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Country Development Strategy Statement

FY 1984

Somalia

January 1982

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BEST AVAILABLE

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SOMALIA

FY 1984

COUNTRY DEVELOPMENT STRATEGY STATEMENT

USAID/Somalia
February 1982

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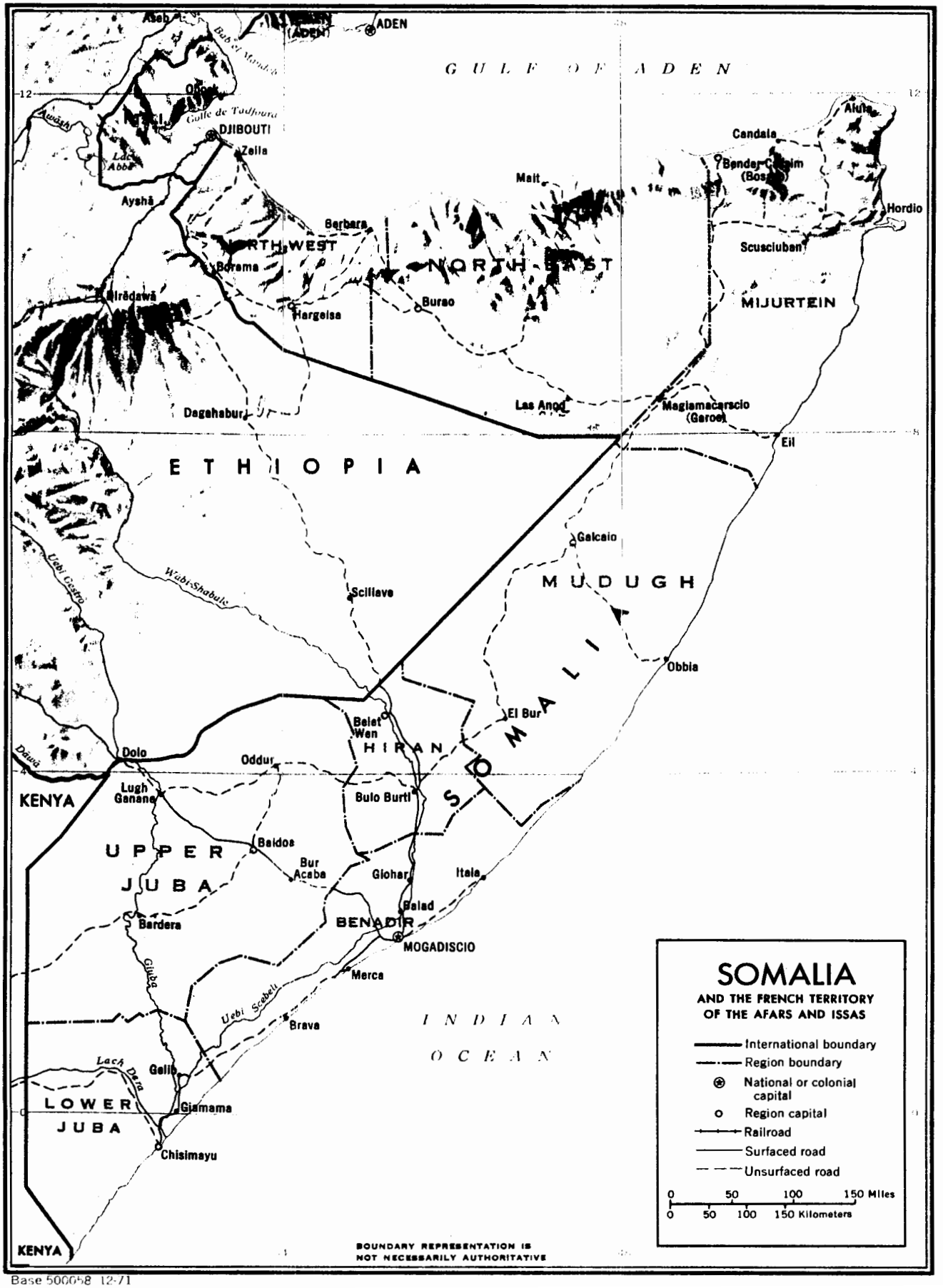

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U.S. ASSISTANCE STRATEGY IN SOMALIA

I. ANALYSIS

A. Macroeconomic Overview

1. Recent Economic Developments

Somalia achieved independence in 1960. Very little development progress was made during the early post-colonial period. During 1960-69, the imbalance between the modern/urban sectors and the agriculture/nomadic sectors not only persisted, but became more pronounced. By 1969, the economy and society faced mounting unemployment, inflation and political unrest. On October 21, 1969, a group of military officers seized power and, the following year, proclaimed the Somali Democratic Republic a socialist state founded upon scientific principles and Islam.

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

The years 1978 and 1979 were difficult ones for Somalia. They were characterized by growing balance-of-payments difficulties, and by budget deficits financed by bank borrowing with severe inflationary results. During this period it became clear that the policies followed since the 1969 revolution had failed to produce the results expected--in

terms of stabilized incomes and improved living standards. Gross Domestic Product (GDP) had grown, in real terms, by only 2.5 percent per annum over the period 1972 to 1978, a rate which was approximately equal to population growth. Of even greater concern was the fact that most of this limited growth took place in the services sector (government employment) which grew at 6-7 percent per annum, as opposed to the productive sectors of the economy which grew at one percent per annum.

In 1980, in consultation with the IMF, Somalia took some tentative steps to deal with its economic problems. The principal aims of this preliminary IMF program were to reduce inflationary pressures, improve the balance-of-payment/foreign exchange reserve position and restrict government expenditures and borrowings. After several months of attempting to adhere to the IMF guidelines, the government exceeded the quantitative limits on expenditures and borrowings. The exercise did have a positive impact, however, since government expenditures rose only slightly--by 1.8 percent in 1980--compared to the previous year, and inflationary pressures moderated significantly--rising by only 25 percent in 1981, as compared to 68 percent in 1980.

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

--Abolish the franco-valuta system and establish a two-tier exchange rate.[1/]

1/ Under the franco-valuta system, importers with access to foreign exchange outside of Somalia were allowed to use these resources to finance imports.

--Raise interest rates to more realistic levels.

--Review agricultural producer prices as circumstances warrant.

--Phase out unprofitable and inefficient public enterprises.

--Contain government expenditures and improve tax collections.

--Impose restrictions on government borrowing.

The GSDR has made some progress, during 1981, on each of the IMF stipulations. The franco-valuta system has been abolished and replaced by a two-tier system of exchange rates. The first tier operates at the official rate of Somali shillings (So.Sh.) 6.2 per dollar and applies only to essential imports--food, medicines, chemicals, manufacturing raw materials and agricultural inputs, agricultural equipment and parts and spares for industrial machines. The second tier operates at a rate of So.Sh. 12.4 per U.S. dollar and applies to non-essential imports, invisibles, workers' remittances and export earnings. The second tier serves as an incentive for Somalis with hard currency holdings abroad to remit them through official channels, and it also stimulates exports--resulting in a greater availability of foreign exchange to meet the development needs of the Somali economy.

Recently, bank deposit rates were raised sharply, going from a range of 4-7 percent to a range of 6-9 percent. Lending rates charged by the Commercial Bank went from a range of 6-12.5 percent to a range of 10-12.5 percent. Producer prices paid by the Agricultural Development Corporation (ADC) were recently raised by up to 67 percent and the price paid to banana producers was doubled. Two parastatals which dealt with the importation of construction materials and textiles have been abolished and

their functions turned over to the private sector. The Livestock Development Corporation was also abolished.

Two other recent moves by the government are of interest. The substantial subsidy the GSDR had been providing for diesel fuels was eliminated in January 1982. In addition to freeing up government revenues, this move should result in a more economical use of a scarce resource. The government has also removed the highly progressive "development levy" which had been assessed on the salaries of civil servants. While this move will result in some loss of revenue, its overall impact will be positive since it will serve as an incentive for Somalis to remain in government service--particularly for the more critically needed senior staff.

