ECONOMIC OVERVIEW OF SOMALIA WITH IMPLICATIONS FOR FEASIBILITY OF A P.L. 480 TITLE III PROGRAM

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PREFACE

The Team spent three weeks in Somalia, May 7-28, 1981, gathering information for the analysis presented herein. In this endeavor they were assisted by numerous individuals, many of whom are listed in the latter part of the report. In assembling background information prior to departure for Somalia, the team was assisted greatly by Mr. Murl Baker, Project Officer, AID and Dr. Besa Kotati, Foreign Agricultural Service, USDA. In Somalia, Mr. Michael H. B. Adler, Acting Director of the USAID Mission, was extremely helpful in a variety of important ways. His assistance was of particular importance in arranging and participating in meetings with key Somalian officials, and in guiding the Team's exploration of substantive policy issues. Appreciation is also extended to Ms. Nadine Glass, Office of International Cooperation and Development, USDA, who was responsible for typing the numerous drafts of the report.

At a number of points in this report, the need for a very substantial devaluation is emphasized. About one month after the Team's departure from Somalia, the Somalian Government announced the establishment, effective July 1, 1981, of a Two Tier Exchange Rate and the intent to abolish the Franco Valuta system for financing imports. One of the new exchange rates is So.Shs. 6.3573 per U.S. dollar, a slight devaluation from the old official rate of Sh. 6.232 per U.S. dollar. This rate will apply to selected essential imports, including: rice, sugar, flour, spaghetti, tea, coffee, edible oils, maize, sorghum, wheat, dates, medicine and chemicals, raw materials for industry and agriculture, agricultural machinery and spares, and industrial spare parts.

The second rate will be So.Shs. 12.4654 per U.S. dollar. This rate will apply to all imports not listed above and to invisibles. It will also apply to all export earnings, overseas workers' remittances and businessmen's transfers. Deposited of overseas workers' remittances into special hard currency accounts will be allowed with interest to be paid at "international rates." New higher rates for domestic lending and saving also were announced.

Allowances for these policy revisions should be made while reading this document. It was judged unnecessary to attempt a major change in the text since, among other considerations: 1) it was unclear how expeditiously and effctively the new, rather complex policies would be implemented; 2) it was unclear how near the revised higher rate would approximate the "equilibrium" rate and 3) particularly, it was unclear as to how responsive overseas Somalian workers would be to the new set of circumstances in deciding whether to repatriate their earnings and savings.

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SUMMARY AND CONCLUSIONS

The major purpose of this study was to ascertain the appropriateness and workability of a P.L. 480 Food for Development (Title III) program for Somalia. In support of this assignment, the Team was asked to conduct a broad assessment of the current economic situation and make recommendations for improving performance of the economy. The study gives an overview of the economy, examines key government policies, makes policy recommendations, and discusses the merit of a Title III program for Somalia. The most critical, short-term constraints to development are adverse economic policies. The general policy recommendations and the specific recommmendations on Title III are designed to help alleviate these constraints.

Somalia is in a deep economic and financial crisis. The economy is faced with stagnation in production and exports, a rapidly increasing budget deficit, a rising inflation rate, a sharply worsening (official) balance of payments situation and a serious drawdown of foreign reserves. This situation is a reflection of adverse developments in the international economy, traumatic externally caused events with internal impacts, but also some very serious weaknesses in domestic economic management.

Major policy changes are needed in a number of critical areas if Somalia is to resolve its current economic crisis. Highest priority is given to an exchange rate modification.

Improvement in the incentive system throughout the economy should receive high priority. There is a pressing need to generate new technologies and to improve analyses, planning and general human development to utilize and benefit from them. The present central control and parastatal structure of the economy were established more than a decade ago. It is neither realistic to expect, nor politically feasible, for widespread reforms to be enacted suddenly. However, the Somali government has taken several cautious steps toward policy reforms including encouragement of the private sector through increased reliance on incentive pricing and some relaxation of market controls in agriculture. Some parastatals have been abolished and many others are being closely scrutinized. The President announced on May 1, 1981, that inefficient parastatals would be abolished. Some Somali officials have indicated that further incremental changes will be made if the first steps to free up the economy are judged to be successful. The Team believes that chances for success for the initial reforms will increase with the program support inherent in a well conceived Title III agreement, complemented by a Commodity Import Program (CIP) and appropriate technical assistance.

Agricultural policies are especially critical and must be considered in light of the realities of Somalia's conditions. First, it is important to note that income streams to farmers, the basis for inducing their investment and sustained productive efforts, vary greatly in countries like Somalia. This uncertainty is due in part to wide fluctuations of the weather. Pricing and marketing policy must allow for this uncertainty if it is to mainimize income variability and decrease the risk to farmers. Second, uncertainties over duration of the refugee problem must be allowed for in the basic government investment decisions for agricultural development. Provision may have to be made to accomodate the refugee population in the economy, particulary in agriculture.

While the vagaries of weather will be ever present in Somalia, it appears that positive steps are being taken by the Somali government to cushion the impact of extreme fluctuations in growing conditions. For example, to encourage domestic crop production, the government has increased minimum producer prices for crops and has loosened somewhat the marketing board's control over farmers' grain sales. With the recent heavier than normal rains, the area planted has increased over recent years and yields promise to be relatively high in 1981. With imports now underway, a significant start toward a food reserve may be possible in 1981. Additionally, the government's mere announcement of termination of rigid controls over famers' sales together with early start of rains is also credited by close observers of producers for planted area expansion in the spring of 1981.

Changes in policies on pricing, marketing of products and distribution of inputs virtualy assures for the near term a higher realization of land and labor production capacity (especially in the high potential southern areas). Prospects for increased yields over the longer term will be encouraged by the generation and dissemination of improved crop technologies from what appears to be an impressive beginning to an expanded research program.

Although continued substantial importation of vegetable oils and wheat flour will be required, the total Title I volume will probably average below the levels of FY 1979-81. Unless the Somali government indentifies new revenue sources, there will be serious strains on channelling Title I proceeds to Title III purposes. Since nearly all projects have at best a small foreign exchange component, it is important that strong efforts be made to establish a CIP to provide the complementary commodity-related foreign exchange requirements.

The Team is aware of the numerous problems encountered in Title I compliance reporting and in execution of programs/projects in general. This is a manifestation of the development problem in Somalia, particularly shortages of analytical and managerial talent. For these reasons, most undertakings under Title III identified by the Team would also require additional technical assistance related to administration and management.

Somali officials have given much considertion to possible projects for Title III support and enthusiasm for the concept is particularly strong among operating Ministeries who see the advantage of specific projects and line item budgeting. Within the Somali Government, a short report was prepared by the Title III Technical Committee appointed by the Cabinet. This report reflects substantial comprehension of the program. Subsequent discussions with the Chairman and a leading member of this committee confirmed that the Somalis understand that Title III would not bring additional resources and that it would not cover import of commodities. The Teams' suggested project areas were somewhat different from the Somali Title III Committee's but once the representative officials heard the rationale for the Team choices, they became strongly supportive in all instances.

The Team recognizes that there are both serious obstacles and challenging opportunities to consider regarding the possible launching of a Title III program in Somalia. The Team has concluded that the advantages to be gained outweigh the difficulties that must be overcome. It is, therefore, recommended that preparations for a Title III agreement for Somalia should move forward.

The Team suggests that the Title I program be continued through FY 1982 with self-help measures that could serve as a bridge to the initiation of a Title III program in FY 1983. During this period, policy changes and program requirements can be stipulated for enactment as general preconditions to the final agreement. These should include continued improvement in compliance and self-help reporting on Title I performance, and the setting up of procedures, mechanisms, and staffing required to handle the accountability of a Title III program on both the Somali and U.S. sides.

I. ECONOMIC OVERVIEW

Somalia is in a deep economic and financial crisis. The economy is faced with stagnation in production and exports, a rapidly rising budget deficit which is being met through Central Bank financing, steeply rising inflation, a sharply worsening balance of payments situation, and a serious drawdown of foreign reserves. This reflects not only adverse developments in the international economy, but also past and current weaknesses in domestic economic management.

The disappointing performance of the economy is due in part to a number of traumatic external events. These include the drought in 1973-75, the severing of relations with the Soviet Union in 1977, and the conflict with Ethiopia in 1977-78 and its aftermath, which in turn led to the influx of nearly 1 million refugees. Other causes of the economic downturn have been the government's failure to follow growth-oriented policies, the absence of an effective investment program, erosion of real price incentives for the main productive sectors (particularly parts of agriculture), a greatly overvalued exchange rate, a level of government spending which the stagnating econmy cannot bear, and declining absorptive capacity caused by the demoralization of the public service and the exodus of workers to nearby oil-exporting countries.

Prospects for economic recovery are dependent on government's willingness to undertake major policy reforms for restoring financial equilibrium and accelerating development of the economy.

1. Balance of Payments

As Table 1 shows, Somalia's official balance of payments position deteriorated sharply in 1979. The current account deficit rose from $65 million to $205 million largely as a result of stagnant exports of livestock and bananas and over 40 percent increase in imports. Food imports and increased cost of imported oil have been important factors in the import bill. Although no data are yet available for 1980, it is estimated that there has been a continuation of these negative trends. By year-end 1980, international reserves had fallen to a mere $23 million which concurs less than one months' imports.

2. External Debt

Somalia has obtained the bulk of its $550 million outstanding disbursed external debt on very soft terms. Yet it has been unable to meet the relatively modest debt service obligations: by the end of 1979 debt service arrears had reached $17 million. Moreover, the debt service burden is likely to become much heavier in the near future. This is because the amount of debt is quite large in relation to GDP and recorded value of exports. Up to now the debt service ratio has been moderately low (in 1978 and 1979 it was 8 percent), but this was partly because of moratorium on debt to the Soviet Union. Debt service payments to the USSR are scheduled to resume in 1981. Together with other obligations, service payments on existing debt will amount to $57 million in 1983.

3. Donor Assistance

Somalia has received substantial grants for drought relief and for the war and refugee problem in recent years. During 1979 official grants more than doubled. However, the continuous influx of refugees has become an increasingly

TABLE 1
SOMALIA: BALANCE OF PAYMENTS, EXTERNAL DEBT AND RESERVES
($ MILLIONS UNLESS OTHERWISE INDICATED)

	1977	1978	1979	1980	1981
Balance of Payments:					
Current Account Balance	-32.80	-65.00	-205.60		
Merchandise Exports	71.30	109.40	105.90		
Merchandise Imporst	-179.10	-239.40	-342.80		
Trade Balance	-107.80	-130.00	-236.90		
Exports of Services	32.70	42.30	47.40		
Imports of Services	-65.80	-83.00	-110.10		
Transfers	108.10	105.70	94.00		
Long-Term Capital	64.40	79.70	87.50		
Short-Term Capital, Errors and Ommissions	22.70	12.90	10.90		
Overall Balance, Financed	54.30	27.60	-107.20		
By: Reserves	-52.80	-26.50	104.20		
Other	1.50	1.10	-3.00		
Outstanding Disbursed External Debt	384.00	500.00	546.00		
Debt Service Obligations	3.70	12.00	12.30	19.80	38.60
International Reserves	120.00	126.30	43.80	23.00	

SOURCES: World Bank, Economic Memorandum, January, 1981

International Monetary Fund, International Financial Statistics, May, 1981

Central Bank of Somalia, Unpublished Data greater burden for the country as the number of refugees may now have risen to nearly 1 million (estimates vary widely from 600,000 to 1.3 million). During 1979 Somalia received technical, pre-investment, relief and food aid from the UN system totalling $33.5 million. Bilateral assistance increases came mainly from USAID (in technical assistance and aid) and Germany. Although no precise figures are available, assistance from Arab coutnries continues to play a major role.

4. Government Finance

It is impossible to get a comprehensive or accurate picture of the government fiscal position, mainly because the accounts are very fragmentary and the budget covers only a part central government transactions. Data on development expenditures, in particular, are deficient. According to analyses done by the World Bank and IMF, the government budget defict has continued to grow in recent years, due to rapid growth in both ordinary and extraordinary expenditures -- the latter in part defense related and in part attributable to unbudgeted outlays by parastatals -- and modest revenue growth. External aid has not increased sufficiently to help finance the growing deficits, and thus the government has been forced to resort to Central Bank financing. This has, of course, contributed to the growth in inflation, which in 1980 was officially estimated at 55 percent and in 1981 is considered to be running at close to 80 percent. The fiscal outlook also could be improved by a devaluation since over 55 percent of revenue comes from import taxes. However, the government policy of employer of last resort for school-leavers results in built-in expenditure increases, while the escalating inflation erodes public sector salaries and increases expenditures in nominal terms.

5. Agricultural Sector Performance

Agriculture, including livestock, crop production and fisheries dominates the Somali economy. Of the total population of about 4.2 million, over 80 percent depend directly on agriculture for their livelihood. The most important subsector is livestock which provides over 60 percent of employment, about 50 percent of GDP and over 80 percent of export earnings.

The agricultural sector is judged to have grown at a rate of only 1.2 percent a year between 1972 and 1978 (Table 2). With an annual growth of 2.5 percent in that period, livestock production appears to have kept pace with the natural increase in population. Crop production, however, has been very disappointing, showing an average decline of 5 percent per annum between 1972 and 1978.

Underlying this dismal performance has been the lack of an effective, production-oriented development program, the unprofitability of private banana growing, the inefficiency of the Banana Board, and management and agronomic problems in government production schemes. The most important factor in this overall decline, however, is the lack of economic incentives in the system. Most crop cultivation is still carried out by private farmers who are responsive to price signals.

