in kind. In 1980 for example imports rose to 18 percent above their 1979 level but one quarter of this larger import bill was financed by external grants and loans in kind while official cash imports fell 4 percent below their 1979 level. Indeed, the most striking feature of this balance of payments statement is that it reveals an increasing dependence upon external donors for grants (Government Transfers) and loans (Official Capital Movements).

The balance of payments position for 1981 remains uncertain at the present time. External grants, a key element in the picture, appear to be holding their 1980 level. If this is the case, the balance of payments picture could improve considerably with an overall deficit well below 1980 levels.

Statistical improvements in a country's balance of payments nonetheless need to be interpreted with caution. Somalia's overall deficit (and loss of foreign exchange reserves) declined in 1980 and may do so again in 1981 and as such the balance of payments may be said to have improved. Behind the numbers, however, will remain an economy that does not have access to sufficient foreign exchange to mount a sustained investment program in agriculture, and to support and sustain economic growth in general. A more correct description of the current situation would be to say that the balance of payments is showing a better degree of "balance", in terms of reserve losses but at a very low level of economic activity.

b. Exchange Rate

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

demand and then used the foreign currency thus obtained to finance the importation of certain commodities into Somalia.

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

As of July, 1981, the franco-valuta system was abolished although it was tolerated up until the end of October 1981. All imports entering Somalia must now be paid for with an official letter of credit.

Simultaneously, a two-tier exchange rate system was established.[1/] The first tier operates at the old official rate of SoSh 6.232 per U.S. dollar and will apply only to essential imports. These imports are food, medicines and chemicals, manufacturing raw materials and agricultural inputs, agricultural equipment and parts and spares for industrial machines. The second tier operates at a rate of SoSh 12.465 per U.S. dollar and will apply to non-essential imports invisibles, workers remittances and export earnings.

It is still too soon to assess the impact of this system upon Somalia's foreign exchange receipts. It is, however, a step in the right direction and, if inflation can be contained or exchange rates frequently adjusted, should result in a greater availability of foreign exchange resources for the Somali economy. It has been estimated that there are 70,000 Somali working abroad and that at an average wage of $10,000 per annum, they earn a total of $700 million each year. If even a fraction of these earnings could be repatriated, they could constitute a source of foreign exchange comparable to livestock exports.

1/ See Section I (E) for a discussion of proposed A.I.D. policy for handling the two-tier exchange rate system as it applies to the CIP.

c. Foreign Exchange Reserves

Somalia's gross official foreign exchange reserves now typically amount to less than one month's worth of imports, compared to nine weeks worth at the end of 1979 and eight months worth at the end of 1978. Given another drought or another massive influx of refugees, (continued next page)

the economy would be in serious straits indeed. A level of reserves equal to six months of imports would seem minimally appropriate for an economy such as Somalia's, but the prospects for a return to such levels in the immediate future are not bright.

d. External Debt

Given its poverty, Somalia has been able to borrow on long and highly concessional terms. Even with the high degree of concessionality, the country's debt service burden is expected to rise from 3.7 percent of export earnings in 1979 to 13.8 percent in 1981 as a result of limited export earnings and the expiration of grace periods.

4. Central Government Budget

Table VIII summarizes the position of the central government budget over the period 1976 to 1981. As the table indicates, Somalia's overall budgetary deficit rose each year over the period 1976 to 1979. By 1979, even the small surpluses on the ordinary budget of earlier years had become a deficit as well. Total revenue performance over this period was impressive, however, rising at an average rate of 31.5 percent each year.

In 1976 and 1977, however, a good portion of the overall deficit was financed by external sources (to such a degree that in 1977 the GSDR was a net creditor to the banking system as it had been for several years prior to 1976). In 1978, however, with a rapid growth in ordinary expenditures largely related to defense outlays and a simultaneous decline in foreign financing, the GSDR was forced to the banking system to a much larger degree. By 1979 the use of bank financing amounted to 60 percent of total revenues. Needless to say, this credit dependency resulted in considerable inflationary pressure upon the Somali economy. The Mogadishu consumer price index rose by 40 percent in 1979 and by 68 percent in 1980.

In 1980, the GSDR, in concert with the IMF, attempted to improve Somalia's budgetary position. While total revenues declined by 6.9 percent mainly as a result of a decline in import duties, total expenditures rose by only 1.8 percent. This resulted from an austere expenditure policy which reduced ordinary non-salary expenditures by 5 percent at mid-year and from continued restraints on government wages and salaries. Development expenditures were also reduced as a part of the containment policy. The overall 1980 deficit, while somewhat above its 1979 level, was less inflationary as an increase in external financing permitted a reduction in bank borrowing.

Total revenues are projected to increase significantly in 1981 as a result of the impact of the devaluation upon import duties, the imposition of a 25 percent ad valorem tax on livestock exports, increased tax revenues from sugar and improved tax administration and enforcement.[1/]

1/ As a result of protests from livestock exporters, the GSDR may reduce the base to which this tax is to be applied. The impact of this on revenue is not known

The projected increase in ordinary expenditure for 1981 results mainly from direct and indirect costs associated with devaluation, higher procurement costs related to inflation, and an average salary increase of 20 percent for civil servants.[2/] Development expenditures are also expected to increase due to an effort to reverse the real declines in development expenditure of recent years and the increased costs of imports resulting from devaluation.

The overall deficit projected will be somewhat reduced in 1981. More importantly, an increase in external financing will permit a level of bank borrowing well below the 1980 level.

Table VIII thus reveals a considerable improvement in budgetary performance over the last two years. It also reveals, as does the table dealing with the balance of payments, an economy that is highly dependent upon external donors for its continued viability and future development.

5. Money, Credit and Prices

As a result of GSDR attempts to restrict expenditure, broad money (M_2) increased by only 20 percent from 1979 to 1980 as against increases of 33 and 37 percent in 1977-1978 and 1978-1979 respectively. Given the substantial rate of inflation, liquidity in real terms declined in 1980.

The GSDR recently announced an across the board increase in the structure of interest rates. Interest rates on deposits were raised from a range of 4-7 percent to a range of 6-9 percent. The official discount rate and the rate charged on central government borrowing were both raised from 4 to 6 percent. Rates charged by the commercial bank were raised from a range of 6-12.5 percent to a range of 10.0-12.5 percent. Interest rates charged by the Somali Development Bank were doubled. Given the rate of inflation, these rates are still negative in real terms though they may become less so over time as the stabilization exercise begins to take hold.

The GSDR has attempted to channel credit into productive and export related activities. This effort, however, has been only partially successful. In 1980, agriculture (the major productive sector) received only 16 percent of all credit to private and public sector enterprises as against the 53 percent received by the trading sector.

at the present time. There is evidence, however, that the tax may have been set too high originally to allow exporters an adequate profit.

2/ The GSDR has decided to phase out the policy of serving as the employer of last resort for secondary school graduates. This should, over time, result in considerable savings. In 1981 the GSDR's wage bill, exclusive of the Ministry of Defense, is projected to amount to 21 percent of ordinary expenditures.

The Mogadishu consumer price index rose by some 68 percent in 1980 as compared to a 40 percent increase in 1979. Inflation at such rates would put severe pressure upon the two-tier exchange rate system and make the real interest rate structure increasingly negative over time. The GSDR's efforts to contain expenditures and Central Bank borrowing since 1980, however, appear to be having an impact. The price index rose by only 15 percent from January to August 1981, as against a 54 percent increase over the same period in 1980.

6. Economic Planning

a. Implementation of the Three Year Plan

The Three Year Development Plan (TYDP) for the years 1979 to 1981 focused mainly upon the completion and consolidation of projects begun during the previous Five Year Development Plan (FYDP) plus new projects considered to be of high priority. Although it provided some insights into GSDR priorities and intentions, it was more a list of problems and projects than a phased commitment of resources to meet economic and social goals. While it forecast a rate of economic growth of between 5 and 10 percent, it did not clearly relate this growth to the level and composition of investment.

In spite of its general and tentative nature, the TYDP gave priority to the productive and social sectors of the economy. Agriculture was to have received 35 percent of planned expenditure. The goal was self-sufficiency in food grains, the expansion and diversification of the export base and the reduction of agricultural imports, all of which are critical goals from the point of view of Somalia's future development.

It was clear from the outset that implementation of the plan might prove difficult. The plan was highly ambitious, projecting expenditures at over twice the actual level of the earlier FYDP. It was also highly dependent upon external sources for its financing. Donors were expected to provide some 64 percent of the plan's total cost mostly in the form of concessional grants and loans. A large amount of financing was also expected to come from a surplus in the ordinary budget, an unlikely prospect given past trends in budgetary performance.

Actual implementation of the Plan amounted to only 51 percent in 1979, the only year for which data are available. Particularly discouraging is the fact that the implementation rate for agriculture amounted to only 24 percent.

The Ministry of National Planning has cited a number of reasons for implementation problems of 1979. These are: a lack of financial resources both domestic and foreign, shortages of building

and other materials, a shortage of technical and managerial staff, and poor project preparation. Not specifically mentioned, but most certainly a very real factor, was the massive influx of refugees and the overall security situation. Given the persistence of these factors over time, the rate of implementation cannot be expected to have improved significantly in 1980 and 1981.

b. The New Five Year Plan and Its Priorities

While the new Five year Development Plan for 1982-1986 has not yet been officially published, certain preliminary information regarding it has become available. It appears that the plan will mark a significant improvement over plans of the past.

First, in contrast to previous plans, it has been formulated within the context of a macro-economic framework. Projects proposed therein will be subjected to feasibility studies and assessed against the macro-economic targets proposed by the plan. Thus, for the first time in Somalia's planning history there will be an attempt to relate the level and composition of investment to plan goals. The recurrent costs of projects will also be taken into account for the first time in assessing project feasibility.

The Five Year Plan projects a growth rate in Gross Domestic Product (at factor cost) of 4.4 percent per annum. Household consumption is also projected to increase by 4.4 percent per annum. With the 3.1 percent population growth rate assumed in the plan, this would allow for some improvement in economic welfare.

The plan is less ambitious than its predecessor. Total investment is expected to amount to SoSh 16,299 million over the plan period (in constant 1980 prices). When one compares this projection with what would have resulted from actual 1979 TYDP expenditures over a five year period after adjusting for inflation (SoSh 11,495 million), and allowing for devaluation and its impact on shilling costs, the level of projected expenditures seems realistic.

The Five Year Development Plan places a greater emphasis upon the productive sectors than did the TYDP. Agriculture is to receive 50 percent of planned expenditures as opposed to 35 percent under the TYDP, (a share which would have been even larger had the two-tier exchange rate not been used in the calculations). Clearly the plan recognizes the importance of the agricultural sector as an exporter, a producer of food which is now imported, and as a source of employment for future entrants to the labor force. Only 5.9 percent of total plan resources are to be devoted to the social sectors as against 12 percent in the TYDP (a share which would have been even smaller had a two-tier rate not been used in the calculations)

Particularly encouraging is the emphasis given to the private sector. This sector is expected to contribute 16 percent of the domestic funding for the plan over the period of its implementation. A considerable emphasis is given to providing it with appropriate opportunities and incentives through better exchange rates, higher prices and access to intermediate and capital goods.

VI. THE PROPOSED GRANT AND ITS RATIONALE

A. The Proposed Grant

In consideration of the problems of the Somali economy outlined above, and the objectives of the U.S. economic assistance program to Somalia, AID proposes to grant the Government of the Somali Democratic Republic $15,000,000 from the Economic Support Fund in Fiscal Year 1982. This grant will be utilized through a Commodity Import Program (CIP) to provide short-term balance of payments relief through the financing of imports critical to the productivity of the Somali economy.

B. Grant Rationale

1. Support for Policy Reform

In 1978 and 1979, trends in food production, export performance and food imports converged with several external factors to produce an economic crisis of severe proportions. So severe was this crisis that it was evident that, unless it could be reversed, Somalia would be caught up in a downward spiral of falling living standards and ever increasing dependence upon the international community.

Faced with this reality in 1980, the GSDR, in concert with the IMF, took the initial steps necessary to begin to deal with the crisis. This was an important development because it marked the first time that the Revolutionary Government had taken a pragmatic look at the country's economic problems and the politically difficult steps necessary to deal with them.

The principal objectives of the 1980 stabilization program were to reduce inflationary pressures and to improve the balance of payments/foreign exchange reserve position by restricting government expenditure and borrowing. Quantitative performance criteria were established for the net domestic assets of the Central Bank, net credit to Government, and external borrowing with maturities of 1 to 12 years. Agricultural prices were also increased in an effort to increase agricultural productivity.

While the quantitative targets of this exercise were exceeded, the exercise did have an impact. As has been noted in earlier sections of this paper, government expenditure rose by only 1.8 percent in 1980. As a result, inflationary pressures moderated considerably over the first eight months of 1981.

In 1981 the GSDR, again in concert with the IMF, embarked upon an even more ambitious stabilization exercise. The key components of this exercise were:

- The abolition of the franco-valuta system and the establishment of a two tier exchange rate (with a commitment to move to a single exchange rate in the future).

- The imposition of quantitative performance criteria for:

  — Net domestic credit.
  — Net credit to government.
  — External payments arrears.
  — Medium term debt.
  — Losses from the two tier exchange rate system.

