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INTERNATIONAL
DEVELOPMENT**



COUNTRY DEVELOPMENT STRATEGY STATEMENT

FY 1981

SOMALIA

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COUNTRY DEVELOPMENT STRATEGY STATEMENT

SOMALIA

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USAID/Somalia
Mogadiscio
January 13, 1979

STRATEGY STATEMENT SUMMARY

Somalia is included in the UN register of 28 least-developed countries and has an estimated per capita income of less than U.S.\$80. Over 80% of its 3.4 million people gain their livelihood through subsistence agriculture or pastoral pursuits. There is widespread undernourishment and malnutrition, particularly severe among the rural population, and many are illiterate and receive little or no health care. As a consequence the Physical Quality of Life Index (PQLI) for Somalia is among the lowest of the least-developed countries.

Somalia has inadequate natural and financial resources at this time to sustain a viable development program and must seek external resources to finance a large part of the government's budgetary, foreign exchange and development expenditures. Despite GSDR dependence on external assistance, particularly for large infrastructure projects, it has demonstrated a determined effort to promote economic growth and equity and distributive justice which is supported by the country's own resources to the maximum extent possible.

Notwithstanding inadequate material resources, the country's strength lies in its people which unlike many other countries is composed of a single ethnic group with a common language. The basic development strategy of the GSDR is to effectively mobilize these human resources in its overall economic development effort. Their inability to mount a sustained comprehensive development program is due to an inadequate trained manpower

base at nearly all levels. The trained manpower constraint is the single most important impediment to providing minimal essential services, creating the necessary institutional/infrastructure base and developing the public/private financial resource structure needed for development. The U.S. assistance strategy will therefore be directed toward expanding Somalia's trained manpower base in several critical sectors to assist GSDR plan and carry out a viable development program. The main beneficiaries of this joint effort will be the rural poor of Somalia which make up 80% of the country's total population. These benefits will include increased rural income from increased production in crops and livestock, improved health services, greater number of dependable water supply points for people and livestock, a replicable minimum shelter program, and developmental returns in the form of trained manpower, youth and adults, as a result of their association with AID-assisted projects. The U.S. program will give primary emphasis to technical assistance for manpower development in its broadest sense and augmented by PL 480 to provide additional local currency resources for development and to help ease foreign exchange constraints.

PART A
PROFILE OF THE POOR MAJORITY

More than 80% of the population of Somalia is rural and engaged in agriculture. Half of this number are pure nomads moving with the seasons and raising livestock but no crops; one-quarter are involved in agriculture but are semi-nomadic, in that they herd livestock but also cultivate crops part of the year at a fixed location. The remainder of the rural population, some 20%, are engaged in sedentary agriculture including the raising of livestock, mainly cattle. Since the per capita income in Somalia is among the lowest in the world it is difficult to identify a majority or a very large group as the poorest of the poor. One is inclined to lump virtually the entire population of Somalia into this category.

Income distribution is helpful in identifying the poorest of the poor; however, aggregate-economic performance data is not available, or is it even estimated on a scientific basis regularly.¹ However, some estimate can be made based on household expenditures. It is reasonable to assume that annual expenditures of households are functions of household income. Accepting this assumption, the International Labor Organization (ILO) reports the results of a pilot sample survey conducted in the middle Shebelli region during October and November of 1975.² The results are indicated in the following table. When the household expenditure data is plotted as a Lorenze diagram the results are as follows:

¹See Annex I for GDP estimates.

²Economic Transformation in a Socialist Framework; International Labor Office, Geneva, Switzerland 1977, p. 331. Note: Referred to hereafter as "ILO 77".

LORENZ CURVE OF HOUSEHOLD EXPENDITURES
1975
SOMALIA

(Source: ILO Technical Paper #5
Pilot Household Sample Survey)

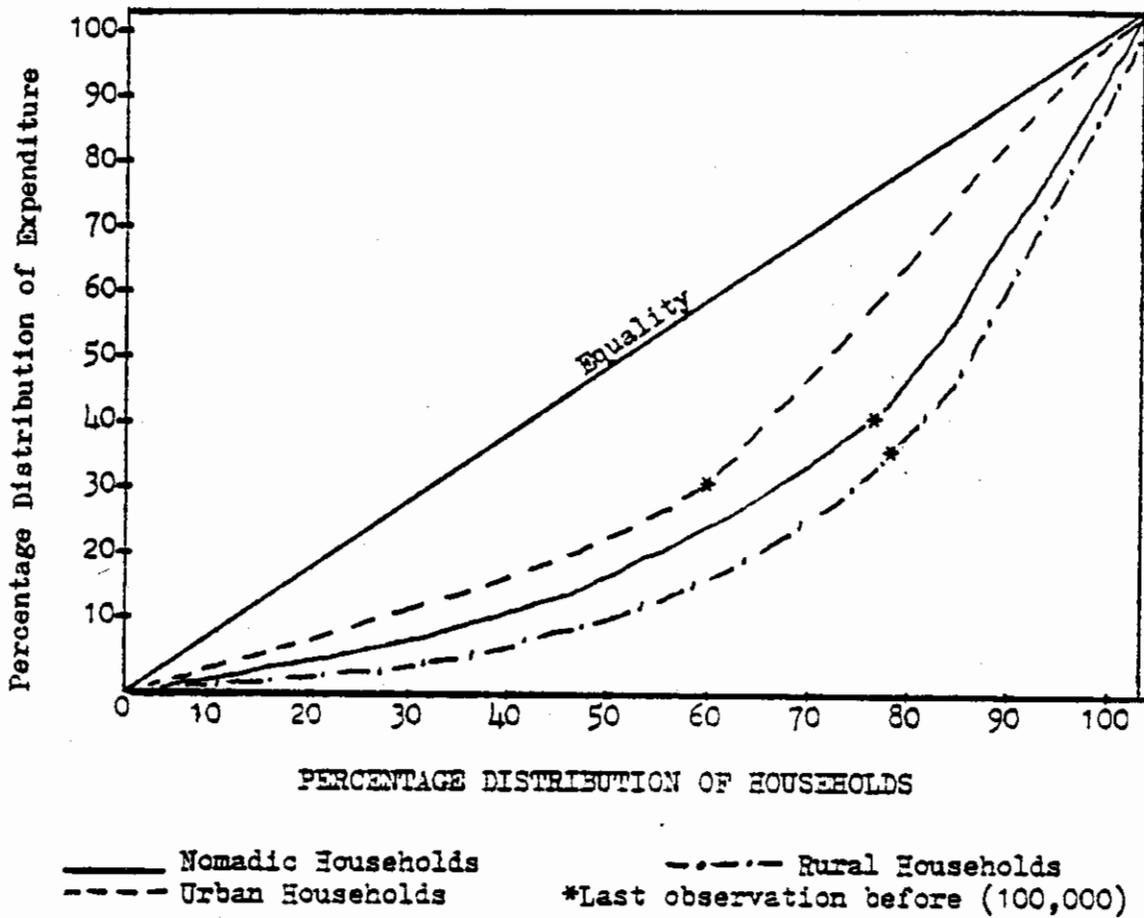


TABLE 1
DISTRIBUTION OF HOUSEHOLDS BY SIZE
OF ANNUAL EXPENDITURE (1975)

Size/Class Shs/Yr	Nomadic Sector		Rural Sector*		Urban Sector	
	Number of Households	o/o	Number of Households	o/o	Number of Households	o/o
0 - 519	44	17.7	36	34.6	1	1.9
520 - 1039	20	8.1	11	10.6	2	3.8
1040 - 1559	32	12.9	9	8.6	2	3.8
1560 - 2079	25	10.1	5	4.8	7	13.8
2080 - 2599	19	7.7	7	6.7	4	7.7
2600 - 3119	16	6.5	2	1.9	3	5.8
3120 - 3639	17	6.8	3	2.9	3	5.8
3640 - 4159	8	3.2	1	0.9	3	5.8
4160 - 4679	9	3.6	6	5.8	5	9.6
4680 - 5199	6	2.4	3	2.9	1	1.9
5200 & Over	52	21.0	21	20.3	21	40.4
TOTAL	248	100.0	104	100.0	52	100.0

*Households in rural villages in Middle Shabelle are mainly agricultural.
Source: Findings Pilot Household Sample Survey, Reported in ILO 1977.

Since the area between the line representing complete equality of household expenditure and the line of actual household expenditure reflects the degree of inequality in expenditures, it can be said that the distribution of expenditure is more unequal among rural households than among other households although this may be due to a skewness induced by using expenditures rather than income in a more purely subsistence economy as compared to nomadic and urban economies which are more integrated into the cash economy. The Lorenz diagram suggests that some 80% of rural households have less than one-third the total rural income. The inference that this group, the lower 80% of the rural households, constitutes the poorest of the poor is not completely unwarranted. Further the Gini Coefficient calculated for Somalia Lorenz distribution is 0.60 (rural) and 0.42 (nomads). This is comparable to equivalent calculations for Kenya (.60), Tanzania (.55), and Djibouti (.64). One would expect approximately the same coefficient for most poorer LDC's and these can be viewed as representative for the typical African country. Somalia, therefore, is one of the poorest in per capita terms and typical in terms of income distribution.

If it is accepted that expenditures are a direct function of income, then the degree of poverty is greatest among the rural households. However, the ILO's report indicates that it is quite likely that rural households underreported expenditures because of an underestimation of the subsistence (income in kind) component of their income (expenditures). In addition Table 1 shows 54.2% of households in the same survey registered expenditures of U.S.\$87 per year or less. The rural households, settled

agriculturalists, were the largest group. It is important to note that Table 1 households are located in the most favorable rainfed area in the country in terms of income expectations from agricultural pursuits. This suggests that rural households in nearly all other parts of the country would have lower incomes due to less advantageous environmental conditions for agricultural production and livestock raising. The same Table identifies relatively more affluent groups, particularly in the case of urban households. It is noted that 40% of them have annual expenditures of U.S.\$800 or higher. They typically consist of private sector entrepreneurs, workers in distributive trades - transport services, small manufacturing, construction/engineering firms and public sector employees.

In addition, the nomadic and rural sectors contain groups with higher expenditures. They would be made up of large private farmers, absentee livestock owners, and public sector employees working part or full time on public sector enterprises. In any case, the Table and the Lorenz diagram tend to support the contention that there is an extremely poor majority in Somalia and that it is composed primarily of non-urban people engaged in subsistence agriculture, i.e., crop or livestock production, or in combinations of the two as in the case of the semi-nomads.

It is, at times, contended that the urban poor, though escaping the harsh uncertain life of nomadism and the vagaries of rainfall which affect the farmer, are worse off than the rural population. The data concerning household expenditures does not support that contention. Moreover, the urban poor seem to be a group the composition of which is in constant flux.

Many go to urban areas for limited periods of time only during severe drought or in times of comparable adversity. When conditions improve they return to rural pursuits - nomadism in some cases. Others seem to migrate to urban areas during the dry season each year and then return to their customary rural areas. Because of this seasonal rural-urban urban-rural migration, some urban areas experience a 25% to 30% population change over the year.

As noted above, it is estimated that at least 80% of the population of Somalia live at the subsistence level. For all of the population, however, diets tend to be inadequate, unbalanced or both.³ In Technical Paper #9 of ILO 77, the results of a mid-1960 food consumption survey of FAO are reported. The following Table is presented from that report.

Though the survey suggests that undernourishment and malnutrition is widespread in Somalia, it reveals that these conditions are particularly severe among the nomads and the rural population. Additionally diets of the Somali generally tend to be quite deficient with respect to important vitamins.

No life expectancy figure unique to the rural population is available, however, the estimated life expectancy at birth for the population at large is about 40 to 41 years. It seems reasonable to suppose that the environmental rigors to which the nomads and cultivators are subject would translate to a life expectancy on the low side of the estimate for the entire population.⁴

³See Annex III dealing with health and related matters.

⁴See Annex I, Section "A", dealing with population of Somalia.

TABLE 2
ACTUAL AND REQUIRED NUTRITIONAL LEVELS
(1964)

Location	Calories				Protein (Grams)			
	Re- quired	Actual Consum.	Def. Def.	Def. as % of Req.	Req.	Actual Consum.	Def. Def.	Def. as % of Req.
URBAN:								
Hargeisa	2169	1736	413	20.0	62.8	51.0	11.8	18.8
Burao	2225	2010	215	9.7	64.0	61.0	3.0	4.7
Berbera	2212	1746	466	21.1	65.0	45.0	20.0	30.8
Eriqare	2200	1969	231	10.5	65.0	54.0	11.0	16.9
Laskoray	2200	2206	(-)	—	65.0	52.0	13.0	20.0
RURAL:								
Balad	2209	2267	(-)	—	64.7	55.0	9.7	15.0
Warseck	2347	2104	244	10.4	67.0	50.0	17.0	25.4
NOMADIC AREAS:								
	2160	1065*	1095	50.7	64.8	32.5*	32.3	49.8

* Survey was conducted during dry season. Nomads affected more adversely than others.

Source: FAO: Food Consumption Survey. Reported in "ILO 77" Technical Paper #9.

As in the case of life expectancy estimates, no infant mortality estimates for the rural population as distinct from the population at large are available. For the population generally the infant mortality rate is estimated at 177 per 1000 births.

Whereas in 1972 the literacy rate in Somalia was estimated to be no higher than 5%, by mid-1976 it was believed that nearly 60% of the overall population had some degree of literacy.⁵ The mass literacy program commenced in 1973 and conducted through 1975 was not confined to urban areas and special preparations were included to extend the effort among rural groups including nomads. Though the mass literacy program involved the new Somali script (Latin orthography adopted in 1972) a considerable amount of education is still conducted in Arabic in Koranic schools. Koranic teachers still travel with nomadic groups and many nomadic children receive no other education.

A pilot survey of nomadic households conducted in northern Somalia in the area around Burao in 1973 indicated an average size household of 5.75 persons. The average household owned 110 sheep and goats, 20 camels and 8 head of cattle. It is estimated that the average household requires at least 70 sheep and goats to provide a minimum subsistence level of living since no more than half the animals are providing milk at any one time. Some 50% of the population was less than 15 years of age. The ratio of males to females among the nomadic population surveyed was 106 to 100. For the population at large the ratio is believed to be slightly higher.

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See Annex VI dealing with education in Somalia.

According to the estimates made in connection with the survey, a birth rate of 3.9% and a death rate of 2.1% were indicated; thus a 1.8% annual rate of natural increase is implied. As noted in Annex I, the annual population growth rate for the entire country is estimated at between 2.4% and 3.0%.

The Physical Quality of Life Index (PQLI) for Somalia has been computed at 19⁶ which is among the lowest on the United Nations' list of the 28 least-developed countries. It is reasonably certain that for the rural portion of the Somali population the PQLI is even less than 19.

As noted earlier in this section, since national income accounts are not maintained for Somalia, precise estimates concerning income distribution are not possible. As a consequence, therefore, statements concerning matters of equity must be based largely upon inferences drawn from related matters such as household expenditures. Since salary ranges of government employees are available and a consensus seems to exist concerning the income status of government employees relative to others, certain inferences concerning income distribution seem warranted based on this data. Of some 237,000 non-agricultural workers in 1975 approximately one-half were public sector employees. The bulk of these employees earned less than So. Sh. 400 per month (\$64.64) with the highest salary being approximately six times the lowest salary. Though some of the non-agricultural workers in private sector employment are self-employed as traders, artisans and the like, it is generally agreed that government

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See: The United States and World Development: Agenda 1977, New York: Overseas Development Council, Annex "A".

employees are better off than others. The exact salary range for agricultural workers is not known. It seems reasonable to suppose, however, that on the plantations (banana plantations in particular) which have been nationalized, the salary range for government employees generally applies. On the private estates and plantations employee salaries are most likely comparable to the lower range for government workers or below. The average income for the rural population generally is no doubt inferior to that of any other group.

Another indication of the relative economic status of the rural population is provided by the project composition of the 1974-1978 development plan. Whereas 80% of the population is engaged in agricultural pursuits and some 70% of the GDP is generated in the agriculture sector, only one-third of the initial planned expenditures of So. Sh. 3,863.4 million⁷ is for agricultural development. In addition, the strategy adopted in the 1974-78 development plan provides funds and manpower on large scale irrigation projects and government controlled production which may not insure any immediate alleviation of the condition of the rural poor. A more realistic ordering of development priorities, an equity consideration, recommends a reallocation of economic development effort in future plans. A new three-year 1979-1981 plan is under preparation and expected to be completed in early 1979. A larger percentage of GSDR development expenditures are expected to be allocated to the overall rural development sector. This decision will help ensure greater development benefits for rural poor.