In order to keep consumer prices down, however, official producer prices have not been raised sufficiently to keep up with inflation. Each year before planting time the government announces prices which will be paid by the purchasing agency at harvest time. Due to consistently low output, demand has exceeded at the announced prices. If sales to government had not been

TABLE 2
SOMALIA: NATIONAL ACCOUNTS AND PUBLIC FINANCE

	Percent of Total In 1978	Average Annual Growth Rate 1972-78
GDP at Factor Cost:	100.00	2.50
Productive Sectors	72.00	1.00
Agricultural Sector, of which	62.50	1.20
Livestock	50.30	2.50
Crops	7.50	-5.00
Other	4.70	1.00
Industrial Sectors	9.50	-0.50
Services Sectors	28.00	6.50
Government Services	8.80	8.50
Other Services	19.20	5.50

	Mill So.Sh.	Percent
Central Government Budget:	(1980 Estimates)	
Total Revenue	1,946.10	100.00
Direct Taxes	75.20	3.86
Indirect Taxes -- Domestic Transactions	474.00	24.36
Indirect Taxes -- International Transactions	1,076.00	55.29
Non-Tax Revenue	320.90	16.49
Total Expenditure	1,575.60	100.00
General Services, of which	1,090.90	69.24
Defense	605.00	38.40
Economic Services, of which	184.60	11.72
Agriculture and Fishery	31.00	1.97
Livestock and Forestry	24.00	1.52
Industry and Commerce	4.30	0.27
Social Services	300.10	19.05

TABLE 2 (CONTINUED)

	1978	1979	1980	1981
Inflation Rate (Percent Change)	9.9	24.3	55.3	60-80
Money Supply Growth (Percent Change)	33.2	30.4	35.1	

SOURCES: World Bank, Economic Memorandum, January, 1981

Central Bank of Somalia, Bulletin, September 1980

International Monetary Fund, International Financial Statistics, May, 1981 compulsory, very little, of any would have been channeled to it. The free or "black" market prices have generally exceeded official selling prices by a wide margin, but because of the risks involved in the black market, they were less influential as incentives than if a totally free market had generated the same prices or if official producer support prices had been set at a higher level.

6. The Availability of Food

Somalia has become increasingly dependent upon imported concessional food commodities. The long-term problem comes from the gap caused by a population that is increasing at 2.7 percent a year and an agricultural sector that, as described in the previous section, has virtually been stagnant over the past decade. The long-term problem of food availability for the general population has been exaggerated by a severe droughht and the recent influx of refugees. Even before the current refugee crisis, however, food imports were increasing at over 9 percent per year due to the decrease in production and the increase in demand.

Food production during 1980 continued its downward trend as it was the second consecutive year of dry weather and very poor crops. Precipitation was particularly deficient in the northern part of the country while in the central and southern areas, crops and pastures were reduced 10 to 20 percent below normal. Somalia's 1980 maize and sorghum crops have been estimated to be below the poor 1979 output. The 1980 drought that affected the main season (gu) harvest in August, continued into 1981 and resulted in a considerable failure to the secondary (der) harvest in January and February. The drought was so severe in the northern part of the country and in the Ogaden area of Ethiopia, that it caused Somalia's two largest rivers to dry up, something that has not occurred since 1950. Relief finally came in March 1981, when the spring rains arrived early. More precipitation fell in one week than normally falls in one month. This flooded part of the country causing some crop damange to crops caused by limited flooding of the river flood plains. The corn and sorghum plantings were observed to be well under way and in excellent condition. Increased price incentives and the abundant rainfall contributed to an estimated increase in planted area from last year of 25 to 30 percent. Soil moisture should be adequate enough for a successful harvest without additional rainfall.

It is difficult to assess the specific impact of the refugees on total food availability. The estimates of the refugee population and the rate of refugee arrival in the country vary greatly. The estimates of the number of refugees in camps vary from the government's 1.3 million to the unofficial informed source number of 600,000. The relief efforts from the international donor community have met this basic need. At this time, the problems that do occur are due to breakdowns in pipeline caused by such things as lack of fuel or flooding of roads rather than a lack of available commodities. Some of this food finds its way into the local economy through the bartering activity of the refugees. An unspecified amount of diversion takes place also during the distribution process.

The long-term influence of the refugee problem will depend on the type of settlement that evolves from the border conflict with Ethiopia. If the refugees are not allowed to return to the Ogaden, a program of resettlement of major proportions will have to be instituted. This will require a large resource investment and a great deal of social sensitivity to the nomadic culture. The goal would be to change the refugee population from a drain on food resources to a productive element in the agricultural sector.

Attempts to construct a supply and distribution table of basic food commodities have not been successful as data on agregate and per capita food availability are lacking. Actual production estimates are hindered by communications difficulties and the lack of a systematic approach. There is no "crop reporting service" as such, and not even an attempt at discussion in terms of production targets or actual harvest levels by area and yield. Livestock products are a significant part of the average Somali diet, yet no reliable data on production or marketing offtake of livestock is available.

Population estimates from the 1975 census are still to be released. Per capita calculations are further complicated by the movement in and out of the refugee population. A few attempts have been made by the World Bank and the FAO to reconstruct time series data from the past to use as a baseline for the estimate of future trends. The one conclusion that can be made is that Somalia is far from self-reliant and will probably require food imports, more concessional than commercial, at varying levels for the foreseeable future.

7. Current Government Objectives and Policies

The development objectives of the Somali Government have been stated in development plans published since the Revolution (October 1969) and in the program of the Somali Revolutionary Socialist Party. The general objectives, which over the past decade have remained essentially the same, may be summarized as follows: the eradication of all forms of exploitation and the creation of a society based on the principles of social justice and individual freedom, raising standards of living to the highest possible level through the optimum utilization of national resources, and providing gainful employment to the total labor force. At the same time, an equitable distribution of national output is to be achieved. Special emphasis is laid on the promotion of social sectors, especially education and health. Concepts such as self-help, self-reliance and self-sufficiency are stressed in all plan documents.

The government's success in attaining its objectives within its socialist framework has been extremely limited. While factors outside the government's control have contributed importantly to this poor performance -- most significantly the refugees and drought -- serious weaknesses in government macroeconomic planning and management have also contributed. The major weaknesses, as summarized in a recent World Bank report are: (1) The plans do not contain well-defined strategies or policies to achieve the stated objectives. (2) The plans do not indicate priorities. (3) No attempt is made to limit intended expenditures to likely available domestic resources. (4) The plans do not address adequately the shortage of planning and managerial staff and weak administrative organization. (5) Monitoring of plan implementation is inadequate. These weaknesses have had an adverse effect on the achievement of development objectives.

II. CRITICAL EXAMINATION OF KEY GOVERNMENT POLICIES

The preceding section has stressed the current difficult economic situation in Somalia and the growing gap between the government's development objectives and the economy's performance. In this section a critical examination will be made of key government policies which it is felt seriously constrain economic growth and the attainment of financial equilibrium. Changes required and their political and administrative feasibility will be indicated.

1. Exchange Rate Policy

One area on which many Somali officials agree a policy change is needed pertains to exchange rates. But, as will be pointed out below, there is a firm reluctance to meet the issue head-on, i.e., by a general substantial devaluation. The exchange rate matter has become extremely complex because the government sets minimum prices for livestock against which exports must be converted at the official rate. In effect, the government also allows two other rates. In all, there are currently four rates or categories of rates in effect: (1) The official rate: So.Sh. 6.295=US $1.00; (2) A rate officially sanctioned (by the National Purchasing Committee) for use in procurement by government or parastatal agencies. In 1980 this was the range of 10.0 and with allowance of 15 percent commission was equivalent to So.Sh. 11.5=US $1.00. The Commission authorizes these for specific purposes; (3) A rate ranging well above (2) and more or less sanctioned by government for private importantion; (4) "Free" rates based on direct currency exchanges. In May 1981 these were, reportedly: bank's quotations in Djibouti 21.0; streets of Mogadishu 16.0 - 18.0 and streets of Berbera So.Sh. 25.0=US $1.00.

Items (2) and (3) constitute what are termed Franco Valuta rates. This means that merchandise of value enters the country without use of official foreign exchange. The foreign exchange to make the system work is generated mostly from export of livestock and from earnings of migrant workers in oil-producing Middle East countries, mostly Saudi Arabia. In the case of livestock, the system works as follows: The minimum price set by government for goats and sheep exported (see livestock section) is currently US $48 per head, FOB Berbera (see column 1 of Table 3). But the Saudi Arabia price of these animals, adjusted to Berbera is US $75. The trader must convert the $48 at So.Sh. 6.295=US $1.00. The balance of $27 ($75 - $48) he may convert directly by currency exchange or by importing goods and selling them in Somalia for shillings. At present, he must net at least So.Sh. 21.0=US $1.00 to permit him to pay the going price of 900 shillings (average) in Somalia for the live goats and sheep. The composite rate of exchange, is therefore, So.Sh. 12.0=US $1.00 (see Table 3, Col. 8). Using similar calculations for other species, the combined rate for total 1980 livestock volume appears to have been So.Sh. 10.9=US $1.00, nearly double the official rate.

In the brief time available, no comparable data were obtained for inanimate merchandise, aside from the case cited (item 2, above). But presumably, migrants remit very little through official channels. They reportedly turn their hard currency over to (Somalia) traders (in livestock, other merchandise or currency) upon presentation of a receipt and a promise to deposit or deliver an agreed number of shillings to an individual or institution in Somalia. The traders probably allow a higher rate if the commitment can be discharged after selling Franco Valuta merchandise imports than by immediate transfer of currency.

The effects of the de facto devaluation on live animal exports (to approximately So.Sh. 11=US $1.00) have permeated much of the domestic economy. This conclusion emerges from the following considerations. Live animal exports

TABLE 3
PRICES OF LIVESTOCK, IMPLICIT EXCHANGE RATES AND FOREIGN EXCHANGE EARNINGS COMPARISONS

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
					Value of Exports, at (Millions)			
Species	Established Effective Minimum Price, FOB Berbera 1/	Current Saudi Arabia Price Adjusted to Berbera 2/	Estimated Current Average Prices, Hagiesa-Berbera 3/	Number of Live Animals exported in 1980 (1,000) 4/	Minimum Price (Col.1)	Saudi Arabia Equivalent (Col. 2)	Berbera Area (Col. 3)	Effective Exchange Rate (Col. 7 : Col. 6)
	U.S.$	U.S.$	So.Sh.		U.S.$	U.S.$	So.Sh.	Sh./U.S.$
Goats and Sheep	48	75	900	1,431.9	68.7	107.4	1,289	12.0
Cattle	260	390	2,750	88.8	23.1	34.6	244	7.1 5/
Camels	420	630	8,000	15.6	6.5	9.8	125	12.8
				TOTALS	98.3	151.8	1,658	10.9

1/ Established by Government.

2/ Prices for goats and sheep were provided by the Hargeisa Branch of the Commercial and Savings Bank of Somalia; prices for cattle and camels were derived by adjusting minimum prices (Col. 1) upward by 50 percent compared to 54 percent for goats and sheep. In the limited time available, it was not possible to obtain comparable Saudi Arabian prices for cattle and camels.

3/ Approximate concensus of mid-point of prices obtained from several sources -- private and governmental officials in the area. Adjusted for location they were corraborated by findings in southern markets.

4/ Ministry of Commerce.

5/ The unusually low rate for cattle may reflect an overstatement of the Saudi Arabian price by the crude estimating procedure; the prices for both cattle and camels need to be verified. Cattle exports in 1980 exceeded all data for the past decade (perhaps highest on record) but it is known also that more beef (frozen and processed) is moving into the Arabian Gulf states from other sources, particularly Australia. Moreover, Saudi Arabia subsidizes prices of such imports.

account for around one-half the average herd off-take and around 95 percent of total commodity exports (including hard currency which escapes official channels). The private livestock traders are relatively competitive and efficient, assuring, thereby, that producers benefit quite fully from export markets. About 60 percent of the population is involved fully in livestock production and an additional 20 percent are partially involved -- and for many of the latter, livestock sales constitute the main source of cash receipts. Finally, since the nomads provide such an important internal market for grains, other goods and services, the effects of the de facto devaluation spreads well beyond the livestock sector.

The main agricultural subsector experiencing "benign neglect" under the present foreign exchange rate regime is the banana industry. The Banana Board attempts to channel all quality output into exports and there is no way to circumvent the effects of the overvalued exchanged rate. Producers on the other hand are experiencing rising input costs due to the effects of high domestic inflation. Banana production has declined somewhat while in the last two years alone banana consumption is estimated to have quadrupled, from 7,500 tons to 30,000 tons. The Banana Board recently raised the producer price from 60 Sh. per quintal to 92 Shs. but the internal market is in the range 150 to 200 Shs. per quintal. Meanwhile, Somali banana interest complain over their inability to compete with South America products when Somali is only 9 shipping days from southern Europe compared with 18 for South America.

A major adverse impact on the economy of the exchange rate system is loss of foreign currency to the Central Bank. As indicated in Table 3, earnings by live animals are equivalent to around US $150 million but the total remittances which are premised on the official minimum prices total less than US $100 million. An even larger source of loss is lack of remittances in hard currency by migrant workers. Even if it is conservatively assumed that this number is 100,000 for each US $1,000 a worker earns above his foreign costs (potentially remittable) the Central Bank obviously forgoes US $100 million per year. Full recovery on both these sources would possibly make the present official balance of payments positive, even though present imports probaly are somewhat under-invoiced.

Some Somalia officials appear to appreciate that the livestock sector is benefiting from de facto devaluation and that the effects extend beyond the livestock sector. But the objection most often raised to a general devaluation is the effect on (internal) costs of imports. Undoubtedly, vested interests in the status quo also constitute a consideration.

There would appear to be merit in a multi disciplinary team (e.g., a financial, production and marketing economist) giving a well reasoned, painstaking explanation of the substantial advantages as well as the few disadvantages of a general devaluation. It could be pointed out that a 100 percent devaluation, for example, coupled with elimination of the minimum prices for livestock would mean a slight increase in prices for live animals, assuming competitive conditions were unchanged. The price of bananas exported would be doubled but even this would still leave domestic price below present consumer levels. Production of other potential exports would also be encouraged as would items which are import substituting at the margin. There would be some instances of cost-push inflation from rising prices of imports, in the short run. But the increase in supplies of farm inputs such as fertilizers and animal drugs would probably be welcomed by most producers. In the not too long run, the mix of imports would be shifted toward producer goods, especially fertilizers and drugs for animals. Government revenues, based largely on import duties would likely rise, thereby lessening or probably removing the need for deficit financing and with increased domestic production following increased imports of producer goods, there would be a better balance between money supplies and goods. This assumes repatriation of accumulated migrant workers' savings did not become excessive. In part, this would be self-correcting in the exchange rate but some standby controls on it may be appropriate. In summary, the adverse effects of a major devaluation may be much smaller than feared at present by Somalian officials. With the right presentation, showing all sequential and pervasive effects, the move may be placed in the range of the politically feasible.

As an alternative to a general devaluation, consideration has been given from time to time to piecemeal compensatory measures. One approach would involve beginning with an exchange rate premium of at least 50 percent applicable to all exports as well as input substitute. In other words, a formal dual exchange rate system would be set up which would be gradually narrowed, perhaps similar to the Egyptian experience. This would provide incentives to producers of exports but especially to migrant workers to remit more of their foreign currency earnings. This scheme could also entail special accounts at local banks with guaranteed foreign exchange convertibility and special access to loans for business and real estate. Such steps would lead to the capture of more of the hard currency now being earned. The banana industry would not be helped as much as required unless it received a special premium. Greater availability of inputs also would probably result. However, measures along these lines would be a distant second best to a general, substantial devaluation which, the longer delayed the more pronounced the distortions, the greater the vested interests and probably the greater the eventual disparity between official and realistic exchange rates.