- A commitment to improve tax administration and collection with new revenue measures to be added over time. (A 25 percent ad-valorem tax was also to be imposed on livestock exports though as noted earlier this tax may be reduced somewhat).

- A commitment to contain government expenditures, including a phaseout of the policy of providing government employment to all secondary school graduates.

- A commitment to raise interest rates to more realistic levels.

- A commitment to review agricultural producer prices as circumstance warrants, and to eliminate certain marketing controls.

- A commitment to phaseout unprofitable and inefficient public enterprises unless social welfare aspects justify their continued operation.

In return, the IMF agreed to make available to Somalia, Special Drawing Rights 43.13 million in tranches over the period July 1981 to July 1982. The first review of Somalia's implementation of this stabilization program will take place by December 31, 1981.

The stabilization agreement represents considerable progress away from the policies and strategy followed in the past. Properly supported by the external donors, it could lead to further economic reform and a real turn-around in Somalia's economic performance.

The Commodity Import Program proposed herein would provide substantive U.S. support for these policy reforms. In the first instance, it will supplement the foreign exchange resources provided by the IMF to "bridge the gap" until the new policy measures have time to take full effect. Secondly, by focusing upon key inputs necessary to expand food production and agricultural exports, it will contribute to a rather immediate capital investment program in key agriculture related industries.

2. Support for the Private Sector

The GSDR, as has already been noted, has realized that heavy state involvement in the Somali economy, both in terms of controls and direct production, has not led to either overall economic growth or an improvement in the standard of living. The GSDR is looking increasingly to the private sector to play a more active role. This emphasis is fully reflected in the previously discussed policy developments related to increased agricultural prices, more reasonable exchange rates, and the abolition of certain public enterprises.

USAID/Somalia sees the FY 1982 CIP as an important tool for encouraging and supporting this trend. It will be accomplished through the inclusion of covenants in the grant agreement related to an expansion of the role of the private sector in the Somali economy. It will also be accomplished by the reservation of $3.9million to meet the needs of Somali entrepreneurs (identified by the Somali Development Bank) whose otherwise viable investment proposals would fail in implementation for lack of foreign exchange. The investments supported will be in the areas of agriculture, agro-industries and manufacturing.

In addition to the commodities programmed through the Somali Development Bank, other resources of the CIP will also benefit large numbers of small farmers who do not currently have access to fertilizer. The private sector will also benefit from the rehabilitation of irrigation schemes.

In addition to the foreign exchange provided, the private sector will also benefit from the use of the local currency counterpart. A portion of this will be utilized to increase the ability of the Somali Development Bank and other domestic banking institutions to make domestic credit available to private agriculturalists.

3. Support for Economic Growth

It is clear that Somalia, through its own resources, does not have access to the foreign exchange necessary to improve its economic performance. This is reflected in the large amount of external financing that is postulated in the new Five Year Plan[1/] in the current balance of payments crisis, and in the shortages of critical commodities currently visible in the economy. The Commodity Import Program will play a significant role in meeting the needs of the economy for critical growth related inputs.

Key to improving Somalia's overall economic performance is an expansion of domestic food production and an improved performance on the part of Somalia's agricultural exports. Accordingly, the commodities chosen for financing under this CIP (See Appendix on commodities to be financed) have been selected with such an impact in mind.

An adequate supply and distribution of fertilizers, for example, would allow for an immediate increase in food crop yields. While

1/ Estimated at 80 percent of total planned investment.

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this has been documented by in-country research results, insufficient foreign exchange has prevented the importation and distribution of fertilizer in any where near the requisite quantities.

Somalia's shortage of foreign exchange resources has prevented the importation of sufficient capital goods to keep existing irrigation schemes in good repair and at maximum productivity. Barrages have deteriorated, canals have become clogged and water control devices have broken down. Making foreign exchange available to assist in the rehabilitation of such schemes could have a considerable impact on production and economic growth.

Investment by the private sector has also been constrained by the shortage of foreign exchange. While the Somali Development Bank (SDB) can identify otherwise viable potential investments by the private sector in agriculture, agro-industries and manufacturing which would create both output and employment, their implementation is precluded by an absence of sufficient foreign exchange. For example, demand for credit from SDB by the private sector has increased rapidly during CY 1981, with the number of outstanding, approved loan applications having increased ten fold. These projects cannot be implemented because of foreign exchange shortage. Providing foreign exchange to meet such investment needs could have a considerable impact upon Somalia's economic growth, and regenerate the long stagnant private sector in critical industries.

VII. MARKET ANALYSIS

A. Import Community

1. Private Sector

Approximately 5,[illegible]0 private importers and exporters are registered by the Chamber of Commerce. Capital requirements to qualify as a licensed importer and exporter are large amounting to the equivalent of $40,000 of which 3/5 must be in real property and 2/5 in cash.

A large segment of the private (non-trading) sector is made up of relatively small firms and individuals. Because of their small size, they cannot meet the capital requirements for an import license as these small entrepreneurs usually have cash/capital of less than $40,000. In order to allow this large segment of the private sector to participate and benefit from the grant, these private importers will combine their import requirements with a licensed private importer. This method will allow them to participate and slowly increase their working capital and equipment. Within a few years, individuals within this group should be able to qualify for an import license under their own name. Accordingly, $3.9million of the grant will be made available to private sector individual firms identified by the Somali Development Bank.

2. Public Sector

The public sector consists of the central government and local government at the regional, district and municipal levels. There are also numerous public enterprises, with majority government participation. These are involved in manufacturing of various types, agriculture/agro-industry and public utilities. In the public sector, there is not an import licensing problem; however, public agencies and enterprises must apply for foreign exchange allocations. Public enterprise imports must be reviewed and approved by the National Purchasing Agency. We do not foresee, therefore, any obstacles to procurement under the CIP by public sector entities.

B. Import Statistics

Import statistics by major commodity categories (plus a more detailed breakdown) are provided in Table XI of Annex I, for the years 1973-1979. The Table also provides data on imports from the U.S. in 1979. Clearly evident is the fact that in the past, the U.S. has not been a significant commercial supplier.

Worldwide, major imports in 1979 included food and tobacco (19 percent), intermediate goods (27 percent) and capital goods (34 percent). The data of Table XI is deficient however in that it does not reflect refined oil imports currently running at about

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$120 million per year. They also do not reflect franco-valuta imports which played a significant role in the past in supplying the consumer goods sector. The operation of the franco-valuta system and recent exchange rate developments have already been discussed in an earlier portion of the paper.

VIII. GRANT ADMINISTRATION AND IMPLEMENTATION

A. Administrative Entities

1. GSDR

The administrative responsibility for the grant, which will include preparation of all reports as well as assuring compliance with all A.I.D. requirements, will rest with the Ministry of Planning. However, the Ministry of Finance, in cooperation with the Central Bank will control the disbursement of funds through the issuance of a Financing Request to A.I.D. The Ministry of Planning will be responsible for coordinating the issuance of a Financing Request by the Ministry of Finance.

2. A.I.D.

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

B. A.I.D. Import Procedures

1. Procurement and Financing Procedures

A.I.D.'s Standard Commodity Financing Procedures, as set forth in A.I.D. Regulation 1, will be followed for this grant. All procurement will be carried out under formal competitive procedures, except in certain cases where negotiated procurement will be more appropriate and justifiable.

2. Commodities to be Financed

Although all commodities in the A.I.D. Commodity Eligibility Listing (1981 as revised) are acceptable for A.I.D. financing, utilization of the resources made available under this grant will be more restricted. Specifically, procurement under the grant will be restricted to commodities related to the agricultural and agro-industrial sectors, and to private manufacturing activities identified by the Somali Development Bank. It is anticipated that the grant funds will be used primarily for the procurement of fertilizers, agricultural and manufacturing equipment, machinery and spare parts, transport equipment, and construction materials for irrigation rehabilitation. See Annex V for detailed list.

3. Procurement Restrictions/Limitations

This grant will be restricted to Code 941 source and origin for commodities and related incidental services. Local agents are not required by Somali regulation. Thus, there is no conflict with A.I.D. Regulation 1 requirements that U.S. suppliers may sell direct to importers. All provisions of A.I.D. Regulation 1 regarding commodity eligibility review, price eligibility, and both prior review and post audit will apply to all transactions.

C. Disbursement Period

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

The method of disbursement will be through A.I.D.'s standard Letter of Commitment/Letter of Credit procedures. Direct A.I.D. Letter of Commitment to suppliers will be used for the procurement of fertilizers and/or other selected commodities. The approved applicant for the Letter of Commitment will be the Central Bank of Somalia, which is wholly owned by the GSDR.

D. Port Clearance and Inland Transportation

Due to the heavy influx of refugees from the Ogaden, Somalia's main ports, Mogadishu and Berbera are often crowded. In addition, available in-country transport is periodically committed to foodstuffs arriving for the refugee population. This problem has been a factor in compounding the normal problems in port clearance and availability of vehicles to move the usual commercial goods from the port. To further exacerbate transportation, over the past year there was limited availability of diesel fuel and petrol in country. The fuel problem limited the use of mobile cranes and trucks to move goods around and out of the port areas. Even with these problems, ocean vessels have normally been able to obtain berthing space for off-loading within a few days after their arrival, and the off-loaded goods clear the port areas within a few weeks.

The standard A.I.D. 90 day port clearance and the 12 month utilization period requirement will apply. There will be continuous follow-up by USAID and the host government with the buyers to assure compliance with these requirements.

E. Arrival Accounting and End-Use Monitoring

Since 1974, the Somalia Shipping Agency has been appointed by the GSDR to handle the monitoring and accounting of all imported goods. It is the agency's responsibility to notify the public and private importers when their goods arrive, as well as provide notification as to quantities and types of goods. After the importers have been notified, it is their responsibility to arrange for clearances and movement of goods out of the port. Public

sector importers normally have their own vehicles and manpower to expedite their goods. The private importers use either their own resources or hire a freight forwarder to clear and move the goods.

F. Commodity Import Procedures

1. Licensing System

At present, all private and publicly owned industries in Somalia are subject to import license control; whereas, the government Ministries are not. Applications by public corporations and government agencies are reviewed for technical (price, quantity) adequacy by the National Purchasing Agency. Import licenses can be obtained by any private corporation or individual if they can meet GSDR requirements for licensing as an importer/exporter. To obtain an import/export license, private importers must have total assets valued at SoSh 500,000 minimum composed of at least SoSh 300,000 in real property and SoSh 200,000 in cash. They submit documentation to the Inland Revenue and Financial Investigators. After receipt of approval as an importer/exporter the private or public importer can apply to the Director of Licensing and Hard Currency Control, Ministry of Commerce, for approval of the requested imports. This application is reviewed for technical (price, quantity) accuracy, and if everything is in order, approved.

2. Import Controls

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

G. GSDR Allocation and Control of CIP Funds

The Ministry of National Planning will specify dollar amounts to individual government units. A single dollar amount will be specified for private sector use through the Somali Development Bank. The Ministry of Finance and the Central Bank of Somalia will control A.I.D. foreign exchange accounts. Goods financed under the CIP will be licensed in accordance with usual GSDR procedures and requirements.

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

H. Implementation Schedule and Pipeline Analysis

1. Implementation Schedule

February, 1982	Agreement Signed
May, 1982	Conditions Precedent Met
August, 1982	First Letter of Commitment Issued
September, 1982	First Shipments Made (Port of Exit)
August, 1983	Grant Fully Committed
January, 1984	Probable Final Shipments
February, 1984	Probable Final Disbursement

2. Pipeline Analysis

Presented below is a tentative commitment/disbursement schedule.

	Jun 82	Sept 82	Dec 82	Aug 83	Jun 83	Sept 83	Dec 83	Feb 84
Commitments	5	15	18	20				
Disbursements	1	5	10	12	15	18	19	20

IX. OTHER CONSIDERATIONS

A. Impact on U.S. Balance of Payments

The short-run impact of this grant on the U.S. Balance of Payments position will be minimal, and depends on the source of commodities imported. Fertilizer and construction materials (cement and rebar) probably will be Code 941 source from nearby East Africa. Virtually all machinery, heavy equipment and spare parts imports will be U.S. source and origin. In the long run, the CIP may assist U.S. exporters to establish market positions in Somalia.

B. Counterpart Generation

The Somalia shillings counterpart generated by private and public imports will accrue to the GSDR for allocation to development activities in the GSDR budget related to increased food production, improvement of human resource base, and agricultural research and extension. Programs to achieve better distribution of production inputs (fertilizers, seed, farm implements and machinery) will be stressed. Rehabilitation of existing irrigation systems as well as opening up new lands to production will be eligible for counterpart financing. In the latter case, new agricultural

development projects which assist in bringing the refugee population into productive employment will receive special consideration. Local currency generations also will be programmed to encourage movement toward a more open, market-oriented economy. We already have discussed with GSDR the possibility of reserving some counterpart for agricultural credit to private farms. We will also explore the potential for increasing credit through existing institutions to stimulate private agricultural industries involved in production/distribution of farm inputs.

Finally the U.S. is engaged in a special effort to repair the Kismayo port facility, initially constructed under AID financing in the mid-1960's. Foreign exchange costs under a separate FY 1982 grant for Kismayo port will be matched with local currency counterpart generated from this CIP. Some counterpart may also be programmed for AID use, probably through the trust fund.