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The revised plan calls for expenditure of So. Sh. 4,913,8 million. The percentage allocation to agriculture was reduced from 33.3% of total expenditure in the initial plan to but 25.9% in the revised plan. See Table 3 in Part "C" of this CDSS.

PART B

KEY FACTORS CONTRIBUTING TO POVERTY

Some of the more serious problems and constraints that make it difficult to improve the lot of the target group are environmental in nature and thus not easily addressed. In this context, the land tends to provide inadequate nutrition for livestock while the production of agricultural crops is low and irregular due to poor soils and drought conditions that have historically prevailed once every four to six years.⁸ However the major drought in the 1970's occurred for three years straight (73-75) causing widespread dislocations.

Since the soils tend to be inferior the problem of adequate provision of nutrition for livestock and the problem of maintenance of crop yields are both compounded. In the case of the nomads (pure nomads) the poor distribution and the unreliability of watering facilities for both humans and livestock means that many areas are overgrazed thereby diminishing still further the available nutrition for livestock. The lack of dependable water supplied for humans and animals is also a major constraint in the development of unutilized arable agricultural lands and health facilities. It is largely for this reason that reportedly only 8% of the agricultural land suitable for agricultural production is cultivated.

Quite apart from the largely environmental and natural resource constraints which hinder economic improvement of the poor majority there are technological constraints, infrastructure weaknesses and social service inadequacies which contribute to the social and economic deprivation of the

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See Annex I, Part B, dealing with natural resource availability and Annex II, Part A, dealing with the farming and livestock subsectors of the agriculture sector.

rural portion of the population. Although information about cultivation practices and flock and herd management practices is limited, utilization of somewhat more advanced agricultural techniques could improve both crop and livestock production.⁹ An IBRD appraisal mission reported that easily introduced changes in agricultural practices could result in significant increases in production. While some effort has been made to provide training and drugs and vaccines for livestock, it has had limited effect on improving animal health. Nearly all livestock exported are live animals in poor condition, and as a result their market value is low and income derived minimal thus further contributing to rural poverty.

An important contributing factor to rural poverty stems from poorly developed or entirely lacking infrastructure and institutions needed to provide basic technical and social services. This is particularly true in agriculture. The agricultural extension service needs much improvement and expansion to insure maximum benefit from the economy's principal form of income producing wealth, namely Somalia's flocks and herds. Also to raise the level of agricultural crop production necessary to feed the nation, a farmer oriented extension service is required. It is, therefore, essential that the GSDR make a major effort to improve and expand its extension service through training and applying proven technology and research results. An improved country-wide extension service would help ensure self-sufficiency in cereals and edible oils, increase the quality of livestock, raise farmer incomes, promote soil and water conservation practices and expand government's revenue base.

⁹

See Annex II concerning agriculture.

The system of transport and communication in Somalia is at best inadequately developed. As a result crop production and marketing is restricted and both the quantity and quality of livestock available for export is curtailed. When livestock are trekked to export points, some animals fail to survive and those who do, arrive in relatively poor condition.¹⁰ Thus the current state of development of the transport and communication system constitutes a constraint upon earnings from agriculture and so contributes to the poverty of the rural poor.

As noted throughout Annex II, which examines the major economic sectors of the Somalia economy, a lack of properly trained manpower and an inadequate supply of needed skilled technicians is a rather pervasive constraint to economic development and thus a contributing factor to inadequate incomes. This manpower constraint affects the rural poor since appropriate personnel are not available to provide the extension services needed for the improvement of crop yields and increased livestock production and earnings. Also personnel needed for compiling technical and statistical information and data required for systematic development planning is practically nonexistent. Inadequate precise data concerning the performance of the economy and the inconsistencies in data which does exist is also a major handicap in analyzing the economy of Somalia and makes development of proposals to assist the expansion of the economy even more difficult. Since trained personnel and a reliable and thorough economic information and statistical gathering system are lacking, economic planning is thus

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With the completion of the Belet Wen-Burao Highway this problem should be alleviated to some extent. See Annex II "Transport and Communication".

seriously hindered and project preparation generally weak. Improvement in crop production, livestock off-take rates and agricultural output generally necessitates careful planning and careful project preparation and implementation. The absence of such planning and project preparation are constraints to orderly development and contributes to poverty of the target groups.

There are at least two other factors which contribute to and manifest the relative degree of deprivation of the poor majority. These factors concern health services and the provision of education and training. As noted in Annex II the general health of the poor in Somalia is significantly affected by their diet. The diet provides inadequate nutrition generally and is markedly deficient with respect to protein and certain vitamins essential to good health such as Vitamins "A" and "C". The inadequacy of protein, as well as general malnutrition, lowers resistance to disease significantly. This condition coupled with Vitamin "A" deficiencies leads to severe complications in the case of eye diseases and measles, sometimes causing permanent blindness. Infections generally and respiratory difficulties in particular tend to be severe because of general malnutrition and a deficiency of Vitamin "C". The movement from place to place and frequent change of habitation exposes the nomads to different immunological experiences and pathological patterns of disease. Thus, given their general health status, nomads tend to contract all sorts of illnesses and to carry them elsewhere as well. This is most striking when one considers that the last case of smallpox

in the world was found in Merka, Somalia. At the time WHO experts felt that this disease that affects only humans was still being carried by nomads but no further cases have been reported.

Since the problem of providing health services for the rural poor, the nomads in particular, is a difficult one, it is not surprising that relative to urban groups very little in the way of health services is available for the rural poor. What is provided is seldom available when and where needed.

Similar problems exist with respect to providing education and training for both the children and the adults of the rural poor.¹¹ Though the mass literacy program (1973-75) involved a major effort among the rural peoples including the nomads, little follow-up has been attempted. So long as the approach to education continues to stress providing instruction at fixed urban locations, the children of rural parents will have little educational opportunities and nomadic children will have only those limited educational experiences provided by Koranic teachers. Needed adult education and training for the rural population will also continue to languish so long as principal education programs are largely confined to urban centers. An equally critical problem emerging is the increasing numbers of school leavers inadequately trained and not easily absorbed in the work force. The result is a growing and potentially volatile group who are unemployed, resentful, and a source of instability.

¹¹

See Annex VI "Education and Manpower".

In addition to the preceding, Somalia has an especially vulnerable economy subject to fluctuating external influences, dependent to a large extent on one main export, live animals, and handicapped by a fragile revenue base. Total government expenditures in 1978 amounted to 1,288 million So. Sh. and total revenues including grants came to 1,631 million So. Sh. or approximately 271 million U.S. The surplus, however, is due to foreign assistance and this, of course, masks the true economic situation of the country. Somalia, on a per capita basis, probably receives more foreign aid than any other developing country.

The main cause of GSDR budgetary and fiscal problems lies in its narrow and generally weak revenue base. The main sources of government revenue are direct taxes on individuals, property, goods and services, international trade and transactions, import customs, export levies and nontax revenues mostly from public enterprises. These revenues contributed 1,394 million Somali shillings which was more than sufficient to cover recurrent costs but did not cover the development budget. International trade and transactions are the most important source of tax revenue. In 1978 taxes contributed more than 80% of the total revenue.

Government prospects for expanding its revenue base to cover development expenses are not promising. There appears to be some inelasticity in revenue gained from direct tax sources, and even small increases in revenues from public enterprises are doubtful unless they become more efficient than they are at present. Therefore, it seems

evident that current revenue has been and will continue to be inadequate to finance all the local currency expenditures that are needed for development.

Understandably, Somalia's balance of payment position can not be considered any more buoyant than its budgetary prospects. It continues to suffer from chronic current account balance of payment difficulties of varying degrees of severity. In 1973, the current account balance came to a negative 243.4 million So. Sh. (U.S. 40 million) and four years later in 1977 it had gotten significantly more severe, rising to a negative balance of 563.2 million So. Sh. (U.S. 90.8 million). The cause of these continuing negative balances is the disproportionate large gap between export earnings and imports. Negative trade balances ranged from 253.9 million So. Sh. in 1973 to an estimated 708.5 million So. Sh. in 1977. In addition, there continues to be negative balances registered for services. Here again, deficits range from 169.2 million So. Sh. in 1973 to 262.0 million So. Sh. in 1977. These adverse balances can only have serious braking consequences for planners attempting to determine resource availabilities for development purposes.

These balance of payment deficits were made up almost entirely by very large official capital movements, and in 1977 they amounted to 610 million So. Sh. (nearly 100 million U.S.). Due to these substantial transfers, Somalia was surprisingly able to register overall balance of payment surpluses for 1975, 1976, and 1977. These surpluses, however,

cloud the potential difficulties that could arise over time for an economy relying so heavily on external transfers to meet foreign exchange requirements for budgetary and development purposes.

At the close of 1977, the estimated foreign exchange (FX) reserve of So. Sh. 609.1 million (98.4 million U.S.) amounted to but five months of imports at CIF rates.¹² Though Somalia's balance of payments shows an addition to FX reserves for the past three years, these additions have been declining in magnitude each year and are attributable as noted above to very favorable unilateral external transfers and capital flows. However, as could be expected, GSDR debt is becoming significantly larger and debt service payments are steadily increasing. Total disbursed debt by 1977 was So. Sh. 2,255 million and service payments for the same year were So. Sh. 19.1 million or approximately 2.7% of exports. However, debt payments in 1977 increased substantially to So. Sh. 67.8 million (10.93 million U.S.) creating a service ratio of 9.6%. Debt payments of So. Sh. 224.0 million (36.12 million U.S.) in 1981 will probably be difficult for GSDR to service. Under these circumstances GSDR will not only be dependent on external support, particularly grant transfers, it will also have to make a major effort to expand its internal revenue base primarily through increases in agriculture, crop and livestock production and the promotion of exports.

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Estimates of IMF in its "Somalia: Recent Economic Developments" February 16, 1978, prepared in connection with the Article XIV consultation. Referred to hereafter as "IMF 1978". See Annex V for recent record of foreign exchange holdings and balance of payment data.

The success of this effort will be the major force behind increased government revenues and theoretically additional services for the rural population.

PART C

PROGRESS AND COMMITMENT

The Government of Somalia has demonstrated a rather determined and courageous attempt to promote economic development from its own resources.¹³ It has, among other things, reduced salaries of government employees, revised and modified the tax structure, and, as noted in Annex II, collects in tax revenues an amount per capita which the World Bank considers quite high by comparison with developing economies generally. To the extent tax and non-tax revenues have exceeded ordinary expenditures the GSDR has utilized the surplus for development purposes.¹⁴

Development plans and activities of the Government of Somalia from independence through 1970-71 devoted little attention to the nomadic population. Relatively small allocations for settlement were made and practically no allocation for land development projects particularly benefitting the nomads were made.¹⁵ In the midst of the severe drought of 1973-1975, however, the GSDR undertook a vast resettlement task. Some 268,000 nomads who had lost their means of subsistence were moved to 21 temporary relief camps established by the government. Some 15,000 of these nomads died in the relief camps because of their general poor condition of health. With

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See Annex IV "Public Sector Budget".

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During the years of severe drought extraordinary expenditures for relief and resettlement made inroads on the ordinary budget surplus.

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See: "Effectiveness of Foreign Aid - The Case of Somalia" by Ozay Mehmet, in the Journal of Modern African Studies, September 1, 1971, pp. 31-47.

the return of favorable weather conditions 133,000 persons resumed their former nomadic life. In May of 1975, however, 120,000 nomads were relocated or resettled. At three locations in the interriver area some 105,000 nomads were settled in agricultural areas. At Dujumma 48,000 were settled, as were 30,000 at Sablaale and 27,000 at Kurtunwaare. An additional 15,000 were settled in three different fishing villages along the Indian Ocean Coast; 7,000 at Brava, 5,000 at Garacad and 3,000 at Eyl. The fishing settlements, while reasonably successful in transforming nomads to become fishermen, continue to need substantial government support.

Progress in the agricultural settlements has been slow but a great deal has been done in providing needed infrastructure with external assistance. However, substantial additional inputs are required to provide essential services, minimum shelter and agricultural extension services and skills. It should be clear that nomads deprived of their former means of livelihood, resettled on agricultural lands and lacking in needed agricultural skills are probably the poorest of the poor. Nevertheless, this unique approach seems to be taking hold and could contribute to the solution of fundamental Somalia development problem, settlement of a portion of the country's nomadic population.

Since the settlement of the above areas was initiated, the Somalis now, because of war and not drought, are finding the problem of settling refugees and displaced persons to be an unending task. Monthly, thousands of persons cross the border seeking assistance and often a new life. This, of course, adds a drain on Somali resources, both human and

material, and is a problem that will continue for the foreseeable future.

It is possible to quarrel with the credit extension policies of both the development bank and the commercial banks. Since the banking system was nationalized in 1970¹⁶, it follows that the practices of the banks must reflect government policy. For the years 1969-1976 the Development Bank extended total credit amounting to So. Sh. 180 million, however only 18.8% of this was extended for agricultural purposes. During the 1973-76 period the commercial banks extended credits to agriculture totalling So. Sh. 3,354 million, less than 14% of which was for agricultural purposes (crops and livestock).¹⁷ With more than 80% of the population engaged in agriculture and about 70% of the GDP generated in the agriculture section¹⁸, it appears that the banking system and thus the government has given inadequate attention to the problem of providing effective credit for the development of the agriculture sector. Upon further examination it may prove that conventional forms of agricultural credit may not be appropriate in an environment where the average farm holding is small, soil conditions and rainfall poor, savings minimal and discretionary income non-existent.

However, with the egalitarian attitude of government, some of the inconsistencies noted above should be rectified. Besides the reduction and

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See Annex VIII on Money, Banking and Credit.

¹⁷

Ibid for data on credit extension of the banking system.

¹⁸

See GDP estimates in Annex I.

equalizing of salaries of government and parastatal employees, progressive taxation, settlement and care of nomads and refugees, two other areas of government actions stand out as being exemplary, education and the status of women.

In terms of formal education opportunities, Somalia in 1975 declared universal free and compulsory primary education for children from 6 to 14 years of age. The effects of this decree both in terms of numbers and percent female enrollment are apparent in the following table:

Male-Female Primary and Secondary School Enrollment

Years	Student Population			Ratio
	Primary and Secondary	Male	Female	
1970/71	56,979	43,765	13,214	4.00:1
1971/72	66,867	51,199	15,678	3.40:1
1972/73	85,419	64,263	21,156	3.00:1
1973/74	103,659	75,027	28,632	2.60:1
1975/76	224,317	148,076	76,241	1.95:1
1976/77	241,991	158,436	83,555	1.90:1
1977/78	242,652	156,049	86,049	1.80:1

Not only is there an abrupt doubling of primary school attendance beginning in 1975/76 but there is also an acceleration of the balancing of the ratio of male to female students. The great strides forward in multiplying enrollment nearly five-fold in seven years or a 23% annual growth occurred at the same time that the male female ratio dropped from 4:1 to below 2:1.

The implementation of universal compulsory education has been more successful in the urban areas and in the settled villages in rural areas. The government is presently searching for a solution to the problem of primary education for nomadic children, who constitute half of the youthful population. Centers are being established at water points in selected areas to provide basic services to nomads and a primary boarding school for nomadic children. Plans call for incorporating seasonal schools for areas where rainy season grazing is available and for mobile schools to follow the herds. Innovative media approaches are also to be tried.

Primary school curriculums have been modified in recent years to place increased emphasis on practical subjects. The nomadic primary school curriculum calls for 25% of the time to be spent on literacy and civics related subjects, 50% on animal husbandry and range related topics, 10% on agriculture and 15% on health and hygiene. The curriculum in agricultural areas shifts the emphasis to 50% on agriculture and 10% on animal husbandry.

In the non-formal subsector, the keystone in recent years has been the literacy campaign which was waged with great fervor. It is estimated that due to this campaign over 60% of the population is able to read Somali and is capable of some writing skill.

Other ministries are also providing various forms of non-formal education. The Ministries of Livestock, Agriculture and Health all have outreach programs which are providing appropriate practical training to local populations.