An IMF team visited Somalia in December 1981 to assess the country's performance over the first six months of the stabilization program. While their formal report has not yet been published, reliable sources indicate that the IMF has given the government good grades in its first assessment. As of January 1982, Somalia's balance-of-payments is in rought equilibrium and the drain on foreign exchange reserves significantly diminished. The balance-of-trade improved during 1981 as exports expanded and imports declined. Short-term external borrowing was halted and government expenditures in 1981 were held below 1980 levels in spite of inflation.[1/]

In 1982, government expenditures are projected to rise by only 6.4 percent against a projected revenue rise of 6.6 percent. While

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1/ It is believed that Somalia is the only sub-Sahara country in which this was the case.

conclusive data on government borrowing is not available, domestic lending has undoubtedly been held down in view of current trends in revenue and expenditure and the reduced rate of inflation. These developments, individually and collectively, represent considerable progress and account for the positive reading of the current economic situation by the IMF team.

2. Factors in Recent Economic Performance

a. Agricultural Performance

The Somali economy has been weakening over the past decade as a result of poor performance in the agricultural sector. Food crop production stagnated or declined from 1970 to 1980 during a period of rapid population growth. Maize production, for example, fell from 122,000 MT in 1970 to 111,000 MT in 1980, while sorghum production fell from 158,000 MT to 141,000 MT over the same period. Livestock exports held their own over the decade, but they failed to expand, and banana exports underwent a severe decline, falling in volume from 112,000 MT in 1973 to 35,000 MT in 1980.

It is generally agreed that a critical factor in the poor performance of the agricultural sector was the failure of the GSDR to provide adequate price incentives to producers. In the case of food crops, the GSDR attempted to keep food prices low for the benefit of the urban consumers while in the case of bananas, producer prices were held down to mobilize domestic resources for development. The impact was felt immediately in the case of bananas and over a five year period in the case of other food crops. Below world market prices resulted in lower incomes for food and banana producers and a diminishing capacity for investment in the

physical and human resources required to expand food production.[1/]

Given its current budgetary position, Somalia does not have sufficient domestic resources to fully exploit its agriculture potential and must seek supplementary financing from friendly donors. The balance-of-payments constraint precludes the importation of items critical to increased agricultural productivity. A recent study undertaken by the Ministry of Agriculture revealed that while Somalia could productively use over 200,000 tons of fertilizer annually, only about 5,000 tons could be imported--given current foreign exchange reserves. Other required inputs, such as agricultural equipment and spares, construction machinery and cement, are also in very short supply. The weak performance of the food crop sector, coupled with a rapidly increasing population, has resulted in a growing food import bill (even abstracting from the refugee crisis) with major non-refugee food imports rising by 160 percent from 1974-1980. The poor performance of the export sector has further weakened the balance-of-payments position and reduced the capacity of the economy to afford imports critical to increased agricultural productivity. From both balance-of-payments and food production viewpoints, Somalia is caught up in a vicious circle that must be broken.[2/]

1/ A recent study revealed that at an exchange rate of So.Sh. 12.0 = $1.00, producer prices for maize and sorghum are respectively 55 and 87 percent of world market levels.

2/ Somalia's economic difficulties have also been exacerbated by the conflict with Ethiopia and its impact upon defense expenditures. Defense expenditures more than doubled in 1978, absorbing resources which could have otherwise been used for development. While still large, however, it should be noted that these expenditures are now declining in real terms. For 1982, they are projected to remain at their 1981 level (in current shillings).

b. GSDR Strategy and Policy

A good portion of the responsibility for the economy's weak performance can be ascribed to the predominant role assigned to government agencies in recent years. Quite simply put, the GSDR had neither the financial nor the human resources that were required to implement a public sector-dominated development strategy with any reasonable prospect of success. Scarce development resources were invested in agricultural and industrial enterprises of questionable efficiency and productivity with the result that incomes and living standards failed to increase as expected and, perhaps more significantly, the economy became more, rather than less, dependent upon external resources for its survival.

c. External Factors

Several exogenous factors can be cited as contributing to Somalia's poor economic performance in the 1970's. These include the rise in petroleum prices over the decade, the severe drought of 1974-75, the massive influx of refugees resulting from tensions in the Ogaden and the inadequate rainfall of the 1979 crop year.

3. The Economy--Short to Medium-Term

Somalia's economic crisis has produced an awareness of the practical limitations inherent in the application of socialism to the country's economic problems. There is an increased willingness to experiment with approaches based on market forces and the private sector. While the GSDR will continue to rely on national planning, the plan will be more indicative (in terms of goals and priorities) than imperative (in terms of forced compliance).

The next year or two should see a gradual improvement in the performance of the crucially important agricultural sector. For the small private farmer who produces the bulk of this sector's output, higher prices should mean higher incomes and improved economic welfare. There should also be a greater capacity for investment in ventures leading to increased productivity. Increases in banana pricing should also go a long way toward revitalizing the country's export crop sector, as is already evident in the southern part of the country, where long-abandoned banana fields (many in private hands) are being put back into production.

The GSDR's current effort to reduce its involvement as a regulator and producer, and to give more encouragement to the private sector, should create new opportunities for private entrepreneurs. USAID/ Somalia plans to encourage these opportunities, in cooperation with the Somali Development Bank, via the commodity import program.

The actions taken by the government to date to stabilize the economy are encouraging but should be recognized as only the first steps in what will be a long and tortuous road to economic recovery. This recovery is far from assured and will require a continuing steadfastness in carrying out reforms--several of which have significant political implications.

4. Longer-Term Prospects

Somalia clearly lacks the basic development potential of many other African countries favorably endowed with natural resources, such as Sudan, Nigeria, Mozambique and Zaire. At the same time, the country is not without its assets and advantages. It has large areas of land which have yet to be brought under cultivation, and a fisheries potential that

is virtually unexploited. It also has a homogenous ethnic population which is highly individualistic and motivated and a favorable location in relation to affluent Middle Eastern markets with which it has close cultural and commercial ties.

With appropriate policies, incentives and investments, coupled with a meaningful amount of external assistance, Somalia can offer all its citizens a considerably higher standard of living than they currently enjoy.

B. Social Overview

1. Profile of the Population

Somalia supports an indigenous population of about 4.2 million, 60 percent of whom are nomads, 20 percent are settled rural dwellers, and 20 percent are urban. In addition, Somalia has a large refugee population with some 650,000 (mostly women and children), living in camps and an estimated 300,000 to 700,000 living with kinsmen in towns or in the countryside.

In the aggregate, Somalia's population is one of the poorest in the world. Gross National Product (GNP) per capita stood at an estimated $185[1/] in 1978, compared with Haiti's $260, and has very likely stagnated or declined since then. Life expectancy at birth is 44 years and infant mortality is 177 per thousand births. Nutritional levels are low, particularly among rural inhabitants and nomads. Somalia's Physical Quality of Life Index (PQLI) of 19 ranks as one of the lowest in the world--below that of such countries as Nepal, Benin and Burundi.

1/ Based on a shadow exchange rate of So.Sh. 10.0 per U.S. dollar. At a more realistic rate (So.Sh. 15-18 per U.S. dollar), GNP per capita would be even lower. It should be noted, too, that GNP per capita includes the remittances of Somalis working abroad and thus overstates the economic welfare of resident Somalis.

While the data base is extremely limited, it seems clear that certain population groups are better off than others and that individual welfare varies considerably within groups. This can be seen in Table I, which contains data on the size distribution of annual household expenditures. The urban population appears to be the most well off of the population groups with median expenditures in the $400 range. Some individuals in this group (40 percent) are very well off relative to other elements of the population with annual expenditures of over $520. They typically consist of private sector entrepreneurs, workers in trade, transport and manufacturing, and public sector employees.