The GSDR will establish a separate account in the Central Bank of Somalia for the counterpart generated by the grant funds. The counterpart will be deposited by importers under the opening of the Letter of Credit. Counterpart deposits will be made applicable to the financed imports under the two-tier exchange rate system. Both public and private importers will make such deposits.

C. Internal Financial Effects

The counterpart expenditures should not have an inflationary impact upon the economy as they will largely be spent for items already in the GSDR development budget. Indeed the impact could be deflationary to the degree that they finance expenditures which would otherwise have been deficit financed. To the extent that budgetary provisions have not been made to cover the counterpart costs of public sector procurement under the CIP, reallocations will be made such that the quantitative targets established under the IMF's stabilization exercise will be achieved.

D. Use of U.S. Government Excess Property

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

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

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

F. Use of Procurement Consultant

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

ANNEX I

STATISTICAL TABLES

STATISTICAL TABLES

TABLE	I	Technical Assistance Commitments - 1980
TABLE	II	Capital and Commodity Assistance Commitments - 1980
TABLE	III	Number and Value of Livestock Exports
TABLE	IV	Production and Export of Bananas
TABLE	V	Production of Agricultural Crops
TABLE	VI	Major Food Imports
TABLE	VII	Balance of Payments
TABLE	VIII	Somalia: Budget at a Glance
TABLE	IX	Actual and Projected Debt Service Payments
TABLE	X	Imports by Commodity
TABLE	XI	The Percentage Shares of Somalia's Main Suppliers in the Total Value of Imports
TABLE	XII	Composition of Exports

TABLE I

TECHNICAL ASSISTANCE COMMITMENTS
1980
(U.S. Dollars)

Development Strategies, Policies and Planning	908,900
Natural Resources	4,851,100
Agriculture, Forestry and Fisheries	14,681,464
Industry	7,079,300
Transportation & Communications	4,653,100
International Trade & Development Finance	80,350
Population	471,000
Health	5,882,293
Education	16,061,131
Employment	624,000
Humanitarian Aid & Relief	65,827,022
Social Conditions and Equity	20,800
Culture	89,500
Total	121,229,960

1/ Covers commitments clearly identified as being made in 1980. Actual disbursal would cover several years.

Source: "Report on Development Cooperation to Somalia in 1980", UNDP, August 1981.

TABLE II

CAPITAL AND COMMODITY ASSISTANCE COMMITMENTS 1/

1980

(Millions of U.S. Dollars)

Multilateral	
IBRD/IDA	117.7
International Fund for Agricultural Development	17.0
African Development Fund	23.2
European Economic Community	116.0
Arab Fund for Economic & Social Development	51.4
Islamic Bank	28.5
OPEC Special Fund	10.5
OPEC Fund For International Development	9.0
Arab Monetary Fund	6.0
International Monetary Fund	27.4
Total	406.7
Bilateral	
Peoples Republic of China	43.8
Federal Republic of Germany	77.0
Iraq	38.0
Italy	51.8
Kuwait Fund	21.0
North Korea	18.7
Libya	15.0
Saudi Arabia	82.0
Sweden	3.4
United Arab Emirates	202.3
Yugoslavia	2.5
Total	555.5
Grand Total	962.2

1/ Life of project costs of commitments in effect in 1980

Source: "Report on Development Cooperation to Somalia in 1980", UNDP, August 1981

TABLE III

NUMBER AND VALUE OF LIVESTOCK EXPORTS

	Sheep ('000)	Goats ('000)	Cattle ('000)	Camels ('000)	Total numbers ('000)	Value F.O.B. Millions of So.Sh.
1971	622	564	59	26	1,271	123.3
1972	816	819	81	22	1,738	162.0
1973	709	679	68	29	1,485	157.2
1974	663	575	31	24	1,293	222.5
1975	793	743	40	34	1,610	364.4
1976	385	381	58	34	858	301.8
1977	465	461	55	33	1,014	299.5
1978	739	715	77	27	1,558	570.6
1979	717	705	68	13	1,503	474.1
1980	745	736	143	17	1,641	685.4

Source: "Somalia - Recent Economic Developments", IMF, July 1981.

TABLE IV

PRODUCTION AND EXPORT OF BANANAS

	PRODUCING AREA (Thousands of Hectares)	PRODUCTION (Thousands of Metric Tons)	YIELD (M.T. per Producing Hectare)	EXPORTS (Thousands of Metric Tons)	VALUES FOB (Millions of SoSh)
1973	7.1	168.3	23.7	112.0	67.7
1974	6.7	157.5	23.5	107.3	73.6
1975	6.1	106.0	17.4	81.8	80.9
1976	5.3	96.6	18.2	72.5	88.2
1977	5.2	65.2	12.5	53.2	64.7 1/
1978	5.1	69.7	13.7	57.5	70.2 1/
1979	5.8	72.2	12.5	55.5	68.5 1/
1980	2.6	60.4	23.2	35.4	46.6 1/

Source: "Somalia / Recent Economic Developments", IMF, July 1981.

1/ Does not agree with data in Table VII. Data in this table based on exchange control data.

TABLE V

PRODUCTION OF AGRICULTURAL CROPS
Thousands of Metric Tons

	1970	1975	1976	1977	1978	1979	1980
Maize	122.1	103.6	107.6	111.3	107.7	108.2	110.5
Rice	2.9	4.9	5.4	8.4	12.1	13.4	16.7
Sorghum	158.1	134.7	139.3	145.1	141.1	140.1	140.5
Beans	10.9	9.4	9.3	10.2	10.1	8.2	9.3
Sesame	43.4	37.3	38.8	40.6	40.0	40.6	38.4
Groundnuts	3.0	2.6	2.7	2.8	2.8	2.8	2.9
Vegetables	28.8	24.7	25.7	26.9	26.5	26.6	27.2
Cotton	3.5	3.0	3.1	3.3	3.2	3.3	3.3
Sugar Cane	450.4	370.0	333.3	320.0	311.5	265.0	419.5

Source: "Agricultural Sector Review - Main Report", IBRD, September 1980
"Somalia - Recent Economic Developments", IMF, July 1981

TABLE VI

MAJOR FOOD IMPORTS 1/
(Thousands of Somali Shillings)

	1974	1975	1976	1977	1978	1979	1980
Wheat/Flour	15,430	49,451	58,218	32,446	43,181	78,673	99,927
Rice	55,531	37,731	31,374	58,364	81,115	204,808	135,841
Sugar	60,583	43,069	57,854	42,867	261,356	84,926	60,169
Tea	8,959	15,406	15,122	17,037	73,278	8,763	13,432
Edible Oil	19,701	36,657	36,759	58,362	82,458	180,568	101,401
Total	158,204	182,314	199,327	209,076	541,388	557,738	410,770

1/ Includes commercial, concessional and franco valuta imports imported by ENC. Does not include imports for refugee relief.

Source: ENC Data and "Somalia, - Recent Economic Development", IMF, July 1981

TABLE VII

BALANCE OF PAYMENTS
(In Millions of U.S.Dollars)

	1976	1977	1978	1979	1980
Exports, f.o.b.	81.1	71.3	109.3	106.0	137.0
(Livestock)	(47.9)	(47.6)	(90.6)	(75.3)	(108.9)
(Bananas)	(14.0)	(8.4)	(9.4)	(11.6)	(7.8)
Imports c.i.f.	-176.1	-206.0	-275.2	-394.1	-463.2
(Franco Valuta)	(-3.1)	(-10.8)	(-75.9)	(-34.5)	(-54.9)
Trade Balance	-95.0	-134.7	-165.9	-288.1	-326.2
Services	-15.1	-6.4	-4.9	-11.6	-6.8
Balance on Goods and services	-110.1	-141.1	-170.8	-299.7	-333.0
Transfers (Net)	43.9	119.0	105.7	94.0	198.8
Government	39.7	105.9	27.7	58.1	142.6
Private 1/	4.2	13.1	78.0	35.9	56.2
Current Account Balance	-66.2	-22.1	-65.1	-205.7	-134.2
Capital Movements (Net)	67.9	71.8	78.7	87.6	87.0
Private	.4	15.4	.2	3.9	-.1
Official	67.5	56.4	78.5	83.7	87.1
(Trust Fund Loan)	-	-	-	-	(14.1)
Errors and Omissions	.7	-3.8	5.4	15.6	18.4
Counterpart to Valuation Adjustment	-	-	2.4	4.0	1.1
Overall Balance	2.4	45.9	21.4	-98.5	-27.7
Change in Net Foreign Assets - = Increase	-2.4	-45.9	-21.4	98.5	27.7

1/ Including offsetting entry for franco-valuta imports.

Source: "Somalia - Recent Economic Development", IMF, July 1981.

TABLE VIII

SOMALIA: BUDGET AT A GLANCE
(Millions of Somali Shillings)

	1976 Actual	1977 Actual	1978 Actual	1979 Actual	1980 Preliminary Actuals	1981 Revised Estimate
Total Revenue	670.7	843.4	1,419.6	1,526.0	1,421.4	2,520.0
Tax Revenue	529.1	647.2	1,154.2	1.314.8	1,192.6	2.270.0
Non-Tax Revenue	141.6	196.2	265.4	211.2	228.8	250.0
Ordinary Expenditure	649.3	769.6	1,361.5	1,573.1	1,618.3	2,400.0
Ordinary Surplus/ Deficit	21.4	73.8	58.1	-47.1	-196.9	120.0
Budgetary Develoment Expenditure	165.4	211.4	186.9	224.2	200.6	350.0
Other Expenditure 1/	797.0	609.3	822.7	1,337.5	1,372.1	1,500.0
Overall Deficit	941.0	746.9	951.5	1,608.8	1,769.6	1,730.0
Financing of Deficit						
Foreign Financing (Net) 2/	582.0	953.1	562.0	797.6	1.005.3	1,375.0
Bank Borrowing (Net)	362.6	-222.2	408.9	920.2	671.0	355.0
Cash Balances (- = increase)	-3.6	16.0	-19.4	-109.0	93.3	-

1/ Includes foreign financed capital expenditure, other extra-budgetary expenditure and net lending to public enterprises.

2/ Includes cash grants, aid in kind except food grants and external loans.

Source: "Somalia - Recent Economic Developments", IMF, July 1981

TABLE IX

ACTUAL AND PROJECTED DEBT SERVICE PAYMENTS

1977 - 1983 1/
(In Millions of Somali Shillings)

	1977 2/	1978 2/	1979 2/	1980	1981	1982	1983
Total	36.0	54.5	24.7	42.9	240.0	249.4	353.8
Amortization	30.9	39.4	18.5	36.2	181.1	189.5	295.7
Interest	5.1	15.1	6.2	6.7	58.9	59.9	58.1
Ratio to Merchandise							
Exports (%)	8.0	7.9	3.7	5.0	13.8		

1/ Projections based upon commitments at the end of 1980.

2/ Actual

Source: "Somalia - Recent Economic Developments", IMF, July 1981

TABLE X

SOMALIA: IMPORTS BY COMMODITY[1]
1973 - 1979
(In Millions of Somalia Shillings)

	TOTAL 1973	TOTAL 1974	TOTAL 1975	TOTAL 1976	TOTAL 1977	TOTAL 1978	TOTAL 1979	FROM U.S. 1979
CONSUMER GOODS	300.7	352.9	349.9	361.4	487.1	588.7	529.0	.7
Food	134.0	175.7	235.0	221.2	305.6	250.5	213.9	.4[4]
Cereals, Cereal Products	57.5	71.5	161.0	134.1	191.4	31.1	73.1	-
Fruits and Vegetables	12.3	13.2	18.8	5.0	6.3	7.9	9.8	-
Sugar and Sugar Products	42.3	61.5	4.4	1.4	1.6	78.4	11.0	-
Dairy Products	1.2	1.5	7.4	12.5	23.9	66.3	54.8	-
Coffee, Tea and Cocoa	11.0	13.9	12.3	22.4	20.7	32.4	32.2	-
Oil Seeds, etc.	.1	-	.1	1.5	5.2	-	.9	-
Animal and Vegetable Oils	7.9	12.8	29.5	41.4	51.4	32.0	25.6	-
Other Food	1.7	1.3	1.5	2.9	5.1	2.4	6.5	-
Beverages and Tobacco	19.8	7.3	18.4	22.9	19.9	64.2	77.6	-
Medicinal/Pharmaceutical Prod.	37.2	24.2	25.3	27.9	47.5	20.0	34.2	.3
Personal/Household Toiletries	9.1	6.5	1.2	1.0	2.0	4.4	7.2	-
Textile Articles	56.5	95.2	29.4	33.9	52.0	68.2	91.4	-
Clothing and Footware	21.5	20.2	7.8	11.4	24.7	54.3	44.8	-
Other Manufactured Goods	22.6	23.8	31.9	43.1	35.4	127.1	59.9	-
MINERAL FUELS[2]	28.8	60.3	60.0	67.0	62.5	100.8	84.7	-
Petroleum/Petroleum Products	28.6	60.1	59.4	66.5	61.4	100.5	78.8	-
Other	.2	.2	.6	.5	1.1	.3	5.9	-
INTERMEDIATE GOODS	165.6	288.9	253.6	269.3	359.0	347.7	410.2	5.8
Fertilizers, Mfd.	5.4	3.1	5.9	.1	3.9	-	-	
Other Chemicals	25.6	33.7	27.6	38.0	9.1	49.6	90.4	2.2
Rubber Products	8.6	16.0	15.9	22.5	43.4	21.4	18.4	.8

	TOTAL 1973	TOTAL 1974	TOTAL 1975	TOTAL 1976	TOTAL 1977	TOTAL 1978	TOTAL 1979	FROM U.S. 1979
INTERMEDIATE GOODS, contd								
Paper, Paper Products	36.4	49.2	45.5	27.1	51.7	16.2	24.2	.2
Wood, Lumber, Cork and Products	10.8	24.5	13.5	17.3	20.5	9.9	22.9	-
Cement and Building Materials	10.3	29.9	46.1	35.9	55.5	42.1	64.5 3/	-
Iron and Steel	18.3	68.2	22.9	29.1	53.3	26.3	40.0	-
Metal, Mineral Manufactures	30.1	36.9	37.0	42.8	43.1	121.1	73.3	2.6
Other	20.1	27.4	39.2	57.5	88.5	61.1	76.5	-
CAPITAL GOODS	180.4	193.8	308.7	276.0	510.2	470.8	521.8	11.0
Non-Electrical Machinery	69.6	88.1	152.1	93.9	196.7	112.7	138.4	4.0
Electrical machinery	26.3	37.8	36.2	31.9	118.5	59.8	66.0	2.1
Transportation Equipment	84.5	67.9	120.4	150.2	195.0	298.3	304.4	4.9
OTHER IMPORTS	1.9	2.5	2.4	4.3	14.0	10.9	13.0	1.1
TOTAL IMPORTS, C.I.F.	677.4	898.4	973.7	978.0	1,432.8	1,518.9	1,545.7	18.6

1/ Excludes franco-valuta imports.