Women are a particular target of numerous training and non-formal education programs in addition to primary and secondary formal schooling. The Somali Women's Democratic Organization has stimulated numerous activities dealing with women. The Ministry of Education has a Women's Service Department which is establishing skills training centers dealing with nutrition, child health, home improvement, handicrafts and tailoring. To date these centers have trained over 5,000 women. In addition, over 400,000 women participated in the literacy campaign. Indeed few governments in the world have been as definitive and forthcoming as the GSDR in improving the status of women.

In 1974 when Islamic religious leaders were protesting against a recently enacted civil law that was contrary to Koranic law (allowing women equal inheritance rights), the government took strong action against some of the more prominent protestors. Laws have also been enacted that give women additional rights in regard to marriage and divorce, again laws contrary to the teachings of the Koran. While some of the methods previously employed bring into question civil rights and due process of law, existing law and procedures do place a firm stamp of commitment by the GSDR on women's rights.

In this vein, Somalia in the Western sense is not a democratic country. Media are controlled, security officials are ever present and western houses have been bugged. However, the degree and prevalence of these kinds of actions has noticeably decreased since the departure of the Russians

in November 1977. It is expected that this liberalization trend will continue and will be further elaborated upon in future CDSS revisions.

While much remains to be done in terms of social and economic development, few countries have progressed as far as Somalia has over the past decade in terms of equity and instilling a desire for development and order. This statement exists against the background of two factors -- the chaotic disorder that prevailed in the 1960's, and the poorness of the land and lack of natural resources. Perhaps the emphasis was too heavy on order, state farms and industrialization at the expense of small agriculture holdings and basic services for the rural population. However, this trend while not reversed is shifting and priorities are being realigned. The rural population is receiving increased attention and a share of credit for this redirecting of priorities lies with the recently established AID program.

The Somali policy to encourage population growth, estimated at between 2.4% and 3.0%, stems from a number of understandable concerns. If the country was transposed to North America, it would stretch from Michigan to Vermont to Florida, and yet with a population of only 3½ million. Granted much of the land is semi-arid and arid, but great sections could afford greater numbers and sustain cultivation. Additionally another reason of course relates to their long-standing problem with the Ethiopians, a country of over 30 million people. They have honest fears of encroachment by the Ethiopians and feel that they require an increasing population to discourage any expansionist policies.

One may disagree with a policy that will see a doubling of population in 25-30 years and it should be noted that the question is addressed in the development of all AID projects. In particular, education on child-spacing will be included in our rural health services project. Also contraceptives are readily available in the pharmacies, the UNDP is expanding their MCH project to include child-spacing, and work is being done on the census. These and similar methods should be the first steps of an UNDP/WHO-led movement toward a nationwide family planning program.

PART D

DEVELOPMENT PLAN AND BUDGET

The new 1979-81 Development Plan is due to be published this month (January 1979) and will be fully analyzed in next year's CDSS. Hopefully a reordering of priorities as allocated in the 1974-78 Development Plan will take place. Since agriculture constitutes the major resource of the country it can be argued that the bulk of development expenditures should therefore be allocated to this sector. Table 3 provides information concerning the allocation of planned expenditure in both the original and the revised 1974-78 Development Program in local currency. Table 4 gives the actual 1978 (the Somali fiscal year coincides with the calendar year) budgets for both Somali financed reoccurring costs and the externally financed development funds in dollars.

The reduction of development expenditures allocated to agriculture in Table 3 (livestock plus agriculture) from 33.3% of total expenditures in the initial plan to 25.9% in the revised plan to 18.3% in the latest budget (Table 4) needs some amplification. Somalia's extremely low revenue base and its myriad of needs have influenced the actual allocation of expenditures on a basis that may not be justified on purely development grounds. In Annex VIII it is noted that the proportion of credit extended by the banking system to trade and industry has been significantly greater than that extended to agriculture. This is the case despite the dominance of agriculture compared to the other sectors. In view of the fact that the banking system in Somalia has been

TABLE 3
SOMALIA
1974-78 DEVELOPMENT PROGRAM - PLANNED EXPENDITURES
(So. Shs Millions)

Sector or Purpose	Planned Expenditure		Percent of Total	
	Original	Revised	Original	Revised
Livestock	162.1	184.1	4.2	3.7
Agriculture (Cultivation)	1,124.5	1,088.5	29.1	22.2
Forestry and Range	51.2	183.6	1.3	3.7
Fisheries	78.0	297.0	2.0	6.0
Mining	45.7	45.7	1.2	0.9
Industry	588.3	1,078.8	15.2	22.0
Water Resources	139.5	139.5	3.6	2.8
Electricity	136.5	277.3	3.5	5.6
Transport and Communication	944.7	1,050.1	24.5	21.4
Education	191.1	208.8	4.9	4.2
*Health	77.7	111.9	2.0	2.3
Housing	157.0	157.0	4.1	3.2
Labor and Sports	11.3	4.7	0.3	0.1
Statistics and Planning	106.1	1.1	2.7	Neg.
Tourism	12.6	48.6	0.3	1.0
Information	37.1	37.1	1.0	0.8
TOTAL	3,863.4	4,913.8	100.0	100.0

Source: State Planning Commission - reported in IMF 1978.

TABLE 4

ACTUAL NATIONAL BUDGET 1978

(ALL US DOLLARS)

<u>MINISTRIES</u>	<u>REGULAR BUDGET</u>	<u>PERCENT</u>	<u>DEVELOPMENT PROGRAM *</u>	<u>PERCENT</u>
Presidency (includes, Tourism in 1978)	\$ 5,436,354	2.29	-	-
State Planning Commission	491,403	0.21	\$ 112,903	0.09
Police	14,673,677	6.19	-	-
Militia	1,710,295	0.72	-	-
Ministry of Finance	32,196,295	13.58	-	-
Ministry of Justice & Religious Affairs	1,558,370	0.66	-	-
Ministry of Foreign Affairs	7,179,117	3.03	-	-
Ministry of Defense	40,322,580	17.01	-	-
Custodial Guards	5,898,518	2.49	-	-
Ministry of Local Gov't & Rural Development	25,346,040	10.69	306,451	0.23
Ministry of Public Works	9,937,758	4.19	27,310,967	20.93
Ministry of Mineral & Water Resources	5,347,188	2.26	17,402,983	13.34
Ministry of Agriculture	13,592,704	5.73	12,424,995	9.52
Ministry of Livestock	8,207,853	3.46	11,491,933	8.81
Ministry of Fisheries	2,208,432	0.93	14,530,643	11.14

Ministry of Labour & Social Service	947,466	0.40	366,451	0.28
Ministry of Posts & Telecommunications	3,577,999	1.51	319,354	0.24
Ministry of Commerce	536,532	0.23	-	-
Ministry of Education	23,295,718	9.85	2,121,611	1.63
Ministry of Culture & Higher Education	5,673,596	2.39	-	-
Ministry of Information	3,606,631	1.52	24,193	0.02
Ministry of Transport	6,890,549	2.91	483,870	0.37
Ministry of Industry	6,692,387	2.83	40,444,192	31.00
Ministry of Sea Transport & Ports	944,975	0.40	-	-
Ministry of Health	10,128,370	4.27	3,140,322	2.41
Ministry of Sports	<u>618,080</u>	<u>0.26</u>	<u>-</u>	<u>-</u>
TOTAL	\$237,018,887	100.00	\$130,480,868	100.00

Special Programs

Settlement Development Agency \$26,992,098

Fishery Settlements \$ 6,884,149

* Development Program is all externally financed.

nationalized since 1970, it seems reasonable to suppose that banking activities reflect government policy as an approach to address developmental constraints.

As is true with developing economies generally, Somalia, too, is confronted with mutually contradictory price objectives. On one hand in the interests of equity and perhaps political stability, there is a desire to keep consumer prices from rising excessively. The underlying social objective of the government's approach to scientific socialism tends to underscore this objective also. At the same time and despite the commitment to socialism there is a substantially important amount of agricultural output which is generated in the private sector. For example, maize and sorghum production is accounted for in the main by the output of many widely scattered small holders.¹⁹ To the extent the GDP calculations in Annex I are valid, it will be noted that the value of maize and sorghum amount to about 64% of the total value of dry-land and irrigated farming output combined. Now, if small holders are to be encouraged to produce amounts of maize and sorghum in excess of their own requirements clearly a price incentive is one answer. A high price to producers conflicts, obviously, with the objective of a low or moderate price to consumers generally. A satisfactory solution taking into account interests of both groups will have to be developed since sorghum, and maize to a lesser degree, are staples in the diet of the Somalis.

¹⁹

See Annex II, Farming subsector section.

It is noted in Annex VIII that despite large increases in the money supply, price increases have been held to substantially less than money supply increases would lead one to anticipate. An important explanation for this fact is that as part of their overall development plan, the GSDR maintains an extensive system of price controls, which covers most of the items included in Table XVII of Annex VIII. In the case of some goods the retail price is subsidized which, of course, contributes to shortfalls in needed government budget expenditures in other areas. In IMF 78 it is reported that for many of the items the subsidy has been reduced in recent years. According to this report, subsidized petroleum prices were eliminated early in 1977 and as of the first quarter of 1978 subsidies are largely confined to certain imported foodstuffs, presumably the more essential ones. The National Trading Agency and the Agricultural Development Corporation handle most commercial imports for the Government to maintain uniform prices on agricultural commodities throughout the country. About the only retail prices determined by relatively free market forces, IMF 78 reports, are poultry, fruit, vegetables and milk. In January 1977 retail prices for sorghum, maize and sesame were permitted by the government to rise. IMF 78 observes that the resulting increase in supply of maize, sorghum and sesame helped to reduce the rate of increase in the overall food price index. Thus, though the pricing record is mixed, it does not appear to be determined and implemented capriciously. Rather, it seems to reflect awareness of the incentives needed for boosting private output while at the same time endeavoring to protect consumers.

The discussion of interest rate policy in Annex VIII indicates appropriate recent modifications designed to encourage savings and to create loanable funds on one hand and a reduction in lending rates designed to encourage borrowing for investment expenditures on the other. On the whole, the interest rate policy seems to be appropriately enlightened. As noted in Annex V, the Somali shilling is pegged to the U.S. dollar and fluctuated within quite narrow limits throughout the period 1973 through December 1978.

It would appear that the policies pursued by the GSDR and those likely to be pursued, with respect to prices, interest rates and exchange rates will not hinder AID and host country efforts to alleviate the poverty of the rural poor and indeed should assist those efforts. The long-term agricultural objective of the 1974-78 development plan is "maximization of production with distributive justice". The drought relief efforts of 1973-75 and the nomad resettlement program beginning in May 1975 manifest both a concern for equity and for increased output for economic growth. On the other hand, the major expenditures for the settlement lands clearly demonstrates GSDR emphasis in equity at the expense of increases in GDP in the short term. This is true since new skills must be developed, needed agricultural infrastructure established, and other inputs provided without any immediate return. Yet, if successful, the long-run impact should contribute significantly to an increase in the GDP for Somalia, as well as provide tangible benefits for the rural poor established in these settlements.

As indicated in Tables 3 and 4, the revised 1974-78 development plan and actual budget increased the planned expenditures for health. The long-term effects of such expenditures will benefit the rural poor including nomads in the form of improved health services. For those nomads who have settled in either the three agriculture settlements areas or the three fishing areas, \$34 million is budgeted for their support. This includes the financing of primary education, health facilities, agriculture inputs and temporary shelter construction. The largest single development budget factor, infrastructure projects carried out through the Ministry of Public Works, receives the highest percentage of development funds in 1978 reflecting the need to build a base upon which the economy can grow.

Additional study of the actual recurring 1978 budget reveals a major factor that may have previously been misinterpreted. This relates to total budget allocations that were budgeted for development and social service type ministries (State Planning, Local Government/Rural Development, Public Works, Mineral/Water Resources, Agriculture, Livestock, Fisheries, Education, Higher Education and Health) vis a vis allocations for defense and the militia, (the police are not a paramilitary force in Somalia and are not included). The development ministries received \$103,229,062 or 44% of the budget while the military ministries received only \$42,032,875 or 18%. When one considers that this, a nation at war, was able to spend over twice as much on development and social services as was required for the country's defense, one gains an idea of the sincere commitment the GSDR has toward serving and developing their people and resources.

PART E

ABSORPTIVE CAPACITY AND OTHER DONORS

Somalia is a country which enjoys avid interest from numerous donors, both Eastern and Western. Based on 1977 data they received \$36,946,000 in short-term annual economic development aid and had commitments for \$701,470,000 in multi-year capital projects which were being disbursed in 1977. If we assume that the multi-year capital is disbursed over five years, the total annual disbursement was over \$175,000,000 for development assistance in 1977.²⁰ If food aid were included it would probably exceed \$200 million for this nation of 3½ million people. Not counting the United States, because we had no program in 1977, and not counting Russia, because data is not available, there were five multi-lateral donors and 21 bi-lateral donors to Somalia in 1977.

Some 90% of the capital contribution was contributed by eight donors and 58% came from five Arab oil states, U.A.E., Saudi Arabia, Qatar, Iraq and Kuwait. Besides the Arab countries, the major contributors include two multi-lateral groups, the EEC and the IBRD, and China, which made a large investment in the North-South road.

The multi-year capital contributions are allocated as follows:

Industry	- 32%
Transportation	- 31%
Agriculture and Fisheries	- 29%
Education	- 4%

20

For 1978 Table 4 states a budget for foreign assistance of \$130 million. This reflects either a decrease in aid levels and/or a scheduling of multi-year contributions over a period greater than five years.

Social Services	- 2%
Health	- 1%
Natural Resources	- 1%

Clearly the major capital inflows are directed toward productive sectors, with comparatively little allocated to social development.

The major contributor to the annual aid contribution in 1977 of \$36,946,000 was the UN group, which contributed about 60%. The other major donors were Italy, the Federal Republic of Germany, the EEC and Iraq. The UN program consists of approximately two-thirds food and one-third assorted technical assistance with the biggest single program being the small pox program. Italy and the EEC are primarily active in supporting the education program with staff and fellowships for higher education while Iraq is supporting secondary education with teachers.

The sectoral breakdown of the annual aid is as follows:

Education	32%
Agriculture	31%
Health	17%
Water	7%
Transport and Communication	6%
Other	2%

At first glance the figures and percentages would indicate that everyone is trying to do something for Somalia. On a per capita basis, external assistance received is \$60 for every Somali which approximates the GDP of an estimated \$80 per person. This would also indicate some very serious

absorptive problems for any country and especially one with a largely nomadic population.

However, closer examination reveals that most of the assistance to Somalia in 1977 was for large infrastructure projects, irrigation based agriculture, smallpox eradication and food for refugees and displaced persons.

The World Bank, for instance, is involved in three road construction projects, two Mogadiscio Port projects, construction of education facilities, and infrastructure inputs to a number of agriculture projects. Little training or technical assistance is involved in these projects totaling \$95 million. Likewise China is listed as contributing \$67 million for a multi-year program but all of that went for the essential North-South road. The Arab oil-producing states are listed for a total of over \$400,000,000 in multi-year contributions, but these mostly relate to infrastructure, an oil refinery and capital contributions to agriculture projects. If they actually require ten years to disburse, inflation will eat up much of that amount.

Viewed in these terms, absorptive capacity while still a question area, is no longer of critical concern, and it makes the AID program all the more important and essential for real development to take place and as a means of increasing absorptive capacity.

Our agriculture projects complement three IBRD projects by providing the training and technical assistance components. This is a direct attack on the overall bottleneck of development in any country--the human resource

factor which relates to everything from increased maize production to absorptive capacity. Our health project also targets in on the manpower constraint by training and utilizing villagers as well as furnishing essential health services to rural areas including areas in which we are involved with agriculture. The rural water project complements all the above by providing water for people and livestock. It also should not tax the absorptive capacity since an existing staffed organization will be used to site and drill the wells. Likewise with any endeavors related to housing, Tsetse fly eradication, women, and small agriculture projects, existing institutions and personnel will be used to the extent possible, and when in-country or external training is required, it will be furnished.

The inter-relations of the AID projects and how they complement efforts of other donors is thoroughly and regularly discussed with government ministries as well as the other donors. Monthly meetings are held by the donors on an informal basis and more frequently on areas of general concern such as the threatening locust situation. Overall coordination of all development related activities is the responsibility of the State Planning Commission.