The cost of living is, of course, higher in urban areas since all housing and food must be purchased. This can make life difficult for those at the lower end of the income/expenditure spectrum. There is evidence, however, that some of the poorest urbanites move back and forth between urban and rural areas, and often have assets (animals, etc.) in the "bush" under the care of relatives. To a certain extent, therefore, urban expenditure patterns may understate the well-being of urban dwellers in Somalia. Urban inhabitants benefit, of course, from a wider range of government social services, such as health and education, which tend to be concentrated in the cities and towns.

With median expenditures in the $200 range, nomads appear to be less affluent than the urban population, although assets held in animal stock make the difference less than the expenditure figures would suggest. Nomads have access to cash income through the livestock and milk trade and, as the table indicates, some are relatively well off. Given their mobile lifestyle, however, they have limited access to the services which the

government is able to provide. The livelihood of this group is also subject to the greatest degree of risk due to climatic fluctuations, as a single year of drought can decimate much of their herds.

With median expenditures of approximately $160, settled rural dwellers constitute the poorest group in Somali society. Expenditure (and income) in this group is largely a function of land access in both qualitative and quantitative terms. Some with large irrigated holdings do relatively well, but others with small rainfed holdings fare very poorly. Rural dwellers do receive some income in kind, but their access to social services and productive inputs is limited. While not "at risk" to the same degree as the nomad because they store sufficient grain to survive several years of drought, settled rural dwellers still encounter very high risks. Climatic variation in Somalia is such that four of ten crops will be failures or partial failures, with the remaining six yielding only one very good crop and five adequate crops.

Superimposed upon the level and distribution of domestic resources are the remittances of Somalis working abroad. It has been estimated that there are 70,000 such workers and the monies they remit are considerable. Somalis on the receiving end of such remittances are undoubtedly at a considerable advantage in terms of access to resources for consumption and investment. Little is known about the distribution and utilization of these remittances beyond the fact that most migrants originate from the nomadic population in the northern part of the country, which accounts for the prosperity of the north relative to other regions.

The refugee population in camps--a large percentage of whom are women and children--constitutes a special sub-group of Somalia's poor.

With the relief effort now well in hand, it is very likely that this group is better off, in terms of nutritional status and access to amenities (such as potable water) and services, than much of the indigenous population. The refugees are worse off, however, in that they are totally dependent on the government and lack access to the means for improving their standard of living. Ways must be found to increase their self-reliance while simultaneously involving and assisting their indigenous hosts.

2. Causes of Poverty

Poverty in Somalia stems from a complex set of factors. One of these is the country's severe climatic variation. Rainfall varies widely from season to season and from region to region. This variation subjects the predominantly rural agricultural population to serious risks with respect to investment decisions and efforts to stabilize their incomes.

The problem of climatic variation is compounded by the growing imbalance among the nomadic population, livestock numbers and range resource base. The number of people and animals Somalia's rangeland can support without becoming degraded and losing productivity has been reached or surpassed. New opportunities in agriculture and related activities, including fisheries, will have to be found for the nomadic population, and techniques for increasing the offtake of existing herds will have to be developed and implemented.

In addition to climatic variation and population pressures upon the resource base, several other poverty-inducing factors are important. First is the lack of access to productive inputs, technology, services and infrastructure. Fertilizer, improved seeds, tools, technical packages and water for human and animal consumption are either unavailable or in short

supply. This lack of resources stems partly from the weak institutional and financial capacity of the GSDR, and partly from the low purchasing power of the population. While this deficiency affects all elements of the population, it would appear to present the most serious problem for settled rural dwellers, particularly those with small rainfed land holdings.

Secondly, the problems of the poor have been compounded by some inappropriate government policies, instances of corruption and bureaucratic mismanagement. Producer prices have been held low to contain urban food prices and to mobilize resources for development. This also has adversely affected the incomes of the settled rural dwellers and, thus, their capacity to invest for increased productivity. Inflation, over-valued exchange rates and the government's past discouragement of the private sector have exacerbated the problems of the urban and rural poor. In general, the Government of Somalia did not have the resources to implement a centrally directed development strategy. The attempt that was made during the seventies was inefficient and resulted in declining productivity, reduced incomes and falling living standards.

Third, the problems of the poor are compounded by this country's weak human resource base. Settled rural dwellers, the urban poor and nomads often lack the skills that are relevant to maximizing their output. A shortage of middle level manpower to design, manage and implement development projects constrains the capacity of the GSDR to improve incomes and living standards.

The problem of Somalia's poor cannot be separated from the need for improved economic growth and performance. Given its resource endowment and geographic location, Somalia's future economic development is

firmly tied to the performance of the agricultural sector and it is here that most of the country's poor are found. Accordingly, USAID's assistance strategy will focus on the two target groups among the poor who are active in that sector: small private farmers and nomads.

3. AID Target Group

AID's assistance will eventually benefit, either directly or indirectly, approximately 50 percent of the total population, and about 70 percent of those in the target group (i.e., 2.1 million out of target group of 3.2 million). The direct beneficiaries will total about 900,000[1/] persons, divided equally between farmers and nomads. There will be about 1.1 million indirect beneficiaries, approximately 700,000 nomads and 400,000 farmers. Indirect beneficiaries are considered to be those people who will benefit from improved services resulting from AID's several institution building activities, e.g., strengthening of extension services, health manpower development.

C. The Human Resource Constraint

1. General Problem

Somalia has a fragile human resource base upon which to build a modern economy. The problem stems from the supply and demand situation in the country's labor market. On the supply side, the general populace lacks skills essential to the development of the economy. Technical training programs are offered only on a limited basis and do not form a part of

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1/ The benefit stream as in the agricultural sector is long-term. As an example, under the Bay Region Project, by the fifth year 6,000 farm families (30,000 persons) will benefit through increased production/income; by year 20, 46,000 farm families will benefit.

Table 1

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

Size/Class $/Year	Nomadic Sector Number of Households	%	Cumulative %	Rural Sector Number of Households*	%	Cumulative %	Urban Sector Number of Households	%	Cumulative %
0-51.9	44	17.7	17.7	36	34.6	34.6	1	1.9	1.9
52.0-103.9	20	8.1	25.8	11	10.6	45.2	2	3.8	5.7
104.0-155.9	32	12.9	38.7	9	8.6	53.8	2	3.8	9.5
156.0-207.9	25	10.1	48.8	5	4.8	58.6	7	13.5	23.0
208.0-259.9	19	7.7	56.5	7	6.7	65.3	4	7.7	30.7
260.0-311.9	16	6.5	63.0	2	1.9	67.2	3	5.8	36.5
312.0-363.9	17	6.8	69.8	3	2.9	70.1	3	5.8	42.3
364.0-415.9	8	3.2	73.0	1	0.9	71.0	3	5.8	48.1
416.0-467.9	9	3.6	76.6	6	5.8	76.8	5	9.6	57.7
468.0-519.9	6	2.4	79.0	3	2.9	79.7	1	1.9	59.6
520.0 & Over	52	21.0	100.0	21	20.3	100.0	21	40.4	100.0
Total	248	100.0		104	100.0		52	100.0	

* Households in rural villages in Middle Shebelle are mainly agricultural.
Source: Findings of a Pilot Household Sample Survey, reported by the ILO, 1977.

1/ This data was obtained from a small pilot sample survey conducted by the International Labor Organization in 1975. Note that it deals with the distribution of expenditures, not incomes, and that the survey was taken in the Middle Shabelli Region, which is one of the country's more affluent.

the formal primary or secondary education system. During the 1970's, approximately 53 percent of primary school enrollees entered general secondary schools, and only 16 percent entered technical and vocational schools--despite the growing need for skilled manpower.

