

PJ 3AD695

For AFR/PD/EAP

Policy Initiatives/Privatization Project
A.I.D. Project No. 649-0132
Agreement No. 83-7

Date: September 29, 1983

OFFICIAL PROJECT
DOCUMENT

PROJECT GRANT AGREEMENT

Between

Somali Democratic Republic ("Grantee")

And

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

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ARTICLE I

The Agreement

The purpose of this Agreement is to set out the understanding of the parties named above ("Parties") with respect to the undertaking by the Grantee of the Project described below, and with respect to the financing of the Project by the Parties.

ARTICLE

The Project

SECTION 2.1. Definition of the Project. The Project, which is further described in Annex I, will assist the Grantee accomplish its economic recovery program and increase private participation in the economy through collaborative analytical studies of macroeconomic policies affecting national development and efforts to increase private sector involvement in the economy.

Annex I, attached, amplifies the above definition of the Project and within the limits of the above definition, elements of the amplified description stated in Annex I may be changed by written agreement of the authorized representatives of the Parties named in Section 8.2. without formal amendment of this Agreement.

ARTICLE III

Financing

SECTION 3.1. The Grant. To assist the Grantee to meet the costs of carrying out the Project, A.I.D. pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement not to exceed Two and One-half Million United States ("U.S.") Dollars (\$2,500,000) ("Grant"). The Grant may be used to finance foreign exchange costs, as defined in Section 6.1., and local currency costs, as defined in Section 6.2., of goods and services required for the Project.

SECTION 3.2. Grantee Resources for the Project.

(a) The Grantee agrees to provide or cause to be provided for the Project a) local currency funds and all other resources not provided by the Grant which are required to carry out the Project effectively and in a timely manner.

(b) The resources provided by the Grantee for the Project will be not less than Somali Shillings 15,000,000, including costs borne on an "in-kind" basis, and which may be provided from Government of Somalia owned local currency accounts from the PL-480 and/or CIP programs.

SECTION 3.3. Project Assistance Completion Date.

(a) The "Project Assistance Completion Date: (PACD), which is March 31, 1987 or such other date as the Parties may agree to in writing, is the date by which the Parties estimate that all services financed under the Grant will have been performed and all goods financed under the Grant will have been furnished for the Project as contemplated in this Agreement.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Grant for services performed subsequent to the PACD or for goods furnished for the Project as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters are to be received by A.I.D. or any bank described in Section 7.1. no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Grantee, may at any time or times reduce the amount of the Grant by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

ARTICLE IV

Condition Precedent

SECTION 4.1. First Disbursement. Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (1) An opinion of counsel acceptable to A.I.D. that the agreement has been duly authorized and/or ratified by, and executed on behalf of, the Grantee and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms.
- (2) A statement of the name of the person holding or acting in the office of the Grantee specified in Section 8.2., and of any additional representatives together with a specimen signature of each person specified in such statement.

SECTION 4.2. Sub-Activities. Prior to disbursement for individual activities under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, obtain written approval of A.I.D. of activities to be financed by the Grant including approval of procurement procedures and contracting procedures and documentation in the case of host country contracting.

SECTION 4.3. Notification. When A.I.D. has determined that the condition precedent specified in Section 4.1. has been met, it will promptly notify Grantee.

SECTION 4.4. Terminal Dates for Condition Precedent. If the condition specified in Section 4.1. has not been met within 90 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may terminate this Agreement by written notice to Grantee.

ARTICLE V

Special Covenants

SECTION 5.1. Project Evaluation. The Parties agree to establish an evaluation program as part of the Project. Except as the Parties may otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter:

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

SECTION 5.2. Studies and Technical Assistance Counterparts. The Grantee agrees to name and assign qualified Counterparts for the A.I.D. sponsored technicians for the studies and technical assistance activities to be undertaken, in a timely manner.

SECTION 5.3. Availability of Information. The Parties agree that the Grantee and A.I.D. may brief and de-brief all contractors funded by the Grant and that appropriate records, both financial and non-financial, will be maintained and available to the Parties, and that all reports will be furnished to all Parties of the Agreement and Sub-Agreements.