PART F

AID ASSISTANCE STRATEGY

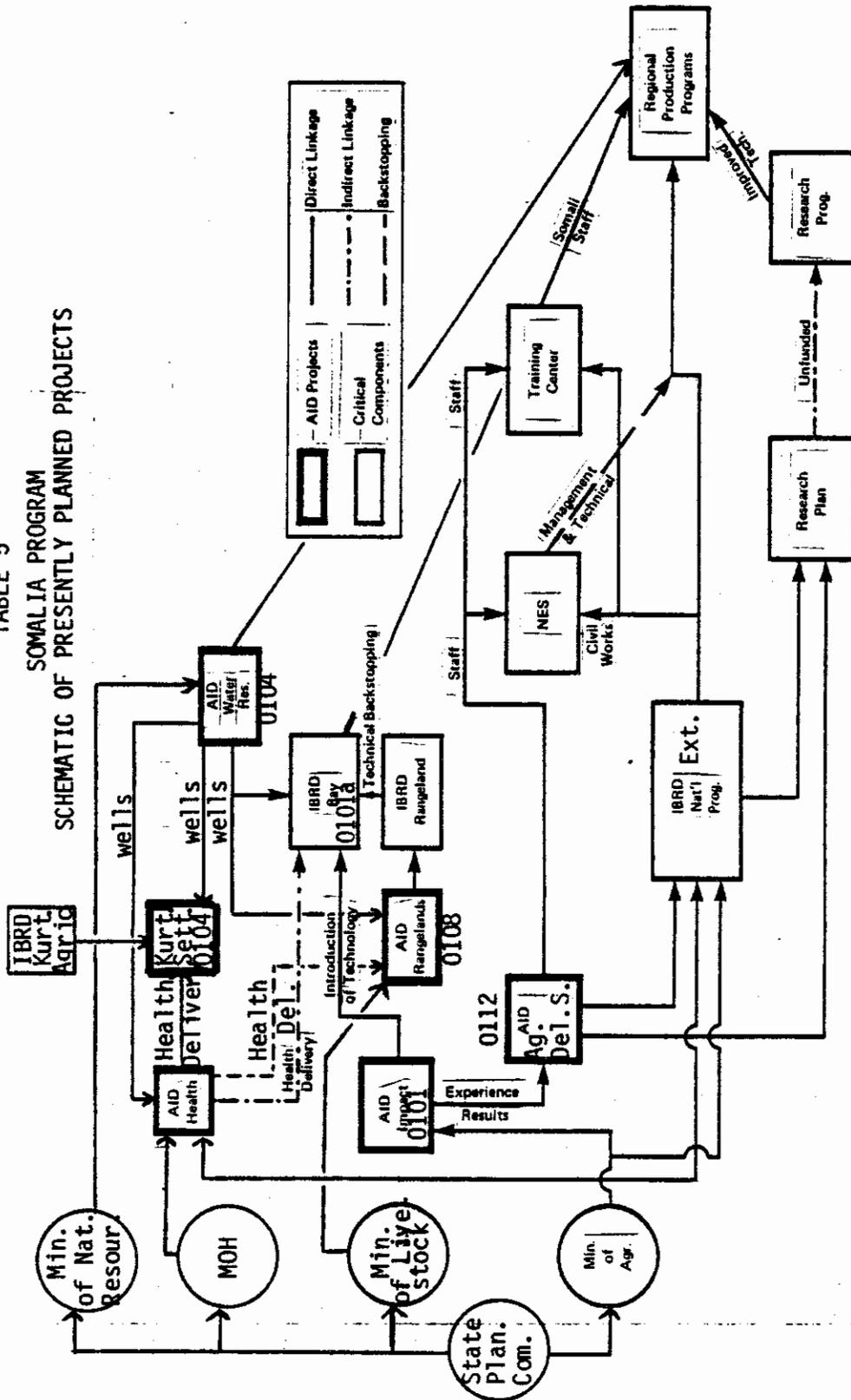
Factors presented in Parts "A" through "E" of this submission indicate that USAID assistance strategy over the next five years will include a mix of technical and commodity assistance directed toward addressing the principal constraint to economic development in Somalia - an inadequately trained manpower base which impinges on development efforts in virtually every sector of the economy.

Lack of trained manpower is a major contributing factor for low agricultural productivity, depressed rural incomes, marginal returns from the country's principal exporting sectors, government's weak revenue base and fragile monetary operations, inadequate essential social services, insufficient water supplies for village use and widespread poverty, particularly in the rural areas, which all combine to register for Somalia one of the lowest Physical Quality of Life Indices among the least developed countries.

The program now under development and implementation addresses the above considerations in an integrated multisectoral format. Table 5 presents a schematic illustrating the AID program and its linkages to World Bank projects.

U.S. assistance will emphasize the strengthening of institutions, particularly those attempting to provide services for the rural poor. The principal objectives of USAID programs in agriculture will be to raise the

TABLE 5
SOMALIA PROGRAM
SCHEMATIC OF PRESENTLY PLANNED PROJECTS



incomes of rural subsistence farmers and herdsmen and to increase cereal and edible oil production to enable the country to be self-sufficient in these commodities. This will require a major training effort to establish a viable country-wide agricultural extension service which can pass on to small subsistence farmers the appropriate technology, cultural practices and research findings needed by this disadvantaged group to improve their economic well being.

The present USAID program addresses the agricultural sector requirements on two levels, direct production and in a wider institutional framework. Primary emphasis is on agricultural production with participation in the IBRD's Bay Region and Central Rangelands Projects. Our Training and Extension Project begins activities in the Bay Region on a small scale to test extension methodologies, train extension agents and gain experience with the technical package. As a related IBRD project comes on stream in 1979 or early 1980, our project will be amended to increase the scope of our interventions to encompass mixed farming, including livestock as well as crops in the region. Concurrently in 1979 we will begin another project providing for our participation in the IBRD National Extension Project, which will provide the essential central level infrastructure to support extension activities in the field. This project includes extension training and management and development of a research plan to properly direct and revitalize the national research program.

Due to the importance of livestock as a foreign exchange earner for Somalia, the livestock sector is given high priority by government. In this sector

we have a project that will support the IBRD Central Rangelands Project. It focuses primarily on improving the management of the range resource with its complementary animal husbandry and animal health interventions.

Our participation in these IBRD projects, each of which has at least one other donor besides the IBRD and AID, is the centerpiece of our program. Our participation in all the projects consists of providing technical assistance and related support while the World Bank and other donors provide the needed infrastructure. There is full agreement among the donors and the GSDR that this is the most effective utilization of the financial package and that the donor cooperation demonstrated will make for stronger projects.

In the social development field our emphasis is on primary health care delivery and the provision of minimum shelter in resettlement villages. The Primary Health Care Project emphasizes providing preventive health measures to settled and nomadic rural areas. It has a small central institutional component to support a large outreach program based on minimally skilled village paramedics. The project will begin in the Bay Region where it complements our agriculture projects and expand to cover one region in the Central Rangelands Project. During the life of the project, four regions containing one-fourth of the nation's population will receive rural primary health care. In addition a model, as well as the essential national institutions, will be established to spread the program nationwide.

The Kurtunwaare Settlement Project will undertake a pilot, low cost, minimum standard shelter program for one of the newly established agricultural villages populated by settled nomads. Suitable permanent housing is a critical social amenity in these villages if the program to sedentarize nomads is to be a success. The GSDR at great cost has settled the destitute nomads, developed schools and health facilities and begun a large agricultural scheme in Kurtunwaare. Our input complements the settlement process by providing minimum standard shelter.

In arid and semi-arid countries such as Somalia, the provision of suitable water for rural families and their livestock is always a critical consideration. Water resource development is a component of every AID project and often is utilized as the incentive to gain popular participation in projects with emphasis on total resource management. The Comprehensive Groundwater Development Project will provide the water resource development component of all the projects through existing national institutions, the Water Development Agency (WDA) and the Ministry of Natural Resources. By approaching this problem on a national level through established institutions there will be a savings in Somalia's scarcest resource, trained professional manpower. Professional water resource staff such as geologists, hydrologists, water quality experts and well drillers will be concentrated in ^{these} that national institutions and these same personnel will serve several projects as opposed to having similar personnel in each and every project. This approach also provides a system of checks and balances to prevent indiscriminate drilling of wells since the technical staff on projects

will site the wells but will have to call on the WDA to drill them. By the same token, although WDA will have the equipment and knowledge to drill wells, the funds for the drilling operation must come from the projects and therefore the WDA cannot drill without coordination with project technical staff. Thus, water development becomes one of the major linkages between all the projects in the AID program.

All the AID projects place a primary emphasis on relieving the critical manpower constraint in the country. Each project is based on training Somalis at all levels to deliver the services required in that sector. In all cases the primary emphasis is on training of "grassroots agents of change" but at the same time the critical national level institutions will be strengthened to supervise, support and manage the grass roots program.

The geographic location of our endeavors was coordinated with and chosen jointly by AID, government agencies and other donors. For instance, in the health project, AID and the Ministry of Health wanted to locate the project activities in each of the three geographic regions of the country, North, Central and South. Phase I activities were selected to begin in the Bay and Togdheer Regions, the former to be in conjunction with our agriculture and water projects and the latter in a northern region which is fairly heavily populated with nomads. The project will later expand to the southernmost region in the country and to a region located in the Central Rangelands.

In Agriculture, the Bay Region is the obvious choice for a rainfed agriculture project because the relative regularity of rainfall, proximity to research stations and Mogadiscio, and because of planned IBRD activities there. The same applies to the Central Rangelands Project (livestock/range management), The Ministry of Agriculture felt AID and the Bank should be the major contributors to the effort and the Bank had already completed a proposal for that area. The water project in all instances will support both our agriculture projects and the health project. The GSDR selected Kurtunwaare for AID participation because it is the closest of the three settlement areas to Mogadiscio and they want it to be the showpiece of their settlement program.

replenishment

In addition to the activities outlined above, we will become involved in other efforts in the near future, either as part of these projects or separate, in areas related specifically to women, Tsetse fly eradication, artificial insemination and the Serum and Vaccine Institute. All in all, 40-45 permanent contractors will be required to staff the projects along with assorted short-term personnel. They will be located throughout this country that stretches for 1,500 miles along the Horn of Africa. To say the least, this will require a massive support operation made even more complicated by a lack of foreign produced commodities in country and inadequate transportation and communications.

The most feasible remedy and response to the problem would be a private contractor to support all AID projects. This contractor would be financed by the projects themselves based upon services provided to each.

funding ?

His responsibilities would include locating housing, transporting and installing furniture, potable water and all other related household requirements, vehicle maintenance, and the host of incidentals such as visas, health care, mail delivery, port clearances and movement of commodities, etcetera. Currently the Mission, in coordination with REDSO/E, is in the process of negotiating with several potential contractors who may have the capability to provide the required services.

In regard to planning for new efforts in the 1980's, a vital area of concern will be to adequately address the problem of skills training at the primary and secondary school levels. One possibility would be to assist the Ministry of Education's institutions to develop the curriculum and indigenous expertise needed to equip school leavers and adults with the saleable skills necessary to become productive citizens and contribute to overall economic development. This assistance would primarily be directed to appropriate educational institutions to provide technical and vocational training.

Such educational and skills training is essential if the GSDR is to be successful in addressing the problem involving school leavers unable to obtain employment and, to some extent also, dropouts who likewise find themselves unemployed. It was noted in Part "A" of this submission that there are those who feel the urban poor must also be considered among the most seriously disadvantaged persons in Somalia. Though it has been

pointed out that the urban population constitutes no more than 20% of the total population and tends to be subject to seasonal changes of considerable magnitude, the fact remains that a hard core of urban unemployed, with some formal education, is increasing in size. To the extent these unemployed groups grow in numbers and their expectations are eroded due to a deterioration in economic status, they possess the potential for political instability. Though it is believed that AID's present program will ultimately provide increased employment opportunities not only in the agriculture sector directly but in the industrial processing of agricultural and livestock products in urban areas as well, the fact remains that it will provide only limited employment opportunities in the short term for those currently unemployed.

In regard to the heavy dependence of the Somalia economy on external factors and resources to meet both budgetary and balance of payments needs, a continuing dependence of the present magnitude would tend to postpone for some time the day when GSDR could successfully create a viable and self-supporting economy able to finance the country's development programs and provide essential services. In the short term, therefore, the GSDR will have to receive substantial amounts of external monetary assistance.

Because of debt servicing considerations these transfers will need to continue to be mostly grants. To assist GSDR secure the needed resources and meet funding gaps in the near future, we recommend resource transfers in the form of PL 480 grants and sales combined possibly with a commodity import program.

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We propose to continue some Title II assistance, although gradually decreasing, through 1983 (assuming no serious drought conditions) to help meet shortfalls in production and support displaced persons programs which may well continue until a satisfactory solution to the Ogaden question evolves. We are also recommending Title I and III programs for the same period. This assistance will provide essential commodities to meet internal market demands for cereals and edible oils. It will also extend GSDR foreign exchange availabilities for other essential commodities in addition to providing added local currency for development budget purposes. Title I local currency will also help reduce the pressure on GSDR to use Central Bank financing to meet continuing deficits in its development expenditures.

As has been noted, Somalia is expected to have a largely externally financed economy for some time although hopefully less and less so into the future. However, over the short term it will continue to be necessary for GSDR to receive capital transfers to balance off trade deficits and provide the additional foreign exchange required to finance essential imports. GSDR has informally registered an interest in receiving U.S. assistance in meeting these requirements.

Somalia is dependent on a wide range of commodities, machinery, equipment, transport, and spare parts to keep the economy functioning. A great deal of plant and machinery needs replacing particularly those supplied by the U.S.S.R. In addition to loans to finance imports of East Bloc origin, Somali imports from the U.S.S.R. in 1975 were So. Sh. 74.3 million or approximately \$12.0 million. Most Bloc sources of imports are now no

longer available. It is not likely that increased export savings from livestock and bananas will materialize over the near term which would provide the foreign exchange needed to replace these imports from other sources. Therefore, subject to policy and other considerations, we recommend that the possibility of a commodity import program should be kept open.

In Part "A" it was noted that Somalia's Physical Quality of Life Index was among the lowest in the world. Inadequate nourishment, poor health, insufficient and frequently poor quality water, poor housing, inadequate educational opportunities and low rural incomes, all of these are contributing factors to a very low PQLI. It can be expected that a rural health program, increased food production, agricultural extension services and accompanying training, improved housing and other rural development programs should contribute to an increase in the PQLI. Since the PQLI for the rural poor is undoubtedly lower than for the population at large, AID's program directed at the rural poor should have a wholesome impact on the quality of life of the target group.

The nomadic people form a critical subgroup in the target population. Some 80% of the entire population are/were nomadic or semi-nomadic during some portion of their life. Reaching them with development programs, particularly social development programs, is a problem which has been explored in numerous countries without great success. However, we feel both our social projects will have direct beneficial impacts on the nomads. The

Kurtunwaare housing project is focused entirely on improving the lot of the most destitute, poorest nomads who were settled in this farming community. In this case the problem of how to deal with nonsedentary population has been overcome by settling them into a sedentary life where services can be provided. The health services delivery project will be addressing the more difficult problem of providing services to nomads on their home ground. The approach taken is to first develop a general model in a sedentary area to gain country specific experience while concurrently undertaking area specific research in the nomadic area. Then the results of the research and the benefits of the experience will be utilized to develop a series of alternative approaches to the nomadic areas. These approaches will be simultaneously tested to define the preferred alternative.

The production activities of the Central Rangelands Project will have a direct impact on the nomadic population who are the only residents in the area. Prior recent experience, albeit on a limited scale, with range management in the area has been positive since it supports goals which are foremost in the minds of the nomads. Throughout the life of the project, the dialogue already begun will continue to help determine and respond to the concerns and problems of the nomadic population.

It is not believed that AID's assistance strategy will unduly increase recurrent costs and intensify budgetary problems. As very succinctly stated by the Minister of Finance, the recurrent cost problem is one of readjusting budget priorities within the ministries to emphasize cost

effective rural delivery systems as opposed to more expensive, less effective centralized programs. There will, of course, be some increase in recurrent costs associated with such projects as the nationwide rural health program and the improvement and expansion of the agricultural extension services.