2/ Does not include crude petroleum imports.

3/ May include more than cement and building materials.

4/ Solely commercial sales.

SOURCE: "Memorandum on the Economy of Somalia", IBRD, March 1981 and Ministry of Planning data.

TABLE XI

THE PERCENTAGE SHARES OF SOMALIA'S MAIN SUPPLIERS IN THE TOTAL VALUE OF IMPORTS 1/

1973 - 1979

	1973	1974	1975	1976	1977	1978	1979
Western Europe	49.3	42.7	51.2	48.7	48.0	58.4	63.7
Italy	31.3	27.7	32.0	25.8	28.3	30.2	34.3
Germany (FRD)	5.2	3.4	6.2	6.9	5.2	10.5	7.2
United Kingdom	4.8	3.5	5.4	5.7	9.2	9.7	13.4
France	4.2	3.7	1.6	1.4	1.3	.7	1.7
Other	3.8	4.4	6.0	8.9	4.0	7.3	7.1
Eastern Europe	10.8	14.2	8.5	14.3	15.0	1.0	.1
USSR	9.4	12.5	7.7	12.2	12.2	.6	Nil
OTHER	1.4	1.7	.8	2.1	2.8	.4	.1
AFRICA	7.2	11.4	10.3	11.5	6.9	12.3	15.4
Kenya	3.9	4.8	5.8	7.3	2.9	4.6	6.5
Ethiopia	1.9	1.3	1.3	2.5	2.5	2.0	2.9
Other	1.4	5.3	3.2	1.7	1.4	5.7	6.0
ASIA	25.9	23.4	20.1	17.7	20.9	13.6	8.8
China, Peoples Rep.	18.6	6.3	6.2	7.3	6.5	3.4	2.1
Thailand	-	3.7	7.3	4.1	4.7	-	.1
Japan	3.7	3.7	.6	1.2	.9	2.6	.9
Hong - Kong	.5	.6	.5	.3	2.4	.9	.6
Other	3.1	9.1	5.5	4.8	6.4	6.7	5.1
Middle East	4.0	5.9	6.4	3.2	6.6	9.3	10.6
Saudi Arabia	.9	1.5	.9	1.4	1.0	3.8	5.4
Yemen PDR	1.9	1.8	.8	.6	.7	.6	.3
Other	1.2	2.6	4.7	1.2	4.9	4.9	4.9
WESTERN HEMISPHERE	2.7	2.3	3.4	4.5	2.2	5.3	1.2
United States	2.4	2.2	2.4	4.4	.8	2.5	1.2
Other	.3	.1	1.0	.1	1.4	2.8	-
Other	.1	.1	.1	.1	.4	.1	-
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

1/ Excludes Franco Valuta Imports.

Source: "Memorandum on the Economy of Somalia" IBRD, January, 1981
Ministry of Planning.

TABLE XII

COMPOSITION OF EXPORTS[1/]

(In Millions Somali Shillings)

	1975	1976	1977	1978	1979
Bananas	80.9	88.2	53.1	59.0	73.2
Live Animals	364.4	301.9	299.5	570.4	474.1
Meat and Meat products	59.3	37.1	32.1	.7	7.3
Hides and Skins	20.7	44.4	23.6	29.7	56.4
Fish and Fish Products	17.4	23.3	21.2	4.3	2.7
Grains	14.4	11.3	11.7	14.8	21.0
Other	6.3	4.1	7.8	10.2	32.7
TOTAL	563.4	510.3	449.0	689.1	667.4

1/ Based on Exchange Control Data.

Source: "Memorandum on the Economy of Somalia", IBRD, January 1981

ANNEX II

STATUTORY CHECKLIST

3A(1) - COUNTRY CHECKLIST

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

A. GENERAL CRITERIA FOR COUNTRY

1. FAA Sec. 481. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotics drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?	No.
2. FAA Sec. 620(b). If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?	Yes
3. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?	No.
4. FAA Sec. 620 (e) (1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?	No.

A.	5. FAA Sec. 620(f); App. Sec. 108. Is recipient country a Communist country? Will assistance be provided to the Democratic Republic of Vietnam (North Vietnam), South Vietnam, Cambodia, or Laos?	No.
	6. FAA Sec. 620(i). Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?	No.
	7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction, by mob action, of U.S. property?	No.
	8. FAA Sec. 620(l). If the country has failed to institute the investment guaranty program for the specific risks of expropriation, inconvertibility or confiscation, has the AID Administrator within the past year considered denying assistance to such government for this reason?	No.
	9. FAA Sec. 620(o); Fishermen's Protective Act, Sec. 5. If country has seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters,	Somalia has taken no such action
	a. has any deduction required by Fishermen's Protective Act been made?	
	b. has complete denial of assistance been considered by AID Administrator?	
	10. FAA Sec. 620(q); App. Sec. 504. (a) Is the recipient country in default on interest or principal of any AID loan to that country? (b) Is country more than one year in default on interest or principal on U.S. loan made pursuant to program for which funds appropriated under Approp. Act. unless debt was earlier disputed, or appropriate steps taken to cure default?	a. No. b. No.

A.	11. FAA Sec. 620(s). What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)	Somalia spent 36% of its recurrent expenditures on defense in 1980. Little is known about the amount of foreign exchange spent on military equipment, though most such expenditures were no doubt covered by grants or long term loans. Somalia has not purchased sophisticated weapons systems.
	12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?	No.
	13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget?	Current
	14. FAA Sec. 620A. Has the country granted sanctuary from prosecution to any individual or group which has committed an act of international terrorism?	No.
	15. FAA Sec. 659. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by the United States, and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?	The host country permits access by U.S. correspondents to U.S. facilitie located in Somalia.
	16. FAA Sec. 669. Has the country delivered or received nuclear reprocessing or enrichment equipment, materials or technology, without specified arrangements on safeguards, etc.?	No.

A. 17. FAA Sec. 670. Has the country delivered or received nuclear reprocessing, equipment, material or technology? Is the country not a "nuclear-weapon state" as defined in Article IX(3) of the Nuclear Non-Proliferation Treaty and on which detonates a nuclear explosive device?

No.
No.

18. FAA Sec. 901. Has the country denied its citizens the right or opportunity to emigrate?

No, but it discourages emigration through passport controls.

B. FUNDING CRITERIA FOR COUNTRY

1. Security Supporting Assistance Country Criteria

a. FAA Sec. 502B. Has the Department of State made findings which indicate that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, is program in accordance with policy of this Section?

No.

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

Yes

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

Yes

3A(2) - NONPROJECT ASSISTANCE CHECKLIST

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

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

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. App. Unnumbered; FAA Sec 653(b)

(a) Describe how committees on Appropriations of Senate and House have been or will be notified concerning the nonproject assistance;	Proposed CIP was included in the FY 1982 Congressional Presentation
(b) Is assistance within (Operational Year Budget) country or international organization allocation reported to the Congress (or not more than $1 million over that figure plus 10%)?	Yes.
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?	No further legislation is required.
3. FAA Sec. 209, 619. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs. If assistance is for newly independent country, is it furnished through multilateral organizations or in accordance with multilateral plans to the maximum extent appropriate?	This program is not susceptible of execution as part of a regional or multilateral program. It is not expected to encourage regional development programs. Somalia is not a newly independent country.

A.	4. FAA Sec. 601(a);(and Sec. 201(f) for development loans). Information and conclusions whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.	Program will increase the flow of international trade by providing the necessary foreign exchange for importation of goods. A portion of the program assistance is earmarked for the Somali private sector and will tend to foster private initiative and competition.
	5. FAA Sec. 601(b). Information and conclusion on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).	The commodities financed by the program will contribute to a revitalization of the Somali economy. This, plus the requirement that U.S. manufactured commodities be procured with grant proceeds and the resulting increased familiarity with U.S. products should lead to further trade with the U.S.
	6. FAA Sec. 612(b); Sec 636(h). Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the United States are utilized to meet the cost of contractual and other services.	Not applicable. Program provides foreign exchange assistance for commodity imports. No other contractual or non commodity related services are being financed under the grant.
	7. FAA Sec. 612(d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?	At present Somalia is not a country in which the U.S. owns excess foreign currency.

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Security Supporting Assistance

a. FAA Sec. 531. How will this assistance support promote economic or political stability? Is the country among the 12 countries in which Supporting Assistance may be provided in this fiscal year?

The program will provide commodities necessary to the increased production of food and agricultural exports and thus contribute to the revitalization of the Somali economy, a key factor in future economic and political stability. Somalia is one of the countries eligible for assistance from Economic Support Funds.

3A(3) - STANDARD ITEM CHECKLIST

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

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

A. PROCUREMENT

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

A. 6. FAA Sec. 604(e). If off-shore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?	No procurement of agricultural commodities will be financed under the program.
7. FAA Sec. 604(f). Are there arrangements whereby a supplier will not receive payment under the commodity import program unless he/she has certified to such information as the Agency by regulation has prescribed?	Yes, using AID Regulation I procedures.
8. FAA Sec. 608(a). Will U.S. Government excess personal property be utilized wherever practicable in lieu of the procurement of new items?	Yes.
9. MMA Sec. 901(b). (a) Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S.-flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.	Yes.
10. International Air Transport. Fair Competitive Practices Act, 1974 If air transportation of persons or property is financed on grant basis, will provision be made that U.S. -flag carriers will be utilized to the extent such service is available?	Yes.

B. OTHER RESTRICTIONS

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

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

3. Will arrangement preclude use of financing:

a. FAA Sec. 114. to pay for performance of abortions or involuntary sterilizations or to motivate or coerce persons to practice abortions? to pay for performance of involuntary sterilizations as method of family planning or to coerce or provide any financial incentive to any person to practice sterilizations? — Yes.

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

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

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

e. App. Sec. 103. to pay pensions, etc., for military personnel? — Yes.

f. App. Sec. 106. to pay U.N. assessments? — Yes.

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

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Department of State

INCOMING TELEGRAM

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ACTION AID-35

ACTION OFFICE AFDR-06
INFO AFEA-03 C-01 CALI-02 CPP-01 CSE-02 RELO-01 TELE-01
MAST-01 /018 A5 1214

INFO OCT-00 AMAD-01 /036 W
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AIDAC

FOR SHELDON COLE, AFR/DR

E.O. 12065: N/A
SUBJECT: CIP PROGRAM

HEREIN FOLLOWS THE TEXT OF 9 DECEMBER 1981 LETTER RECEIVED FROM VICE MINISTER OF NATIONAL PLANNING REQUESTING COMMODITY IMPORT PROGRAM FOR SOMALIA. TEXT SHOULD BE INCLUDED AS ANNEX III TO SUBJECT PAAD. QUOTE DEAR MR. KELLY: WITH REFERENCE TO THE DISCUSSION WE HAVE HAD ON THE ASSISTANCE UNDER COMMODITY IMPORT PROGRAM AND THE AREAS THAT THIS PROGRAM COULD BE OF GREAT VALUE, THE AREAS MAINLY REQUIRED FOR THIS ASSISTANCE ARE IN THE FIELD OF AGRICULTURE, INDUSTRY AND ACTIVITIES UNDERTAKEN BY THE PRIVATE SECTOR. (PARAGRAPH) THEREFORE, IT WOULD HIGHLY BE APPRECIATED IF YOU WOULD KINDLY CONVEY OUR REQUEST FOR ASSISTANCE OF USDOLS 20 MILLION UNDER CIP TO YOUR GOVERNMENT AND OBTAIN THEIR APPROVAL. YOURS SINCERELY, MOHAMED OMAR JAMA, VICE MINISTER, MINISTRY OF NATIONAL PLANNING UNQUOTE.
PETTERSON

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ANNEX IV

INITIAL ENVIRONMENTAL EXAMINATION

INITIAL ENVIRONMENTAL EXAMINATION

Project Country: Somalia

Project Title: Commodity Import Grant

Funding: 15 Million Dollars

Period of Funding: FY 82-83

IEE Prepared by: Sharon A. Fee, USAID/Somalia

Environmental Action Recommended: Categorical Exclusion under Regulation 216.2 (c) (2) (IX).