2. <u>Wage and Employment Policies</u>

There are two closely-related policy measures which are having a serious detrimental effect: the government's commitment to employ all secondary school leavers and failure to increase wages of civil servants. The wages and salaries of civil servants absorb a large proportion of ordinary expenditure; in the 1979 budget these accounted for 49 percent of the total (compared to 43 percent in 1978). Since wages were not raised between 1969 and 1980, the rise in the wage bill is attributable to the sharp jump in the number of civil servants due to government policy of guaranteed employment to all secondary school leavers.

Until government guaranteed employment is stopped, there is little, if any room in the budget for salary improvements. Although the government did raise salaries by 5 to 30 percent this past year, this was the first increase in more than 10 years. With inflation having increased from 10 percent annually in 1977 and 1978 to 24 percent in 1979, 55 percent in 1980 and currently even higher, it is clear that this salary increase was too little, and certainly will have at best a negligible effect on morale and performance.

The demoralization of the civil service is such a serious problem that it has become a major constraint to development in general and severely impairs the government's economic management capacity. In order to improve absorptive capacity and management in general, the public service should be revitalized through a meaningful upward general adjustment of government salaries with recognition of merit. The room for this in the budget should be created through pruning expenditures on general administration and by ending gradually the government's commitment to employ all secondary school leavers. Obviously, to be polilti-cally feasible, alternative opportunities in the economy must be encouraged to provide meaningful employment.

3. Education and Training

Somalia's leadership has attempted to place a high value on literac In the mid-1970s, formal teaching institutions were closed for two years and instructional staffs addressed themselves to promoting adult literacy. Around 1.2 million were taught and approximately 2/3 this number passed a stan-dard literacy test. However, follow-up literacy efforts have been less aggressive and distribution of reading materials extremely limited. The Somali Women's Democratic Organization played a major role in promoting and executing the literacy campaign.

Educational institutions are located only in urban areas and technical training overall is inadequate with many vital areas unattended. The current educational system is turning out individuals without skills both the government and economy require. The National Univesity, established in the late 1960s, has an enrollment of 2,000 and relies heavily on visiting temporary Italian staff. Salaries for university faculties, as elsewhere in the economy, need upward adjustments.

Pertaining to agriculture there is a Faculty of Agriculture and a Faculty of Animal Production and Veterinary Science (or Medicine). The enrollment in each is about 200. At present 32 courses are offered by the Faculty of Agriculture over the following fields: Tropical Crop Production; Vegetable Pathology;

Soils and Science; Entomology; Engineering, Mathematics and Physics; Botany; Agroindustries and Food Technology; Animal Production; Extension and Rural Development. All students are required to take all 32 courses and they must have satisfactorily completed 6 months of the Italian language before entering. Neither the (16-18) Italian staff nor resident-nationals have sufficent opportunity to become thoroughly acquainted with rural problems and virtually no location specific research is engaged in by either staff group. For complementary courses in social and behavioral sciences, humanities, etc., there are no opportunities beyond secondary school. The team was not able to assess the earlier educational stages. Similar shortcomings apparently prevail for the Faculty of Animal Production and Veterinary Science.

The area of Political Economy under a Dean encompasses: Policy; Political Economy (micro, macro and development); Firm Economics (Business); Agricultural Economics; Statistics and Idealogy. Instruction in all areas appears Western-oriented except in the latter which is described by the Acting Dean as not well structured. (This Department had 25 graduates in 1980; 30 in 1981 and expects 50-55 in 1982.)

At the technical level, the Ministry of Education is currently developing the Livestock and Forestry School at Afgoi, to be combined with the existing Agricultural Secondary School. The MLFR operates the School of Animal Science at Mogadishu and the National Range Agency supports the Range Training School at Burao.

Within the Ministry of Planning is located the Central Department of Statistics (CDS) which among other functions conducts a two year course for middle level personnel nominated by various Ministries; 40 enter each year. The courses are handled by four expatriat (UN) experts: sampling, demongraphy, data processing and programming. The CDS has the only computer in Somalia. This is an NCR 32K, the rent for which is covered for one more year on a three-year lease by the UN.

For staff development, heavy reliance on one institution such as done curently with Florence, Italy, is not desirable for any institution. There is a keen desire by staff and students for some education in the United States and other Western countries besides Italy. This should be actively pursued by both the Faculties and donor agencies. Advice on curricula reform also would apparently be welcomed. With adequate local funding, it appears that both staff and students would be anxious to become involved in technical agricultural research at the nearby (Afgoi) station and elsewhere in the country.

Institutional linkages, formal and informal, between education/training establishments and operating parastatals or private firms in enhancing the content of apprenticeships and other on-the-job human development would offer high payoffs. Judging from the course offerings by the Agricultural Faculty, there is need for curricula reforms particularly on the variety and relevance of courses with more emphasis on applied work. The leadership recognizes the overemphasis on theoretical relative to the practical and problem-oriented. Attempts to remedy this have included two months per year for each student (after fourth semester) in a practical rural experience. But this was foregone in 1981 due to fund shortages.

4. Analytical, Planning and Management Capabilities

Virtually every report available on Somalia laments deficiencies in management. This deficiency reflects several intermediate causes or factors. First, it should be noted that the country has not enjoyed higher level educational facilities for very long. Moreover, the curriculum has not emphasized problem oriented solutions to date, an important teaching approach for managers. Finally, under its regime of "scientific socialism," demand for managerial talent has grown out of all proportion to the number of individuals with even limited exposure to management sciences.

Several of the top officials contacted demonstrated a real flair for management. But in general, the officials are unaccustomed to placing matters in a time or spatial perspective and to conceptualizing clear cut cause and effect relationships. The few who manifest managerial traits still have serious problems managing information necessary for effective decision making. In this context the term "information" is used to convey both the collection of pertinent data and the appropriate analyses of such data.

Few accurate data are available on any subject in Somalia. The published foreign trade values and balance of payments data are deficient in many respects and offer no solid basis for meaningful analyses and projections. For planning and making policy choices there is needed in additon to averages and aggregates, some sense of causal relationships. This implies the need for responses by individuals and firms as producers, consumers, savers and investors. These are almost non-existent in Somalia.

The regulatary functions of government agencies necessarily generate some data on economic affairs. But there are precious few individuals with the talent to assemble, scrutinize, reconcile, meaningfully record, analyze, and present such data. Several times, however, the Team was impressed by the responsiveness and ability of Somali personnel to deliver data regarding a specific request. This suggests an unrealized latent capacity.

Given these deficiencies, it is not surprising that the Somali Government's formal development plans are little more than listings of project thrusts. They are incompletely formulated, usually unevaluated and unranked in terms of investment priorities. The order of implementation appears to be influenced more by the sequencing of donor support and this often means termination before completion. In any case, there is an overburdening of limited management capacity and an inadequate availability of resources that causes a failure to carry projects to completion.

A precondition for obtaining improvement in these areas is a general top level awareness of both the problems and the opportunities. Some at ministerial level are clearly aware of the problems. The Acting Minister of Agriculture, for example, advised the Team a deficiency in economic analyses was one of his biggest problems. The fact that the Ministry of Planning (MOP) saw fit to establish the CDS and support a training program within it for nominees from different Ministries was an encouraging step. But generally there is a lack of awareness of the seriousness of the problem and, even more so, of the benefits of remedial measures.

One measure that could be used to elevate the level of awareness as to both problems and opportunities would be to hold small seminars of the upper levels of ministerial and agency cadres. Helpful in such seminars would be a simple model of the Somalian economy to demonstrate the inter-relatedness of phenomena and to begin to identify useful data requirements and sources. A few particularly influential officials could be supported for study trips abroad to focus on macro analyses.

A follow-up measure would be to establish analytical units within Ministries. These should be located organizationally and functionally close to the decision making cadre. The lead unit for this could be located in the MOP where a critical mass of talent (indigeneous and expatriate) could be assembled. Small, sattelite units could also be located in operating or sector Ministries. These units would serve in an analytical role and would be the conduit for referral of quesitons to MOP or delivery of results.

The already established Central Planning Unit (CPU) of the MOP could take leadership in cooperation with the CDS in several areas: (1) Identifying, assembling, reconciling and recording relevant available and data on the Somalian economy. (2) Ascertaining analyzable problems from decision makers or anticipating them and then conducting the necessary studies and reporting results. (3) Giving guidance and encouragement to the suggested sattelite units in each Ministry to carry out (1) and (2) in a similar manner. (4) Identifying data and primary study requirements and initiating actions to carry them out.

In the case of agriculture, for example, this would entail establishment of timely reports on crop yields and plantings, prices in local markets and selected micro studies of households, farming systems and marketing. The Bay Regional Project could provide an excellent opportunity for micro studies and follow-up work. Because of the vastness of the country and the widely dispersed and mobile population, a complete census may be prohibitive in cost. Adequate benefits could come from a sample type census and/or other measures including use of air and satelite over flights. (5) Using the data obtained, gradual progress could be made toward developing acceptable national accounts. (6) Serving as a centralized unit for monitoring, evaluating and reporting on donar involvement and the progress of development plans and particular projects. (7) Taking leadership in establishing a realistic macro economic framework for budgeting, planning, and programming. This should include development of quick-turn-around measures for ascertaining consequences of alternative policies or programs. (8) Playing a leading role in collaboration with University Faculties and relevant training institutes in developing staff for analytical and planning units. This training should range from basic clerical levels to top professional analytical levels in all ministries and, (9) preparing publications both on analytical and planning procedures and on results of anlayses, in collaboration where appropriate, with other Ministries and outside institutions.

The timely availability of improved knowledge will permit most managers to be more proficient in decision making. However, provision should additionally be made to provide for the learning of basic principles of management. A select group of Somalians should be supported abroad for advanced programs in management sciences, focusing to some extent on different components of their economy. Meanwhile, expatriate management advisers could be instrumental in elevating the level of managerial performance and promoting use of the analytical units. Some of these objectives could be achieved by collaborating with and strengthening the Somalian Institute for Development and Administration (SIDAM).

5. The Role of Parastatals

Two major reasons are given by World Bank analysts for the establishment of public enterprises: 1) to undertake major investments for which private citizens lack the financial resources and, 2) to establish social ownership of major productive enterprises so that profits and investments could be channeled into socially desirable activities. A subsidiary reason in some cases was the desire for national prestige, e.g., Somalia Airlines.

Following the revolution and adoption of "scientific socialism" as the guiding philosophy for development, parastatals came to dominate a major part of production activities in the formal sector. A number of these came into existence simply by nationalizing a number of firms, the profits of which had been previously exported by the foreign owners. As of May 1981, there were 50 commercial enterprises in operation, under the jurisdiction of 14 different Ministries or national institutions.

It is no exageration to state that the record of parastatal operations in Somalia is one of pervasive failure. Only the banking and financial institutions have shown consistent "profits" and this reflects high levels of short-term borrowing by the other parastatals. Moreover, some portions of the "profits" may be better described as fees or taxes. The reasons for losses are many. Often they are given unclear or unreasonable mandates. One observer asserts that they do not do well the tasks assigned and many tasks for which they should be responsible are left untouched. Management of the parastatals is divided between the parent Ministry (where decision making is usually diffuse) and the appointed top executive of the parastatals. Each party tends to insist on sharing responsibility with the other. The Ministry of Labor plays a major role in employment decisions of individual parastatals which share the burden of guaranteeing jobs to all school learners and university graduates.

Other reasons or manifestations of the sector's poor performance include: lack of feasibility studies; excess scale relative to prospective raw material supplies or markets for output; high interest burdens; high taxes, including "levies" on depreciation; detrimental pricing policies and practices. Individual parastatals experience cash flow problems and, therefore, must resort to expensive short-term borrowing because of excessive delays in or inadequate compensation by other parastatals, or by government for products and services, or of subsidies to cope with ceiling prices.

On May 1, 1981, the government of Somalia announced that no parastatals will be continued which are not viable. One or two have been abolished and serious evaluations are underway for a number of others. It is clear that a severe rationalization of the parastatal sector is long overdue. Non-viable enterprises, particularly in the manufacturing sector, must be closed down since they impose an intolerable financial drain on the economy. In other sectors, the functions of one or more parastatals should be combined in order to improve operating efficiency. Most importantly, in those functions for which the private sector have a comparative advantage, the role of the parastatals should be considerably lessened.

6. The Role of the Private Sector

Despite numerous demonstrations in Somalia and elsewhere that the private sector can excel on several counts, a number of government policies have had and continued to have a negative impact on the growth and role of this sector. These include being forced to compete with parastatal production which is often sold at a loss, limited foreign exchange allocations, and numerous restrictions on private operations. Many traders have been barred from private pursuits on the grounds they exploit others in the system.

When given the opportunity, the performance of the private sector has usually been quite effective. In the livestock export business, private operators have been allowed to continue and, despite serious obstacles, have given a creditable performance. The prowess of Somalis at operating private enterprises, especially trading, is widely recognized outside the country. Fortunately, there now appears to be a renewed appreciation for them developing within the country. Given an approximately equal opportunity, they have demonstrated a capacity to excel over parastatals. An excellent case in point relates to the Livestock Development Agency. When its exclusive franchise was withdrawn for dealing in livestock, its yards became unused. It was unable to compete with the private sector in handling stock and was terminated in early 1981. Likewise, when the cement business was recently returned to the private sector, there was a prompt drop in price and market supplies became ample in contrast to previously chronic shortages.

The first step toward achievement of the fully appropriate role for the private sector is the regaining of confidence by government and the political leadership that private firms can efficiently peform and that exploitation is not always an inherent danger of this authority. A range of government policies and programs aside from existence of parastatals need to be reviewed and negative influences on the private sector development removed or minimized.

There are some strong signs that the GSDR is taking a more positive view as to the potential of the private small scale sector, especially in local production and processing activities. This is articulated especially clearly by the Ministry of Industry which has indicated plans to expand support for the sector.

The second step preparatory to promotion of the sector involves a careful, intensive assessment of constraints to growth in number or volume of such enterprises. This entails usually a year-long study of randomly selected firms, with regular weekly or twice weekly visits. From both stock and flow data collected, a broad range of conclusions can be established including: 1) returns to capital employed and sources of such capital; 2) any deficiencies in combining resources or other deficiencies in internal operations; 3) adverse impacts of the general policy of program environment; 4) infrastructural deficiencies or other opportunities for enhancing external economies, and 5) opportunities for low cost skills development.