However, the extensive use of large numbers of lower paid paraprofessionals minimizes the recurrent cost implications. Also increased agricultural production can be expected to offset expenditures aimed at establishing an effective extension service. However, given the inelastic nature of the tax revenue base and in view of the difficult budgetary picture, and the somewhat precarious position with respect to foreign exchange holdings, it is evident that any additional financing requirements imposed upon the GSDR will need to be examined closely to ensure benefits which accrue outweigh the additional investment expenditures. It is because of the GSDR's domestic financial resource limitations and its uncertain foreign exchange position that our strategy includes a C.I.P. program option. USAID also believes that GSDR policies of reliance on public sector enterprises both in agricultural and manufacturing sectors could be an impediment to sound economic development. These entities need to become more efficient than they are and thus more productive or a disproportionate amount of scarce resource allocated for development will be disbursed without achieving returns anticipated. USAID assistance, particularly in the agricultural sector, could demonstrate a possibly more efficient production system. The slowly developing cooperative movement which is being encouraged by the GSDR could also be an instrument of the gradual shifting

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from State operations to greater involvement of private initiatives in the development effort. Already private farmers account for 84% of the area under cultivation of bananas, and the main staples of Somalia, corn and sorghum, are produced almost entirely by small subsistence farmers.

PART G
FIVE YEAR FUNDING LEVEL PROJECTION
(\$000)

	FY 81	FY 82	FY 83	FY 84	FY 85	TOTAL
Agriculture	9,000	11,000	12,000	13,000	14,000	59,000
Health	5,000	6,000	7,000	8,000	7,000	33,000
Ed/HR	3,000	4,000	6,000	7,000	9,000	29,000
SDA	<u>1,000</u>	<u>2,000</u>	<u>1,000</u>	<u>2,000</u>	<u>2,000</u>	<u>8,000</u>
TOTAL	18,000	23,000	26,000	30,000	32,000	129,000
Title I and III	8,000	6,000	4,000	--	--	18,000
Title II	2,000	2,000	1,500	--	--	5,500
CIP	10,000	10,000	10,000	10,000	10,000	50,000

The above table is our best estimate of our funding requirements through 1985 and should be considered in conjunction with previous year estimated levels.

	<u>FY 78</u> (Actual)	<u>FY 79</u> (Estimate)	<u>FY 80</u> (Estimate)
Agriculture	3,253	3,500	6,300
Health	--	2,000	3,900
Ed/HR	--	--	1,000
SDA	<u>--</u>	<u>1,000</u>	<u>500</u>
TOTAL	3,253	6,500	11,700
Title I and III	7,000	10,700	10,000
Title II	6,300	3,200	2,600

As is evident, we are planning on a continuing increase in total development funds to \$32 million in 1985 and a possible phasing out of all PL 480 activities. Our largest funding amount and area of major concentration is agriculture. This coupled with projects of other donors and enlightened government policy, (monetary inducement to small farmers to increase production, a functioning extension service with full government support and easily available agriculture credit), the need for PL 480 foods should diminish during the early 1980's. However, it must be kept in mind that this country since the beginning of the century has suffered a severe drought every four to six years and periodic Title II contributions may be required indefinitely.

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Our second major area of concentration is health with steady increases in funding levels required until FY 1985. By that time and possibly before, the method and ability of delivering adequate health services to the entire country should be a reality. The AID health project alone is expected to reach 800,000 rural people by 1983 and duplication of delivery models it has established should accelerate through the 1980's. Perhaps an expansion of it or another AID-financed health project should demand substantial funding levels throughout the first half of the next decade.

As has been stressed in this paper, the human resource factor is critical to the development of any country. Our early projects stressed this aspect in their institution building process, and indeed this is the major factor in all AID projects in Somalia. However, this effort has to also be on a more direct basis to have full effect. Technical assistance,

not construction, will be required at all levels of the education system throughout the 1980's and this should be an area of increasing AID concern. The question requires considerable study but perhaps by the end of the 1980's education and human resource development may reach funding levels comparable to the agriculture sector.

Probably most projects that will be funded under Selected Development Activities will be settlement related. This is expected to be a continuing problem throughout the 1980's and should receive priority in our research efforts. The problems of settling nomads along with delivering services to them are areas in which we know little. However, we do know that nomads represent the poorest of the poor, and even though they enjoy their life immensely, that life is as harsh as any elsewhere in Africa. Several of our projects have built-in research components directed to the nomads. However, it is an area that will require additional and continued study throughout the 1980's and should receive full AID support.

To be able to mount the Technical Assistance program outlined above has obvious, and painful, staffing implications, as does the situation today to a lesser degree. Our current positions of Director, Controller, Secretary, Program, Agriculture, Health, Capital Development, and Management officers and GSO will need to be augmented during FY 1979 if proper administration, supervision, monitoring, planning and implementing responsibilities are to be met. At a minimum, the following positions will be

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required: Budget and Accounting, Livestock Program Economist, Assistant Program/Training, Engineer, Secretary, Agriculture Officers. Also of assistance would be IDI's in agriculture and health. This represents minimum requirements of a Mission with an annual funding level of around \$10 million, and the filling of these positions will be a major step in proceeding towards the PPC recommended minimum core staffing. This level, of course, will have to be assisted by a greater number of local employees, especially now since we are assuming full responsibility for Controller and GSO operations. We realize this is going to present severe problems in light of the recent executive decisions to continue the freeze on AID Direct Hire and Foreign National employees levels, but if we are to function as a Mission with full responsibility, then the above mentioned additional staff will be required this fiscal year.

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Project Manager

Ag	5,050	-	101
Health	15,200		102
human resources	2,100		103
Groundwater	13,900		104
Central range	14,700		
Agriic Develop Sys	7,600		112
	<u>\$ 57,550</u>		

57,550
 2,100

 55,450
 15,200

 40,250

ANNEX I

SOMALIA: The Economy

General Description of the Economy

A. Population

Population estimates for Somalia are, in general, based upon manpower surveys which were conducted in 1963, 1968, and most recently, in 1971, the results of which were published in 1972. A nationwide census of both people and livestock was undertaken in 1975 and the data generated are considered as being possibly unreliable though the full results have not been released. On the basis of the manpower surveys a population estimate of 3.17 million people as of mid-1975 emerges. Since the estimate for 1963 was 2.3 million, the average annual population growth rate from 1963 through 1975 amounts to 2.6%. Assuming that the estimated annual growth rate of 2.6% is accurate, this implies a doubling of population in less than 28 years, or approximately doubling of population each generation. The Government as a practice has always estimated a much greater population within present boundaries, and an official publication of 1971 stated a population of 4.5 million.

Population density is quite low, only 13 per square mile. In terms of available arable land, however, the density rises to 105 persons per square mile. Ethnic homogeneity is a major feature of the population in Somalia and some 95% of the population is believed to consist of ethnic Somali.

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The manpower survey in 1971 arrived at the following age structure of the population:

45% under 15 years of age
 53% aged 15-64 years inclusively
 2% 65 years and over

In strictly nomadic households, the "under 15 years of age" group is estimated to be as high as 50%. For nomadic peoples the male to female ratio is 106 to 100. For the population at large the ratio is believed to be slightly higher.

In the mid-1960's, about sixty populated places were designated municipal centers; however, less than twenty-five had a population of 5,000 or more and only nine had a population in excess of 10,000. As of 1975 Mogadiscio's population was estimated at 400,000.

A rural urban drift exists in Somalia as in most other developing economies. The drift in Somalia in recent years was accentuated by severe drought conditions. The U.S. census bureau in 1970 estimated the birth rate at between 47 and 49 per 1000 and the death rate at between 21 and 24 per 1000. These estimates imply a net annual increase of between 2.3% and 2.8%.

B. Natural Resource Availability

Of Somalia's 637,000 square kilometers or 245,946 square miles of area, most of it is unsuitable for cultivation. Land distribution is estimated as follows:

Cultivable	12.5% or 30,743 square miles
Suitable for	
grazing	54.9% or 135,024 square miles
Forest and scrub	13.8% or 33,941 square miles
Other	<u>18.8%</u> or <u>46,238</u> square miles
TOTALS	100.0% or 245,946 square miles

Some estimates of woodland areas are as high as 25% of the total land area. Most of this, however, is really bush or scrub with only a small percentage of the land area, perhaps 3% or 4% in accasia and other thorn trees, primarily. It is reported that there are also a few small areas of cedars of Lebanon in the northern mountains. As of mid-1975 the country had one small sawmill in the Al-Madow area (far north) exploiting, to some extent, the cedar stands.

Mineral resources once thought to be varied, plentiful, and capable of contributing significantly to economic development have proved disappointing. However commercially exploitable concentrations of uranium exist, and reportedly an American firm has been contacted to begin mining operations.

Some iron ore deposits exist but the quality is such that it does not appear to be marketable. Tin deposits have also been located and these were being exploited on a pilot basis in 1976.

Large deposits of high grade gypsum are found near Berbera and were also being exploited on a pilot basis in 1976. Oil exploration, both onshore and offshore, was being conducted by at least four companies in 1976. There were no reports of oil production, however, as of year end 1978.

Somalia's extensive sea coast, approximately 2000 miles, affords ample opportunity for the development of fisheries. Cultural factors involving a preference for meat over fish have been a retardant to the development of fisheries. To the extent the fishing industry operates, nearly all of the product is exported.

The brief review of natural resources presented above indicates that agricultural resources constitute the foundation upon which economic development must be based. In view of the distribution of land categories it is equally evident that grazing lands constitute the major agricultural resource and thus livestock production must be a major subsector of agricultural activity.

Much of the potentially cultivable area of some 30,000 square miles experiences a low annual average rainfall and periodic severe drought. In the northern part of Somalia, except for the highlands, rainfall does not exceed 400 mm (approximately 16 inches) per year. The central region and the north sea coast averages no more than 50 to 150 mm (2 to 6 inches) of rainfall annually.

Rainfall in the south, especially in the area between the Juba and Shebelle rivers, is the highest within the country. Even here the annual average is less than 600 mm (24 inches) per annum. Agricultural experts say that if the average yearly rainfall is much below 400 mm conditions are both too uncertain and unsatisfactory to support dryland farming on a regular basis. It is in the south particularly therefore that dryland farming is most successful.

Since the only perennial rivers (the Juba and the Shebelle) are in the south, this means that the area of highest rainfall is also best adapted to irrigated farming. Not surprisingly, therefore, most of the 80,000 hectares (approximately 200,000 acres) or irrigated cropland is in the south along the valleys of the Juba, Shebelle, and west of Hargeisa in the northern part of Somalia.

C. Manufacturing

Though the available data indicates that manufacturing activity has grown during the last decade, the limited size of the national market and low per capita incomes impose severe constraints upon economic growth in this section. In addition the scarcity of skilled manpower is also a major constraint. The manufacturing enterprises that do exist consist of a few rather large publicly owned firms and many small-scale private enterprises. Most manufacturing activity involves the processing of agricultural products of one kind or another.

D. Aggregate Economic Performance

No system of national income accounting has been adapted by the GSDR thus no national income accounts are available. An attempt is made below to construct a gross domestic product account for Somalia. The GDP and resource origin and use estimates are based upon data and information from various sources. The sources are indicated in the bibliography.

No claim for precision can be made for any of the estimates and thus great reliance should not be placed upon any of the magnitudes. It should be noted however, that in the case of the farming and livestock sectors, informed observers have made estimates of crop areas and yields, livestock population and yearly offtake, and related matters. Since export data on crops and livestock are available, estimates of internal (domestic) consumption can be made. This is not to say that the sectoral estimates of resource origin are precise but rather that the calculations stem from estimates and inferences of those who are reasonably well informed. Considerably less validity can be claimed for the items listed in the "Commerce

and Services" category of resource origin. The estimates are simply based upon inferences drawn from the reported budgetary data for the government of Somalia.

With respect to estimates of resource use the probability of reasonable accuracy is believed to be considerably greater for the estimate of private consumption than for public sector consumption and capital formation. The residual, i.e., the resource gap estimate, is approximately equal to the annual external financing requirement as found in the 1974-1978 Economic Development Plan for Somalia. It should be observed also that it is not unreasonable to assume that the resource gap can be measured by the deficit on current account in the international balance of payments for Somalia. The Somalia National Bank preliminary estimate for 1974 indicates an adverse trade balance of So.Shs. 643 million, very close to the resource gap estimated below, plus a negative services balance of So.Shs. 73 million for an overall deficit on current account of So.Shs. 716 million.

It is of some interest to compare the GDP estimate calculated below with GDP estimates which have been made by others. Among the GDP estimates for the mid-70's the lowest estimate found was U.S. \$155,000,000 and the highest estimate U.S. \$263,500,000. ^{1/} Assuming a population in 1974 of 3.1 million, the low GDP estimate

^{1/} Variations of GDP estimates arise from variations in population estimates and/or variations in estimates of areas cultivated and numbers of livestock. In some cases it seems that an estimate of per capita increase is made and the aggregate GDP figure then derived based upon population estimates.

means a per capita GDP of U.S. \$50 and the high estimate a per capita GDP of U.S. \$85. Assuming the exchange rate to be Somali Shs. 6.295 = U.S. \$1, the So. Shs. 1,617,500,000 GDP calculated below amounts to U.S. \$256,950,000 or a per capita GDP of \$83. In its August 20, 1975 economic report on Somalia, the World Bank lists the per capita GDP as follows: "U.S. \$80.00 (Approx.)". All that can really be said for the GDP and resource origin and use estimates calculated below is that they seem to be within what others have estimated the "ballpark" to be.

TABLE I
 Agricultural Sector
 Estimates of Contribution to GDP
 1974

A. Farming Subsector

<u>Crop</u>	<u>Area (ha.)</u>	<u>Production</u>	<u>Price</u> <u>So. Shs</u>	<u>So. Shs.</u> <u>(mill.)</u>
Maize	70,000	700 Kg/Ha	500/ton	24.5
Sorghum	900,000	700 Kg/Ha	450/ton	283.5
Oilseeds	--	20,000 Tons	1,500/ton	30.0
Cotton	1,000	300 Kg/Ha	1,000/ton	0.3
Rice	800	4 tons (milled) ha.	2,500/ton	8.0
Sugar (refined)	--	27,593 Tons	1,000/ton	27.59
Bananas	8,000	20.2 Tons/Ha	600/Ton	101.72
Citrus, vegetables, dates, groundnuts, etc.				<u>10.00</u>
Total Dryland and Irrigated Farming				<u>485.61</u>

B. Livestock Subsector

<u>Kind</u>	<u>Estimated Pop.</u>	<u>Offtake/yr.</u>	<u>Price</u> <u>So. Shs.</u>	<u>So. Shs. (Mil)</u>
Cattle	3 million	255,000	490/head	124.95
Sheep & Goats	14 million	4,000,000	103/head	412.00
Camels	2.5 million	125,000	836/head	<u>104.50</u>
Total livestock subsector				<u>641.45</u>

TABLE II

1974

Domestic Consumption of Livestock

(Somalia Shillings)

<u>Kind</u>	<u>Total Prod.</u>	<u>Export</u>	<u>Domestic Consumption</u>
Cattle	124,950,000	35,057,000	89,893,000
Sheep & Goats	412,000,000	138,282,000	273,718,000
Camels	<u>104,500,000</u>	<u>23,335,000</u>	<u>81,165,000</u>
TOTAL	641,450,000	196,674,000	444,776,000
Milk (cattle, sheep and goats, camels) estimate			<u>10,000,000</u>
Estimated Domestic Consumption Livestock			<u>454,776,000</u>

TABLE III

1974

Private Domestic Consumption (Estimates)

	(So. Shs.)	(So. Shs.)
Farm output (Dry and Irrigated)	485,610,000	
Less: Export of Bananas	<u>74,000,000</u>	
Priv. Domestic Cons. Farm output		411,610,000
Private Domestic Consumption Livestock and milk		454,776,000
Importation of:		
Food	212,100,000	
Consumer goods	<u>118,100,000</u>	
Private Consumption Imports		<u>330,200,000</u>
Total Private Domestic Consumption		<u>1,196,586,000</u>

TABLE IV

1974

GDP Origin and Use of Resources
Estimates - (So.Shs.)