Concurrence: Nick J. Mariani, Acting Director, USAID/Somalia

Date: July 15, 1981

Bureau Environmental Officer's Decision:

Approved: James S. Hester

Disapproved: _____

Date: 4 August 1981

Clearance: GC/AFR

Examination of Nature, Scope & Magnitude of Environmental Impacts

I. Description of the Project

The project proposes to provide a commodity import grant of 15 million to the Government of the Somali Democratic Republic (GSDR) from Economic Support Funds on standard A.I.D. terms. The primary purpose of the grant is to provide balance of payments assistance by financing raw materials, spare parts, fertilizer and capital equipment required by the agriculture/livestock sector.

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

II. Recommended Environment Action

In accordance with A.I.D. Regulation 16 Section 216.2 (c) (IX) assistance under a Commodity Import Program is eligible for categorical exclusion from environmental procedures when, "prior to approval, A.I.D. does not have knowledge of the specific commodities to be financed and when the objective in furnishing such assistance requires 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 subject assistance fulfills both the qualifications cited above it should be granted a categorical exclusion and be exampt from any further environmental procedures.

ANNEX V

ILLUSTRATIVE LIST OF COMMODITIES TO BE FINANCED

ANNEX V

ILLUSTRATIVE LIST OF COMMODITIES TO BE FINANCED

The commodity list in column one below was developed in consultation with an inter-Ministerial committee chaired by the Vice Minister of Agriculture. It was drawn up in anticipation that a total of $20 million would be available for the Commodity Import Program. While such a level of funding is needed by the economy, the level could be scaled down if $15 million is all that can be made available. The illustrative program at this level of funding is shown in column 2.

	Col. 1 Value ($ Millions)	Col.2 Value ($ Millions)
1. Public Sector Procurement		
A. Agricultural Sector		
Fertilizer 1/ 2/	2.00	2.00
Cement (canal repair)	2.00	1.50
Rebar (canal repair)	.50	.30
Steel Sheeting (canal repair)	.50	.30
Trucks (grain and fertilizer distribution)	1.00	1.00
Metal Storage Facilities (grain and fertilizer distribution)	2.00	1.00
Bulldozers/Backhoes (canal repair) 2/	1.50	1.00
Excavator (canal repair) 2/	.50	.50
	10.00	7.60
B. Agro-Industrial Sector		
Heavy Equipment (sugar and cotton plantation)	1.50	1.00
Factory Machinery (sugar mill)	1.50	1.00
Spare Parts (tractors and equipment) 2/	1.00	1.00
Foundry Machinery/Raw Materials	1.00	.50
	5.00	3.50

1/ Procured by the Ministry of Agriculture for resale to public and private agricultural units.

2/ Imports likely to receive preferential 6 to 1 exchange rate.

II. Private Sector Procurement 3/

Equipment for Somali Commerce Aluminum Factory	:25	—
Equipment for Oxygen Plant	:50	:50
Bulldozers 2/	1:30	1:00
Tractors 2/	1:30	1:00
Waterpumps (for human and animal supply)	:60	:50
Waterpumps (irrigation)	:60	:50
Pipe	:45	:40
	5:00	3:90

3/ Developed in cooperation with the Somali Development Bank.

ANNEX VI

DRAFT GRANT AGREEMENT

TABLE OF CONTENTS

COMMODITY IMPORT GRANT AGREEMENT

			Page
Article 1:	The Grant		1
Article 2:	Conditions Precedent to Disbursement		1
	Section 2.1	Conditions Precedent	1
	Section 2.2	Notification	2
	Section 2.3	Terminal Date for Conditions Precedent	2
Article 3:	Procurement, Eligibility and Utilization of Commodities		2
	Section 3.1	A.I.D. Regulation 1	2
	Section 3.2	Eligible Items	2
	Section 3.3	Procurement Source	2
	Section 3.4	Eligibility Date	2
	Section 3.5	Procurement for Public Sector	2
	Section 3.6	Procurement for Private Sector	3
	Section 3.7	Special Procurement Rules	3
	Section 3.8	Financing Physical Facilities	3
	Section 3.9	Utilization of Commodities	3
	Section 3.10	Shipping	4
	Section 3.11	Insurance	5
Article 4:	Disbursement		5
	Section 4.1	Letters of Commitment to United States Banks	5
	Section 4.2	Other Forms of Disbursement Authorizations	5
	Section 4.3	Terminal Date for Requests for Disbursement Authorizations	5
	Section 4.4	Terminal Date for Requests for Disbursement	5
	Section 4.5	Date of Disbursement	5
	Section 4.6	Documentation Requirements	5
Article 5:	General Covenants		6
	Section 5.1	Use of Local Currency	6
	Section 5.2	Taxation	6
	Section 5.3	Reports and Records	6
	Section 5.4	Completeness of Information	7
	Section 5.5	Other Payments	7
	Section 5.6	Minimum Size of Transaction	7

83x

Page

Article 6:	Special Covenants Concerning Program Implementation and Achievement of Program Objectives		7
	Section 6.1	IMF Stabilization Program	7
	Section 6.2	Efficiency of Public Enterprises	7
	Section 6.3	Foreign Investment	7
	Section 6.4	Technical Personnel	8
	Section 6.5	Private Savings and Investment	8
	Section 6.6	Efficient Import Procedures	8
	Section 6.7	Periodic Consultations	8
Article 7:	Termination; Remedies		8
	Section 7.1	Termination	8
	Section 7.2	Suspension	8
	Section 7.3	Cancellation by A.I.D.	9
	Section 7.4	Refunds	9
	Section 7.5	Nonwaiver of Remedies	9
Article 8:	Miscellaneous		9
	Section 8.1	Implementation Letters	9
	Section 8.2	Representatives	10
	Section 8.3	Communications	10
	Section 8.4	Information and Marking	11

COMMODITY IMPORT GRANT AGREEMENT

Grant Number

Dated , 1982

Between

The Somali Democratic Republic

and

The United States of America, acting through the Agency for International Development ("A.I.D.")

Article 1: The Grant

To finance the foreign exchange costs of certain commodities and commodity-related services ("Eligible Items") necessary to promote economic development and stability, the United States, pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Government of the Somali Democratic Republic under the terms of this Agreement, not to exceed Fifteen Million United States Dollars ($15,000,000) (the "Grant').

Article 2: Conditions Precedent to Disbursement

Section 2.1. Conditions Precedent. Prior to the first disbursement under the Grant, or to the issuance of A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.:

(a) An opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms;

(b) A statement representing and warranting that the named person or persons have the authority to act as the representative or representatives of the Grantee pursuant to Section 7.2, together with a speciment signature of each person certified as to its authenticity.

(c) A procurement plan including the procedures by which all procurement financed under this Grant will be carried out, the criteria and procedures for determining importer eligibility and foreign exchange allocations, and the mechanism for publicizing procurement and making awards.

UNCLASSIFIED _ NAIROBI 27232 AMENDED 3.2

AIDAC

FROM REDSO/EA/RLA

E.O. 12065: N/A
SUBJECT: CIP GRANT-AGREEMENT

1. A section required by handbook 4, Chapter 508C, but not included in the standard agreement form, was inadvertently omitted from the draft agreement.

2. Please delete the draft provision entitled eligible items and substitute the following:

- Section Eligible Items
- (A) The commodities eligible for financing under this grant shall be those specified in the A.I.D. commodity eligibility listing as set forth in the implementation letters and commodity procurement instructions issued to grantee. Commodity-related services as defined in A.I.D. regulation 1 are eligible for financing under this grant. Other items shall become eligible for financing only with the written agreement of A.I.D. A.I.D. may decline to finance any specific commodity or commodity-related service when in its judgement such financing would be inconsistent with the purpose of the grant or of the foreign assistance act of 1961, as amended.

- (B) A.I.D. reserves the right in exceptional situations to delete commodity categories or items within commodity categories described by schedule B codes on the commodity eligibility listing. Such right will be exercised at a point in time no later than commodity prevalidation by A.I.D. (Form 11 approval) or, if no commodity prevalidation is required, no later than the date on which an irrevocable letter of credit is confirmed by a U.S. bank in favor of the supplier.

- (C) If no prevalidation is required and payment is not by letter of credit, A.I.D. will exercise this right no later than the date on which it expends funds made available to the grantee, under this agreement for the financing of the commodity, In any event, however, the grantee will be notified through the A.I.D. mission in its country of any decision by A.I.D. to exercise this right pursuant to a determination that financing the commodity would adversely affect A.I.D. or foreign policy objectives of the United States or could jeopardize the safety or health of people in the importing country.

Section 2.2. Notification. When A.I.D. has determined that the conditions specified in Section 2.1 have been met, it will promptly notify the Grantee.

Section 2.3. Terminal Date for Conditions Precedent. If all the conditions specified in Section 2.1 have not been met within ninety (90) days from the date of this Agreement, or such later date as A.I.D. may specify in writing, A.I.D., at its option, may terminate this Agreement by written notice to Grantee.

Article 3. Procurement, Eligibility, and Utilization of Commodities

Section 3.1. A.I.D. Regulation 1. This Grant the procurement and utilization of commodities and commodity-related services financed under it are subject to the terms and conditions of A.I.D. Regulation 1 as from time to time amended and in effect, except as A.I.D. may otherwise specify in writing. If any provision of A.I.D. Regulation 1 is inconsistent with a provision of this Agreement, the provision of this Agreement shall govern.

Section 3.2. Eligible Items. The commodities eligible for financing under this Grant shall be those mutually agreed upon by the Parties and specified in the Implementation Letters and Commodity Procurement Instructions issued to Grantee in accordance with Section 7.1 of this Agreement. Commodity-related services as defined in A.I.D. Regulation 1 are eligible for financing under this Grant, as well as the services and reasonable support costs of a procurement advisor to assist the Grantee in such matters as the preparation and issuance of bid documents, the analysis of bids and the preparation and execution of supply contracts. Eligible Items will be subject to the requirements and Special provisions of Parts I, II, and III of the A.I.D. Commodity Eligibility Listing which will be transmitted with the first Implementation Letter. Other commodities or services shall become eligible for financing only with the written agreement of A.I.D. A.I.D. may decline to finance any specific commodity or commodity-related service when in its judgment such financing would be inconsistent with the purposes of the Grant or of the Foreign Assistance Act of 1961, as amended.

Section 3.3. Procurement Source. All Eligible Items shall have their source and origin in the "Selected Free World" (Code 941 of the A.I.D. Geographic Code Book), except as A.I.D. may specify in Implementation Letters or as it may otherwise agree in writing.

Section 3.4. Eligibility Date. No commodities or commodity-related services may be financed under this Grant if they were procured pursuant to orders or to contracts firmly placed or entered into prior to the date of this Agreement, except as A.I.D. may otherwise agree in writing.

Section 3.5. Procurement for Public Sector. With respect to procurement under this Grant by or for Grantee, its departments and instrumentalities, the provisions of Section 201.22 of A.I.D. Regulation 1 regarding formal competitive bid procedures will apply unless A.I.D. otherwise agrees in writing.

Section 3.6. Procurement for Private Sector. Procurement by private importers will be subject to the negotiated procurement procedures of Section 201.22 of A.I.D. Regulation 1, except as A.I.D. may otherwise agree in writing or the importer elects procurement through the formal competitive procedures of Section 201.22. It is anticipated that no less than one-third of the Grant will be allocated to private sector procurement.

Section 3.7. Special Procurement Rules.

(a) None of the proceeds of this Grant may be used to finance the purchase, sale, long-term lease, exchange or guaranty of a sale of motor vehicles unless such motor vehicles are manufactured in the United States, except as A.I.D. may otherwise agree in writing.

(b) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

(c) All international air shipments financed under this Grant will be on carriers holding U.S. certification to perform the service, unless shipment would, in the judgment of the Grantee, be delayed by an unreasonable time awaiting a U.S.-flag carrier either at point of origin or transshipment. The Grantee must certify to the facts in the vouchers or other documents retained as part of the Grant records.

Section 3.8. Financing Physical Facilities. Not more than $100,000 from the proceeds of this Grant shall be used for the purchase of commodities or commodity-related services for use in the construction, expansion, equipping, or alteration of any physical facility or related physical facilities without prior A.I.D. approval, additional to the approvals required by A.I.D. Regulation 1, except as A.I.D. may otherwise agree in writing. "Related physical facilities" shall mean those facilities which, taking into account such factors as functional interdependence, geographic proximity, and ownership, constitute a single enterprise in the judgment of A.I.D.