ARTICLE VI

Procurement Source

SECTION 6.1. Foreign Exchange Costs. Except as A.I.D. may otherwise agree in writing, and except as provided in the Project Grant Standard Provisions Annex, Section C.1(b) with respect to marine insurance, disbursements pursuant to Section 7.1. will be used exclusively to finance the costs of goods and services required for the Project having their source and origin in Somalia and

countries included in A.I.D. Geographic Code 941 as in effect at the time orders are placed or contracts entered into for such goods and services ("Foreign Exchange Costs").

SECTION 6.2. Local Currency Costs. Disbursements pursuant to Section 7.2. will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in Somalia ("Local Currency Costs"). To the extent provided for under this Agreement, "Local Currency Costs" may also include the provision of local currency resources required for the Project.

ARTICLE VII

Disbursements

SECTION 7.1. Disbursement for Foreign Exchange Costs.

(a) After satisfaction of conditions precedent, the Grantee may obtain disbursement of funds under the Grant for the Foreign Exchange Costs required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

(1) by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, (A) requests for reimbursement for goods or services required for the Project, or (B) requests for A.I.D. to procure commodities or services on Grantee's behalf for the Project.

(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts, (A) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letters of Credit or otherwise, for goods and services required for the Project, or (B) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods or services; or

(3) by requesting A.I.D. to (A) issue Letters of Credit or other commitment documents to or on behalf of private non-profit organizations, making available to such organizations funds to meet the costs of activities undertaken pursuant to sub-project agreements between such organizations, A.I.D., and the Grantee, or (B) make funds directly available to such organizations for the costs of activities undertaken pursuant to such agreements.

(b) Banking charges incurred by Grantee in connection with Letters of Commitment and Letters of Credit will be financed under the Grant unless Grantee instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Grant.

SECTION 7.2. Disbursement for Local Currency Costs.

(a) After satisfaction of conditions precedent, the Grantee may obtain disbursements of funds under the Grant for Local Currency Costs required for the Project in accordance with the terms of this Agreement by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursement may be obtained;

(1) by acquisition by A.I.D. with U.S. Dollars by purchase or from local currency already owned by the U.S. Government; or

(2) by A.I.D. requesting the Grantee to make available the local currency for such costs and thereafter making available to the Grantee an amount of U.S. Dollars equivalent to the amount of local currency made available by the Grantee.

The U.S. dollar equivalent of the local currency made available hereunder will be, in the case of sub-section (b)(1) above, the amount of U.S. dollars required by A.I.D. to obtain local currency, and in the case of sub-section (b)(2) above, an amount calculated at the rate of exchange specified at the time A.I.D. requests the Grantee to make the local currency available.

SECTION 7.3. Other forms of Disbursement. Disbursements of the Grant may also be made through such other means as the Parties may agree to in writing.

SECTION 7.4. Rate of Exchange. Except as may be more specifically provided under Section 7.2.; if funds provided under the Grant are introduced into Somalia by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Grantee will make such arrangements as may be necessary so that such funds may be converted into currency of Somalia at the highest rate of exchange which, at the time the conversion is made, is not unlawful in Somalia.

ARTICLE VIII

Miscellaneous

SECTION 8.1. 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 addresses:

To the Grantee:

Mail and Cable Address: Ministry of Planning
Mogadishu, Somalia

To A.I.D.:

Mail Address:

Director
USAID/Somalia
Mogadishu, Somalia

Alternate address
for cables:

U.S. Embassy (AID)
Mogadishu, Somalia

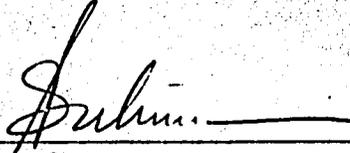
All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

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 Director General, Ministry of National Planning and A.I.D. will be represented by the individual holding or acting in the Office of Director, USAID/Somalia, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1. to revise elements of the amplified description in Annex I. 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. Standard Provisions Annex. A "Project Grant Standard Provisions Annex" (Annex II) is attached to and forms part of this Agreement.

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.