Origin of Resources

Agriculture:

Farming (Dry land & Irrigated)	485,610,000	1/
Livestock	<u>641,450,000</u>	

Total Agriculture		1,127,060,000
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Fisheries (5000 tons @ So.Shs.6924/Ton)		34,620,000
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Forestry 2/		Negligible
-------------	--	------------

Industry (Manufacturing and Food Processing)		149,520,000
--	--	-------------

Mining 2/		Negligible
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Commerce & Services: 3/

Distribution and Finance	16,500,000	
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Transport & communication	21,500,000	
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Administration, Police & Defense	211,500,000	
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Education and Health	<u>56,800,000</u>	
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Total Commerce and Services		<u>306,300,000</u>
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Gross Domestic Product (current price estimate)		1,617,500,000
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Resource Gap (Net Imports of goods and services)		<u>665,495,000</u> 4/
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Aggregate Resources		<u><u>2,282,995,000</u></u>
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Use of Resources:

Private consumption		1,196,586,000
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Government consumption		535,160,000
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Capital formation (Development Plans)		<u>551,249,000</u>
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1/ Probably understated since groundnuts and wheat, for example, have not been included.	Aggregate Resources	<u><u>2,282,995,000</u></u>
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2/ Understated since, though negligible, some contribution to GDP from these sectors does in fact occur.

3/ Based on Central Government Budget Accounts only. Private sector considered negligible.

4/ Figure coincides closely with the estimated annual external financing requirements of 1974-78 Development Program amounting to So.Shs. 634,500,000.

ANNEX II

Principal Economic Sectors:

Description, Constraints and Development Plans 1/

A. Agriculture

1. Farming Sub-Sector

Approximately 80% of the population of Somalia is engaged in agricultural pursuits of one kind or another. However, no more than 20% of these at the most (about 16% of the total population) are engaged in sedentary cultivation.

As indicated in Part I above, there are two major agricultural subsectors: cropping or farming and grazing or livestock raising. Within the farming subsector, as noted previously, both dryland and irrigated crops are cultivated. The major crops grown under dryland conditions are maize, sorghum and the oil seed sesame. Small amounts of maize and sesame are also grown with irrigation. In non-drought years Somalia is self-sufficient with respect to maize and sorghum. Major problems with respect to dryland farming include:

- (1) Inferior soils and unfavorable climate;
- (2) Declining soil fertility because of natural conditions and poor cultural practices;
- (3) Uneven rainfall and periodic droughts;
- (4) Applied agricultural and livestock technology is quite primitive, thus crop yields and livestock off-take are very low;

1/ This section is based upon the World Bank's report "Somalia Recent Economic Developments and Current Prospects" Vols. I and II, August 20, 1975, and the Area Handbook for Somalia, 1977.

(5) As a consequence of the above factors the rural economy which amounts to about 80% of the total population fluctuates between subsistence and periodic famine in some areas from time to time and from subsistence to subsistence plus in other areas at other times.

It has been estimated that even in the area of highest rainfall, i.e., the valleys, the Juba and Shebelli rivers and the interriver area, over an average five-year period dryland cultivation would produce but two years of good crops, two years of poor crops and one year of no crops. About 550,000 hectares are utilized in some form of dryland farming.

The major crops grown under irrigated conditions on approximately 80,000 hectares are bananas, sugar, citrus and other fruits, and some vegetables. About one-third of the irrigated area is subjected to controlled irrigation while the remainder is subjected to flood. In the Juba valley, bananas are grown on most of the controlled irrigation area and an American company is investigating making a large investment in banana production. As noted earlier, some maize and sesame are grown under irrigated conditions. In addition, some rice, cotton and groundnuts are also grown with the aid of irrigation.

Land tenure in the SDR is now governed by statutory provisions enacted in 1975. This legislation limits both the size and the transfer of arable land holdings. Arable land may be held under ten-year concessions granted by the Ministry of Agriculture. Concessions for plantations must not exceed 100 hectares (247 acres). Family land holdings are limited to 60 hectares (148 acres) in the case of rain-fed

land and to 30 hectares (74 acres) for irrigated land. A family may be given one concession renewable for a second ten-year period. Mortgage, sale, lease or transfer of land is prohibited except in the event the initial concession holder becomes disabled. Even then the physically disabled farmer can sublet to another only if official permission to do so is granted.

Maize and sorghum are grown by widely scattered small land holders. Rice is grown primarily by cooperatives and private plantations. Though plans exist to expand rice production to 6000 hectares, apparently not more than 1000 hectares are now devoted to rice production. Sugarcane has been grown in the Shebelli valley near Jowhar since 1926. Since 1970 the operation has been conducted by a parastatal organization known as Societa Nazionale Agricola Industriale (SNAI). No more than 5000 hectares seem to be devoted to sugarcane production though it is planned to expand this to 7000 hectares. For a variety of reasons both sugarcane yields per hectare and refinery extraction rates declined from 1969 to at least mid-1976. With respect to sugarcane yields per hectare, part of the problem involves a gradual salinization of the areas being irrigated.

As noted previously, with the exception of bananas, Somalia is self-sufficient in food crops only with respect to maize and sorghum and even then only under appropriate rainfall conditions. Sugar, rice, wheat products and tobacco loom importantly among the food and consumer goods imports of Somalia.

The major constraints to agricultural development involve natural factors such as undependable rainfall, and limited natural resources generally. These constraints are compounded by poor communication,

inadequate technical information, a shortage of skilled manpower which in turn means deficiencies in agricultural planning and project preparation.

The 1974-78 Development Plan states that the long-term agricultural objective is the "maximization of production with distributive justice". Thus the emphasis on agriculture is upon production with increases in rural income and regional equity. Next, domestic self-sufficiency in food production is stressed as is increased output to provide exportable surpluses wherever possible.

The total agricultural expenditure in the 1974-78 Development Plan comes to So.Shs. 1,124,506,000. Two-thirds of the total requires foreign financing.

2. Livestock Sub-Sector

Approximately half of those engaged in agriculture, or about 40% of the entire population, are strictly nomads, i.e. a wandering, transient pastoral people. Some 20% of the population raise livestock and, upon occasion, engage in seasonal cultivation. Since approximately two-thirds of the population is engaged in pastoral pursuits it is not surprising that livestock production constitutes the largest single contribution to the GDP and provides the bulk of Somalia's exports.²

(A) Livestock Population

Though a census of livestock was undertaken in 1975, as noted earlier, the results are suspect. It seems, therefore, that the most

²Of estimated total exports in 1974 amounting to So.Shs. 402 million, over half, So.Shs. 249 million, was represented by livestock.

reliable livestock population estimates may be those for the year 1974. According to the 1974 estimates, the following numbers are indicated:

TABLE V

1974

Number and Distribution of Livestock (Est.)
(Millions)

<u>Type</u>	<u>North</u>	<u>South</u>	<u>Total</u>
Cattle	0.5	2.5	3.0
Sheep and Goats	11.0	3.0	14.0
Camels	1.3	1.2	2.5

(B) Cattle

The main varieties of cattle are derived from the Zebu type. To some extent cattle of the Boran variety are also grown. Some breeds are utilized primarily for milk production while others serve a dual purpose, that is, milk and/or meat. It is reported that Somali cattle are quite hardy and well adapted to the harsh environmental conditions of the range lands on which they graze.

Since those who grow livestock are interested in numbers, utilization of cattle for meat consumption is confined to young male calves, older males and aged cows. The combined off-take of cattle for both export and domestic consumption is estimated at 7 to 10% per year.

(C) Sheep and Goats

Of the estimated 14 million sheep and goats, approximately 5.5 million are sheep and the remainder goats. The sheep are not wool producers but are quite useful for milk and meat. The goats are valuable primarily for meat and skins and are a part of the livestock export total. The estimated off-take is about 30% per year or about 4 million animals. World Bank estimates are that about 15 kg. of sheep and goat meat are consumed annually per person in Somalia.

(D) Camels

Camels constitute an accepted measure of individual wealth among the pastoral Somali. Because of this, camels are afforded first priority, with respect to water, grazing and general livestock management. Camels are used as beasts of burden, the major source of subsistence milk requirements and some are slaughtered or exported live for meat. The annual off-take is estimated at about 5% for all purposes at which rate increases in herd population should occur.

(E) Nomadic Families and Herd Utilization

Specifics concerning herd ownership patterns among nomadic families and herd utilization are either little known or essentially unknown. It is, of course, known that cattle, sheep and goats require water every few days while camels can go without water for an extended period of days.³ As a result, cattle, sheep and goats are herded separately from camels.

³Camels may do without water for at least two weeks.

A 1973 survey of nomadic families in the Burao region (north) of Somalia revealed an average family size of 5.75 persons. The average family owned 110 sheep and goats, 20 camels and 8 head of cattle. Some 94% of all families owned sheep and goats, two-thirds owned camels, but only 6% of the households had cattle.

Over 50% of the nomads fall in the "under 15 years of age" category. The birth rate is estimated at 3.9%, the death rate at 2.1%, thus the natural rate of increase among nomadic families seems to be about 1.8% per year.

Little meat and much milk constitute the principal items in the nomad's diet.⁴ Trade, when possible, may permit the diet to be supplemented with rice, other grains, tea and sugar. Rainfall conditions permitting and when in season, the nomad may also be able to gather edible wild berries and fruit. At best, the life is difficult and necessarily Spartan.

(F) Marketing: Transport and Processing

A well-established traditional livestock marketing system exists in Somalia. For example, almost every town and village has a daily cattle market auction. Similar arrangements for marketing other livestock exist. There does not exist, however, a system for market analysis or market forecasting.

Sheep and goats tend to be transported to market and/or to export points, while cattle tend to be trekked. Sheep and goats are transported

⁴The results of a diet survey in mid-1960, reported in Part "A" of ODSS.

both by land (trucks) and by sea (coastal shipping). The Somalia Livestock Development Agency (LDA) with assistance from the International Development Agency (IDA) have added to and expanded the existing marketing infrastructure. These additions and expansions have taken the form of new or enlarged holding areas for livestock being marketed.

The processing of livestock products is a major industry in Somalia and is one of the few industries which does not rely on imported raw materials. Meat, hides and skins are all a part of the livestock processing industry. It is generally believed that there is considerable scope for expansion and improvement of the processing of hides and skins, that is to say, the development of a viable leather industry.

(G) Constraints to Increased Livestock Production

The major constraints to improved and increased livestock production are environmental in nature. For example, range lands provide inadequate nutrition since drought conditions occur one year out of every five. Moreover, the poor distribution of watering facilities for both humans and livestock means that many areas are over-grazed. Overgrazing, in turn means poor range management and poor or non-existent soil and water conservation practices. Though an improving and expanding extension service involving the introduction and utilization of livestock vaccines and drugs is causing disease and parasite infestations to become a diminishing constraint, disease and parasite

infestations still figure prominently as a check to improved livestock production.

Primitive to poor transport and communication facilities also constrain livestock production. The fact that a statistical gathering and reporting system concerning livestock development is non-existent makes planning very difficult and unsatisfactory.

In the livestock sub-sector as in virtually all sectors of the economy, the lack of trained manpower constitutes a major constraint upon improved and expanded output. In 1975 there were only thirty trained veterinarians in all of Somalia and only ten graduates in animal husbandry. A College of Veterinary Science was established in 1973 and the first graduates were available in 1978. ^{5/}

(H) The Development Plan and Livestock

The Five-Year Development Plan (1974-78) enumerates the following general objectives so far as livestock production is concerned:

- (1) Increase production to meet local demand for meat and meat products and to expand the exportation of livestock products especially frozen, chilled and canned meats.
- (2) Strengthen disease control and research facilities
- (3) Improve livestock marketing facilities.

⁵ See Annex VI for enrollment and outputs of the National University.

In the livestock area, the Development Plan itself focuses upon:

- (1) Improving the off-take rate and range management.
- (2) Developing facilities to fatten cattle.
- (3) Experimenting with cross-breeding to improve meat, milk and wool production.
- (4) Continuing animal health programs and creating disease-free areas especially around major points of livestock export.
- (5) Improving existing and creating additional training facilities for personnel dealing with livestock.
- (6) Improving the marketing system to promote increased export returns from livestock and livestock products.

Some twenty livestock projects are included in the 1974-78 Development Plan. The projects involve some SoShs. 190 million; So.Shs. 48 million to be financed within the SDR budget and the remainder from external sources.

B. Industry

Since national income accounting has not yet been instituted in Somalia, an accurate measure of the contribution of industry (manufacturing) to GDP does not exist. Estimates of value added to GDP by manufacturing vary from 6% for 1968 to about 10% for 1972. In the GDP account constructed and presented above as Table IV, the assumption was that value added by manufacturing in 1975 amounted to about 9 $\frac{1}{2}$ % of GDP.

Three-quarters, or perhaps more, of the total value added by manufacturing is derived from food processing using locally produced raw materials such as farm crops, livestock and the output of fisheries. The remaining one-quarter or so of value added is represented by such activities as private production, clay products, some metal products and production and distribution of utilities such as electric light and power, water, etc.

As noted earlier, the industrial sector is dominated by a few large-scale publicly-owned enterprises. In fact, some 90% of the value added by this sector originates in the public sector despite the existence of many small-scale private enterprises.

The major constraints to economically viable industrial growth are the small size of the consumer market and the low per capita income. These checks to industrial growth are made more severe because of the limited natural resource availabilities, a serious lack of skilled manpower including entrepreneurial skills and a generally inadequate infrastructure such as transport and communication facilities, energy and the like.

The 1974-78 Development Plan lists nine major projects in the industrial sector totalling So.Shs. 513,870,000. The Plan calls for financing So.Shs. 155,700,000 or about 30% of the total internally and the remainder from external sources.

C. Fishing

With the longest coastline of any African country, almost 2,000 miles, bordering both the Gulf of Aden and the Indian Ocean, Somalia is quite favorably situated to exploit fishing resources. The fishing sector has remained largely undeveloped, however, because of cultural factors. Since the bulk of the population is comprised of pastoralists a strong preference for meat rather than fish exists. Moreover, historically, the pursuit of fishing has been looked down upon as being an endeavor inferior to herding. Additional factors mitigating against the development of the fishing industry involve the seasonal nature of fishing opportunities attributable to the weather, the substantial fluctuations in catch availabilities which seem to exist off the coast of Somalia, the sparse population along most of the sea coast and its adjoining hinterland and the dearth of good harbors and fresh water at most of the landing sites.

Estimates of the potential annual catch off the Somalia coast vary from a low of 200,000 tons to 2 million tons. In 1977, the annual catch was about 12,000 tons. It is hoped that this can be boosted to 125,000 tons per year. At least 80% of the landed catch is exported, mostly in the form of canned fish. 6/

Apart from the cultural constraints and environmental constraints to expansion of the fishing industry noted above, the lack of trained 6/ ILO 1977 takes a rather dim view of fishing prospects.

manpower to organize, administer and conduct the industry is a major constraint. Indeed this constraint frequently results in an inadequate supply of fish to permit utilization of the fish processing plants at an optimum level.

The 1974-78 Development Plan allocates So.Shs. 106 million to the fishing sector. About a third of the allocated amount is earmarked for organizing and training fishermen and the development of fishing specialists. Approximately half the plan allocation to the sector is for the improvement of the fishing boats, harbours, and fishing gear. The remainder is to be devoted to improvement of the fish processing plants. The two major projects in this sector involve a planned outlay of So.Shs. 53 million over 86% of which is to be financed externally.

D. Forestry and Mining

In Section I above (General Description of the Economy) it was noted that though some forest and mineral resources do exist both the quantity and/or quality of these resources renders the contribution to GDP from these sectors negligible.

The typical drift of population from rural to urban areas and the increasing destruction of scrub forest for charcoal, the principal fuel, threatens to destroy the scrub forest areas. Clearly some appropriate conservation measures are needed.

To the extent uranium is found in commercially exploitable concentrations, problems of extraction and transportation act as major constraints to output.

With the exception of a project involving a mining (geological) survey, all of which is to be financed by the Government of Somalia, it appears that the 1974-78 Development Plan makes no allocations to the forestry and mining sectors.

ANNEX III

Health and Related Matters

As is noted in other Annexes to the CDSS, Somalia's harsh climate and dearth of natural resources makes for a very rugged and difficult life. When these conditions are coupled with a woefully inadequate system of medical services and the prevalence of such diseases as pulmonary tuberculosis and malaria one can readily understand such statistics for Somalia as (1) an estimated life expectancy at birth of 41 years and (2) an estimated infant mortality rate of 177 per 1000 births.