Section 3.9. Utilization of Commodities

(a) Grantee will assure that commodities financed under this Grant will be effectively used for the purposes for which the assistance is made available. To this end, the Grantee will use its best efforts to assure that the following procedures are followed:

(i) accurate arrival and clearance records are maintained by customs authorities; commodity imports are promptly processed through customs at ports of entry; such commodities are removed from customs and/or bonded warehouses within ninety (90) calendar days from the date the commodities are unloaded from the vessel at the port of entry, unless the importer is hindered by force majeure or A.I.D. otherwise agrees in writing; and

(ii) the commodities are consumed or used by the importer not later than one (1) year from the date the commodities are removed from customs, unless a longer period can be justified to the satisfaction of A.I.D. by reason of force majeure or special market conditions or other circumstances.

(b) Grantee will assure that commodities financed under this Grant will not be reexported in the same or substantially the same form, unless specifically authorized by A.I.D.

Section 3.10. Shipping

(a) Commodities which are to be transported to the territory of the Grantee may not be financed under this Grant if transported either: (1) on an ocean vessel or aircraft under flag registry of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment, or (2) on an ocean vessel which A.I.D., by written notice to the Grantee has designated as ineligible, or (3) under an ocean or air charter which has not received prior A.I.D. approval.

(b) unless otherwise authorized, A.I.D. will finance only those transportation costs incurred on aircraft or ocean vessels under flag registry of a country included in the Geographic Code authorized in Section 3.3 of the Agreement, except that when Code 941 is authorized, A.I.D. will finance only those transportation costs incurred on aircraft or ocean vessels under flag registry of the United States and the cooperating country. When Code 941 is authorized and there is a general unavailability of cooperating country flag aircraft or ocean vessels, A.I.D. will specifically authorize in Implementation Letters the financing of transportation costs incurred on aircraft or ocean vessels of any country included in Code 941.

(c) Unless A.I.D. determines that privately owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels, (1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels, and (2) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by A.I.D. and transported to the Somali Democratic Republic on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels. Compliance with the requirements of (1) and (2) of this subsection must be achieved with respect to both cargo transported from U.S. ports and cargo transported from non-U.S. ports, computed separately.

Section 3.11. Insurance

Marine insurance on commodities financed by A.I.D. under this Grant may also be financed under this Grant provided that such insurance is placed in a country included in the Geographic Code authorized in Section 3.3 of this Agreement, or if Geographic Code 941 is authorized, also in the Grantee country, in accordance with the applicable provisions of A.I.D. Regulation 1, Subparts B and C.

Article 4: Disbursement

Section 4.1. Letters of Commitment to United States Banks. After satisfaction of the conditions precedent, the Grantee may obtain disbursements of funds under this Grant by submitting Financing Requests to A.I.D. for the issuance of letters of commitment for specified amounts to one or more banking institutions in the United States designated by Grantee and satisfactory to A.I.D. Such letters will commit A.I.D. to reimburse the bank or banks on behalf of the Grantee for payments made by the banks to suppliers or contractors, under letters of credit or otherwise, pursuant to such documentation requirements as A.I.D. may prescribe. Banking charges incurred in connection with letters of commitment and disbursements shall be for the account of Grantee and may be financed by this Grant.

Section 4.2. Other Forms of Disbursement Authorizations. Disbursements of the Grant may also be made through such other means as the Parties may agree to in writing.

Section 4.3. Terminal Date for Requests for Disbursement Authorizations. No letter of commitment or other disbursement authorization will be issued in response to a request received after eighteen (18)months from the date of signing of this Agreement, except as A.I.D. may otherwise agree in writing.

Section 4.4. Terminal date for Requests for Disbursement. No disbursement of Grant funds shall be made against documentation received by A.I.D. or any bank described in Section 4.1 after twenty-four (24) months from the date of signing of this Agreement, except as A.I.D. may otherwise agree in writing.

Section 4.5. Date of Disbursement. Disbursements by A.I.D. shall be deemed to occur on the date on which A.I.D. makes a disbursement to the Grantee, or its designee, or to a bank, contractor or supplier pursuant to a Letter of Commitment or other form of disbursement authorization.

Section 4.6. Documentation Requirements. A.I.D. Regulation 1 specifies in detail the documents required to substantiate disbursements under this Agreement by Letter of Commitment or other method of financing. The document number shown on the Letter of Commitment or other disbursing authorization document shall be the number reflected on all disbursement documents submitted to A.I.D. In addition to the above, the Grantee shall maintain records

adequate to establish that commodities financed hereunder have been utilized in accordance with Section 3.9 of this Agreement. Additional documents may also be required by A.I.D. with respect to specific commodities, as may be set forth in detail in Implementation letters.

Article 5: General Covenants

Section 5.1. Use of Local Currency.

(a) Grantee will establish a Special Account in the Central Bank of Somalia and deposit therein currency of the Government of the Somali Democratic Republic in amounts equal to proceeds accruing to the Grantee or any authorized agency thereof as a result of the sale of the Eligible Items. Funds in the Special Account may be used for such purposes as are mutually agreed upon by A.I.D. and the Grantee, provided that such portion of the funds in the Special Account as may be designated by A.I.D. shall be made available to A.I.D. to meet the requirements of the United States.

(b) Deposits to the Special Account shall become due and payable quarterly upon advice from A.I.D. as to disbursements made under the Agreement.

(c) Any unencumbered balances of funds which remain in the Special Account upon termination of assistance hereunder shall be disbursed for such purposes as may, subject to applicable law, be agreed to between Grantee and A.I.D.

Section 5.2. Taxation. This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the Somali Democratic Republic. To the extent that any commodity procurement transaction financed hereunder is not exempt from identifiable taxes, tariffs, duties and other levies imposed under laws in effect within the Somali Democratic Republic, the same shall not be paid with funds provided under this Grant

Section 5.3. Reports and Records. In addition to the requirements in A.I.D. Regulation 1, the Grantee will:

(a) Furnish A.I.D. such reports and information relating to the goods and services financed by this Grant and the performance of Grantee's obligations under this agreement as A.I.D. may reasonably request;

(b) Maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, such books and records relating to this Grant as may be prescribed in

Implementation Letters. Such books and records may be inspected by A.I.D. or any of its authorized representatives at all times as A.I.D. may reasonably require, and shall be maintained for three years after the date of last disbursement by A.I.D. under this Grant; and

(c) Permit A.I.D. or any of its authorized representatives at all reasonable times during the three-year period to inspect the commodities financed under this Grant at any point, including the point of use.

Section 5.4. Completeness of Information. The Grantee confirms:

(a) that the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the grant, are accurate and complete, and include all facts and circumstances that might materially affect the Grant and the discharge of responsibilities under this Agreement; and

(b) That it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect the Grant and the discharge of responsibilities under this Agreement.

Section 5.5. Other Payments. Grantee affirms that no payments have been or or will be received by any official of the Grantee in connection with the procurement of goods or services financed under the Grant, except fees, taxes, or similar payments legally established in the country of the Grantee.

Section 5.6. Minimum Size of Transactions. No foreign exchange allocation or letter of credit issued pursuant to this Agreement shall be in an amount less than Ten Thousand Dollars ($10,000), except as A.I.D. may otherwise agree in writing.

Article 6: Special Covenants Concerning Program Implementation and Achievement of Program Objectives

Section 6.1. IMF Stabilization Program. Grantee covenants to adhere to the IMF stabilization program to reduce government expenditures and borrowing, establish more realistic exchange rates, and align prices and interest rates to realistic market rates.

Section 6.2. Efficiency of Public Enterprises. Grantee covenants to review the management of public enterprises in the agriculture and agro-industrial sectors in order to determine ways to improve efficiency in operations, and investment policy decisions; and where indicated by such reviews and where considered necessary to achieve development objectives, to phase out inefficient public enterprises, with first priority on the agriculture sector which is vital to economic growth.

Section 6.3. Foreign Investment. Grantee covenants to undertake investment code reform and other policy measures in order to encourage foreign and

qdx

domestic private investment in developing the economy, particularly in agriculture.

Section 6.4. Technical Personnel. Grantee covenants to increase emphasis on management and technical training programs and to establish economic incentives to encourage retention of technically qualified personnel in agriculture and related industries.

Section 6.5. Private Savings and Investment. Grantee covenants to undertake a review of government policy reforms necessary to encourage increased private savings and investment.

Section 6.6. Efficient Import Procedures. Grantee covenants to undertake measures necessary to assure that its foreign exchange allocation and import licensing systems work efficiently and enable private importers, including small value importers, to participate fully as beneficiaries of this Agreement.

Section 6.7. Periodic Consultations. Grantee and A.I.D. agree to meet periodically, but no less than annually, to discuss the status of the economy, associated economic issues and the relationship of the A.I.D. program to those matters.

Article 7: Termination; Remedies

Section 7.1. Termination. This Agreement may be terminated by mutual agreement of the Parties at any time. Either Party may terminate this Agreement by giving the other Party thirty (30) days written notice.

Section 7.2. Suspension. If at any time:

(a) grantee shall fail to comply with any provision of this Agreement; or

(b) Any representation or warranty made by or on behalf of Grantee with respect to obtaining this Grant or made or required to be made under this Agreement is incorrect in any material respect; or

(c) An event occurs that A.I.D. determines to be an extraordinary situation that makes it improbable either that the purposes of the Grant will be attained or that the Grantee will be able to perform its obligations under this Agreement; or

(d) Any dirsbursement by A.I.D. would be in violation of the legislation governing A.I.D.; or

(e) A default shall have occurred under any other agreement between Grantee or any of its agencies and the Government of the United States or any of its agencies;

Then, in addition to remedies provided in A.I.D. Regulation 1, A.I.D. may:

(1) suspend or cancel outstanding commitment documents to the extent that they have not been utilized through irrevocable commitments to third parties or otherwise, or to the extent that A.I.D. has not made direct reimbursement to the Grantee thereunder, giving prompt notice to Grantee thereafter;

(2) decline to issue additional commitment documents or to make disbursements other than under existing ones; and

(3) at A.I.D.'s expense, direct that title to goods financed under the Grant be vested in A.I.D. if the goods are in a deliverable state and have not been offloaded in ports of entry of the Somali Democratic Republic.

Section 7.3. Cancellation by A.I.D. If, within sixty (60 days) from the date of any suspension of disbursements pursuant to Section 7.2, the cause or causes thereof have not been corrected, A.I.D. may cancel any part of the Grant that is not then disbursed or irrevocably committed to third parties.

Section 7.4. Refunds.

(a) In addition to any refund otherwise required by A.I.D. pursuant to A.I.D. Regulation 1, if A.I.D. determines that any disbursement is not supported by valid documentation in accordance with this Agreement, or is in violation of United States law, or is not made or used in accordance with the terms of this Agreement, A.I.D. may require the Grantee to refund the amount of such disbursement in U.S. dollars to A.I.D. within sixty (60) days after receipt of request therefor. Refunds paid by the Grantee to A.I.D. resulting from violations of the terms of this Agreement shall be considered as a reduction in the amount of A.I.D.'s obligation under the Agreement and shall be available for reuse under the Agreement if authorized by A.I.D. in writing.

(b) The right to require such a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three (3) years from the date of the last disbursement under this Agreement.

Section 7.5. Nonwaiver of Remedies. No delay in exercising or omitting to exercise, any right, power, or remedy accruing to A.I.D. under this Agreement will be construed as a waiver of such rights, powers, or remedies.

Article 8: Miscellaneous

Section 8.1. Implementation Letters. From time to time, for the information and guidance of both parties, A.I.D. will issue Implementation Letters and Commodity Procurement Instructions describing the procedures applicable to the

Implementation of the agreement. Except as permitted by particular provisions of this Agreement, Implementation Letters and Commodity Procurement Instructions will not be used to amend or modify the text of this Agreement.

Section 8.2 Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the office of the Minister of Commerce and A.I.D. will be represented by the individual holding or acting in the office of the Director, USAID/Somalia, each of whom, by written notice, may designate additional representatives. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

Section 8.3. Communications. Any notice, request, document or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such party at the following address.

To the Grantee:	Ministry of Commerce Mogadishu, Somalia
Mail Address:	Ministry of Commerce Mogadishu, Somalia
To A.I.D.:	Director, USAID Mogadishu, Somalia
Mail Address:	USAID/Somalia c/o American Embassy P.B. 574 Mogadishu, Somalia

Alternate address for cables:

USAID/Somalia
c/o American Embassy
Mogadishu, Somalia

All such communications will be in English unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon giving of notice. The Grantee, in addition, will provide the USAID Mission with a copy of each communication sent to A.I.D./Washington.

Section 8.4. Information and Marking. The Grantee will give appropriate publicity to the Grant as a program to which the United States has contributed, and mark goods financed by A.D., as described in Implementation Letters.

IN WITNESS WHEREOF, the Grantee and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year first above written.

SOMALI DEMOCRATIC REPUBLIC	UNITED STATES OF AMERICA
BY: _____	BY: _____
TITLE: _____	TITLE: _____

ANNEX VII

ASSISTANCE TO THE SUGAR INDUSTRY

30 NOV 1981

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR/AFRICA
s/ W. C. Schmeisser, Jr.

FROM: SER/COM, William C. Schmeisser, Jr.

Problem: Your approval is requested to permit procurement of equipment used in producing sugar in Somalia under the proposed Commodity Import Program.