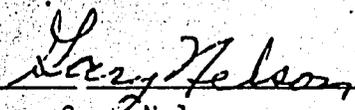
SOMALIA DEMOCRATIC REPUBLIC

By: 

Brig. Gen. Ahmed Suleiman Abdalla

Title: Minister, Ministry of Planning

UNITED STATES OF AMERICA

By: 

Gary Nelson

Title: Acting Director
USAID/Somalia

POLICY INITIATIVES/PRIVATIZATION PROJECT

ANNEX I

AMPLIFIED DESCRIPTION OF THE PROJECT

I. Rationale

Policy dialogue and resultant policy change is dependent upon the establishment of a process of constant refinement of macroeconomic thinking. In order to implement this process, funds must be available to obtain technical support rapidly so that advice can be provided in a timely manner based on proper analysis. The Project Grant will provide this technical support.

Technical support will focus on two areas: overall macroeconomic policy and privatization. Macroeconomic support will provide the resources to permit the Grantee to examine options for implementation of specific reforms which it has already committed itself to such as: civil service reform, tax reform, budget allocation reform, etc. It will also permit the Grantee to explore other issues which it and members of the international financial community have identified as critical such as: migrant workers and remittances, banking and interest rates, export diversification, and the divestiture of parastatals. Many of these policies are identified in AID's CIP program with covenants requiring the Government to develop plans for addressing them.

The privatization support component of the Project will provide the resources necessary to permit the Grantee to identify and implement the means for placing greater reliance on the private sector to provide essential goods and services to the economy. It will also provide assistance directly to private entrepreneurs in defining feasible investments which are appropriate.

II. Objectives

The objectives of the technical support provided through this grant are:

- To undertake collaborative analytical studies of national policies for economic development;
- To facilitate informed dialogue on national economic issues and policies among the GSDR and the international development community;
- To develop recommendations to strengthen macroeconomic policies for consideration by the GSDR, AID and international development institutions; and
- To take the initial steps needed, in terms of analysis and technical support, to implement changes in GSDR policies critical to economic stabilization and structural transformation.

This grant is a part of the dynamic process begun by the IMF in their stabilization program and furthered by the Consultative Group consultations on public investment to improve the fiscal situation of the GSDR, to encourage private sector development and to strengthen the economy of Somalia.

III. Program Activities

Technical and financial support will be provided for program activities such as the following:

1. Through collaboration among the GSDR, USAID, and other members of the international donor community, identify major national economic policy issues requiring further analysis.
2. Draft scopes of work for 6 to 10 studies of major macroeconomic issues.
3. Undertake analytical studies of national policy issues, draw conclusions and make policy recommendations.
4. Provide consultants to the GSDR to assist in assessments of policy problems and to assist the GSDR in directing the research studies financed under this program.
5. Conduct workshops, seminars and conferences to assess and disseminate the findings, conclusions and recommendations of the studies performed.
6. Arrange for observation and study tours for GSDR officials and other Somali nationals concerned with national development issues to observe and study institutional arrangements, laws, and operating procedures for dealing with macroeconomic problems in other countries.
7. Undertake a series of studies to address the particular problems of privatization in Somalia, clarifying the constraints, analyzing approaches to overcoming the constraints and making recommendations to the GSDR on approaches to increasing private participation.
8. Provide consultants to advise both the government and private sector entrepreneurs on the potential and process for privatization.
9. Provide technical and financial support to identified industries and businesses which are to be shifted from public to private management.

IV. Illustrative Studies

A. Macroeconomic

Mobilization of Domestic Savings and Investment. The failure to attract domestic savings into formal financial structures leads to a credit constraint

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and inappropriate allocation of domestic resources. Studies on the effectiveness of traditional savings and investment mechanisms, the formal banking system, interest rates and regulations on domestic investment will permit implementation of reforms to the banking, credit, and investment systems to mobilize domestic resources.

Mobilization of Foreign Resources. The inability to attract foreign resources has restrained growth in the modern sectors. An estimated \$60 - 100 million in worker's remittances from Somali workers in the Gulf States is currently lost because the remittances are not being returned to Somalia. Foreign investors remain reluctant to undertake long-term investments in Somalia. Studies of the migration and remittances issues, external banking systems and procedures, and the foreign investment code will define means of attracting capital into the country.

Domestic Finance. Both the budget allocation process and the taxation system are currently in need of strengthening. Studies will be undertaken to define how the GSDR can improve management of their own budgetary resources and increase revenues to the government through an improved taxation system.

Civil Service Reform. The Government has, until recently, served as the employer of last recourse for all secondary school leavers while at the same time holding down the government wage bill by paying very low salaries. The result of these policies has been the creation of a huge civil service which is poorly motivated and which lacks competent technical staff.