In addition to tuberculosis and malaria, the incidence of poliomyelitis is high, some 75% of the population is affected with some type of intestinal parasite and in the marshy areas of the south and in the valleys of the Juba and Shebelle rivers the incidence of schistosomiasis is very high. Among the nomads and urban population, venereal diseases are quite common. Skin and eye diseases are quite prevalent also. Malnutrition and poor diets generally, both attributable, in the main, to environmental conditions, increase the susceptibility to disease, and tend to accentuate the severity of diseases once contracted.

Because of scant resources and adverse climatic conditions, food production in Somalia is inadequate. 1/ Periodic droughts, crop disease and locust infestations all tend to intensify food shortages. During the dry season food intake, especially among the nomads, is drastically reduced. It has been estimated that during the dry season caloric intake of nomads is barely 50% of accepted standards.

1/ See result of a mid-1960s survey of diets presented in Part "A" of the CDSS.

Northern pastoralists herding camels may consume little else than milk. At times the basic milk diet may be supplemented with some sorghum and, perhaps occasionally, with some meat if a sickly or old camel has to be slaughtered.

The sedentary rural population has a diet which is quite deficient with respect to protein. Maize, sorghum, beans and a few vegetables and fruits constitute almost the only items of food intake.

Even in the urban areas diets tend to be deficient in protein though the Food and Agriculture Organization feels the caloric intake, on the average, is adequate. Almost without exception, however, diets throughout Somalia are deficient in vitamins. In the urban areas diets tend to be deficient in calcium as well as vitamins and to contain too much fat and sugar. If the efforts of the GSDR to popularize fish as a dietary item meet with success, protein deficiencies can be alleviated to a large extent.

Somalia's Ministry of Health is charged with the organization and administration of health services. It presently has about 5,000 positions, principally for the staffing of hospital and clinic-based curative services, and for the centrally administered endemic disease control programs. Positions budgeted include 250 physicians; 800 nurses, sanitarians and other trained paraprofessional staff; 150 administrators, accountants and clerks; 1,200 auxiliaries, most of whom have been trained and on-the-job and passed government examinations; 250 drivers and mechanics. The remaining 2,350 positions are for personnel with no training, such

as watchmen, cleaners and various other auxiliaries.² To the extent the majority of the population receives any medical care at all, it is obtained at small dispensaries staffed by medical assistants trained in first aid and able to recognize and treat a few diseases.

International organizations such as WHO, UNICEF and the World Food Program are assisting in providing medical care and in conducting training programs. The USSR and the Peoples Republic of China (PRC) have also provided a considerable amount of medical care.

The Somalian health strategy consists of the following: (1) strengthen the existing services; (2) diversify the availability of services to rural and nomadic population in the field of preventive and curative medicine; (3) increase the number of trained health personnel and acquire modern equipment; (4) develop an integrated health network of dispensaries at the local level, and of the district and regional health offices at the higher levels.

Somalian health facilities tend to be concentrated in the capital city and other urban centers. Since most of the Somalians live in rural areas, the facilities do not serve adequately the total population. The Government of Somalia is extending health services to rural areas, through a network of intermediate health units.

There is a great shortage of health manpower in Somalia. Since 1960 the Ministry of Health had more budgeted positions than it could

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"Synchrisis: The Dynamics of Health - Somalia" Division of Program Analysis, Office of International Health, U.S. Department of Health, Education and Welfare, contains a detailed analysis of health facilities and needs in Somalia.

fill. In 1978, Somalia had only 250 physicians. Most of its district offices are headed by medical assistants.

Due to shortages of funds and personnel and lack of administrative competence by management personnel, effective administration of the public health services is hindered significantly. No system of training for health administrators is existent and the resulting quality leads to poor utilization and allocation of money, manpower, and facilities.

The current Five-Year Plan (1974-78) addresses the three highest priorities in the health sector: (1) support of technical cooperation; (2) research on tropical diseases, primary health care, and manpower training; and (3) orientation towards preventive measures while reinforcing curative services.

The AID project in health is designed to begin overcoming these constraints by training the manpower needed and developing a system to implement the GSDR health sector strategy of rural oriented preventive health.

ANNEX IV

PUBLIC SECTOR BUDGET

After the revolution of 1969 and the formation of the new government, attention was directed to a higher degree of self-reliance. Thus, after two years, annual budget deficits which had persisted since independence were eliminated and surpluses began to appear. This budget transformation is the result of a number of measures undertaken by the GSDR. These measures have involved a combination of austerity moves and increases in direct taxation. Salaries of government employees have been reduced, a graduated tax called a "Development Levy" was imposed on non-government sector employment income, a turnover tax on public entities was instituted as was a modification in profit shares accruing to the government from these enterprises. Additionally, import duties on selected items were increased, the excise tax on sugar was doubled and a stamp tax was inaugurated during the period 1969-1977 and doubled in 1978. The impact of these measures upon the budget is reflected in Table VI below.

The largest single item in GSDR budget for 1978 is \$40 million dollars for defense. Defense expenditure plus militia in 1978 constituted 17.73% of the reoccurring budget. However, ministries in the following two categories received a greater share of total budget support: Economic Services, which includes the Ministries of Industry, Fisheries, Livestock, Agriculture, Mineral and Water

Resources, Finance and Commerce received 29.02% of the budget, and Social Services, which includes the Ministries of Education, Health, Culture and Higher Education, Labor and Social Services, Sports, and Information, received 18.69%. General Services-- Public Works, Transport, Post and Telecommunications, Justice and Religious Affairs, Police, Sea Transport and Ports--received 15.85%. The balance of government expenditures came from other entities such as the Presidency and associated offices, State Planning Commission, Custodial Guards, and the Ministries of Foreign Affairs and Justice and Religious Affairs.

TABLE VI

Financial Operations of Somali
Government

(So. Shs. Millions)

Recurrent Revenue	1975	1976	1977	1978
General Tax	502,501,133	580,430,700	659,421,200	839,806,100
Income Tax	48,943,393	56,681,300	73,094,100	68,364,500
Internal Transfers	2,114,283	4,928,600	4,777,000	3,973,300
Property Revenue	238,885,300	261,041,570	167,381,321	392,071,715
Revenue from Eq. & Services	75,988,211	72,106,200	86,508,350	93,383,100
External Transfers	15,000,000	39,000,000	30,000,000	17,894,668
Recurrent Surplus	226,847,573	248,559,145	99,805,792	34,766,912
Capital Transfers (Internal)	7,387,163	15,000,000	26,609,335	21,074,118
Loan <u>Internal</u> <u>External</u>	49,324,640	75,000,000	92,900,079	160,052,570
<u>Expenditures</u>				
Labor	316,657,089	350,041,855	386,345,276	506,432,186
Equip. & Labor	279,943,369	333,193,944	354,573,770	463,992,681
Recurrent Tsfs.	59,984,289	67,393,426	98,670,133	168,876,201
Investment	299,944,607	287,759,970	167,516,545	172,673,600
Capital Transfers	17,000,000	6,658,471	99,805,792	34,766,912
Increase of Cash Property	38,979,132	35,140,560	37,498,661	21,220,000
Repayment of debt	5,593,901	9,000,000	14,300,000	22,000,000

Estimated revenues for 1978 were derived from direct tax sources, indirect taxes from non-tax sources. Direct tax revenue in the main was derived from income taxes, the development levy and the turnover tax. Indirect taxes included import and export duties, excise taxes, the stamp tax and what amounts to a profit tax on certain government monopoly enterprises. Non-tax revenues are derived primarily from the profits of government enterprises and from government services charges and fees. For 1978 taxes are estimated to constitute 74.9% of total revenues and non-tax revenue 25.1%.

Assuming a population for 1978 of 3.4 million, the total estimated revenues for 1978 amounted to \$228,711,162, or a per capita amount of \$67.27 (given an exchange rate of So.Shs. 6.189 to the dollar). According to the World Bank, the tax burden in Somalia is quite high by international comparisons.

Some 70% of Somalia's development expenditures have in the past been financed with foreign assistance and the current 1974-78 development plan calls for two-thirds of the expenditures to be financed with external assistance. Though much of the foreign aid has been, and presumably will be, in the form of grants and loans, on very soft terms, the magnitude of external debt has risen and will continue to rise. Barring unforeseen increases in exports,

the debt service ratio 1/ is expected to rise substantially during the 1974-78 Plan period. In 1970 the debt service ratio was only 2%; by 1974 this had risen to 5.8% and for 1977 the ratio was 9.6%. For the remainder of the Plan period it is expected to be 10%. 2/ Somalia's external debt for the period 1974 through 1977 is found in Table 7 below:

TABLE VII

Somalia: External Debt
(So.Shs. Million)

<u>Year</u>	<u>Amount</u>
1974	1,150.0
1975	1,384.5
1976	1,744.8
1977	2,255.0 (est.)

Source: IMF 1978

Of the 1976 debt total, 83.6% was owed to other governments, 14.9% to international organizations, mostly IDA, and 1.5% was owed to the private lenders. The bulk of the debt as of 1976 was owed to the U.S.S.R., PRC, Arabia, Federal Republic of Germany and the U.S.A in that order, although most of the debt owed to the U.S.S.R. reportedly has been paid.

Projected debt service costs for the period 1976 through 1981 are presented in Table 3 which follows:

1/ The ratio of debt service (principal plus interest payments) to total exports.

2/ A general rule of thumb is that the debt service ratio should not exceed 10%.

TABLE VIII

Projected Debt Service Costs
(So.Shs. Millions)

	1976	1977	1978	1979	1980	1981
Amortization	13.6	55.0	54.5	73.3	92.9	184.6
Interest	5.5	12.8	17.2	17.2	21.1	39.4
Total payment	19.1	67.8	71.7	90.5	114.0	224.0
Ratio: $\frac{\text{Service Cost}}{\text{Exports}}$	2.7%	9.6%	--	--	--	--

Source: IMF 1978

It will behoove the GSDR to press for grants or very soft term loans if its rather ambitious development plans are not to impair the GSDR's credit worthiness. The alternative would seem to be a scaling down of development plans. This conclusion seems justified in terms of the currently quite high tax burdens and thus forced savings levels being experienced by the Somali.

ANNEX V

FOREIGN TRADE AND BALANCE OF PAYMENTS

Table IX indicates that for the period 1972 through 1975 almost 72% of Somalia's total exports consisted of livestock and livestock products. About 19% of the export total was accounted for by bananas. The remainder includes, among other things, wood products and charcoal, fish and fish products, frankincense, myrrh, aromatic gums, gum arabic, tortoiseshell, ambergris and leopard skins.

TABLE IX

Somalia Exports by Commodity
(So. Shs. Million)

<u>Year</u>	<u>Livestock and ^{1/} Livestock Products</u>	<u>Bananas</u>	<u>Others</u>	<u>Total</u>
1972	201.7	78.2	20.0	299.9
1973	210.8	67.6	62.0	340.4
1974	272.3 ^{2/}	79.8	38.5	390.6
1975	452.4	64.4	40.8	557.6
TOTAL	1,137.2	290.0	161.3	1,588.5
Percentage of Grand Total	71.6	18.3	10.1	100.0

^{1/} Live animals, meat and meat products, hides and skins.

^{2/} Differs from estimates in Table II and reflects inconsistencies in data noted earlier. Customs data and Somalia National Bank Data differ.

Source: IMF 1978 as provided by Somali Authorities.

As a consequence of favorable external capital account and unilateral flows, Somalia's net foreign asset and foreign exchange holdings which had been declining from 1972 through 1974 have shown

a steady increase since then through 1977. This is reflected in Table IX below:

TABLE IX

Somalia: Net Foreign Assets

Where Held							1977	
	1972	1973	1974	1975	1976	June	Oct.	
Central Bank (Net)	218.7	217.2	90.9	273.4	380.3	431.5	515.7	
Foreign Exch.	(167.1)	(154.9)	(201.2)	(367.0)	(453.4)	(496.1)	(698.2)	
Commercial Banks (Net)	82.0	31.9	93.3	227.7	134.6	164.4	--	
Total Net For. Assets	300.7	249.1	184.2	501.1	514.9	595.9		

Source: Based upon data presented in IMF 1978.

At year's end 1977 gross foreign assets were estimated at 82 million SDRs (Special Drawing Rights). At 7.428 So.Shs. per 1 SDR the gross foreign assets at the end of 1977 amounted to So.Shs. 609.1 million. At CIF rates a reserve of So.Shs. 609.1 million amounts to five months' estimated imports. Assuming the same level of imports the actual FX reserves at the end of 1976 amounted to slightly more than four months' imports.

The Somali shilling is pegged to the U.S. dollar with the official selling rate being So.Sh. 6.3573 to U.S. \$1 and the buying rate being So.Sh. 6.2327 to U.S. \$1. The representative rate is considered to be So.Sh. 6.295 to U.S. \$1 and is the rate used in the CDSS when expressing So.Sh. amounts in U.S. dollars. During the period 1972 through October 1977 the value of the Somali Shilling in terms of Special Drawing Rights (SDRs) varied from a low of So.Sh.

7.073 per 1 SDR to a high of So.Sh. 7.3137 per 1 SDR.

As Table X below reveals, food items and consumer goods tend to account for about one-third of Somalia's total imports. Petroleum products and metals and machinery constitute the bulk of the remaining imports. Other imports consist chiefly of paper manufactures, chemicals and timber.

TABLE X

Somalia Imports: Major Categories
(So.Shs. Millions)

<u>Category</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>	<u>1975</u> ^{3/}
Food	173.7	134.6	151.2	212.1	215.5
Consumer goods	90.2	87.2	142.9	118.1	105.8
Petroleum products	20.3	24.8	35.3	120.3	60.0
Metals and machinery	116.6	179.7	238.4	419.6	425.8
Others	69.9	98.5	72.2	130.1	319.3 ^{4/}
TOTAL	470.7	524.8	640.0	1000.2	1126.4

^{3/} Adapted from estimates by IMF on basis of customs data.

^{4/} No explanation for the large 1975 figure.

Source: GOS customs data (as presented in IBRD Main Report "SOMALIA: Recent Economic Development and Current Prospects", Aug. 25, 1975.

Between 1973 and 1977, Somalia's estimated trade deficit has increased markedly as revealed in Table XI. Table XI also indicates however, that Central Bank foreign exchange reserves which declined each year during 1973 and 1974 are estimated to have increased in 1975, 1976 and 1977. The increase, it will be noted, is attributable to

substantial increases in capital movements favorable to Somalia as well as the fact that unilateral transfers remained essentially stable. It will be noted, however, that the magnitude of the yearly increase has declined significantly since 1975.

TABLE XI

Somalia: Balance of Payments (1973-1977)
(So. Shs. Millions)

Items	1973	1974	1975	1976	1977
A. Goods and Services (Net)	-423.1	-651.0	-643.5	692.6	-970.5
Exports FOB Net	358.7	402.7	558.0	510.2	509.5
Imports FOB Net	-612.6	-841.7	-888.1	-963.7	-1,218.0
Trade Balance	-253.9	-439.0	-330.1	-453.5	-708.5
Services Net	-169.2	-212.0	-313.4	-239.1	-262.0
B. Unilateral Transfers (Net)	179.7	325.5	643.5	257.3	407.3
Private	17.2	22.0	12.2	7.3	7.3
Official	162.5	303.5	631.3	250.0	400.0
C. Capital	248.5	202.3	193.9	539.4	610.0
Private	28.4	8.5	58.7	21.8	10.0
Official	169.9	255.1	269.2	424.9	600.0
Commercial Banks	50.2	-61.3	-134.0	92.7	—
D. Errors and Omissions	-7.0	-2.6	-12.0	3.0	—
E. Overall Balance	-1.9	-125.8	182.1	107.4	46.8
F. Changes in Central Bank					
Foreign Assets Increase (-)	1.9	125.8	-182.1	-107.4	-46.8

Provisional

Data from exchange transactions records adjusted for Franco Valuta imports using customs data. Franco Valuta imports are remittances in kind which do not require any foreign exchange approval by the Somali Authorities and are thus not subject to control.

Source: IMF 1978 (Data supplied by Somali Authorities).