Until fairly recently the demand for trained manpower was somewhat uneven. Due to policies followed in the 1970's, which discouraged private investment, job opportunities for skilled workers in the private sector were few. In the public sector, the government pursued a policy of guaranteeing employment to all secondary school leavers. Hiring quotas were established for each ministry and agency of government. Consequently, there was little differentiation with respect to skill requirements for jobs in the public sector.[1/]

The net result of these policies was: (a) the perpetuation of a low level of skills development in the country; (b) a critical shortage of mid-level managerial and technical manpower capable of designing and implementing effective government programs; and (c) the emigration of skilled personnel to the Gulf states where salaries were considerably higher.[2/]

2. The Public Sector

The major growth industry in Somalia during the 1970's was government. While the productive sector had a growth rate of only one percent per year (1972-1978), government services had a growth of 8.5 percent

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1/ Another consequence of this wide-scale hiring was the government's inability to provide needed salary increases for civil servants.

2/ There is recent evidence that the exodus has significantly slowed due to increased competition from the Philippines, Pakistan and Korea in providing trained labor to the Gulf area. Recent oil production cutbacks can also be expected to reduce job opportunities to some extent.

per year. The guaranteed employment program, mentioned above, was a major contributor to the rising cost of government.[1/] While this policy may have had social merit, it reduced efficiency even further, since the majority of school leavers lacked technical and bureaucratic skills. Civil service inefficiency can be attributed as well to low salaries imposed to offset the cost of the increased employment.

The poor performance of parastatals, which occupy a central role in the modern sectors of the economy, can be attributed in part to weak management. These management problems stem from three factors: a lack of managerial talent, fragmented managerial responsibilities, and overlapping jurisdictions. The GSDR announced earlier this year that it had decided to increase the efficiency of the public sector. Those parastatals having a consistent deficit were to be eliminated--and, indeed, four were a few months ago. Although this start is encouraging, we are not certain it will continue. Also in question is how quickly the private sector will pick up on the functions formerly performed by the defunct parastatals.

3. The Private Sector

The private sector's contribution to employment generation through manufacturing and processing activities has been limited to date. The government's past policy of encouraging parastatals in these areas impeded private sector growth, as did the franco-valuta system which pro-

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1/ It is reported that the government has abandoned the guaranteed employment program as part of its economic stabilization effort. This policy change cannot be verified at present because the latest batch of school leavers are currently engaged in their 18 months (obligatory) of national service. An assessment of the situation will be made in October 1982.

vided Somali entrepreneurs with lucrative opportunities in the wholesale and retail trades, particularly for consumer goods. A shortage of foreign exchange needed to finance required imports of capital goods also inhibited private sector growth.

With the recently announced policy changes on parastatals, the abolition of the franco-valuta system and exchange rate reforms, it is anticipated that over time, the Somali economy should experience an expansion in private manufacturing and processing. This should lead to an expansion of the demand for, and investment in, semi-skilled and skilled manpower. It is important that the GSDR develop technical training to meet this increased demand.

4. Needed Changes

There are no easy short-term solutions to Somalia's human capital deficiencies. It is clear that the government must expand its technical and vocational education programs in order to absorb more than the present 16 percent of primary school graduates now receiving such training. While the vocational programs will have some recurrent cost implications, these can be largely offset by reductions in the general secondary education budget.

A second needed step is to accelerate the transfer of certain parastatal functions to the private sector. Though the private sector also is heir to management and manpower disabilities, it is generally less tolerant than government of manpower inefficiencies, including overemployment. Private industry also would be more willing to make the necessary investment to improve personnel skills and is more likely to pay the salaries needed to attract and retain qualified people.

Finally, the Government of Somalia must adopt public sector policies which will attract better talent into its managerial and technical positions (e.g., improve both on-the-job and formal technical training programs). An unequivocable policy statement on the abandonment of the guaranteed employment program should be announced. Reductions in force may be required in certain ministries and agencies, together with salary inducements, to attract and retain more qualified talent.

5. USAID Human Resource Strategy

Fortunately, some donors, most notably the World Bank (IDA), are already assisting the government in making Somalia's education system more relevant to the skills needs of the country. Under two education projects, $8 million each, the IDA has assisted, inter alia, in teacher training and curriculum development, and education programs for nomads. Under a new 1981 project, $10.2 million, the IDA will continue to provide major assistance in the education field.

USAID's strategy will continue to be directed toward expanding Somalia's trained manpower base in several critical areas. USAID's approach of emphasizing selective short-term manpower and institutional needs in critical areas is complementary to the IBRD's emphasis on expansion and improvement of the formal education system.

A review of AID's current project portfolio reveals a heavy manpower training bias. Under USAID's Comprehensive Groundwater Project (649-0104), the managerial staff of the Water Development Agency (WDA) are being trained in hydrological data collection and well drilling technologies. Under the Agricultural Delivery Systems Project (649-0112), AID is rapidly expanding the managerial cadre for Somalia's farm extension service. Under

Rural Health Delivery Project (649-0102), AID is training a significant number of community health managers and Ministry of Health middle-level officials.

The manpower training emphasis in our projects will continue over the planning period. In FY 83, we propose to start a project aimed at providing training in discipline areas not presently covered under our present activities (e.g., project design and management, statistics and economics). In FY 85, we are proposing a project to improve the Ministry of Agriculture's capability in information-data gathering and planning. During the period we will continue to participate in the African Manpower Development Project (AMDP), which is a regionally funded activity.

D. Sector Outlook

1. Agriculture

a. The Setting

Somalia's economy is heavily dependent on its agriculture sector. This is true both in terms of the value of output and the total numbers engaged in the sector. Approximately 60 percent of the country's population is involved in livestock production and another 20 percent in agronomic production. In 1978, livestock produced 50.3 percent of total GNP, and all other agriculture activity 12.2 percent.

There are serious constraints to increasing Somalia's agricultural output in the near term, but there is recognizable long-term growth potential. Most of the country is either arid or semiarid. Rainfall varies from 600 mm in the south to as low as 100 mm in the north-central region. Available evidence, including interviews with farmers operating small and medium scale irrigated and dry farms, suggests there

will be at least four out of ten growing seasons over a five year period with less than a satisfactory rainfall. Thus, variability in rainfall from season to season and year to year causes wide fluctuations in crop production.

Nomadism has been the way of life in the past that permitted most Somalis to adapt to the country's environment, and it remains the dominant way of life for about 60 percent of the population. Pastoralists move long distances with their herds to take advantage of the seasonal variations in water and forage availability. They have developed mixed livestock herds which subsist on a wide variety of forage materials while utilizing limited amounts of water.

About 20 percent of the Somalis practice settled crop production. These farmers also maintain livestock if they have sufficient means. Most cultivators live in the southern part of Somalia along or between the Shabelli and Juba Rivers, or in the northwest where rainfall is favorable.

b. Livestock Potential

Livestock is the mainstay of the Somali economy. The development of this important sub-sector depends on improvements being made in three areas--offtake, marketing and extension services.

--Offtake: Somalia's rangeland is at or near capacity in terms of the numbers of animals it can sustain. Offtake rates must be increased by improving herd health and upgrading the rangelands by installing more and better water points, applying fire control measures and installing grazing reserves.

--Extension: Further strengthening of the National Range Agency (NRA) and development of a livestock extension system capable of giving advice to producers is required. Included in this program would be increased delivery of animal health services--currently constrained by unskilled manpower, shortages of medicines and vaccines and the absence of a cold chain delivery system--improved animal husbandry practices and a heightened awareness of marketing economics. The program should be concentrated in the rangeland areas of the central and north, with some expansion along the Juba and Shabelli Rivers as tsetse fly control measures are implemented.