Export Promotion and Diversification. The precarious balance of payments situation is threatened by a very narrow export base. Assurance of markets for current exports and identification of new exports are essential to narrow the balance of payments gap. Studies of current and potential export markets and the feasibility of new export products will provide the basis for determining the scope for export expansion.

B. Private Sector

Divestiture of Public Enterprises. The GSDR has agreed to divest itself of inefficient public enterprises but the process for accomplishing the divestiture has not been investigated. Studies in this field would include a review of selected enterprises, definition of the steps required to increase private participation in these enterprises, and assistance in accomplishing the divestiture process.

Trade and Commerce. The private sector is already active in the trade and commercial sectors but the extent of government regulation, protection, subsidy and/or taxation has not been defined. Assistance will be provided to define the current government role and the rationale for their role, suggest changes in the government interventions and define appropriate incentives and controls for this sector.

Private Investment. The private sector has demonstrated a willingness to expand into new industries and make investments. However, in addition to the review of the investment code, etc. proposed in the macroeconomic studies, assistance is required to assist the private entrepreneurs to examine the feasibility of proposed investments.

The above list of possible assistance requirements is not exhaustive but is intended to serve as an illustrative listing of potential activities. Following the Consultative Group meetings and in consultation with the IMF and other donors and the GSDR, additional studies and assistance may be required.

V. Implementation Arrangements

In order to determine the topics chosen for the studies program and to establish their priority, USAID will collaborate with the Director General of Planning at the beginning of each fiscal year. Priority ranking of studies will be determined primarily by considering key policy issues likely to arise out of CIP covenants, relevant PL-480 self-help measures, consultative group meeting priorities, and other activities having important policy implications.

The project will finance a private sector adviser to develop appropriate scopes of work for study team members; to select, recruit, and organize consultants; and to prepare and coordinate reports. In order to implement the studies, relevant ministries and/or organizations will sign subagreements with the Grantee and provide counterparts.

The USAID Mission in Somalia will play a direct role in project management by approving with the Ministry of National Planning each activity to be undertaken. Both AID direct contracts and host country contracts with firms and/or individuals will be utilized as appropriate. All host country contracting will be done in accordance with the Handbook 11 guidelines including competitive bidding where required.

Contractors undertaking studies under this program will be encouraged to utilize local institutions to the maximum extent so that a local capability can be developed.

VI. Financial Plan

A. Macroeconomic Studies

1. Long term technical assistance	\$ 300,000
2. Short term technical assistance	350,000
3. Study tours	70,000
4. Logistics and support costs	190,000
5. Allowance for overheads	350,000
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Sub-total	\$1,260,000

B. Privatization

1. Long term technical assistance	\$ 300,000
2. Short term technical assistance	250,000
3. Observation tours	70,000
4. Logistics and support costs	190,000
5. Allowance for overheads	430,000
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Sub-total B	1,240,000
Total	\$2,500,000

Records, Reports and Evaluation

Each managing entity or recipient organization using funds provided under the grant will be required, in accordance with implementation documentation, to retain and make available copies of all contracts and procurement documents and to maintain and make available records acceptable to AID concerning the use and application of grant funds. Long Term Technical Assistants will submit quarterly reports to the Ministry to which they are assigned, the Ministry of Finance, the Ministry of Planning and USAID. Final written reports will be provided prior to their departure from post. Short-term technical consultants will also report to USAID and the Ministries of Finance and Planning on the progress and financial status of implementation activities.

USAID/Somalia will complete an overall evaluation of the project after 18 months of the obligation date. Individual evaluations of each separate study will be conducted as they are completed. The nature of the Grant does not lend itself to the formal specification of detailed outputs and end of project status. Accordingly, the evaluation will emphasize the following:

- a. the extent to which eligible activities have been performed (e.g., consultancies, training activities, observation visits, etc.);
- b. the extent to which macroeconomic policy studies have addressed constraints to financial stability and economically productive activity, the relevance of privatization strategies to macro-policies, and the effectiveness of technical support; and,
- c. the appropriateness and effectiveness of the implementation methodology used for this grant.

This evaluation will be a continual monitoring process and will be used to plan corrective action for implementation. An annual review of the project will be conducted giving special attention to the effectiveness of the implementation approach.