ANNEX VI

EDUCATION AND MANPOWER

The usefulness of Western education did not become apparent to the Somali until after World War II. During the decade prior to independence in 1960, Western education tended to become acceptable and was introduced. Prior to the decade of the 1950's, education tended to be confined to the Quranic schools where the language of instruction was Arabic and the level of instruction proceeded little beyond what was needed for the study of the Koran.

For years a troublesome problem involved the orthography appropriate to the Somali language. Arabic was by no means satisfactory yet the Muslim influence tended to reject use of the "Christian" Latin script even though it was much more appropriate in terms of the technical aspects of the Somali language. The problem of how best to write Somali was not resolved until the Revolutionary Government which assumed power in October 1969 announced that effective January 1, 1973, the official Somali script would employ the Latin orthography. Despite some opposition, the Revolutionary Government was sufficiently strong to overcome and lay to rest the objections.

Under the post-October 1969 Government, educational policy was given specific direction and certain positive goals were set reflecting the educational philosophy of the Revolutionary Government. Goals established included a marked increase in the proportion of girls enrolled in the schools, an overall increase in number of students generally, and the use of programs of instruction geared to Somalia's particular

social and economic needs. Technical education (vocational, etc.) was to be emphasized so that even a primary school graduate would have acquired a useful (presumably saleable) skill. Higher education was also to be redirected so as to take full cognizance of environmental factors peculiar to Somalia.

Private institutions, which in 1969 accounted for 23% of the total student enrollment in schools, were nationalized and brought under the direction and control of the Ministry of Education. Ostensibly nationalization was to insure uniformity of objectives and curriculum and the promotion of the principles and purposes of Somalian scientific socialism among all students.

As the educational system is currently organized, there are six years of primary school and four years of secondary school. Primary school enrollments increased from 25,000 in 1968-69 to 200,000 in the 77-78 school year. If planned annual increases of 10% in enrollment in first grade occur, it is believed that about 50% of the age group will be in the four-year primary program in the early 1980's.

During the 1968-69 school year, secondary school enrollments were around 10,000 and by the 77-78 school year had increased to around 50,000. The proportion of females in primary and secondary schools increased from 20% in 1968-69 to 55% in 1977-78.

In the mid-1970's it was estimated that 90% of those entering primary schools completed the four-year program and the completion percentage for intermediate school enrollments was also estimated to be 90% as well. Increases in enrollment and the high completion

rates in both primary and intermediate schools were attributable in large part to the elimination of all tuition charges by the Revolutionary Government.

The major institution providing education beyond the secondary level is the Somali National University established in December 1970 and located in Mogadiscio. Enrollment is approaching 3,500 and is expected to continue to increase at a fairly fast rate. Italian is the language of instruction in 10 of the 11 facilities, while English is used only in the Faculty of Education. The Somalis feel a great need to Somalize the University and plans exist for all faculties to become Somali speaking. However, translation of textbooks will be a never-ending task and may not be worth the effort since Somali is spoken by relatively few people, and many textbooks change every few years. Also library material would be in foreign languages and it would appear that Somali University students will continue to have to be bi- or trilingual.

Data provided the ILO by the Ministry of Culture and Higher Education in 1976 provides input (enrollment) and output data for the years 1972-73 through 1975-76 for the Somali National University as indicated in Table XII.

Purely technical training was provided in three institutes in 1976. These institutes were located at Mogadiscio, Burao and Hargeisa. There was also a specialized facility in fisheries and marine matters

TABLE XII

Somali National University
Enrollments and Outputs

Faculty	1972-1973		1973-1974		1974-1975		1975-1976	
	Enroll	Out	Enroll	Out	Enroll	Out	Enroll	Out
Law	309	17	326	24	392	27	280	15
Economics	229	11	337	19	394	14	396	26
Education	392	42	612	53	643	55	535	393
Medicine	-	-	62	-	142	-	232	-
Veterinary	-	-	30	-	90	-	152	-
Agriculture	30	-	60	-	120	-	163	21
Engineering	-	-	37	-	97	-	143	-
Geology	-	-	30	-	60	-	86	-
Chemistry	30	-	48	-	78	-	106	12
All Faculties	990	70	1542	96	2016	96	2093	467

Source: ILO 1977 as provided by Ministry of Culture and Higher Education
1976.

located near Mogadiscio and an agricultural institute at Afgoi. A post-secondary technical college for 800-900 students was under construction in 1975 financed by the Democratic Republic of Korea and completed in September 1978.

The ILO¹ feels that technical and vocational training in Somalia has been largely directed toward industrial employment which the ILO considers a mistake. Since, according to the ILO, there is little scope for industrial development, it follows that employment prospects are not good for those trained for industrial employment. Technical and vocational training, the ILO insists, should be directed to agriculture, farming and livestock raising.

Teacher training is provided by the National Teachers Education Center located at Afgoi. Though the emphasis is upon training secondary school teachers, a two-year program for a limited number of students is provided for training primary school teachers. An IDA financed project involving construction of a training college for primary school teachers is expected to meet requirements for primary school teachers through the mid-1980's. Part of the training is supposed to involve practical aspects of simple agriculture, local handicrafts and home economics.

Though the nomadic population seems favorably disposed to western type education and training the nature of their activities makes attendance of primary and secondary schools by the children of nomads almost

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See ILO 1977, Technical Paper #7 dealing with Technical Education and Vocational Training.

an impossibility. It is not surprising therefore that many nomadic children receive no instruction other than that provided by Quranic teachers who still travel with nomadic groups. The crash mass literacy program undertaken by the Revolutionary Government during the period 1973-75 involved a major effort among the nomads. It has been estimated that as many as 30,000 teachers, trained in the Latin script, participated in the program designed to extend literacy in the Somali language to the rural and nomadic populations. It is said that by mid-1976 at least 60% of the entire population of Somalia possessed some degree of literacy.

The ILO's estimates of the supply of educated manpower for Somalia through 1980 are presented in the following table:

TABLE XIII

Estimated Supply of Educated Manpower

<u>Level of Education</u>	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>
Primary School	8450	1400	2200	3160	6810
Secondary School	840	1160	410	1500	1400
Post-Primary and Technical and Vocational	545	630	650	830	770
Post-Secondary Technical	--	--	--	100	100
University	285	386	497	600	600
Returns from Abroad after Studies	86	103	61	100	100
<u>TOTAL</u>	<u>10,206</u>	<u>3679</u>	<u>3813</u>	<u>6290</u>	<u>9980</u>

Source: ILO 1977

It is the ILO's contention that rangelands are currently utilized to the maximum and that the natural increase in population of nomads and semi-nomads must be resettled at agricultural sites primarily, and, to a lesser extent, in fishing villages. The ILO's suggested distribution by sector of the natural increase in population during the period 1976-1981 is presented in Table XIV.

TABLE XIV

Sector Distribution of Population, Natural Increase in Population and Suggested Allocation of the Natural Increase in Population.

<u>Sector</u>	Percentage ¹ of 1976 Population	1976 ¹ Pop. (000's)	Annual ¹ Growth Rate	1977 - 1981 Population Increase No Reallocation	1977 - 1981 Population After Reallocation
Nomads and Semi-Nomads	65	2,120	1.7	187	--
Agriculture	15	489	2.2	56	216
Fisheries	1	33	2.2	4	30
Urban Industrial and Services	19	620	4.9	168	168
TOTAL	100	3,262	2.41	414	414

¹ Assumed estimated percentages, amounts and rates.

Source: ILO 1977.

Assuming that the ILO assumptions are roughly correct and that the natural increase in nomads and semi-nomads must be resettled along the suggested lines, it will be noted that the problem of the rural poor

becomes increasingly difficult and accentuates the need to provide housing, health services, education, training, and agricultural extension services for the rural poor.

ANNEX VII

TRANSPORTATION AND COMMUNICATION

Though the transport system has been greatly improved since independence, it is still inadequate and, to an extent, somewhat primitive. There is no railway in Somalia and major reliance is placed upon roads for internal transportation. There are about 10,000 miles of roads and tracks constituting the primary internal transport network. Of the total mileage, 1,500 miles are all-weather (asphalt-surfaced) first-class highways and roads. The remaining mileage, some 8,500 miles, consists of dirt roads and tracks. The 1974-78 development plan calls for a total expenditure of So.Sh. 635.9 million for road development. Less than 5% of the total will be defrayed through internal (domestic) financing. One section of all-weather road included in the plan and financed, engineered and built by the Peoples Republic of China (PRC) almost doubled the first-class highway mileage. The PRC constructed a 649-mile highway between Belet Weyn in the south to Burao in the north. Completion of the Belet-Weyn-Burao highway and paving of the road from Burao to Berbera, also part of the 1974-78 development plan, will greatly facilitate the marketing and export of livestock and will minimize the need to trek livestock. Needless to say, trekking involves not only substantial weight loss in animals that survive the trek, but occasions actual losses of animals as well. Also the 300 km. unpaved central section of the Mogadiscio-Kismayo road is being paved.

It is estimated that there are 10,400 motor vehicles in all of Somalia, 75% of which are privately owned. It is not clear from the available import data whether or not the physical volume of imported petroleum and petroleum products as distinct from the monetary value of those imports has risen. It seems likely, however, that the utilization of motor vehicles in Somalia is increasing in any case.

Though it is reported that Somalia's coastline has twenty-seven harbors, nearly all foreign trade, at least 95% of it, is accounted for at four ports. The ports are Berbera, Kismayo, Mogadiscio and Merka; all except Berbera are located in the south.

The export of live animals is mainly (90%) through the port at Berbera. Some animals are trekked into the port at Berbera from as far away as 600 miles. With the completion of deep-water berths and other extensions and improvements to the port at Mogadiscio, completed in October of 1977¹, it is hoped that exports from Mogadiscio can be increased from 5% of total exports to one-third of all exports. Additionally, it is believed that live animal exports from the Mogadiscio port can be encouraged with a consequent improvement in both the quality and quantity of live animal exports since trekking would be reduced to a considerable extent. Less than 9% of the So.Sh. 134.25 million of expenditure for seaport improvements and extensions found in the 1974-78 development plan is scheduled for domestic financing. In 1974 a national shipping line was created on a joint venture basis with Libya. The national shipping line operates two banana carriers, one livestock carrier and one general cargo vessel for coastal trade. As of mid-1975

¹ Reported in Quarterly Economic Review: Uganda, Ethiopia, Somalia. 4th Qrtr. 1977, Economist Intelligence Unit Ltd.

there were plans for the acquisition of another banana carrier and another general cargo vessel for the coastal trade.

Airports of international standards are located in Mogadiscio and Hargeisa. Additionally, a third airport of international standards in Kismayo was completed and became operational in 1976. Somali Airlines is a joint venture between the Government of Somalia and Alitalia, the Italian Airline. In mid-1976 Somalia Airlines had eleven aircraft, four of which were used primarily for international flights. Domestic flights connect with some fourteen airports, fields and landing strips other than the international airports. The 1974-78 development plan calls for expenditures of So.Sh. 29 million for improvement of civil aviation. As is true with the development plan as a whole, at least two-thirds of the planned expenditures call for foreign financing.

With the exception of Mogadiscio and a few other urban centers, domestic telephone communication in Somalia is inadequate and somewhat primitive. In general, the major means of communication is the radio. Plans existed in the mid-1970's to establish direct international microwave connections with Nairobi and Rome and to install similar facilities providing interconnecting domestic services among certain urban centers.

ANNEX VIII

MONEY, BANKING AND PRICES

Table XV presents a record of the major components of the money supply of Somalia for the period December 1972 through September 1977.

Table XV: Somalia: Money Supply Data. (So.Sh. millions)

Components	1972	1973	1974	1975	1976	1977 ²
Foreign Assets (Net) ¹	301.1	248.8	184.2	500.4	515.2	595.0
Domestic Credit	328.5	627.5	918.1	803.5	1,110.8	1,048.1
Claims on Govt. (Net)	-24.8	-45.7	-48.5	-238.2	124.4	46.4
Claims on Public Enterprises	353.3	673.2	966.6	526.6	640.5	662.3
Claims on Private Sector	—	—	—	515.1	345.9	339.3
Money	440.5	507.1	628.6	825.8	994.9	1,019.9
Currency Outside Banks	221.2	248.0	306.5	389.5	413.9	445.9
Demand Deposits ³	219.3	259.1	322.1	436.3	581.0	574.0
Quasi Money	77.3	101.1	154.4	179.3	205.1	220.8

¹ Figures differ slightly but not significantly from those presented in Annex V, Table IX. Reflects lack of consistency in reported Somali Data generally.

² Data as of June.

³ Includes private sector deposits with Central Bank.

Source: IMF International Statistics and data supplied IMF by Central Bank of Somalia as reported in IMF 1978.

The monetary data reveals that between December 1972 and June 1977 the money supply increased from So.Sh. 440.5 million to So.Sh. 1,019.9 million which amounts to an annual rate of increase of approximately 18%,

From 1973 through May 1977 58% of credit extended by the banking system was related to trade; 21.9% was granted to industry; 16.1% to agriculture and the remainder for miscellaneous purposes. Table XVI contains the credit extension record of the banking system for the period in question.

Table XVI: Somalia: Banking System Credit Extension by Economic Activity (So.Sh. Million).

Year	Agriculture	Industry and		Trade	Other	Total
		Craft				
1973	64.9	75.9		470.6	54.8	666.2
1974	184.1	159.2		616.5	39.9	999.7
1975	125.8	274.7		609.7	26.2	1,036.4
1976	171.7	273.1		512.0	25.1	981.9
1977 ¹	214.2	249.7		524.8	41.5	1,030.2
Average Yearly %	16.1	21.9		58.0	4.0	100.0

¹ May

Source: Based upon IMF 1978 - Central Bank of Somalia Bulletin 40 September 1976 and data supplied IMF by Somali Authorities.

The large amount of credit granted for trade activity is attributable, in the main, to essential import requirements of nationalized and/or parastatal import agencies and to the impact of inflation upon world prices generally.

It is not surprising that the available consumer price index reflects a steady rise through the period 1973 through 1977 given the not inconsiderable increases in the money supply. The fact that prices did not rise

pari p^ossu with money supply increases is a tribute to the Government's efforts to keep consumer prices at reasonable levels. Table XVII contains the only available price level index for Somalia.

Table XVII: Mogadishu Consumer Price Index (1970=100)

Year ¹	General Index	Food ₂ (6) ²	Clothing (6) ²	Rent and Water ₂ (13) ²	Fuel and Lighting (4) ²	Misc. (16) ²
1972	97.2	100.2	107.3	75.6	66.4	103.6
1973	114.5	122.8	114.6	82.8	80.2	113.5
1974	136.7	150.8	136.7	80.2	83.8	134.8
1975	147.5	159.5	157.6	85.8	79.1	156.8
1976	172.0	190.7	193.8	86.4	79.1	173.4
1977	186.2	212.3	194.6	87.1	98.6	174.0

¹Year-end data except 1977 which is as of October.

²Weights assigned to each category.

Source: IMF 1978 - Data provided by State Planning Commission.

The banking system of Somalia is comprised of a central bank, an investment (development) bank for medium and long-term development lending, and two commercial banks with some twenty branches. The Somali National Bank (SNB) is the Central bank and, as is typical of central banks, acts as fiscal agent for the Government of Somalia, establishes the rediscount rate, sets reserve requirements for commercial banks and also sets bank rates, i.e., lending rates or rates of interest on loans.

In 1970 the Government nationalized the commercial banks and created the Somali Commercial Bank (SCB) which took over the assets and liabilities

of the nationalized banks. The same year the Somali Credit and Savings Bank (SCSB) was established to take over the commercial banking activities which the SNB had conducted since independence.

Medium and long-term development credit is provided through the Somali Development Bank (SDB) which was established in 1968. At the time it was established the SDB took over the loan section of the Credito Somalo, a private bank later nationalized in 1970.

In an effort to attract private sector savings, commercial bank rates on private sector savings deposits were increased substantially effective the beginning of 1975. The interest rate range varies from 2% on ordinary savings deposits to 6.5% on deposits for a period in excess of 24 months. Interest rates charged on short-term loans by commercial banks ranged from 5% to 12% as of October 1977. On medium-term loans the SDB rates ranged from 5.5% to 6.5% and on long-term loans the rate charged ranged from 6% to 7.5%.