The third and final step, is to launch action programs as indicated by contraints identified. These may be numerous and could include: 1) advice on or instruction in legally establishing a small firm; 2) technical information on production or distribution; 3) advice in business management including accounting; 4) advice and service in capital formation, including credit where appropriate; 5) advice or assistance in training employees including installations of apprenticeship programs; 6) infrastructural support; 7) policy/program adjustments by government to permit optimum economic environment for small firms and 8) for Somalis, instruction in philosophy of private business and pertinent ethics as a step to quicker acceptance of the private sector enlargement by the National leadership and as a way to lessen negative result which sometimes emerge from limited competition situations.

Within the private sector, small-scale rural enterprises could make a considerable contribution to Somalia's economy. They can be suportive of agricultural and rural development both in providing inputs and purchasing and/or using output. Unfortunately, current Somali government policy frowns on allowing traders or small firms to act as agents in distribution of fertilizer and other inputs. This, despite the probability they could distribute inputs more effectively and efficiently than government salaried employees of parastatals. It is also doubtful that traders will be allowed to bulk small sales of grain by farmers for any purpose other than sale to the Agricultural Development Corporation (ADC). There are indications, however, that small rural firms would be permitted to become more involved in production of simple implements for farmers. In general, policy decisions regarding the small private sector do not allow for the superior ability of such firms to assemble capital, based usually on higher returns to investment than larger, urban firms, generate more employment per unit of capital, require relatively smaller quantities of imported raw materials, cater to local demands and provide on-the-job training through apprecticeships or other arrangements.

Small-scale rural enterprises appear to be an appropriate means to provide credit in the rural sector. Nonformal credit plays a major role in rural Somalia. Many nomads turn their livestock over to traders with little or no deposits and await final settlement and remittance from sales in Saudi Arabia or elsewhere. Likewise the nomads are reported to finance local shops and other rural economic activities. They account for at least one-quarter of deposits in a major Hargeisa bank, but as a group probably store most of their liquid assets as currency in their personal possession. All this suggests the need for a policy to promote development of rural savings and lending institutions. There appears to be a clear possibility that the capital accumulated (presently unused) by the nomads could be channeled to small crop farmers through such institutions. Commercial banks currently charge 12 percent interest on secured loans to livestock traders so savings institutions should be able to pay attractive interest, assuming similar rates would be charged to small farmers and small-scale rural enterpreneurs.

7. Crop Production Policies

Current policies toward crop production are a serious impediment to the achievement of the government's stated objectives of attainment of self-sufficiency in sorghum, maize and oilseeds, increased production for the import substitution crops of rice, cotton, sugar and wheat, and increased production of bananas for export and development of new export crops such as cotton, sesame, fruits and vegetables. Improvements are required in crop producer pricing and marketing, supply of inputs to smallholders, irrigation and other crop production infrastructure, and provision of extension and research services. Increased incentives should be provided for smal-scale production and relatively less emphasis placed on large-scale production and cooperative schemes.

7.1 Producer Prices. Government sets purchase prices (by ADC) for the following crops: maize, sorghum, rice, sesame, groundnuts, sunflower, cotton and bananas. Until 1981, farmers were officially prohibited from selling cereals other than to the ADC. (Black market sale at much higher prices are believed to be sizable, nevertheless.) This spring, the government loosened ADC's control slightly by announcing that farmers could sell small quantities to individuals, as long as these quantities were not for re-sale but only for the buyer's own consumption. Farmers must sell oilseeds to the government oilseed factory, cotton to Somaltex, the government textile company, and bananas for export to the National Banana Board (NBB), the government banana marketing agency, at established official producer prices. However, bananas for domestic use are sold at much higher prices and this volume has quadrupled in three years.

Table 4 presents these official crop producer prices for each major crop during the1976-81 period in both current and real terms. The table shows that official producer prices were raised slightly in 1977, remained unchanged during 1978 and 1979, and were then increased again in 1980 and in 1981. However, these price increases were insufficient to offset the domestic inflation rate, and thus support prices to farmers decreased in real terms (for all crops except El Jama sorghum). This decrease was particularly severe for bananas, for which the real price more than halved. Since arguably prices of goods bought by farmers may have increased less than the general consumer price index, deflating by this index may overestimate the real producer price decrease. However, even allowing for this factor, it is clear that government-set producer prices to farmers have fallen in real terms and thus have not provided the incentives to increase production.

Official crop producer prices have also been too low in terms of national economic efficiency. To state the argument in slightly simplified form, this means that in order to attain the optimum availability of crops at minimum cost, farmers should receive the equivalent of the price at which the country can import a crop, if it is a crop which is on the margin imported. And similarly farmers should receive the same price at which a crop can be exported, net on the world market. If one assumes a positive production response to price, domestic production will be higher and imports will be lower if farmers received import parity prices than if they receive less than import parity price. In order to satisfy domestic demand, the total national food bill will be larger in terms of scarce foreign exchange and perhaps also in terms of aggregate expenditure if the domestic production disincentive is strong enough. Moreover, it would be consistent with the Somali government's objective of increased food

TABLE 4
AGRICULTURAL PRODUCER PRICES
(SO.SHS./QUINTAL)
NOMINAL TERMS

	1976	1977	1978	1979	1980	1981
Maize	60	75	75	75	120	180
White Sorghum	60	75	75	75	120	160
Red Sorghum	60	75	75	75	120	150
El Jama Sorghum	60	75	75	75	185	270
Rice - Short Grain	350	350	350	350	285	280
Rice - Long Grain	350	350	350	350	350	320
Sesame	200	240	240	240	300	450
Groundnuts	140	140	140	140	180	300
Sunflower	140	140	140	140	180	300
Cotton						
Class A				260	300	350
Class B				240	270	320
Ungraded				220	220	250
Bananas	51	56	56	56	66	82
Consumer Price Index (1976=100)	100	110.6	121.6	151.1	234.6	375.4

REAL TERMS (1976 PRICES)
(DEFLATED BY CONSUMER PRICE INDEX)

	1976	1977	1978	1979	1980	1981
Maize	60	68	62	50	51	48
White Sorghum	60	68	62	50	51	43
Red Sorghum	60	68	62	50	51	40
El Jama Sorghum	60	68	62	50	79	72
Rice - Short Grain	350	316	288	232	121	75
Rice - Long Grain	350	316	288	232	149	85
Sesame	200	217	197	159	128	120
Groundnuts	140	127	115	93	77	80
Sunflower	140	127	115	93	77	80
Cotton						
Class A				172	128	93
Class B				159	115	85
Ungraded				146	94	67
Bananas	51	51	46	37	28	22

SOURCES: Agricultural Development Agency (ADC), National Banana Board (NBB)

International Monetary Fund, International Monetary Statistics May, 1981 self-sufficiency if farmers received prices above export or import parity, that is to make a slight sacrifice in terms of economic efficiency in order to achieve the announced self-sufficiency objective.

Import or export parity producer prices for each crop have been calculated for the current year and are presented in Appendix Tables 1-7. These tables are summarized in Table 4 which gives producer prices as a percentage of world parity prices at each of four different exchange rates. As the earlier exchange rate discussion pointed out, the official exchange rate of So.Sh. 6.3 = $1.00 is not realistic and does not represent the country's equilibrium trade-off between domestic and foreign currency. Therefore, alternative rates of So.Sh. 9, So.Sh. 12 and So.Sh. 16 = $1 have been used. One of these exchange rates, it can be argued, the Somali government will be forced to adopt, either by overall or partial devaluations (i.e., a system of export and import-substitute premiums) if it is to resolve its current financial crisis.

Table 5 shows that at the official exchange rate, the current official producer price for maize, sorghum, sesame, sunflower, groundnuts and rice are above import parity. Only the producer prices for cotton and bananas are below world parity. However, at a more realistic exchange rate of So.Sh. 12 = $1, only sesame, sunflower and groundnuts are above import parity and maize, sorghum, rice, cotton and bananas are considreably below that parity. At an exchange rate of So.Sh. 16 = $1, all producer prices are below import parity; those for maize, rice, cotton and bananas are only 22 to 41 percent of import parity. Thus at a realistic exchange rate, government-set crop producer prices are "too low" in terms of economic efficiency, the attainment of food self-sufficiency,

TABLE 5
1981 PRODUCER PRICES AS PERCENT OF WORLD PARITY PRICES

	Exch. Rate SH 6.3=$1	Exch. Rate SH 9=$1	Exch. Rate SH 12=$1	Exch. Rate SH 16=$1
Maize	115	76	55	41
Sorghum	227	129	87	61
Sesame	222	152	113	84
Sunflower	227	148	107	78
Groundnuts	227	148	107	78
Rice	108	69	50	36
Cotton	73	49	36	27
Bananas	83	47	31	22

NOTE: All world prices are based on import parity except for bananas.

SOURCE: Appendix Tables 1 to 7.

the need to economize on scarce foreign exchange and the need to provide farmers with incentives to increase hectorage and total production. However, increased official producer purchase prices are a necessary, but by no means a sufficient condition for increased crop production.

It is not known what proportion of farmers' marketings are purchased by ADC. In recent years of low output, the volumes have been relatively small, consisting largely of purchases from cooperative and state farms. Likewise, there are no reported market prices although it was generally reported orally, that free market prices of most cereals were well above government established maximums. Presumably small farmers sales, therefore, were also well above the government set minimums. It is, therefore, plausable to conclude that shortfalls in production in recent years were due more to very adverse growing conditions and/or lack of inputs. Many farmers, for example, appreciate the importance of fertilizer and were prepared to pay cash for it, according to local observers, but there simply was none to be purchased.

In considering agricultural price policies for Somalia, adequate allowance must be made for the high weather variabilities which growers experience. Variations in income streams, the inducement to small farmers' investments, and persistence in production, in countries like Somalia can be casued more by weather than by prices. In other words, in establishing price policies care must be exercised lest the effort become counterproductive in terms of reinforcing the negative effects of poor weather.

On April 19, 1981, the Government announced the following ADC purchase and selling prices:

1981 Agricultural Development Corporation

	Purchase Prices	Selling Prices
	So. Sh./quintal	Ao. Sh./quintal
Maize	180	250
Sorghum		
White	160	230
Brown	150	220
Rice (Milled)	320	490
Sesame	450	530
Groundnuts	300	380
Sunflower	300	380

As indicated earlier, all prices have been recently increased. Actual prices, however, stand a good chance, on the average, of being lower in 1981 (first crop) than in 1980 because of the large output in prospect.

Depending upon weather variations, there can be several alternative outcomes under the policy covering implementation of the above price targets. (1) Under normal good growing conditions, ADC would be offered relatively substantial quantities with the balance of farmers' sales going to consumers. With seasonal price increases there would probably be moderate sales by ADC before the next harvest. Producers and many consumers would probably maintain unchanged their (underground) storage stocks. (2) An extra large crop would probably over tax capacities of ADC to purchase and store. In this case, prices to producers may drop below officially announced purchase prices. An exception to this outcome would be if the bumper crop had to be drawn upon to replenish (underground) storage or other food security, reserves. If such replenishment was not needed, ADC may not have the opportunity to dispose of any at announced selling prices. (3) Under substantial below-normal output, since farmers are no longer compelled to sell to ADC, procurement by ADC (from other than cooperative or State farms) would be very small or non-existent. In this case, price pressures would carry actual prices well above the ADC announced selling prices. The extent would depend on overall tightness of supplies and how the government finally resolves policy in this situation. Formerly there were severe penalties for exceeding such ceiling prices, though such regulations were widely violated. In connection with the reforms, some officials indicated the ADC selling price would not constitute a general ceiling beyond that provided by release of supplies.

An additional feature of pricing policy should be noted which contribute to national economic inefficiencies. At present, both prices are uniform geographically and seasonally. On the producer's side a uniform price will not permit the respective areas to realize their comparative advantages and national average costs of production will tend to be higher than under a regime that allows regional variations. Likewise, uniform selling prices may discourage production in relatively high cost areas and, therefore, would be counter-productive since the selling price in such areas usually do not reflect full cost of getting ADC supplies to such locations. The lack of seasonal variation in prices has two major consequences. Under conditions of moderate to large crops, farmers would tend to sell all salable quantities, thereby compounding the ADC seasonal storage problem. Second, a less than "seasonal rise" does not promote private consumer storage and adjustments in consumption as might be required in given national supply-demand situations.

7.2 Crop Marketing. The marketing system for crops is not very well developed. Roads and other marketing infrastructure are poor and crop production is generally subsistence oriented. The ADC has a major responsibility in the marketing of grains and NBB is responsible for regulating and promoting banana production and the exports.

Largely due to unfavorable producer prices, adverse weather and lack of inputs, grain purchases by ADC have been relatively low in recent years. An unknown, but presumably increasing share of production has been sold illegally at the much higher parallel market prices. The government's announcement this spring that farmers can legally sell small quantities outside of ADC could result in a sizeable decline in sales to ADC, if production were not to change. However, bumper maize and sorghum crops are expected and this, combined with sizeable recent maize imports, could result in a very large increase in domestic supply, a considerable fall in the free market prices, and lead to substantial increases in ADC's purchases and storage stocks. Reflecting relaxation of marketing controls and prospects for substantially larger production, prices of major cereal declined 30 percent to 40 percent from Mid-April to Mid-May 1981. This carried the price of maize on the Mogadishu market below the nationwide ADC purchase price announced for the current crop.

ADC has sufficient regional storage even if domstic production were to increase significantly (storage in Mogadishu is currently at capacity due to recent receipts of imports and lack of transport to move the stocks to other locations). Should sales to ADC increase, the major problem would be providing adequate transportation from the numerous depots or purchasing points to regional storage centers. Not only is the size of the transport fleet inadequate, but roads are poor and at present there is an extreme scarcity of fuel.

ADC's management capabilities are also extremely limited and the organization's current management staff would be hard pressed to handle increased sales and adequatenly manage regional reserves.

ADC was created, among other things, to protect farmers against exploitation by private traders. ADC, however, is not well equipped to deal with small and widely dispersed farmers in an environment with underveloped infrastructure. Possibly this year's experimentation with the slight easing of ADC's marketing controls will lead to a gradually increasing role for private traders. Free competition among private traders should be able to prevent exploitative power by a few.

The NBB formed through nationalization of foreign owned banana producing and exporting companies, was not able, through its services and policies, to prevent the significant decline since 1972 of the number of banana producing farms, of the areas under banana cultivation, and of banana exports. Last year, however, the Banana Development Project was initiated, financed in part by the Italian government. This project reportedly has already significantly improved services to banana farmers. The supply of fertilizer, pesticides and farm machinery to banana farmers has increased considerably, and more effective marketing has resulted in more favorable export contracts. This, if combined with further increases in the producer price and increased investment in the sector by a World Bank project, should lead to increased production and exports.