--Marketing: Livestock is Somalia's major foreign exchange earner and nearly all of its target markets in the Gulf are expanding. In addition, since livestock marketing is almost exclusively in the hands of private traders, this is an area where foreign investment potential is particularly good. There is significant scope for the improvement of livestock marketing--regularized vaccination procedures, controlled fattening programs at port of exit and better shipping and loading facilities--each would improve animal quality and increase export earnings.

c. Agronomic Potential

The potential for increased crop production and yields is good over the long-term. Only 750,000 of the 8.2 million potentially cultivable hectares are under production at the present time. This includes approximately 160,000 hectares of irrigated land and 590,000 hectares of rainfed production. The major irrigated areas extend several kilometers either side of Somalia's two major rivers, the Shabelli and the Juba. Controlled irrigation is mainly used for bananas and sugar cultivation, while

flood irrigation involves basic food crops, maize and sorghum, with sesame and groundnuts as cash crops.

Yields of stable crops such as sorghum, the principal dry-land crop, have been low over the past decade, generally not exceeding 375 to 400 kilos per hectare. These low yields have been caused by the following factors:

--shortage of required agricultural inputs;

--timeliness, availability and management of water resources;

--inadequate extension services;

--lack of farm systems research;

--low level of technology employed; and

--government food pricing policy.

Recent efforts through newly developed extension programs show that improved production practices can lead to encouraging results. During the last two crop seasons maize yields in the Lower Shabelli Region were, for farmers utilizing improved practices, triple and even quadruple those of neighboring fields cultivated by traditional methods. After two successful seasons, other farmers in that area are now eager to adopt the new farming practices. Thus, following a decade of little or no growth in crop production yields, results achieved in the Lower Shabelli could lead to a significant production breakthrough in the next few years.

With respect to pricing policy constraints, there is also reason for some cautious optimism. Producer prices were raised up to 67 percent and banana prices were doubled during the latter half of 1981. During a meeting held with the local staff of the Agriculture Extension Project in late December 1981, the Acting Minister of Agriculture said that

"the farmer must be paid an economic price for his produce to boost his morale to produce more." He went on to say that as soon as data on the economic price in the international market and the prevailing price in the open market is collected on such crops as sorghum, maize, rice, etc., the government will again consider revising the price of these crops. In addition to pricing, there are other lesser production and marketing constraints which remain to be addressed, and which we will be discussing with the government during the course of our negotiations on the Title III program.

d. Institutional Support Constraints

As in many sub-Sahara countries there has been a heavy reliance on parastatal institutions for operation and development of the agriculture sector. There were, at last count, 23 parastatals servicing the agricultural sector, ranging from financial institutions through vertically integrated production units and processing plants, to marketing organizations and settlement and employment creating schemes. Except for the financial institutions, who accumulate their surpluses by lending to other agencies, none of the parastatals is a profitable enterprise. Virtually all of these institutions suffer from serious management problems, as pointed out earlier in this paper.

e. GSDR Agriculture Sector Goals

The principal goals of the Government of Somalia in agriculture and livestock production are:

--To achieve self-sufficiency in staple crops (i.e., sorghum and maize).

--To increase production of high value crops such as rice, cotton and sugar which are costly to import.

--To increase export earnings from livestock and bananas, and develop new export crops.

--To reduce the effects of drought on crop and livestock production.

f. USAID's Sector Strategy

USAID's strategy is to support the government's production objectives by attempting to reduce or eliminate some of the current production constraints affecting farmers and herders. The strategy includes five elements:

(1) Development of an Adequate Knowledge Base

The low level of farming systems research is presently a major constraint to exploring the potential of the crop sub-sector. Little information has been accumulated and recorded in an organized form about local farming practices, production performance and environmental conditions. For this reason USAID, at the request of the GSDR, has undertaken a major analysis to identify existing research efforts, current gaps and requirements for the future. This analysis will result in a national research implementation strategy aimed at achieving the desired objectives within a ten year framework. Also as a result of this analysis a discrete AID-sponsored research activity will be proposed to AID/W for FY 84 financing.

(2) Human Resource Development

As development ultimately depends on the quality of human resources, our primary emphasis will be on upgrading the low level

of technology currently employed by Somali farmers and herders. A first step is to train extension agents and managers in middle level operational positions who will convey new technologies to farmers. These agents will be trained in data gathering, statistics, extension methods and project management. Each of the agricultural/livestock activities to be started during the planning period will have a major component for manpower training.

(3) Livestock Support Systems

It is critical that Somalia develop a plan to decrease human and animal pressure on nomadic grazing areas, at the same time that it attempts to increase export earnings from this key sub-sector. Mention has already been made of the importance of increasing herd offtake and developing improved marketing and extension services with the objective of improving herd productivity and animal quality. To achieve those objectives USAID will be developing and expanding projects in the areas of animal health, water and forage supply systems, and marketing services. This set of services is ideally suited to private capital investment, and we propose to explore that possibility as well as mixed public/private investment schemes.

In addition, the human and animal population must be stabilized on the rangeland if serious further degradation is not to occur. This requires that pastoralists must be motivated to shift into patterns of mixed farming--i.e., crop production and livestock. We propose to explore with the government the changes required in production, pricing, marketing and social policies incentives to encourage this transition to settled mixed farming. These changes are expected to be an important part of GSDR rehabilitation and new land development programs in the near future, which

USAID will support through an agricultural lands settlement project in FY 86.

(4) Assistance to Small Private Farm Operators

Our strategy targets the small private farming sector, which is the backbone of crop production in Somalia. Our technical assistance, current and proposed, is aimed at research and extension needs for private farmers. The Commodity Import Program (CIP) complements technical assistance by providing needed foreign exchange for repair and expansion of irrigation systems, investments by private entrepreneurs in agro-industries which serve private farmers, and purchase of fertilizer for resale to private producers.

Our objectives with respect to small private farmers are twofold. We will focus our assistance on infrastructure (e.g., small irrigated works and feeder roads) and technical inputs that will increase productivity on private farms, and we will assist the government in the physical expansion of the small farming sector. Imports provided under our CIP will directly contribute to attainment of these objectives. Water surveys will be conducted and permanent water supplies expanded where possible in conjunction with an improved on-farm water management program. AID will support new land development schemes and we will explore with the government policy changes and investments required to encourage more permanent settlement, with more time devoted to crop production activities.

(5) Strengthening Institutional Support Systems

The poor performance of government institutions that deliver agricultural supplies and equipment to farmers and herders, provide credit, or purchase agricultural products is a major impediment to growth.

Consideration will be given to developing non-governmental institutions or systems to handle some of these functions and thereby reduce the burden on already overtaxed government institutions and personnel. To encourage a transition to private institutional participation, we will assist the government in exploring "divestment" policies and mixed public/private investment activities. Where government institutions are the most appropriate for a particular task, e.g., extension services to supply broad-based, improved farm systems technologies, USAID will assist in strengthening the quality and efficiency of those services. In the future, however, we would hope to encourage the development of small and medium scale private agricultural enterprises in service and marketing functions as a major productive segment of Somali agriculture. We will use the Berg analysis as a foundation for drawing up our strategy in this area.

2. Energy/Forestry Sectors

a. The Setting

Recent sharp utilization increases carry serious implications for Somalia's energy and forestry resources in the coming decades.

Between 1965 and 1978 there was a 10.2 percent growth per year in electrical energy consumption for the Mogadishu area, which consumes approximately 80 percent of the country's electrical output.[1/] Petroleum imports in 1980 consumed 56.5 percent of export earnings--the costs going from $19.1 million in 1975 to $38.7 million in 1977, to $76.2 million in 1980.

1/ Virtually all power in Somalia is produced by diesel generators.

Non-fossil fuel consumption is on a similar upward trend, creating serious deforestation and desertification problems. Although 13.8 percent of Somalia's land base can be classified as forests, the bulk of this area (96 percent) consists mostly of degraded scrub and bush lands. Relic coniferous forests in the northern mountain range and gallery forests along the Juba and Shabelli Rivers cover most of the remaining areas. Total growing stock is estimated at 81 million m^3. Current consumption is estimated at 5.8 million m^3 per year and is expected to triple over the next twenty years.