Discussion: Somalia is currently in the process of developing the Program Assistance Authorization Document (PAAD) for a $20 million Commodity Import Program. General agreement has been reached on the commodities to be financed. The list includes equipment valued at $5,000,000 for the Agro-Industrial Sector, some of which may be used in sugar production. More specifically, $1,500,000 under the Agro-Industrial Sector is allocated for heavy equipment for cotton and sugar plantations, $1,500,000 for sugar mill factory machinery, and $1,000,000 for spare parts for tractors and heavy equipment, some of which might be used in producing sugar.

According to Policy Determination (PD) 71 (Attachment 1), A.I.D. must consider possible injury to U.S. sugar producers before extending assistance to sugar industries of cooperating countries. PD-71 requires your approval when non-project funds are used for such a purpose.

While Somalia is not now and is not likely to become a major exporter of sugar, it is one of the world's largest consumers of sugar on a per capita basis and its importation is an important drain on its scarce foreign exchange. Only recently does domestic production meet a significant portion of Somalia's sugar needs. However, detailing recent and projected data on production and consumption (Attachment 4), indications are that Somalia will be a net sugar importer for the foreseeable future.

Somalia's efforts to increase domestic sugar production will not affect the market for U.S. sugar producers. Somalia has not imported sugar from the U.S. in the recent past. Major suppliers were, in various years, Kenya, West Germany, China, Brazil and the United Kingdom. No refugee sugar has been provided by or procured from the U.S. Somalia does not export sugar or sugar products to the U.S. except for a miniscule amount of molasses.

Therefore, the use of Commodity Import Program resources to assist Somalia sugar production will not impact on U.S. producers since such assistance will not displace U.S. producers' domestic or export markets. At the same time, such use of program resources represents a sound development strategy. By promoting increased self-sufficiency in sugar, it will save hard currency for an economy in which foreign exchange shortages represent a key development constraint.

Recommendation: Inasmuch as there would appear to be no potential injury to U.S. producers of sugar as a result of the proposed purchases, it is recommended that you approve CIP funding of equipment for use in sugar production in Somalia.

Approved: John A Cole

Disapproved: _____

Date: DEC 1 1981

Attachments:
1. PD-71
2. Mogadishu 06488
3. State 304376
4. Mogadishu 06723

Clearances:
AFR/DR:SCole date 11/25/81
AFR/EA:CCarr date 11/25/81
GC/AFR:EDragon date 11/25/81
GC/CCM:KFries date 11/25/81
PPC/PDPR:JErickson date 11/27/81
COM/RLI:PJHagan date 11/24/81
COM/PP:RCahn date 11/24/81

SER/COM/CPS:KAbrahams/AFR/DR:SMeyer:klr:11/23/81:X58877

POLICY DETERMINATION: AID Financing of Palm Oil, Citrus and Sugar Projects and Related Products

1. Because of the potential injury to US producers of similar products, AID/W will as a matter of general policy examine at the earliest possible stage proposed projects involving production, processing or marketing of sugar, palm oil, or citrus for export. Approval to proceed with project development in these cases must be made by the appropriate Regional Assistant Administrator with the concurrence of AA/PPC and AA/IIA followi review by PPC/PDPR/EDD in cooperation with IIA/EA/IEA. These divisions will examine potential injury to US producers on the basis of data supplied by the Mission on the export potential of the project, likely export markets, magnitude of production resulting from the project, and the recipient country's relative share of the world market and/or US import market; and on information available in Washington about the condition of the US industry.

2. Commodities financed under non-project assistance and activities financed by subsequently generated local currencies would be given a similar review with participation by SER/COM when the Mission is aware that the commodities will contribute to establishing or expanding production, processing or marketing of these products for export. However, we do not envisage changing existing procedures governing non-project assistance to require Missions to trace all final uses of imported commodities.

3. Missions are not prohibited from developing project ideas in which these commodities are involved. Rather, they should be aware that their potential impact on US producers is a matter of concern which has resulte in restrictive legislation in the OPIC authorization bill and in the replenishment authorization for the International Financial Institutions. AID should, therefore, only finance such projects when their development rationale is strong and their likely impact on US producers is low.

RHNooter

Robert H. Nooter
Acting Administrator

5/12/78

Date

Address questions about this policy determination to: PPC/PDPR.

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Department of State

TELEGRAM

PAGE 01 NAIROBI 06488 011159Z 6703 021964 AID8734
ACTION AID-35

ACTION OFFICE AFEA-03
INFO AAAV-01 AFEN-03 AFNP-02 AFOR-06 PPCE-01 PDPE-01 PPPB-03
G-06 CAL1-02 CPP-01 CSE-02 AFBA-01 AGRI-01 CON-02 TRSY-05
XMB-06 RELO-01 PAST-01 AFPM-01 /044 A2 1285

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FM AMEMBASSY NAIROBI
TO SECSTATE WASHDC 6459
INFO AMEMBASSY NAIROBI

SECRET NAIROBI 6488

AIDAC

NAIROBI FOR REDSO

E.O. 12065: NA
SUBJECT: STATUS OF PAAD PREPARATION--COMMODITY IMPORT PROGRAM

1. PAAD PREPARATION NOW NEARING COMPLETION. WILL BE SUBMITTED TO WASHINGTON LATE NOVEMBER.

2. AT RECENT MEETING CHAIRED BY ACTING MINISTER OF AGRICULTURE AND ATTENDED BY REPRESENTATIVES OF COMMERCE, INDUSTRY, PLANNING AND CENTRAL BANK, GENERAL AGREEMENT WAS REACHED ON COMPOSITION OF COMMODITIES TO BE FINANCED. ORIGINAL LIST OF ABOUT 200 MILLION (INCLUDING NON-AGRICULTURAL CONSTRUCTION AND EQUIPMENT REQUIREMENTS) WAS CUT TO 120 MILLION ON ASSUMPTION LATTER FIGURE CLOSER TO AMOUNT LIKELY TO BE MADE AVAILABLE. LIST APPEARS BELOW.

3. I. PUBLIC SECTOR PROCUREMENT

A. AGRICULTURAL SECTOR (IRRIGATION REHABILITATION)
(1) FERTILIZER (LR)---$2,000,000
(2) CEMENT--2,500,000
(3) REINFORCING BAR--550,000
(4) STEEL SHEET-ANGLE IRON--500,000
(5) TRUCKS (FERTILIZER DIST.)--1,000,000
(6) METAL STORAGE FACILITIES--2,000,000
(7) BULLDOZERS/BACKHOES (LR)--1,500,000
(8) EXCAVATOR (LR)--500,000
SUBTOTAL--$10,000,000

B. AGRO-INDUSTRIAL SECTOR
(1) HEAVY EQUIPMENT (SUGAR AND COTTON PLANTATION)--$1,500,000
(2) FACTORY MACHINERY (SUGAR MILL)--1,500,000
(3) SPARE PARTS (TRACTORS & HEAVY EQUIPMENT) (LR)--1,000,000
(4) FOUNDRY MACHINERY/RAW MATERIALS--1,000,000
SUBTOTAL--$5,000,000

II. PRIVATE SECTOR PROCUREMENT
COMMODITY IMPORTS TO SUPPORT SOMALIA DEVELOPMENT BANK (LENDING) ACTIVITIES IN THE PRIVATE SECTOR--$5,000,000

4. COMMENTS/ISSUES:

(1) PROCUREMENT FOR AGRICULTURE SECTOR WILL BE UNDERTAKEN BY MINISTRY OF AGRICULTURE, TO A LARGE EXTENT, FOR RESALE TO PUBLIC AND PRIVATE PRODUCERS. ULTIMATE BENEFICIARIES WILL BE PRIVATE FARMERS ON REHABILITATED SCHEMES.

(2) ONE SUGAR PROJECT (SOUTH NEAR KISMAYO (WITH GERMAN INVESTMENT) MAY RESULT IN EXPORT OF A SMALL AMOUNT OF MOLASSES TO GERMANY. ASIDE FROM THIS, ALL SUGAR AND SUGAR PRODUCTS WILL BE FOR

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DOMESTIC CONSUMPTION. DOES POTENTIAL MOLASSES EXPORT VIA THIS SMALL VENTURE WARRANT A WAIVER TO ALLOW PROVISION OF EQUIPMENT FACILITY TO OTHER PLANTATIONS AND MILLS?

(3) SOMALI DEVELOPMENT BANK HAS A NUMBER OF OTHERWISE VIABLE PROJECTS IN THE PRIVATE SECTOR WHOSE IMPLEMENTATION IS BLOCKED BY FOREIGN EXCHANGE SHORTAGES. THESE PROJECTS ARE IN AREAS OF AGRICULTURE, AGRICULTURAL RAW MATERIALS, AGRO-INDUSTRY AND MANUFACTURING OF VARIOUS TYPES. PRECISE LIST OF COMMODITY CATEGORIES WILL BE REFINED THROUGH FURTHER DISCUSSIONS WITH SDB NEXT WEEK. BELIEVE THIS APPROACH IS HIGHLY APPROPRIATE TO ENCOURAGEMENT OF A REVITALIZED PRIVATE SECTOR.

(4) GIVEN TWO-TIER EXCHANGE RATE SYSTEM, COMMODITIES MAY GENERATE LOCAL CURRENCY AT TWO RATES (THOSE WHICH MAY BE IMPORTED AT LOWER RATE HAVE BEEN INDICATED BY LR). WE ARE, OF COURSE, CONCERNED ABOUT COUNTER PART GENERATION AND EFFICIENCY IMPLICATIONS BUT REALIZE AT SOME TIME THAT IMF, FOR FOR MOMENT, HAS SANCTIONED TWO-TIER RATE. WE ARE EXPLORING ISSUE WITH LOCAL REPRESENTATIVES OF IBRD AND WILL PRESENT A RECOMMENDATION IN PAAD. ALSO BELIEVE IT IMPORTANT TO KEEP IN MIND FACT THAT SOMALIA MAY HAVE MOVED TO SINGLE RATE BY TIME GRANT IMPLEMENTATION BEGINS.
PETTERSON

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101

Department of State TELEGRAM

PAGE 01 STATE 304376 9367 027669 AID7269
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ORIGIN OFFICE CPS-02
INFO AFEA-03 AFDR-06 PPCE-01 POPR-01 PPPB-03 FM-02 C-01
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APPROVED BY AID/COM/ALI: WGILL
AID/AFR/DR: SMEYER (DRAFT)
AID/AFR/EA: FPERRY (DRAFT)
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TO AMEMBASSY MOGADISHU
INFO AMEMBASSY NAIROBI

UNCLAS STATE 304376

AIDAC, NAIROBI FOR REDSO/EA

E.O. 12065: N/A
TAGS

SUBJECT: PAAD PREPARATION - COMMODITY IMPORT PROGRAM

REF: MOGADISHU 6488

1. AMONG REFTEL ISSUES IS QUESTION RELATING TO ASSISTANCE TO SUGAR INDUSTRY AND WHAT AID/W ACTION IS APPROPRIATE UNDER PD-71. RESPONDING TO QUESTION, AID/W WILL BE REQUIRED TO CONSIDER ANY POTENTIAL INJURY TO U.S. SUGAR PRODUCERS. CONSIDERATION WOULD NECESSARILY GO BEYOND CITED INSTANCE OF SMALL AMOUNT OF MOLASSES EXPORTED TO GERMANY AND ENCOMPASS FULL REVIEW OF WHETHER IMPORTING COMMODITIES UNDER A.I.D.-FINANCING FOR USE IN SOMALIA SUGAR PRODUCTION, WHETHER FOR DOMESTIC CONSUMPTION OR FOR EXPORT, WOULD IMPACT ON U.S. PRODUCERS OF SUGAR.

2. APPROVAL UNDER PD-71 QUITE LIKELY IF SOMALIA PRODUCTION IS LARGELY FOR OWN DOMESTIC USE AND IF SOMALIA EXPORTS DO NOT DISPLACE U.S. PRODUCERS' DOMESTIC OR EXPORT MARKET. ASK MISSION FORWARD TO SER/COM ALL AVAILABLE FACTS RELEVANT TO SUCH A FINDING. FACTS COULD INCLUDE INFO ON SOMALIA PRODUCTION, DOMESTIC CONSUMPTION, EXPORTS AND DESTINATION OF EXPORTS, IMPORTS AND COUNTRIES SUPPLYING, AND CONFIRMATION OUR UNDERSTANDING THAT NO
SUPPLYING, AND CONFIRMATION OUR UNDERSTANDING THATNO

IMPORTS ARE FROM THE UNITED STATES.

3. FYI, APPROVAL UNDER PD-71 PROCEDURE PREVIOUSLY GRANTED FOR A.I.D. FINANCING OF EQUIPMENT FOR SUGAR INDUSTRY USE IN EGYPT AND SUDAN. AID/W ALSO NOW REVIEWING REQUEST UNDER PROPOSED MAURITIUS CIP.