7.3 Supply of Inputs and Access to Credit. The Farm Machinery and Agricultural Services Organization (ONAT) is responsible for the supply of all crop inputs to smallholders. It also is responsible for providing agricultural machinery hire services to private farmers and government projects. Since the end of

1978, however, ONAT has not imported any fertilizer. Domestic supply has been limited to small amounts imported for the banana board, sugar factory, and agricultural settlement schemes. Since the supply of inputs to smallholders is so limited, there is consequently little demand for credit services. Credit for large-scale producers is provided mainly by the Somali Development Bank for long-term loans and the Commerical and Savings Bank for short- and medium-term loans. Experience with agricultural credit in Somalia is characterized by a lack of coordination between the agencies providing it, limited formal credit availability and coverage, poor repayment rates and negative interest rates. It is understood, however, that non-formal credit is significant with nomads providing substantial resources.

The supply of imported inputs to smallholders - mainly fertilizer, pesticides and insecticides -- has decreased largely as the result of the country's severe and growing foreign exchange crisis. Should the availability of foreign exchange improve, the supply of inputs to farmers could increase. At least in the case of fertilizer, it appears that the yield response for major crops is more than adequate at import parity prices and thus farmers would buy it at these prices even without credit, where it's available. Yields are presently extremely low and domestic supply could be increased enormously if farmers could be provided access to improved seeds, fertilizer, insecticides, and pesticides.

The government is importing fertilizer on an extremely limited scale this year, financed by an FAO grant, and perhaps some determination can be made of farmers' ability to finance their purchases. Only if private credit sources appear to be inadequate should the government undertake the provision of such credit. If it is proven necessary, it would seem reasonable to have ONAT assume the responsibility for providing this service. If farmers did not repay their seasonal loans, they could be disqualified for credit the next season.

It is appropriate to note, however, that even in a country with as low incomes as Somalia, credit often is not the constraint it might be suspected. Where a need arises, it is more often for working rather than initial (fixed) capital. Each case must be judged on its merits. This can most accurately be done by a local person who knows both the individual and nature of his operation. This facet of the problem plus the previously noted holdings of cash reserves by nomads argues strongly for a policy to promote formal financial markets, i.e., local savings and lending institutions. The time for this appears imminent, recognizing the near term introduction of imporved technologies (and inputs) for farm use and likely growth in number of rural small firms. Nurturing development of such rural financial institutions, even with government supervision and deposit guarantees, or extension of the present major bank services to rural areas, would be superior to establishing a special agricultural credit institution.

7.4 More Balanced Organizational Approach. For the organization of crop production, Somalia must choose the right balance between large-scale publicly managed schemes and cooperatives and small-scale privately managed production units. Both have considerable scope for improved efficiency and productivity and both may have a place in Somalia's agricultural development strategy. Without large scale, mainly irrigated agriculture, the country could not sustain the flow of exports. Similarly, rainfed farming is the only alternative for many Somalis as well as one of the country's main sources of foodcrops.

However, there appears to have been a lack of balance in government support (financial, managerial and technical) between these two types of production systems in favor of large-scale publicly run production units and cooperatives. Large-scale production and to a lesser extent cooperative schemes require foreign exchange intensive technologies, are management intensive, and normally cause the transformation of previously self-employed and partially self-sufficient persons into laborers. In contrast, small-scale production units are based on low input technology, require little foreign exchange, and are oriented toward participation by a large number of people.

7.5 Institutional Reform. There appears to be an excessively large number of fairly autonomous public agencies and government depatments with functions relating to the agricultural sector. This is particularly burdensome given Somalia's critical shortage of skilled manpower and managers. Many agencies appear to have been created as measures of last resort to get around the weaknesses of existing agencies and to enable them to perform specific functions within a given period. An example is the recent establishment of the Trade Agency for Vehicles and Spare Parts (WAGAD), which has taken over the import and trade of tractors, earth-moving equipment, and spare parts from ONAT. Another example is the overlapping functions of the Agricultural Development Agency (ADA) and the National Trading Company (ENC), the Milling Company, the Textile Company (SOMALTEX) and the Settlement Development Agency for Crash Programs. No mechanism has been created to monitor these agencies and ensure that they perform efficiently the functions for which they were created or to disband them once the purposes for which they were created have been accomplished. At present, most public institutions provide only an administrative framework for development activities, and they lack effective management.

Responsibilities of individual agencies are theoretically defined, but the responsibilities defined are often not effectively discharged. There is no mechnaism for monitoring the extent to which they are assumed and, for that reason, there is no accountability within the system. Thus it has been impossible to enforce discipline and management has become increasingly difficult.

For the agricultural sector, there are three single purpose ministries (Agriculture, Livestock, and Fisheries), and several semi-autonomous agencies dealing with the sector. In addition, other ministries, such as Water and Mineral Resources and Commerce and Industry, have major responsibilities which impinge on or are in sector. While it may have been appropriate for these agencies to operate independently in the past, the increased market orientation of the sector and the growing importance of mixed farming would require closer coordination and cooperation in the future.

8. Research and Extension Services

8.1 Research. Except for bananas, sugar and a few less important crops, technological advances in Somalia farming have been minimal. Under the leadership of the University of Wyoming team, 1965-70, a significant advanced knowledge base was established for cultural practices and some on varietal selections. At present the limited research focus is on maize breeding, some varietal testing on sorghum, vegetable oils and a few other minor crops and a few trials are being conducted on alternative cultural practices for the more important crops. In general, however, in-country research is far short of requirements and there are inadequate linkages with the international linkages with the international agricultural research center network.

After small, abortive beginnings of agricultural research at several locations in 1959-60, the Central Agricultural Research Station was established at Afgoi in 1961. This installation was still in process of completion when the University of Wyoming team arrived in 1965 to assist in Somalia's agricultural research efforts. However, since the Bay Region has the highest potential for rain-fed agriculture, the Wyoming group focused primarily on the 40 ha Bonka Training and Research Center, near Biodoa. Under leadership of this team, research output was impressive, encompassing varietal testing, analysis of alternative cultural practices, identiy of diseases and pests. Records of the work were preserved but dissemination of results was limited. Recently the Ministry of Higher Education has acquired a tract of about 1,000 ha of irrigated land at Balad, 40 km. north of Mogadishu. This is for use by both the Faculties of Agriculture and Animal Production/Veterinary Science.

From the departure of the Wyoming group in 1970, until 1980, progress was slow and relatively insignificant in identification and development of improved practices. At present, the staff of the agricultural research system consists of 120 employees most of whom are B.S. holders from Somalia's national University. The Directors of the System and of Afgoi Station have U.S. Master's degrees. However, the Acting Minister of Agriculture, a Ph.D in plant breeding from the University of Massachusetts, still gives some guidance to the research programs. There is a small FAO team present but is inadequately supported financially and apparently is not well integrated with Somalians' efforts. The Afgoi station consists of 340 ha of which 30 are currently in use; all can be irrigated. The Bonka Center has been assigned responsibility for testing/ demonstrations under direction primarily of extension personnel with current USAID input, a new research station has recently been established adjacent to the Bonka testing station. Several expatriate advisers with young, inexperienced Somali staff are linking well the station's efforts to farmers situations, though not yet in a comprehensive farming systems context. In fact, it was rather shocking to learn that the expatriate staffing plan for this project provided no inputs for economics or other social sciences.

Agronomic reserach to date has established that returns to fertilizer inputs are substantial in irrigated areas and these with higher rainfall. Two corn composites have been developed with superior yield potential and are now being multiplied. It has been demonstrated that sunflower yields about twice per ha of vital vegetble oil over the widely grown sesame. But protection from birds increases costs of production, there are problems to overcome in harvesting and consumers have a strong preference for sesame oil. In some locations soybeans have performed well. Likewise, some exotic varieties of sorghum have been tested but the shape and taste is not currently as acceptable to consumers as the traditional ones. Extension efforts also have been confined to bananas and a few other major cash crops. A nucleus staff is just being developed to in some way eventually serve the small farmers.

In early 1981, the Banana Development Project (BDP) was established, with responsibility to the Ministry of Agriculture but under the guidance of a respresentative body including four producers. The thrust is to expand fertilizer supplies to 6,000 tons compared to 2,000 in 1980 and achieve more precision in a range of cultural practices and in harvesting, packing and shipping. Providing the extension thrust are five Italian technicians and 20 Somalians, four of whom have visited Ecuador and all of whom have received on-the-job training. New overseas sales contractural agreements also have been negotiated. But for the present, no attempts are being made to obtain and use improved planting materials. It was indicated that if the present program did not bring substantial cost reductions and increased output in 1-2 years, research would be undertaken. An objective of the BDP is also to expand hectorage from the present 4,000 ha (around 130 producers) to 5,000 - 6,000 ha.

Very limited and apparently superficial efforts have been made to identify possible additional crops for production on irrigated lands, both for domestic use and, particularly, for export. A number of fruits and vegetables have potential. The 20 percent of Somalia's population in settled agriculture, many with livestock as direct linkages to Nomadic herdsmen, are operating in an environment — both the irrigated and part of rain fed areas — where there would be high payoffs to investment in problem oriented research.

To realize the potential, the first priority should be preparation of an over-all strategy, covering livestock and forestry as well as crops. The Acting Minister of Agriculture articulated an urgent need for this and indicated some assistance was expected from USAID though the first choice for a technician became ill and was unable to take up the assignment.

Elements of a strategy statement should include: (1) Provision for in-depth multidisciplinary study of present farming systems with a view to identifying priority high payoff technical research needs/opportunities. (2) Consideration of alternative ways (crop and livestock media) for efficently meeting nutrient needs of the Somali population. This should recognize it may require substantial price differentials as well as consumer education campaigns to achieve shifts in patterns of consumption that would be both more healthful for much of the population as well as more nearly aligning private and social ends. Somalia is one of the few countries with relative excess consumption of animal protein compared to calories from non-animal sources. To the extent this is a consequence of excess consumption of meat (rather than milk) increased availabilities of calories through crops would release more livestock for export. (3) A concentrated effort on export crops. This includes, especially, bananas where acquisition or development of imporved varieties promises a handsome payoff. Other candidates are citrus fruits and a range of vegetables for both greater domestic use and export. (4) Establishment of linkages with the international research center network and other external sources of information, germ plasm and research methodologies. (5) Conscious, sustained efforts to improve research organization and management so as to maximize output for resources utilized. Experiment station land development should be limited to what can be effectively used by research staff; the Balad station probably will over-tax human and other research resources. (6) Agressive development of personnel at all levels to effectively operate the system. This would include some overseas training. But, in line with the expressed desire of the Acting Minister of Agriculture, it could also provide for much in-service or on-the-job training. For this purpose the USDA Graduate School model would be relevant. Higher trained Somalian staff together with expatriate advisers could elevate the capability of a large number of Somalis at relatively low cost. Incedentally, the Acting Minister of Agriculture expressed concern over the lack of quality of technical personnel being supplied by many donors, including USAID.

Meanwhile, in terms of immediate tactics, two measures are urgent: (1) provide adequate seasonal recurrent financial support for a well chosen set of research programs, and (2) incorporate economic inputs into research program. The glaring deficiency in the Bay Region project, particularly should be remedied as soon as possible.

8.2 Extension. The widely different conditions in irrigated and non-irrigated areas appear to deserve different approaches in extension. For the irrigated areas, where tilling is intensive and population is more dense, the standard Western model of extension may be feasible, provided energy efficient means of transport is utilized. The intensity of effort could be less for cereal and oilseeds crops than an export item such as bananas.

For non-irrigated areas, a considerably less intensive information delivery system would appear appropriate. This could entail establishment of well placed demonsration and farmer training centers which would be manned by extension personnel. But the grasss roots personnel or final deliverers of the information to farmers would be "elected volunteers" from villages who would gather information from and/or be given training in improved methods in the demo/training centers. This could be combined with continued adult literacy programs.

An additonal opportunity for both areas would be use of purveyors of farm inputs, particularly if private entities are authorized to become involved. Delivery of information helps increase returns to use of improved inputs. The purveyor usually pursues the matter more conscientiously than a government employee and the purchaser is more likely to abide by the advice since he more directly associates the ultimate use with his cash outlay.

9. Water Resources Development

The Five Year Development Plan (FYDP 1982-86) currently being finanlized calls for a minimum new area of about 16,500 hectares to be brought under controlled irrigation during this plan period and to be completed in 1988, which alone has an irrigation potential of 223,000 hectares.

According to a recent World Bank study of water resources in Somalia, this emphasis on heavy capital investment in new irrigation projects does not appear advisable. The new projects will need a long implementation period and benefits cannot be expected in the near future. The existing projects show low yields, are far from offering reasonable economic returns and farmers and state corporations are unable or unwilling to maintain them. It can hardly be expected, therefore, that the new schemes, cultivated by less experienced farmers, will produce better returns. Consequently, according to the Bank report, the main emphasis should be placed on rehabilitation of existing schemes in order to obtain higher returns from the available irrigation infrastructure. Farmers and state corporations should receive technical assistance and the necessary inputs to utilize the existing irrigation schemes fully. When these goals have been achieved, or when reasonable progress has been made in this direction, horizontal expansion of irrigation may be justified and feasible, provided there is appropriate balance with investments in rainfed agriculture.

There is also a need for modification of the current system of water charges on the irrigation schemes. At present no direct water charges are levied. The charge imposed by the Government is a tax on irrigated land which is much higher than the land tax for rainfed agricultural production. This taxation system, while simple and relatively easy to enforce and to control, is inadequate in areas where many farmers face frequent water shortages. The introduction of volumetric water charges is considered most appropriate by the World Bank. Although this may not be immediately feasible, the Government should seriously consider revising the present system. Several options should be considered taking into account their costs and benefits under present and future conditions when rehabiliation works may have been carried out. This would allow the

Government to establish a program for a gradual introduction of adequate tariffs in accordance with the technical capabilities of the executing agencies, and to see that the benefits of the new system are sufficiently higher than costs.