The depletion has been exacerbated by:

--overcutting for fuelwood and charcoal;

--overgrazing of livestock;

--clearing of land for settlements and agriculture;

--lack of reforestation, afforestation and soil conservation programs; and

--increased demands on resources due to the influx of refugees.

Fuelwood and charcoal furnish 86 percent of Somalia's total energy requirements. Poor wood harvesting techniques and a charcoal conversion ratio of only 10 percent result in the annual degradation of 50,000 hectares of woodland and savannah.

b. Infrastructure and Human Resources

Forestry as a profession is virtually non-existent in Somalia. There are no university-level trained foresters in the Department of Forestry of the NRA--the agency responsible for forestry management.

The Department's personnel consist mainly of forest guards and nursery workers, representing a ground work force of one person per 200,000 hectares of land.

Training facilities and qualified instructors are also lacking. The Regional Rangeland Institute and School in Burao includes some forestry components, but most of the graduating students are assigned to only range management positions. A two year Forestry Training Center in Afgoi is currently under construction by the GSDR, but construction, staffing and equipment delays will set back the school's scheduled November 1982 opening.

The forestry sector's infrastructure is equally underdeveloped, with only about 35 nurseries established country-wide. Annual stock production figures for these nurseries are not available but are believed to be quite low in quantity, quality and variety. Lack of transport facilities hampers distribution of seedlings. Very little species specific or land-use systems research has been conducted, although some field trial experience has been gained recently.

c. GSDR and Private Sector Involvement

Responsibility for energy policy definition and management in Somalia is divided among various ministries. There is little coordination among these entities and no central office responsible for devising a comprehensive energy strategy. Until such a national strategy is developed, there is little likelihood that current energy consumption trends will be significantly checked.

Considerable effort is underway to expand Somalia's fossil fuel resources. Five companies--ARCO, CITCO, Quintuna, Shell and Deutsche Texaco--are exploring for oil in Somalia. Texaco is currently drilling in a 13,500 square mile concession in southern Somalia; CITCO has a 26,000 square mile concession in the northeast and is conducting seismic work; ARCO has a well which has produced traces of gas in a 48,000 square mile concession in the country's central region, and a second well is planned; Shell, with a 10,000 square mile offshore concession, is currently conducting seismic work; and Quintuna has yet to begin active exploration on 12,000 square miles in northern Somalia. The agreements between these companies and the GSDR are confidential, hence cost/investment information is not available. The level of activity would suggest, however, that the companies find early seismic results quite encouraging.

Forestry activities have recently been accorded a high priority by the GSDR. There is now clear recognition at the highest levels of government that a national disaster will result if major steps are not taken to reverse deforestation. The unpublished Five-Year Development Plan (FYDP), 1982-86, devotes considerable attention to the natural resource sector. Among the Plan's long-term objectives are:

(1) Review the forestry law and other existing legislation in order to ensure effective preservation and management of the natural woody vegetation by regulating woodland clearance, restricting grazing and tree cutting, organizing a forestry fund, and defining and establishing different kinds of forest reserves.

(2) Establish, survey, classify and manage different kinds of forest reserves and prepare long-term forestry development plans.

(3) Improve training at all levels, increase output of trained staff and initiate forestry studies and research programs.

d. Strategy

USAID objectives in the energy sector are threefold: (1) to promote more efficient use of existing energy sources; (2) to assist in the development of new, less costly energy sources; and (3) to provide new sources of traditional energy. Our strategy will be directed toward:

--Increasing awareness: We have launched a series of meetings and workshop seminars on "Somalia's Energy Problem." The intent is to increase the level of understanding--both in the public and private sectors--with respect to the gravity and dimensions of the country's energy plight. We will be involved with other donors--principally the IBRD--in data gathering exercises needed to address key policy issues.

--Increasing training opportunities: We intend to finance skill upgrading in the Ministry of Planning and two GSDR enterprises through the National Petroleum Agency (NPA) and the National Electric Company (ENEE).

--Experimental alternate energy schemes: One activity will introduce and test windmills to determine their feasibility for deep well water pumping. A second activity will attempt to improve charcoal making techniques and test new wood and charcoal stoves.

Our strategy will be implemented through a sector grant designed to provide the Somali Government with the means to carry out immediate interventions as well as develop a long-term natural resource planning

capability. Our efforts will complement ongoing and proposed donor efforts.[1/]

The specific objectives of the sector grant will be to assist the GSDR:

--in establishing an "anti-desertification" unit in the Forestry Department of the NRA by providing technical assistance and commodities as well as training grants;

--in the staffing, equipping and curriculum development of the Forestry Training Center in Afgoi;

--in developing simple but sound technical packages resulting from adaptive research; and

--in establishing 15,000 hectares of fuelwood plantations, village wood lots, shelterbelts and wind breaks--through the use of PL 480 Title II resources and other incentives.[2/]

3. Health/Population

a. The Setting

The health status of the Somali population is poor--which is not surprising given the harsh physical environment and primitive state of the economy. Life expectancy at birth in Somalia is 44 years, which is even below the average for sub-Saharan Africa as a whole. The chance of infant death before the age of five is high--177 per thousand, compared to 150 per thousand in the rest of Africa. Daily calorie supply is on a par

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1/ See "Other Donors" section.

2/ Four areas are proposed, initially near existing refugee camps, using both refugee and non-refugee labor under the supervision of private voluntary organizations.

with the average for the rest of Africa and represents 88 percent of total requirements. Statistics show that Somalis have relatively good access to safe water in comparison to the rest of Africa.[1/] The ratio of doctors to population (1/12,000) is poor, but that ratio is better than the average for sub-Saharan Africa (1/24,000). The population growth rate is very high (2.9-3.1 percent is the reported range) and, together with the large refugee population (650,000), poses a real threat to the environment and the economic stability of the country.[2/]

While the statistical data base is fragile, the principal causes for morbidity and mortality in Somalia are similar to those throughout Africa, e.g., malnutrition and infectious disease, diarrhea, malaria, measles, whooping cough and respiratory infections. In the nomadic areas, wounds, injuries, burns, bites and pregnancy disorders are also major threats, probably due to the fact that rural health clinics are only remotely accessible to the majority of the nomadic population.

The health system of Somalia is only gradually evolving from the system left behind by the colonials. Health services are largely curative in orientation and provided from urban based clinics. Mogadishu alone has six hospitals and 40 percent of the hospital beds in the country. All health facilities--with the exception of those caring for refugees--are

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1/ Some of these statistical anomalies may be due to the extent of urbanization in Somalia. In rural areas, where the population is dispersed over a vast terrain, health facilities and potable water systems are rare.

2/ Statistical comparisons are drawn from local sources and the annex of "Accelerated Development in Sub-Saharan Africa," World Bank Report, 1981.

government sponsored and health and medical care is provided at no cost to the recipient.

Given present financial conditions, there is a major question about the ability of Somalia to meet recurrent costs in the health sector. As in most developing countries, the bulk of the budget goes for the hospital sector--15 regional hospitals and 70 district hospitals, half of which are staffed by nurses only. District hospitals, even those with physicians, are without drugs and supplies necessary for minimal functioning levels. Present salary levels in the Ministry of Health (MOH) for all categories of staff are low, and until fairly recently many trained staff left for higher paying positions in the Gulf states.

The government's draft FYDP takes as its major objective the improvement of access to essential health care services for the rural population. The principal thrust of the Plan is in the direction of:

--extending primary health coverage from village level through regional level;

--more effective control of communicable diseases, especially malaria and schistosomiasis, through wider coverage by immunization/treatment programs; and

--better development of supporting services with adequate provision of drugs and training of health care personnel at all levels.