4. ADVISE ASAP. IF INFORMATION DEMONSTRATES NO INJURY TO U.S. PRODUCERS, APPROVAL MEMORANDUM WILL BE PROCESSED PROMPTLY. CLARK

UNCLASSIFIED

102

Department of State

TELEGRAM

ACTION AID-35

ACTION OFFICE AFEA-03
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STAG-02 AFBA-01 AGRI-01 RELO-01 NAST-01 AFPM-01
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UNCLAS SECTION 1 OF 2 MOGADISHU 6723

AIDAS

FOR AFR/EA AND SER/COM

E.O. 12065: NA
SUBJECT: CIP ASSISTANCE TO THE SUGAR INDUSTRY

REF: A. STATE 304376 B. MOGADISHU 6488

1. IMPACT OF REFUGEE UNFLUX (ON DEMAND) AND DONOR RESPONSE (ON SUPPLY) HAVE COMPLICATED SUGAR CONSUMPTION PICTURE SINCE 1978. NONETHELESS, DATA IS SUFFICIENTLY FIRM TO INDICATE THAT SOMALIA IS NOT NOW, AND NOT LIKELY TO BECOME, A MAJOR EXPORTER OF SUGAR. WHILE SOMALIA BEGAN TO PRODUCE SOME SUGAR IN THE 1930'S IT HAS ALWAYS BEEN A SIGNIFICANT IMPORTER. IT IS ONLY WITH THE RECENT BEGINNING OF PRODUCTING AT KISMAYO IN 1979 THAT THE COUNTRY COULD BEGIN TO HOPE TO MEET A MORE SIGNIFICANT PORTION OF ITS DOMESTIC SUGAR NEEDS. SOMALIA HS NOT IMPORTED SUGAR FROM THE U.S. IN THE RECENT PAST. SOMALIA IS HOWEVER ONE OF THE WORLD'S LARGEST CONSUMERS OF SUGAR ON A PER CAPITA BASIS AND ITS IMPORTATION IS A SIGNIFICANT DRAIN ON SCARCE FOREIGN EXCHANGE.

2. THE ANNUAL PRODUCTION AND CONSUMPTION OF SUGAR IS SHOWN AS FOLLOWS:

	ANNUAL PRODUCTION (MILLION OF KILOS)	ANNUAL CONSUMPTION (MILLIONS OF KILOS) (10 PCT GROWTH)	ANNUAL CONSUMPTION (MILLION OF KILOS) (15 PCT GROWTH)
1976	33.2 ACTUAL	31.3 EST	31.6 EST
1977	29.9 ACTUAL	34.7 PROJ	36.3 PROJ
1978	24.4 ACTUAL	38.2 PROJ	41.8 PROJ
1979	21.4 ACTUAL	42.0 PROJ	48.0 PROJ
1980	23.7 ACTUAL	46.2 PROJ	55.2 PROJ
1981	75.0 EST	50.8 PROJ	63.5 PROJ
1982	80.0 PROJ	56.0 PROJ	73.0 PROJ
1983	100.0 PROJ	61.5 PROJ	84.0 PROJ
1984	100.0 PROJ	67.7 PROJ	96.6 PROJ
1985	100.0 PROJ	74.5 PROJ	111.1 PROJ
1986	100.0 PROJ	81.9 PROJ	127.8 PROJ
1987	100.0 PROJ	90.1 PROJ	145.9 PROJ
1988	100.0 PROJ	99.1 PROJ	169.0 PROJ
1989	100.0 PROJ	109.0 PROJ	194.3 PROJ

CONSUMPTION AS A PERCENT OF PRODUCTION:

	CONSUMPTION GROWTH 10 PERCENT	15 PERCENT
1976	95.2	95.2
1977	116.1	121.4
1978	156.6	171.3
1979	196.3	224.3
1980	195.0	185.0
1981	67.9	84.7
1982	70.0	91.3
1983	61.5	84.0
1984	67.7	96.6
1985	74.5	111.1
1986	81.9	127.8
1987	90.1	145.9
1988	99.1	169.0
1989	109.0	194.3

3. THE DATA ON ANNUAL PRODUCTION PRESENTED ABOVE WAS TAKEN FROM MINISTRY OF INDUSTRIES STATISTICAL RECORDS AND PROJECTIONS. THE PROJECTIONS ARE VERY OPTIMISTIC IN THAT THEY ASSUME THAT THE TWO EXISTING SUGAR SCHEMES AT JOHAR AND KISMAYO WILL REACH THEIR FULL PRODUCTIVE POTENTIAL BY 1983 AND SUSTAIN THAT LEVEL INTO THE FUTURE. THE ACTUAL PRODUCTION DATA FOR 1976-1980 CLEARLY INDICATES GROUNDS FOR DOUBT AS TO THE REALISM OF THIS ASSUMPTION.

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Department of State

TELEGRAM

PAGE 01 MOGADI 06723 02 OF 02 171442Z 7246 042337 AID8258
ACTION AID-25

ACTION OFFICE AFEA-03
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4. THE DATA ONCONSUMPTION HAS BEEN OTAINED AS FOLLOWS: 1976 CONSUMPTION WAS ESTIMATED AS THE AVERAGE OF TOTAL PRODUCTION AND TOTAL IMPORTS OVER THE PERIOD 1973-1975. EXPORTS WERE IGNORED AS SOMALIA IS NOT AN EXPORTER OF SUGAR. SINCE 1976, TOTAL IMPORTS HAVE BEEN UNDERSTATED BY THE EXCLUSION, TO AN UNKNOWN DEGREE, OF SOME SUGAR IMPORTS FOR REFUGEES SUCH THAT FOR THE YEARS 1976-1981, TOTAL PRODUCTION PLUS IMPORTS CANNOT BE USED AS A MEASURE OF CONSUMPTION. HENCE THE BEST APPROACH SEEMED TO BE TO ESTIMATE 1976 CONSUMPTION AND APPLY VARIOUS GROWTH RATES TO IT TO PROJECT THE DATA.

5. A TEN PERCENT ANNUAL INCREASE IN CONSUMPTION SEEMS A VERY CONSERVATIVE ASSUMPTION IN THE LIGHT OF POPULATION GROWTH (2.8 PERCENT) INCREASING URBANIZATION/SEDENTARIZATION AND THE INFLUX OF REFUGEES (APPROXIMATELY 15 PERCENT OF TOTAL POPULATION). UNDER NI CONSERVATIVE ASSUMPTION, SOME SURPLUS WOULD ARISE IN THE EARLY 1980'S BUT WOULD RAPIDLY DIMINISH BY THE END OF THE DECADE. NOTE THAT IN REALITY SOMALIA IS IN AN IMPORT SITUATION IN 1981, AND MOST LIKELY WILL BE IN 1982 AS WELL.

6. WHEN A MORE REALISTIC 15 PER ENT ANNUAL INCREASE IS ASSUMED, THE SURPLUSES OF THE EARLY 1980'S ARE QUITE SMALL. EVEN ASSUMING THE OPTIMISTIC PRODUCTION FORECASTS MENTIONED ABOVE, BY 1985 SOMALIA WILL CLEARLY BE A NET SUGAR IMPORTER.

7. AS HAS BEEN NOTED, SOMALIA HAS NOT BEEN A SUGAR EXPORTER IN THE PAST AND, FROM A REASONABLE INTERPRETATION OF THE BEST AVAILABLE DATA, SEEMS VERY UNLIKELY TO BECOME A SIGNIFICANT EXPORTER IN THE FUTURE. VIRTUALLY ALL ITS PRODUCTION IS CERTAIN TO BE CONSUMED DOMESTICALLY.

8. SOMALIA'SS EFFORTS TO INCREASE DOMESTIC SUGAR PRODUCTION WILL ALSO NOT AFFECT THE MARKET FOR U.S. SUGAR PRODUCERS. AN EXAMINATION OF SUGAR IMPORT ORIGINS FROM1973-198 REVEALED THAT THE U.S. HAD NOT SUPPLIED ANY SUGAR TO SOMALIA. MAJOR SUPPLIERS WERE, IN VARIOUS YEARS, KENYA, WEST GERMANY, CHINA, BRAZIL AND THE UNITED KINGDOM. NO REFUGEE SUGAR HAS BEEN PROVIDED BY, O PROCURED FROM THE U.S.

9. REF B REPORTS OF MOLASSES EXPORTS TO EST GERMANY WRE FOUND SUBSEQUENTLY TO BE INCOMPLETE. FROM LATER CONVERSATIONS WE HAVE LEARNED THAT A BRITISH COMPANY IN COOPERATION WITH THE INTERNATIONAL FINANCE CORPORATION, THE WEST GERMAN DEVELOPMENT BANK AND THE SOMALI DEVELOPMENT BANK

MOGADI 06723 02 OF 02 171442Z 7246 042337 AI
WILL E[illegible]T THE EXCESS MOLASSES FROM THE KISMAYO SCHEME [illegible] THE UK AND REST OF THE WORLD (AND NOT TO JUST GERMANY). THIS IS EXPECTED NOT TO EXCEED 13,000 TONS PER ANNUM BEGINNING IN 1982, A VERY SMALL AMOUNT RELATIVE TO WHAT WE UNDERSTAND TO BE A PROSPEROUS WOLD DEMAND FOR MOLASSES.

10. THE USE OF COMMODITY IMPORT PROGRAM RESOURCES TO ASSIST SOMALIA'S EXISTING SUGAR SCHEMES (IT WILL NOT FOCUS ON THE DEVELOPMENT OF NEW SCHEMES) WIL THUS NOT IMPACT ADVERSELY UPON U.S. SUGAR PRODUCERS. AT THE SAME TIMENOWEVER SUCH A USE OF PROGRAM RESOURCES REPRESENTS A SOUND DEVELOPMENT STATEGY. BY PROMOTING INCREASED SELF-SUFFICIENCY INSUGAR, IT WILL SAVE HARD CURRENCY FOR AN ECONMY IN WHICH FOREIGN EXCHANGESHORTAGES REPRESENT A KEY DEVELOPMENT CONSTRAINT. USAID/SOMALIA BELIVES THAT APPROVAL OF SUCH ASSITANCE UNDER PD 71 PROCEDURES IS FULLY JUSTIFIED. 0355349,

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ANNEX VIII

LETTER TO MINISTER OF INDUSTRIES

October 12, 1981

H.E. Ali Khalif Galayr
Minister of Industry
Mogadishu

Dear Mr. Minister:

I very much appreciated the recent opportunity to exchange views with you on private sector development in Somalia and A.I.D.'s potential role. I am confident that we can work together effectively to identify both policy reforms and specific project proposals where American assistance would be appropriate to Somalia.

We discussed four agenda items:

1. Reform of the Investment Code - We are prepared to ask for a technical advisor or advisory team to review your investment code and recommend changes which will encourage increased private investment in Somalia. In order to draw up a scope of work for such an assignment, I suggest that Roger Carlson, Assistant Director of USAID, meet with key technical personnel working currently on investment code reform in Somalia. In the meantime, I will alert A.I.D. Washington to our needs. I would think we could both agree on an investment code team visit to Somalia before the end of this calendar year.

2. Spare Parts and Other Material Inputs to Industrial Regeneration - As you know, USAID is preparing a proposal which we will submit to your Government for financing of a multi-year commodity import program. Grant financing will be made available for importation of spare parts and other vital inputs to industrial investment. As part of project preparation, we need to identify with you those industries which are critical to Somalia's five year development plan. From our Agency's perspective, priority should be placed on those industries which contribute directly to increasing agricultural

106

production, and which provide an equitable spread of benefits to small private entrepreneurs. We hope to obtain A.I.D. Washington approval of this project early in CY 1982, in time for the Grant Agreement to be signed in March 1982.

3. Management and Technical Training Programs - We will examine with you specific plans for short term management and technical training in key industries. Specialized training programs (U.S. and in-country), on-the-job training, and U.S. academic programs will be considered. The first step for us will be to develop a draft program plan which identifies specific industries or public organizations for inclusion in such a program. I suggest that we request the visit of an industrial management consultant with technical and managerial training design experience to develop such a program plan. This plan should be produced by the end of the calendar year.

4. Policy Planning in the Private Sector - We look forward to a continuing exchange of views, formal and informal, on general policy reforms to stimulate private sector investment and growth. As a start, we will try to enlist Elliot Berg of the World Bank or another economist with African experience to spend two to three weeks in Mogadishu this fall in informal discussion with you, other members of the Government and USAID to help us identify key issues for analysis. Second, we are preparing a USAID program strategy statement this fall, and have enlisted the support of a senior A.I.D. economist and other experts to participate in this task. As their recommendations take form over the next few weeks, I hope we can share them with you and obtain your assessment and views on the shape and direction of USAID activities, particularly in terms of private sector activities. Third, we propose to use U.S. universities and research institutes to examine food policy on a macro scale and develop a multi-annual program for USAID food production inputs, and can make these resources available to the Government of Somalia in assessing food policy, production objectives and private sector involvement.

Please consider this letter as an initial reaction to the thoughts you expressed in our meeting on September 30, 1981. I invite your comment and critique. If this basis for moving ahead seems reasonable to you, I will begin the preliminary contacts suggested above and keep you advised of progress.

Sincerely yours,

Jim Kelly
Director

AD:RCarlson:lnp:10/12/81

cc: Jim Shea, CDO
Nick Marchand, PROC

Item 15. Summary Description, cont'd

1. Procurement will be restricted to A.I.D. Geographic Code 941.

2. Commodities procured under this grant may not be used in the production for export of palm oil, citrus or sugar products; and

3. Such other terms and conditions as A.I.D. may deem advisable.

Approval is also given to USAID Somalia to execute a Standard Grant Agreement for Commodity Assistance, to sign and issue Implementation Letters and Commodity Procurement Instructions for this grant.

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