10. Livestock Pricing, Marketing and Supportive Investment Policies

10.1 Background on Livestock Sector. About 60 percent of Somalis are nomads and an additional 20 percent keep livestock. Nevertheless, it is unusual that they permeate to such an extent the entire society. Nomads of Somalia, unlike livestock oriented people elsewhere on the continent, distinguish between capital and wealth. They account for a significant portion of some bank deposits, hold urban investments, and finance some local shops. On the other hand, many urban people own livestock or shares in herds/flocks. Livestock accunts for about one-half of the nation's GDP and for more than 90 percent of export earnings; the latter is on an upward trend. In terms of value, goats and sheep account for 71 percent of exports, cattle 23 percent and camels 6 percent. Moreover, the sector provides hides and skins for the tanning industry and blood and bone for animal feeds. Animals (mainly camels) provide transportation for the nomads and draft power (some mannure) for crop farmers.

The nomads migrate over large areas in response to water and feed availabilities, often into Northwest Kenya and the Ogaden of Ethiopia. Market availabilities is the second determinant of animal movements. In the south, cattle move towards the slaughter houses of urban centers. Camels, sheep, goats and some cattle move to the Hargeisa-Burao-Berbera triangle through which 90 percent of the country's live animals are exported. Internal prices now attract movement from Kenya and Ethiopia. Some estimates indicate Ethiopia stock accounts in some seasons, for up to one-fifth of Somalia's exports. Ethiopians accept payment in Somalia currency.

There is much about the Nomadic livestock sector that is not understood. One important and difficult question is the carrying capacity of the range lands. For example, in 1964 an FAO report indicated ranges were at capacity. But a census following the severe 1973-75 drought which caused widespread losses, nevertheless found 2.5 times as many animals as estimated to have been on the range in 1964. Recovery from the mid-1970s has been rapid with recent setbacks due to weather. Obviously, there is some upper limit to range capacity. But further close study to determine interventions for limiting growth in the national herd, i.e., for identifying private interests in the culture with (social) national interests.

Diseases take a heavy toll of livestock and consequently the offtake is relatively low. In 1978 according to the World Bank, the rates were cattle, 4 percent; sheep 20 percent; goats 15 percent and camels 1 percent. Of these off-takes, live exports take the following proportions: Cattle 49 percent; sheep 30 percent; goats 32 percent and camels 59 percent. The balances, corroborated with hides and skins purchases plus a contingency allowance, were presumably consumed in country or canned.

Despite the diseases and other national hazards, especially frequent droughts, growth in exports over the past quarter century have been 4-fold for sheep and goats, 5-fold for cattle and 10-fold for camels. This is an annual average rate of 8-16 percent and allowing for domestic consumption implies annual growth in production of over four percent.

Apart from meat processing operations and so far unsuccessful attempts by government at fattening, and dairy and poultry production, development of the livestock industry has been entirely by the private sector. Government interventions to date, many apparently well-intentioned have been mainly of a regulatory nature and for the most part have been counter-productive. In a broad sense it may not be an exaggeration to state that private livestock production and marketing has progressed despite the government. A rather insightful (though uncompleted) document by a World Bank team in 1978 stated "public sector participation (in the livestock sector) appears to be weak where it is essentially needed and disturbing or exploitive where it is not.

Somali livestock are strongly preferred by middle eastern markets. In Saudia Arabia comparable species bring a 25-30 percent premium over stock from other sources such as sheep from Australia. At present Somalia provides over one-half of Saudia Arabia's livestock imports and this highly remunerative market is threatened by persistent disease problems among Somali stock. Disease also seriously deters Somalia's animal production capability.

Impediments to better performance by the livestock sector include the following: (1) Weather (climatic) induced: (a) retarded growth and loss of condition of animals, and (b) widespread death of animals in severe droughts. (2) High cost (and often unavailability) of fodder for holding areas and for ocean shipment. (3) Heat exposure and dust pollution in places of high commercial concentration; markets, marshallng and veterinary control or quarantine points. (4) Limitation of grazing due to unabilability of water for animals. (5) Inaccessibility of drugs and chemicals. (6) Health hazards in the Berbera veterinary quarantine and inspection yard. This port area is extremely hot and with heavy constant concentration of live animals vastly increases likelihood of stock contracting disease or other health problems. (7) Harbor congenstion and long queing time for livestock vessels and generally slow turnaround at Berbera port. (8) Poor communications generally and lack of informations low on stock availabilities, movement and prices -- overseas and domestic. (9) Basically weak bargaining position of Somali exporters stemming from practice of setting final prices after stock arrives in Saudi Arabia. (10) Maintenance of over-valued exchange rate and disruptive influences from using government minimum prices — reducing official foreign exchange availabilities thereby contributing to under supply of drugs/chemicals for livestock; distracting traders into importing other commodities, away from livestock specialization; understating (official) value of livestock exports. (While demand for drugs by nomads is strong, this is not translated into sufficient employment of Franco Valuta system to anywhere meet drug/chemical requirements.) (11) Absence of established trails for stock treking with supportive services — water, feed and veterinary supplies/services. The background to all the above points can be found in a number of studies on Somalia by World Bank, UN agencies, bilateral donors and individual analysts.

10.2 Disease Control. Procurement and distribution in earlier times was handled by the private sector and the nomads learned how to combine their use with their own inherent skill in diagnosing diseases. About a decade ago, government agencies became increasingly involved. Availabilities of supplies have become progressively more limited and high losses are now experienced (poor growth as well as ortality) in both production and in marketing. Efforts by government to control movements and enforce quarantine at ports compounds the disease spreading problem and is the basis for the threat to foreign market cut-offs.

In the early 1970s the Livestock Development Agency (LDA) was established. Over time the developmental thrust was lost sight of, attempts were made to control marketing such as, under franchise, compelling movements to sourthern slaughter houses. Evenutally it undertook marketing functions in the north as well as the south. Inefficiencies in marketing became progressively more serious until, as a first step in a promised series of institutional reforms, the LDA was abolished in early 1981. Once again all livestock marketing is in the hands of the private sector, though with some pricing intervention. Incidentally, virtually all domestic slaughtering is performed by Somali women except for the actual killing of camels. However, aside from disease "control", measures on movements, the port and shipping agencies (both government) impinge seriously on efficiencies of private sector livestock marketing.

10.3 Present Marketing Procedure. There is some specialzation by stages within Somalia and about 200 traders are involved in actual export marketing. The exporter reaches verbal agreement with a buyer overseas — (say in Jeddah). The buyer then sends a letter of credit (L/C) to the exporter's bank specifying the species composition, price (always the Somalia government's minimum) and certain relevant dates for performance. For the major dealers the L/C is little used in obtaining credit, but the letter is the bases for permission to export. An official of the major bank handling such credit explained that the usual practice is to extend "bulk" credit based on trustworthiness of the borrower but also involving co-signers and liens on fixed property. The loan then runs for a year or "forever"; current interest rate is 12 percent per annum. In accordance with times specified in the L/C, livestock is procured or called forward to manuver through the various regulatory hurdles. The final price for the animals is not established until they reach the foreign buyer and, under a number of pretenses, the settling price often can be less than the verbal agreement. The exporter must remit through formal banking channels the equivalent of minimum prices which constitute the official basis of aggregate, official export values. The excess he can use to procure shillings at discount in the international market or procure goods for inport into Somalia. This constitutes the so-called

Franco Valuta flow i.e., free of central bank involvement. The shillings procured abroad or proceeds of sale of imports are used to help pay for animals in Somalia as the price regularly exceeds the established government minimum. In late May 1981 the difference was U.S. $27 per head in the case of sheep and goats, U.S. $75 versus U.S. $48, or an excess of 56 percent. Actual data were not obatained for other species but it was indicated about the same relationships prevailed.

The minimum price scheme was initiated in 1973-74. It became effective abruptly and caused heavy losses to traders already owning stock with (verbal) sales contracts. With probably some temporary cut back in movement and steady price increases, the actual prices have gradually increased relative to the (lagging) government minimums as shown in the following tabulation.

TABLE 6
Live Sheep and Goats: Government Minimum Prices (FOB Berbera) and Net Price in Somalia of Sales in Saudia Arabia

	(1) Minimum Price	(2) Saudi Arabian Prices less freight to Somalia	(3) Differences Actual (2)-(1)	(4) Differences Percentage (3) : (1)
	U.S.$	U.S.$	U.S.$	Percent
1974	19	25	-6	-32
1975	25	35	10	40
1976	35	50	15	43
1977	40	68	28	70
1978	40	70	30	75
1979	40	70	30	75
1980	48	74	26	54
1981 (May)	48	75	27	56

Basic data provided by Hargeisa Branch of Commercial and Savings Bank of Somalia.

Important implications of the above tabulation are presented alone under "Exchange Rates".

10.4 Modification of Policies. It is clear from the earlier discussion that there is a wide variety of positive steps that could be taken to support development of the (Nomadic) livestock sector. There appears to be good reason to agree with World Bank advice that assistance to exotic subsectors of the industry would be unsound at this time. There are many alternatives where returns would be positive in contrast to negative outcomes in most of the attempts at "modernized" approaches.

One of the most promising in terms of increasing production, marketing and assuring sustained accessibility to export outlets is via disease control. There has been much discussion of more intensive paraprofessional support, some involving use of mobile units. But this approach has been called into serious question on two counts. First, the seasonal high in disease incidence coincides with rainy seasons -- when only Nomads and their herds/flocks can be mobile. Second is whether it is necessary to incur heavy professional staffing at service centers. The same expatriate, well-grounded adviser who made the study of seasonal disease incidence, has gained the firm conviction that the Nomadic herdsmen are more adept at diagnosing and treating diseases than the current graduates of the Faculty of Animal Production and Veterinary Science. The need is primarily to make the drugs/chemicals readily available for purchase by the Nomads. He has postulated that for a 16 million shilling addition or extension to a soon-to-terminate Kuwait fund project, a network of small permanent dispensary buildings could be established. He asserts that once established, the system could be supported from fees charged and gladly paid by the Nomads and the annual benefits could be Sh. 50 million to Sh. 100 million per year. The team did not possess the expertise to exhaustively evaluate this proposal. But the logic is sufficiently convincing that expert corroboration should be sought and then actions taken to implement. The Somalian Government should be encouraged to invite cooperation of International Laboratory for Research on Animal Diseases (ILRAD), located at Nairobi, Kenya.

As indicated earlier, disease control measures have pervasive implications for marketing. To reformulate policy and develop a plan of action there should be on-site evaluation by a marketing specialist with anthropological background to collaborate with a disease control specialist. Perhaps the Kuwait Fund authorities could be persuaded to support such a marketing specialist as well as extend the present Veterinary adviser (located at Burao) beyond the December 31, 1981, termination date.

A number of other areas need attention by a marketing specialist. These include: (1) Designing a system to permit a more orderly flow of availabilities and upcoming shipments, to permit holding of stock away from Berbera, on a more dispersed basis. This would mean closer proximitry to feed and reduced disease problems, particularly if they can be held longer on the plateau. (2) Designing improved port handling accommodations. (3) Establishing a price reporting system to accompany the movement/availabilities reports. (4) Exploring alternatives in setting final prices to the current one which takes place after animals reach foreign destinations. A series of auctions in Somalia appears to be one option deserving consideration.

A number of other measures problably could be taken to promote development of the Nomadic livestock sector. But to accurately identify feasible areas, a variety of intensive studies is needed. Many of these have been identified by the World Bank (see Agricultural Sector Review, Report No. 2881a for Somalia December 2, 1980).

11. Food Security Policy

In the agricultural sector, the broad planning objectives of the Government are translated into four general, intermediate objectives each of which links directly to food security: (1) Protecting the country against the effect of drought. This has two components. The first aims at a decrease in the number of people who live off the economic activities that are most vulnerable to drought (nomads). The second is an effort to develop a national food security program to cope with emergency situations whenever and wherever they arise; (2) Increased production for import substitution of rice, cotton, sugar -- and to a lesser extent -- wheat; (3) Increased production for export of livestock, fish, and bananas and the development of new export crops, such as cotton, sesame, fruits and vegetables; (4) Continued drive toward self-sufficiency in sorghum, maize, and oilseeds. Long-term food security policy is based, therefore, on increasing the productivity of Somali agriculture. Refer to Section IV on the Role of P.L. 480 Resources for a description of short-term food security policies and problems.

III. RECOMMENDED CHANGES IN GOVERNMENT POLICY

1. Policy Recommendations

The following are policy changes which the Team recommends in order of priority. Consideration has been given to their impact on alleviating critical constraints to the development of the economy. These recommended changes, of course, will vary in the immediacy and magnitude of impact, the quantity of resources required, and the level of political will needed for implementation.

1.1 Exchange Rate Adjustments. It is recommended that the government proceed with exchange rate modifications that are designed to provide substantially greater incentive to production of exports and import substitutes.

a. In the case of exports, a preferential exchange rate should be established so that export revenues are converted into Somali shillings at a suggested rate of 12 shillings to the dollar, rather than at the official rate of 6.2 shillings. It is noted that the livestock producers now receive the equivalent of 11 shillings per dollar.

b. Migrant workers represent an important potential source of official foreign exchange and thus the preferential rate should also apply to their remittances. In addition, workers should be permitted to set up foreign currency bank accounts in Somalia which can be used for the importation of goods (other than some non-essential goods whose importation might be restricted).

c. For import substitutes (production of any product which is currently imported), import tariffs should be set which will raise the price of competing import products to a price that would prevail at a more realistic exchange rate. At a minimum, import tariffs of around 100 percent would be appropriate and consistent with a 12 shilling exchange rate.

1.2 Food Security Policy. The immediate short-term problem of food security requires the following steps:

a. An optimal food security system should be designed and implemented to handle short-term production shortfalls and emergency situations based on the present infrastructure and appropriate production, marketing, and pricing policies.

b. A data and information system on national, regional and local stock levels should be implemented to support effective decision-making regarding the management of working stocks and emergency reserves.

c. A training program on the physical management of grain stocks should be initiated at the regional and local levels.

d. Provision should be made for making available the inputs necessary for proper management of stocks, including fumigants and other supplies necessary to keep storage areas pest free and sanitary.

1.3 Livestock Sector Policies. In order to strengthen this extremely important sector, the following policy changes are recommended:

a. Improve the national availabilities and the distribution network for drugs and chemicals to livestock producers.

b. Improve the marketing and the price determination process of live animals for export.

1.4 Crop Production, Pricing and Marketing Policies. To encourage crop production and improve marketing, the following policy changes are required:

a. Increase government guaranteed minimum crop producer prices to more closely approximate export or import parities at realistic exchange rates.

b. Introduce regional and seasonal price variations in order to minimize transport cost, encourage on-farm storage and exploit regional comparative production advantages.

c. Increase the availability of agricultural inputs by allocating foreign exchange for the purpose of importing needed inputs and facilitating their internal distribution to farmers.

d. Continue to lessen ADC's involvement in crop purchases. This will assure that the government minimum producer prices and disposal programs will not provide a disincentive in drought years when free market prices may rise substantially.