Considering budget stringencies, however, and the need to pursue an economic stabilization program, the government has had to choose between budget outlays for social services (which enjoyed priority during the 1970's) and investments in economic growth. Current plans call for only 1.2 percent of total investment in 1982-86 to be devoted to health.

b. USAID Health Strategy

In view of the low level of resources now being directed to the health sector by the GSDR and donors alike, it is clear that it will not be possible to install a country-wide rural health care system featuring a full range of preventative and curative health care activities in the foreseeable future. Recognizing the resource constraint, interventions in the sector must be done on a very selective basis. USAID's strategy will be sharply focused within the following areas:

--Assisting the GSDR in training and supporting a community health worker (CHW) system in two regions of the country (Togdheer and Bay Regions). The first priority will be to develop the management and logistical capacity to sustain the community based program.

--Urge voluntary agencies and other donors to devote their energies to development of regional rural health systems in other parts of the country. Voluntary agencies working now in refugee maintenance programs will be converting this year from emergency relief to self-sufficiency activities. We will be providing financing for that conversion and will urge these agencies to look into tying refugee health activities into expanded rural health systems in regions where camps are located.

--Continue to support immunization programs, nutrition activities and provision of improved potable water systems for refugees--since mortality and morbidity are tied so closely to preventable communicable diseases and water borne diseases.

--Work with the GSDR to introduce fee-for-service and commercial sale of pre-packaged drugs through primary health care centers.

Training of village based and nomadic health entrepreneurs who make their income out of drug resale will be considered. Enlisting private capital through mixed public/private financed rural health care systems which charge for services will also be encouraged.

c. Population Growth Issue and USAID Strategy

Traditional values, low population density, the need to offset high infant mortality--all have contributed to Somalia's current population growth rate of approximately 3.0 percent. Until fairly recently the GSDR took a firm pronatalist stance on the population issue, but public statements by senior officials over the past year suggest a weakening in their pronatalist resolve. The change is being brought about by a confluence of factors. First, there is considerable "worrying out loud" in government circles about the constraining effect that the burgeoning population is having on Somalia's economic growth and development. Next, there is a growing cadre of energetic and dedicated health personnel who have been trained--some abroad, others locally--on issues such as the relationship of family planning to family health. Most importantly, however, several women's organizations (especially the Somali Women's Democratic Organization) have initiated child-spacing campaigns during which information and materials have been disseminated on a wide basis.

During the CDSS planning period USAID will continue its "conscious-raising" strategy with respect to the population growth issue. We will help underwrite government family planning efforts in the following areas:

--Workshop and seminars in population/family planning will be held to upgrade the understanding and skills of the physicians and nurses.

--Training sessions will be conducted on the techniques of communications and sensitization to improve the effectiveness of paramedical personnel.

--The Ministry of Health will be assisted in integrating family planning into MCH programs by providing technical and managerial short-term assistance.

--Bulk contraceptive supplies will be furnished in support of family planning services.

--KAP baseline studies will be conducted in Mogadishu as well as the Bay and Togdheer Regions to elicit information on the attitudes of the local population regarding family planning. These studies will be utilized in designing appropriate family planning approaches for the planning period.

4. Private Sector

a. Background

Somalia is at an important crossroad with respect to the role of the private sector. After a decade of scientific socialism, the government is taking steps to encourage a greater degree of private initiative in the economy. While there are vested interests in Somalia which would prefer to see public institutions remain dominant in the economy and the society as a whole, a slow transformation is occurring.

It often is assumed that an LLDC such as Somalia lacks the basic infrastructure to count on substantial private sector investments in developing the economy. Certainly, no one should be under the illusion that foreign capital investments of any significant magnitude will occur in this small, underdeveloped economy for some years to come (with the possible exceptions of the mining and the livestock-export sector). Yet, it is precisely the weakness of public institutions and the enormity of the investment task--both in technical and capital terms--which require imaginative approaches to indigenous private and public/private mixed investment financing in Somalia.

In the social services sector, the GSDR has been faced with the need to undertake severe retrenchment in new investments in order to achieve stabilization objectives and keep government expenditures down. Increased competition for scarce public resources means new efforts are needed to identify non-budgetary financial resources for achieving social goals.

With the exception of some experimentation with state-managed farming during the 1970's, production of food for the domestic economy and for export during that decade remained largely in private hands. In livestock, private marketing systems, as well as private ownership of animals, have also been dominant, although the government did experiment with a public marketing agency which now has been dissolved. As noted elsewhere in this paper, there was a proliferation during the 1970's of public enterprises providing support services or performing regulatory functions in the agriculture sector.

The World Bank and other donors have been critical of the overlapping public enterprise approach to agriculture development management. The Bank found:

> "No mechanism has been created to control these agencies and ensure that they perform efficiently the functions for which they were created or to disband them once the purposes for which they were created have been accomplished. At present, most public institutions provide only an administrative framework for development activities, and there is little effective management."1/

In addition to management problems in the public agencies, pricing policies inhibited agricultural growth during the 1970's--producer prices were set too low for basic staples and inputs were scarce or unavailable. The combination of the dominance of public institutions and ineffective price policy left little room for private agro-industrial investment to support increased production.

The macroeconomic overview section of this paper summarized the positive changes which are occurring as a result of modified government policies. Private entrepreneurs and investors are cautiously responding to the improved investment climate. Whereas the private sector was active primarily in the import/export business, and confined mostly to consumables

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1/ Somalia Agriculture Sector Review, IBRD, 1980, Vol. I, p. 15.

and luxury items during the 1970's, there are signs of greater initiative to invest in productive sectors. The Somali Development Bank, for example, reports a tenfold increase this year in approved credit applications, mainly from private investors. These applications represent projects which have not been implemented because of a lack of foreign exchange.

b. Strategy

The U.S. Government has an unusual opportunity to play an important role in the transition to a more open, market-oriented economy in Somalia. Senior ministers of the GSDR have asked that AID assist the government to identify policy reforms to stimulate domestic and foreign private sector investments and growth. We are working closely with the Ministries of National Planning, Commerce, Finance and Industry to develop such a detailed program agenda.

Our principal objective is to encourage private sector activity which will be beneficial to economic development--lead to increased agricultural production, and stimulate general economic expansion and job creation. To accomplish that goal our strategy is to:

(1) Identify obstacles to increased private investment and define solutions to overcome them. Examples of problem areas: investment code reform, access to foreign exchange, price policy, profit remittance policies, rules on localization, etc.

(2) Examine ways to improve management in certain key public sector industries. The sugar industry and future role of the ADC are possible candidates. Options such as gradual "divestment" and/or private sector equity participation will be explored.

(3) Define ways to stimulate growth of the small scale manufacturing sector--particularly in agro-industries. The strategy includes an analysis of the appropriateness of the present policy environment, and will explore the potential of deregulation as an expansionary devise.

(4) Define approaches which will stimulate small scale activities in the social services sector. Here we have in mind particularly non-budgetary financing of rural primary health care services through fee-for-service, commercial sale of drugs, training of low-level village entrepreneurs to deliver health services, etc.

(5) Assess the extent to which present and future programs and approaches are attuned to private sector needs.

To accomplish these tasks, USAID proposes to employ a mix of short-term consultancies, training, and both project and non-project aid. We will require increases in non-project aid (essentially CIP, but also PL 480 Title III) to achieve the quick disbursing impact needed to restore investor confidence and also to minimize the administrative burden. The broad policy framework for our strategy will be more precisely identified during the visit of an AID financed IBRD consultant who is coming to Somalia on a three-week TDY in March 1982, at the invitation of the Minister of Industry, and financed by AID. His analysis will help USAID define future short-term consultancies and specific training programs to upgrade management skills.

Our agriculture technical assistance program will continue to focus on extension and support services for small private cultivators in

the Bay Region and Jenalle. We will also finance water development and improve rangeland management practices to benefit private nomadic herders in the central rangelands area.