1.5 Improvements in Analytical, Planning and Management Capabilities. Somalia's critical weakness in these areas could be improved through implementation of the following measures:

a. Building a data/information base premised on end-use requirements in Somalia.

b. Developing and using a macroeconomic framework for planning.

c. Augmenting the ability of the government to implement plans and monitor and reporton economic activities.

d. Expand, develop and make more effective use of managerial personnel, including expatriate advisors.

1.6 Res(:ch and Extension Programs. The effectiveness of research and extension systems could be improved by implementation c. the following policy changes:

a. Provide adequate resources for present limited personnel.

b. Agressively develop additional staff in both research and extension and improve management of these two activities.

c. Employ multidisciplinary teams to identify high payoff research opportunities, particularly for small farmers.

d. Develope a long-term national strategy for expanding research efforts.

e. Mold extension procedures to fit Somalia's needs and resources.

1.7 Education and Training. The lack of skilled manpower is a major constraint to development. National training institutions and programs should be strengthened by the following policy changes:

a. A survey of manpower requirements in critical areas such as agriculture and livestock should be made, identifying training needs and the institutional resources required to meet those needs.

b. The National University should increase salaries of staff members particularly in the Faculties of Agricultural and Animal Production and Veterinarian Medicine. Modify the curricula to address more directly the problems of agricultural development in Somalia.

c. Vocational and technical training should be emphasized, including apprenticeships that teach practical skills such as mechanics, equipment operation, agricultural extension, and a variety of needed paraprofessional skills.

d. Local level training programs should be initiated for farmers with regard to such items as soil and water management, use of improved technologies, and use of alternative foods for more efficient and better nutrition.

1.8 Wage and Employment Policy. In order to reduce the budgetary drain of current policies and provide needed incentives to public and employees, the following policy's are recommended.

a. Gradually phase out government's guaranteed employment of school-leavers.

b. Grant immediate overall salary increases to public and parastatal employees.

c. Institute a strong individual incentive/reward system for public employers in order to improve worker morale and productivity.

d. Establish appropriate compensation differentials which are keyed to job requirements.

1.9 Policies Regarding the Private Sector. The scope for the private sector should be broadened by means of the following measures:

a. Carefully analyzing constraints to the growth in numbers and contribution of the private sector.

b. Based on these findings, adjust national policies where appropriate and provide indicated requirements in infrastructural, technical, training and financial support.

1.10 Policies Regarding Parastatals. In order to improve the government's fiscal situation and diminish parastatal inefficiency, the following policy changes are recommended:

a. Abolish inefficient parastatals.

b. Rationalize responsibilities between parastatals which remain in order to enhance their overall effectiveness and efficiency.

c. Gradually reduce the role of parastatals and aggresively support the growth of competitive private enterprise operations in all sectors where this is feasible.

1.11 Water Resources Policies. The following policy changes are recommended in order to improve the productivity of Somalia's critical water resources:

a. Place highest priority on rehabilitation of existing irrigation schemes.

b. Modify the current system of water charges in order to encourage the efficient use of available water.

c. Maintain an appropriate balance between investments in rainfed and irrigated agriculture.

2. Current Atmosphere

The adverse consequences of the policies and programs of "scientific socialism" for nearly a decade are coming to be progressively more appreciated by the ruling leadership. Particularly noteworthy have been the economic controls and inherent inefficiencies of the parastatal sector. These characteristics of a "planned economy" have been superimposed on a society that is basically individualistic and private enterprise oriented. It is no exaggeration to state that the economy would be in even worse condition if the Somali private sector had not demonstrated such great resourcefulness. One senses from various levels of the Somalian society, a genuine desire for broad economic freedom. Slowly the public concensus for change is being reflected in official entertainment of reform possibilities. Encouragement in this direction from external sources such as the IMF, World Bank, and major bilateral donors have had significant influence. A major consideration has been the shift in Somalia's global relationship from the East Bloc (mainly USSR) to the West, especially the United States.

Some significant steps have been taken toward adjusting economic policies. Assurances were voiced from several top officials that if the outcome from these adjustments were favorable, others would follow. In early 1981, the following policy actions were taken: (1) The Livestock Development Agency was abolished. Members of staff involved in the Agency's commercial activities were terminated; others were assigned to Ministries handling their functions. (2) A Banana Development Project (BDP) was initiated. The major thrust is to obtain and apply relatively more modern inputs including fertilizer and through intensive extension employ better cultural practices. The banana price (for export) was increased 50 percent (nevertheless this price is less than ½ the price for domestic consumption). (3) Farmers are no longer compelled to sell all their output of cereals to ADC. They may store unlimited quantities. (Traditionally, rural people store enough for several years consumption.) Any sales by farmers in bulk must be made to ADC but non-bulk (defined as 100 kg. units) sales may be made to consumers. Different interpretations were given by officials as to whether sales to consumers had to be made at equivalent of ADC prices or any price, even above the ADC selling price. (4) Producer cereal prices for the current season were increased about 50 percent from previous announced prices.

Further, general measures toward reactivating the private sector are under active review. Officials are torn between what they feel is the threat of exploitation by the "middle man" on the one hand, and the promise of positive developmental effects, on the other. There is the question, for example, as to whether small firms or individuals shall be allowed to act as agents for a government agency in selling fertilizer and other inputs. There appears to be a concensus as to the desirability of allowing (and supporting) small production firms. This could be condusive to agricultural and rural development. The President announced on May 1, 1981, that inefficient parastatals would not be allowed to continue. A review board has been established to scrutinize performance of many of these entities. Presumably the private sector will be invited to perform those functions discontinued by the closed parastatals. And finally, in late June, as indicated in the preface the Somali Government announced the establishment of a two-tier exchange rate and the intent to abolish the Franco Valuta system of financing imports. This is a major shift in financial management policies.

The above incremental steps move the Government toward policies that encourage free enterprise and better management of the economy. These are considered to be strong indications that the Government has the desire and political will to make major decisions that the development community, and especially the United States Government, can support. The incremental nature of these changes are a reflection of the legitimate caution of the Government due to the level of risk to the government inherent in these decisions. This should not lessen our strong support for these initiatives.

IV. ROLE OF P.L. 480 RESOURCES

1. Overall Contribution

The overall contribution of P.L. 480 resources to Somalia has been and continue to be signficiant. The P.L. 480 Title I and Title II programs have served multiple purposes in Somalia. First, P.L. 480 has provided food for hungry people in the form of direct subsidized distribution and through the moderation of extreme consumer prices in the market. Both Titles I and II are being utilized in the refugee relief efforts and Title I commodities are also being distributed through normal marketing channels to help meet needs caused by drought-related production shortfalls and flooding of the Juba and Shebelli Rivers.

The provision of Title I support to Somalia commenced in FY 1978, coincident with the restart of the AID program. The initial year's program was at the $7 million level and provided flour, rice and vegetable oil. With a deteriorating economy in FY 1979, and the need for concessional food aid increasing, Somalia requestd and received $10.7 of Title I foods — flour, rice, corn and vegetable oil — during that year. In FY 1980 the level of Title I support was raised to $17.7 million to meet significant food shortfalls affecting both the rural and urban populations. In FY 1980 a grant of $5 million of Economic Supprt Fund's (ESF) was provided to pay partial freight costs of the food under the program due to a severe foreign exchange problem which the GSDR experienced and largely persists today. For FY 1981 a Title I Agreement was signed in early February 1981 which provides $15 million in concessional food aid.

Like Title I, Title II support for the government of Somalia commenced in FY 1978. A total of $6.3 was provided for various foods that year, including $434,000 under the World Food Program (WFP). In FY 1979, a total of $5.5

million of Title II foods were provided, including $2.46 under the WFP. In FY 1980, with the massive influx of refugees, the program totalled $27.92 million to meet the food requirements of these displaced persons; of this total, $5,338 was provided through the WFP. For FY 1981, the AID Mission requested a total of $22 million for Title II food support for the refugee program, plus $6 million for the WFP. All the above Title II dollar aid figures are exclusive of shipping under Title II. As long as the refugee problem persists, the Mission sees the need for Title II support for the short-term, if not for food handouts, then to support food-for-work and other programs associated with refugee rehabilitation/integration.

U.S. food assistance has provided a necessary resource to the Somali government that is highly complementary of the assistance activities of other donors, due to the flexibility of the program. Because of this significant contribution to balance of payments support, food availability and emergency relief, the Government of Somalia views the continuity of the program as essential.

2. Performance to Date

2.1 Handling of Commodities. The Somalis are in general observed to be good food handlers, managing commercial and P.L. 480 (Title I and II) fairly well. Port facilities, however, could be improved greatly by the addition of bulk unloading facilities. This would decrease the time required for unloading and reduce significantly ocean freight charges that are now based on bagged commodities.

Somalia has four ports of which Mogadishu and Berbera are by far the most important. The smaller two are Ismayu and Merca. Mission observations and Team visits confirm that under normal conditions there are adequate facilities for receiving, storing and properly managing recent volumes of food imports at the ports. Incoming food stocks were observed at both Mogadishu and Berbera, to be physically well managed, remaining at the port for only a short duration. All along the distribution system, the availability of fuel for the trucks was the most significant constraint to timely movement of commodities. Lorries might wait in line for a full day to get a ration that varied in amount depending upon availabilities. With adequate fuel, ADC can move more than 1,000 tons per day from the port to outside warehouses.

Some breakage of bags and wastage did occur, but certainly they were within acceptable limits. Efforts to recover damaged commodities were carried out at the port, and in fact, at all storage areas. A more effective program of sweeping and cleaning of unrecoverable commodities and dirt in the warehouses would be useful as there was some accumulation of debris on the floor.

Another general observation on a non-physical aspect of handling the food commodities relates to record keeping. Precise records of arrival and disbursement data, in a tabulated and summarized format were not being kept. Thus, an inventory of food stocks that would provide for effective decision making on the logistics of the commodities is not readily available.

Storage facilities are maintained at the regional and district levels as part of the national food distribution and procurement system. Numerous storage sites for both Title I and Title II commodities were observed on field trips and warehouses were inspected in Mogadishu and Hargeisa. The sites and warehouses appeared in general to be in good physical condition with no obvious maintenance problems such as leaking roofs or damaged floors. Bags were neatly and properly stacked. The grain appeared to be in good condition with no or limited signs of insect and rodent infestation. At this time, food commodities move out of storage fairly quickly as food items are consumed as they become available. More management training and fumigation supplies would be useful, however, to keep storage problems at a minimum as the government works toward establishing a working stock and eventually a reserve for food security purposes.

2.2 Reporting Requirements. Compliance reporting requirements, including self-help reports, for P.L. 480 recipient countries is an important part of the management of the program. Somalia's performance beginning with the FY 1978 program has been mixed at best. The general lack of good record keeping handicaps the government's ability to report timely and accurately information related to arrivals and UMR's (Usual Marketing Requirements). This causes incomplete and tardy quarterly reports. For example, there appear to be several instances of under-reporting of commercial imports, thus contributing to the problem of fulfilling UMR's.

The annual self-help report is a serious indicator of capability and attitude with reqard to the utilization of local currency for development purposes and the accountability associated with this use. At this time, the report for FY 1980 has not been delivered, and there were no reports for FY 1978 and FY 1979. After extensive proding, a draft of a report on FY 1980 was delivered to the Mission, but the report was found lacking in substance. Although the local currencies are deposited in a special account, the actual disbursements of funds is not accounted for at present. A revision will be suggested with enough guidance to hopefully result in an adequate report.

These reporting problems are common to most developing countries, and relatively speaking, Somalia does not stand out as the worst offender. Indications are that the government wishes to be more responsive and with some encouragement and more guidance will improve its reporting performance. Improvement in Title I reporting procedures during FY 1982 is an essential proper management of the proposed Title III program.

3. Apropriateness of Title III for Somalia

Although the commodity mix will probably vary depending on domestic production, it is the conclusion of the Team that the need for Title I food assistance will remain close to the present programming level of FY 1981 for the foreseeable future. This would certainly be the case over the duration of a three to five year Title III program that would begin in FY 1983.

The appropriateness of a Title III program for Somalia is being judged to a significant extent on the basis of the Somali government view of the program, and the separate, but related, capacity to manage and administer the program with the degree of accountability required by the legislation and the accepted procedures. The government has been thoroughly briefed on the programmatic aspects of Title III by the U.S. AID Mission. It is the judgment of the Team that government officials have been briefed on the additional benefits of the program to a greater extent than the aditional requirements that go along with a Title III program. At this juncture, it is critical that the governmet be made more aware of the accountability factors in the program. The Team has stressed this both with officials of the government and with the Mission. The Government is considering the possibility of a special inter-ministerial committee reporting directly to the Minister of Finance. This committee would have direct responsibility for all aspects of the Title III program in the Somalia Government. Formation of this committee should be encouraged.

Of the government officials interviewed, all without exception stressd the importance of the Title III program to the success of new government policies and programs, and as an absolute necessity to carrying out effective agricultural and rural development.

4. Potential Contribution of Title III Relative to Title I

The additional contribution of Title III relative to Title I to the recipient country is based on the need for a multiyear commitment of food assistance to enable a more rational use of food assistance as a development resource. The forgiveness element of the program is also viewed by the government as critical due to its present financial circumstance. An additional possibility is the use of Title III to cover ocean freight costs. The first two are viewed by the Team as legitimate but limited additional benefits that can be realized in a Title III program in Somalia. The third possibility is advised against, although judged to be legal and acceptable in a country as needy as Somalia. It is the judgment of the Team that this would set a poor precedent for the Title III programs in general, and would specifically place the United States at a disadvantage in any future development-related discussions with the Somali government. It is the Team's understanding that the Somali government has begun to pay ocean freight upon the realization that the U.S. position not to pay in FY 1981 was a firm one. The Team detected that at least some Somali officials believe that a significant advantage of Title III over Title I is that it encourages line budget support for specific development activities. This firm resource commitment within the government itself would help assure the operational Ministries of budget support for the projects specifically in Title III.

In discussions with Somalia officials regarding Title III, there were frequent indications of a possible misunderstanding that part of the available resources could be used to import commodities. The sub-cabinet committee on Title III in their report to the cabinet listed several items for importation. They explained this away by stating procurement would be with Somalia's own foreign exchange but the operating Ministry (e.g., Agriculture) would then use Title III shillings to purchase the commodities in country. USAID Mission staff approved the approach in principle.

On the return from Somalia one team member met in Holland with the Director General for MOP, who is chairman of the sub-cabinet Title III committee, the (UN) adviser to the MOP, and the Director of Planning in the Ministry of Livestock, Range and Forestry. The features of Title III were reviewed and it was clear at that level that Title III was not viewed as a source of additional support and that it could not be used to cover imports. There also appeared to be clear understanding that some policy changes supportive of chosen projects would be required. On these and other points, however, it appears desirable that the USAID Mission send a letter to all relevant officials. This appears particularly appropriate in view of the lead time for formulating a III program and the rising expectations the discussions generate. Possible project areas were discussed, some in particular depth because Government Title III committee had not considered them. Ethusiasm was expressed for the project areas the Team has identified.

5. Purpose and Intent of Proposed Title III Program

The purpose of the proposed Title III program is to focus the use of P.L. 480 resources on the increase of agricultural productivity in Somalia by using the local currency generated by the sale of Title I commodities to support needed agricultural policies and projects. Along with the accompanying foreign exchange advantages and the multiyear aspects of the program, the intent of the Title III is to contribute to the rationalization of government pricing policies, to provide specific budget support to operational agencies for agreed upon projects, and to use the implementation of the Title III program as a "hands on" training activity in management, fiscal accountability, and project evaluation.

6. Recommendations with Regard to Title III

6.1 Recommendations. The Team recommends the implementation of a Food for Development (Title III) program for Somalia. Based upon the Team's assessment of the political and economic situation, the recommendation is conditional upon the carrying out of specific policy reforms by the government of Somalia and an incremental implementation of the program. The policy reforms serve as an indication of political will and are essential to reversing the decline in the economy. An incremental approach to the magnitude of the program is judged to be an effective way to make optimal use of a limited leverage. The magnitude and continuance of the program, therefore, should be linked directly to further policy reforms.

The Team suggests that the Title I program be continued through FY 1982. During this year, the Somali government would be required to show a clear intent to carry out suggested policy reforms. At the same time, an appropriate Title III program would be developed and made ready for implementation beginning in FY 1983. The program level in dollar terms and the mix of commodities will be dependent upon FY 1983 requirements based on the agricultural situation in Somalia at that time.

6.2 Suggested Policy Prerequisites. The following policy and program actions to be carried out by the government are suggested by the Team as prerequisities to initiation of a Title III program. The government of Somalia should agree to the following: (1) To begin a reform of the exchange rate policy in such a manner as to encourage exports and production of import substitutes; (2) To raise crop and livestock producer prices to more closely approximate export and import parity prices at a realistic exchange rate; (3) To continue efforts to meet Title I program compliance and self-help report requirements in a timely and sufficient manner.

The above suggested prerequisities are judged to be politically acceptable, economically feasible, and the minimum initial actions necessary for the ultimate success of a Title III program.

6.3 Suggested Program. The policies and projects associated with the Title III program should emphasize the development of Somali agriculture in a rational, substainable manner. The specific projects designed for the program should encourage the policy directions underway, should help make overall development policies and programs more cohesive, and should provide a training element to improve the government capability to sustain the economic development impact of the project over time.

The following general areas of consideration for specific projects are suggested from the experience gained during the Team visit to Somalia and supplement the policy recommendations made by the Team: (1) Food Security. A food security program that deals with short-term problems of distributing and storage under normal and shortfall conditions, and also the long-term problems of increasing agricultural productivity would be a first priority in Somalia.

Projects under this heading could range from grain stock management to improving cultural practices of farmers; (2) Agricultural Information System. The lack of data is a constraint to rational decision making in the agricultural economy. Projects could range from micro level studies of producers and consumers to a complete agricultural census (3) Management Training and Skill Development. The trained manpower supply in Somalia is seriously inadequate. Training projects would be appropriate in most skill areas associated with agriculture, general management, mechanics, extension and research; (4) Livestock Marketing. The livestock sector is the most imporant in the economy. Projects that improve animal health and export marketing policies would have a high return on investment; (5) Agricultural Research and Extension. The long-term increase in the productivity of Somali agriculture will be based on effective indigenous research and extension activities. Developing a coherent national research program and activities to train research and extension workers are suggested as possible projects; (6) Small-Scale Enterprises. A study that analyzes the constraints to small-scale enterprise in rural Somali would be a useful first step to promoting private activities that could effectively complement/support development of the agricultural sector and, particularly, to take up the functions of parastatals as they are phased down.

6.4 Policy/Project Linkage. Projects should be initiated as a function of incremental policy reforms on the part of the Somali government. A sequencing of policy reforms is suggested as a continuation of the prequisite policy actions mentioned above. Implementation of each project or incremental phases of each project would be made conditional upon stipulated incremental (where feasible) policy changes. These relationships could be articulated in tabular/chart form and agreed upon in advance.

The Team believes that while additional benefits will accrue from a direct policy/project linkage, one needs to be reminded that the leverage associated with a Title III relative to Title I program is not all that substantial. Any effort at linking policy reforms and project programming should keep this in mind.

7. Building the Bridge Between Title I and Title III

To successfully initiate a Title III program in FY 1983, several actions need to be taken. For example, Title I reporting requirements should be worked out with the Somali Government. The self-help measures should begin to reflect the projects and programs that the Title III proposal will contain. Arrangements should be made to establish management procedures for Title III within the USAID Mission and the Somalian Government including specific position responsibilities and the establishment of a USAID Mission Title III working group. It is suggested that a highly qualified local be given the position of Executive Secretary of the Mission working group on Title III. Also preparation should begin for the visit of the second phase Title III Team to Mogadishu. This Team would have the task of accomplishing a detailed project specific Title III proposal, in cooperation with the Government and the USAID Mission, that is ready for interagency consideration in Washington before FY 1983 programming begins.

APPENDIX TABLE 1

IMPORT PARITY PRICE
(SO. SH./METRIC TON)

	Exch. Rate Sh 6.3=$1	Exch. Rate Sh 9=$1	Exch. Rate Sh 12=$1	Exch. Rate Sh 16=$1
Maize, Cif Mogadishu	1,783.90	2,548.40	3,397.90	4,530.60
Add:				
Insurance Fee	43.86	62.64	83.52	111.36
Shipping Co Fee	31.02	44.28	59.04	78.72
Port Handling Fee	45.90	45.90	45.90	45.90
Porterage Charge	50.00	50.00	50.00	50.00
Fumigation	15.00	15.00	15.00	15.00
Transportation from Port to ADC Mogadishu	20.00	20.00	20.00	20.00
Transportation from WHSE to Regions	250.00	250.00	250.00	250.00
Clearing Agency Fee	20.40	20.40	20.40	20.40
Bank Interest	5.21	5.21	5.21	5.21
Less: Handling Margin ADC	700.00	700.00	700.00	700.00
Import Parity Farmgate Value of Maize	1,565.29	2,361.83	3,246.97	4,427.19
Producer Price	1,800.00	1,800.00	1,800.00	1,800.00
Producer Price as Percent of World Parity Price	114.99	76.21	55.44	40.66

SOURCE: Based on data from Tables 1-6 in text and Table 8 in Appendix

APPENDIX TABLE 2

IMPORT PARITY PRICE OF SORGHUM
(SO. SH/METRIC TON)

	Exch. Rate Sh 6.3=$1	Exch. Rate Sh 9=$1	Exch. Rate Sh 12=$1	Exch. Rate Sh 16=$1
Sorghum, Cif Mogadishu	1,250.55	1,786.50	2,382.00	3,176.00
Add: Handling Charges	156.20	156.20	156.20	156.20
Less: ADC Marketing Costs	700.00	700.00	700.00	700.00
Import Parity Farmgate Value of Sorghum	706.75	1,242.70	1,838.20	2,632.20
Producer Price (White)	1,600.00	1,600.00	1,600.00	1,600.00
Producer Price as Percent of World Parity Price	226.39	128.75	87.04	60.79

SOURCE: Same as Table 1

APPENDIX TABLE 3

IMPORT PARITY PRICE OF SESAME
(SO. SH/METRIC TON)

	Exch. Rate Sh 6.3=$1	Exch. Rate Sh 9=$1	Exch. Rate Sh 12=$1	Exch. Rate Sh 16=$1
Refined Edible Oil, Clif Mogadishu	5,443.00	7,776.00	10,368.00	13,824.00
Add: ENC Marketing and Distribution Costs	1,629.00	1,629.00	1,629.00	1,629.00
Mult. by .40 (Extraction Rate) to get Sesame Metric Ton Equivalent	2,828.80	3,762.00	4,798.80	6,181.20
Import Parity Farmgate Value of Sesame	2,028.80	2,962.00	3,998.80	5,381.20
Producer Price	4,500.00	4,500.00	4,500.00	4,500.00
Producer Price as Percent of World Parity Price	221.81	151.92	112.53	83.62

NOTES: Processing Costs assumed to be covered by sale of oilseed cake.

SOURCE: ENC and ADC

APPENDIX TABLE 4

IMPORT PARITY PRICE OF SUNFLOWER
(SO. SH/METRIC TON)

	Exch. Rate Sh 6.3=$1	Exch. Rate Sh 9=$1	Exch. Rate Sh 12=$1	Exch.Rate Sh 16=$1
Refined Edible Oil, Cif Mogadishu	5,443.00	7,776.00	10,368.00	13,824.00
Add: ENC Marketing and Distribution Costs	1,629.00	1,629.00	1,629.00	1,629.00
Mult. By .30 (Extraction Rate) to get Sunflower M.T. Equivalent	2,121.60	2,821.50	3,599.10	4,635.90
Less: ADC Marketing Costs	800.00	800.00	800.00	800.00
Import Parity Farmgate Value of Sunflower	1,321.60	2,021.50	2,799.10	3,835.90
Producer Price	3,000.00	3,000.00	3,000.00	3,000.00
Producer Price as Percent of World Parity Price	227.00	148.40	107.18	78.21

NOTES: Processing costs assumed to be covered by sale of oilseed cake.

SOURCE: ENC and ADC

APPENDIX TABLE 5

IMPORT PARITY PRICE OF GROUNDNUTS
(SO. SH/METRIC TON)

	Exch. Rate Sh 6.3=$1	Exch. Rate Sh 9=$1	Exch. Rate Sh 12=$1	Exch. Rate Sh 16=$1
Refined Edible Oil, Cif Mogadishu	5,443.00	7,776.00	10,368.00	13,824.00
Add: ENC Marketing and Distribution Costs	1,629.00	1,629.00	1,629.00	1,629.00
Mult. By .30 (Extraction Rate) to get Groundnut M.T. Equivalent	2,121.60	2,821.50	3,599.10	4,635.90
Less: ADC Marketing Costs	800.00	800.00	800.00	800.00
Import Parity Farmgate Value of Groundnuts	1,321.60	2,021.50	2,799.10	3,835.90
Producer Price	3,000.00	3,000.00	3,000.00	3,000.00
Producer Price as percent of world parity price	227.00	148.40	107.18	78.21

NOTES: Processing Costs Assumed to be covered by sale of oilseed cake.

SOURCE: ENC and ADC

APPENDIX TABLE 6

IMPORT PARITY PRICE OF RICE
(SO. SH/METRIC TON)

	Exch. Rate Sh 6.3=$1	Exch. Rate Sh 9=$1	Exch. Rate Sh 12=$1	Exch. Rate Sh 16=$1
Rice, Cif Mogadishu	3,604.23	5,148.90	6,865.20	9,153.60
Add: ENC Marketing and Distribution Costs	822.00	822.00	822.00	822.00
Less: ADC Marketing Costs	1,650.00	1,650.00	1,650.00	1,650.00
Import Parity Farmgate Value of Rice	2,776.23	4,320.90	6,037.20	8,325.60
Producer Price	3,000.00	3,000.00	3,000.00	3,000.00
Producer Price as Percent of World Parity Price	103.06	69.43	49.69	36.03

SOURCE: ENC and ADC Records

APPENDIX TABLE 7

IMPORT PARITY PRICE OF COTTON, SH/KG

	Exch. Rate Sh 6.3=$1	Exch. Rate Sh. 9=$1	Exch. Rate Sh 12=$1	Exch. Rate Sh 16=$1
Cotton Lint, Cif Mogadishu	11.906	17.001	22.668	30.224
Add: Handling Charges, Somaltex, Transportation to Factory	1.00	1.00	1.00	1.00
Mult. By .33 to get Seed Cotton KG. Equivalent	4.26	5.94	7.81	10.304
Less: Handling Charges and Transportation	1.29	1.29	1.29	1.29
Less: Ginning Cost	0.40	0.40	0.40	0.40
Add: Revenue from sale of Cottonseed (.660 KGs)				
1. Cif Cost Imported Refined Oil	5.443	7.776	10.368	13.824
2. Add: ENC Marketing and Distribution Costs	1.629	1.629	1.629	1.629
3. Milt. By .660 and By .14 (Extraction Rate) = Seed Cotton KG Equilvant	0.65	0.87	1.11	1.43
4. Cif Cost Oilseed Cake	2.00	2.00	2.00	2.00
5. Mult. By .660 and By .80 (Extraction Rate) = Seed Cotton KG Equivalent	1.056	1.056	1.056	1.056
6. Less: Processing Costs	.27	.27	.27	.27
Import Parity Farmgate Value of Seed Cotton	4.01	5.91	8.01	10.83

APPENDIX TABLE 7 (CONTINUED)

	Exch. Rate Sh 6.3=$1	Exch. Rate Sh 9=$1	Exch. Rate Sh 12=$1	Exch. Rate Sh 16=$1
Producer Price	2.91	2.91	2.91	2.91
Producer Price as Percent of World Parity Price	72.58	49.28	36.31	26.88

NOTES: Based on 1980/81 data from Somaltex. Producer price is weighted average of price for Class A, Class B, and ungraded.

APPENDIX TABLE 8

EXPORT PARITY PRICE OF BANANAS
(SO. SH/METRIC TON)

	Exch. Rate Sh 6.3=$1	Exch. Rate Sh 9=$1	Exch. Rate Sh 12=$1	Exch. Rate Sh 16=$1
Export Price, FOB	1,795.50	2,565.00	3,420.00	4,560.00
Less:				
Packing Costs	500.00	500.00	500.00	500.00
Land Transport	90.00	90.00	90.00	90.00
Unloading	50.00	50.00	50.00	50.00
Bank Charges	64.00	64.00	64.00	64.00
Miscellaneous	10.00	10.00	10.00	10.00
ENB Services	90.00	90.00	90.00	90.00
Export Parity Farmgate Value of Banans	991.50	1,761.00	2,616.00	3,756.00
Producer Price	820.00	820.00	820.00	820.00
Producer Price as Percent of World Parity Price	82.70	46.56	31.35	21.83

SOURCE: National Banana Board

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