We propose an increase to $30 million in the CIP program for FY 84-88--over the $25 million in FY 83--in view of the continuing balance-of-payments problems and foreign exchange shortages Somalia will face during that period. The CIP will continue to provide private investors in agro-industries access to foreign capital inputs. We foresee a CIP program moving away from public sector procurement and becoming predominantly a mobilizer of private investment financing during the planning period.

Co-financing arrangements will be explored in an attempt to mobilize domestic sources of capital. We foresee mixed AID/GSDR/domestic private investor financing of rural health care systems, and agricultural service systems, wherein factor prices are adjusted to assure a profitable return on investment to the private investor. Although we are less sanguine about the attractiveness of this economy to foreign investors, those possibilities will be investigated as well.

As we expand our private sector program, close coordination will be required with other donors. UNIDO is embarked on a multi-year program of assistance in management training and investment code reform, and their local office in Somalia is working closely with USAID. The German Government is interested in financing private sector activities here, and has engaged the IFO Institute for Economic Research in Munich to do the initial analysis for them. We are coordinating their work with the proposed assessment by the IBRD consultant and future AID financed consultancies.

E. Somalia's Refugees

1. The Setting

The influx of refugees into Somalia started early in 1978 as a result of military operations in southeastern Ethiopia. The number of refugees increased to such an extent in 1980 that the GSDR declared a state of emergency and appealed to the world community for relief assistance. By August 1981, 28 voluntary agencies (VolAgs) were providing emergency relief assistance in camps established in the northwest, Hiran, Gedo and Lower Shabelli Regions. The VolAgs delivered medical assistance, emergency water tanks, special feeding programs, cooking utensils and other relief commodities to the refugees. During the 1979-81 period donors provided over $200 million worth of grains, milk, vegetable oil, meat and other food commodities--much of it through the World Food Program (WFP). Overall coordination for the massive relief effort was provided by the UNHCR, working closely with the special GSDR relief agency, the National Refugee Commission (NRC).

By September 1981, the crisis had been brought under control. The influx of refugees started to drop off to only a handful each month[1/]-- and refugee health and nutrition improved as food supplies became stabilized. Which is not to imply that Somalia's "refugee problem" has been resolved. While the food and health needs of the Somalia refugees are being met, the very success of the refugee maintenance program has contributed to the buildup of unhealthy tensions between refugee groups and their hosts. The

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1/ A refugee census was completed in November 1981, indicating that there are about 650,000 refugees in the government-sponsored camps.

contrast between the unproductive refugee whose basic needs are being attended to and his neighbor sedentary Somali who is scratching out a living on a patch of arid land--is all too vivid. Consequently, ways must be found to make the refugee more productive--both for his own feeling of satisfaction and his neighbor's sense of equity.

2. Planning Constraints

Devising a rehabilitation strategy for Somalia's refugees is made difficult by two factors. First, there is the problem of determining how long the refugees are likely to remain in Somalia. If the duration is to be 1-3 years, the rehabilitation strategy should focus on temporary measures for improving health and food services with provision made for some short-term development schemes such as temporary water storage systems, camp cottage industries, small camp farms, etc. If, on the other hand, the refugees are likely to be excluded from the Ogaden for an extended period, the rehabilitation strategy should take into account more permanent measures, such as: the parceling out of productive land, provision of access roads, permanent water systems, schools, etc. Since no one can predict with certainty, at this time, when the conditions in the Ogaden will improve to the point that the refugees will feel secure in returning home, it is difficult to choose between a short-term and a development approach. Making the wrong choice could involve a waste of scarce resources.[1/]

1/ If the camp populations remain in place for several years--after a short-term strategy has been opted for--money will have been wasted on temporary facilities (e.g., rubber water storage tanks) which could have been invested in permanent facilities (e.g., piped water storage and delivery systems). On the other hand, if the refugees vacate the camps--after a long-term strategy has been deployed--donors and government will be criticized for overbuilding.

The second problem which inhibits planners stems from the government's policy on refugees. The Ogaden people are welcome in Somalia--the policy states--but only on a temporary basis. Suggestions that long-term settlement strategies should be drawn up are unacceptable to the government, both for political and economic reasons.

3. The Desirable Solution

From the outset it should be realized that repatriation of the refugees to the Ogaden is the most desirable solution to the Somalia refugee problem. Under a repatriation strategy the following problem areas are avoided:

--Excessive Money Outlays: Donors and the GSDR are currently spending approximately $120 million annually to "maintain" the refugees in the Somalia camps. Adding a rehabilitation or a settlement element to the program will increase this outlay by at least another $80 million per year. Were the refugees to return to the Ogaden they would be virtually self-sustaining--with donors having to furnish only about $20 million a year to assist in upgrading their standard of living.

--Severe Ecological Degradation: Through their foraging for food, water, fuel and shelter, refugees are causing inestimable damage to land and wood resources in Somalia. Were they to return to the Ogaden and resume their normal pattern-of-living, the degradation induced there would be much less severe.

--Unproductive Lives: Dependency is socially and psychologically damaging to refugees. While their food/health needs are currently being met, the refugees are frustrated--living as they are incomplete lives.

A large proportion of them are nomads who will feel productive again only after resuming a pastoral way of life.

--Unrealistic Expectations: It is unrealistic to believe that settlement schemes could be implemented in the next 6-7 years--even if the GSDR concurred--which would accommodate a significant portion of the current refugee population. In the first place, planning successful settlement schemes requires good lead time. Land and soil surveys must be completed. Settlement prototypes need to be developed and tested so that they can be replicated. Staff need to be trained. As Scudder[1/] suggests, crash settlement projects can be expected to fail. Secondly, it is likely that many of the refugees (nomadic group) do not want to be resettled.[2/]

4. The Second Best Approach

On the assumption that a repatriation strategy is not viable, for the present, due to tensions in the Ogaden, the most desirable option becomes one of assisting the refugees in becoming as self-supportive as possible. In pursuit of this objective, the GSDR and the donors should help the refugees:

1/ See Thayer Scudder, "The Development Potential of New Lands Settlement in the Tropics and Subtropics: A Global State-of-the-Art Evaluation with Specific Emphasis on Policy Implications," pp. 3, 4.

2/ "Refugees want out of camps but their solution is often markedly different from the government's. The refugees want to stay near the border, be with kinsmen, migrate to urban areas; once the camp develops a life of its own even the camp will be preferred to the relocation to a distant settlement." (Barry Stein, p. 55, describing characteristics of refugee groups throughout the LDC world.)

--produce a portion of their food;

--improve their water supply systems;

--obtain marketable skills; and

--develop fuelwood and energy resources.

This self-supportive strategy must be carefully planned and implemented. No single donor or multilateral agency has the wherewithal to implement a comprehensive refugee rehabilitation strategy. A programming framework must be established to avoid fragmentation and/or wastage of scarce resources. For this reason the GSDR has decided to establish a donor/government advisory committee and a refugee rehabilitation planning office to coordinate refugee development activities.

5. USAID Strategy

AID will play a key role in both the advisory council and in providing assistance to the NRC planning/monitoring/evaluation unit. Our efforts will be aimed at three policy objectives:

--Making an element of the refugee population more self-supportive by engaging them in productive activities in or around the campsites ("in situ" schemes).

--Persuading groups of refugees to become involved in agricultural and forestry activities within a five mile radius of camps situated in productive regions(radial activities).

--Persuading the government to modify its "no settlement" policy to permit "spontaneous" settlement in areas removed from current campsites (settlement activities).

We will use two project instruments to attain the above listed strategy objectives. The first will be a Refugee Rehabilitation Project which will be implemented through the NRC. Under this project, we will furnish personnel and training assistance to:

--Enable the NRC to establish linkages with the development ministries so that the latter's technical expertise can be brought to play on both short-term and mid-term NRC refugee assistance efforts.

--Help establish within NRC a planning and evaluation capability to identify refugee project needs, and monitor the effectiveness of donor assistance efforts.

--Provide financing to enable PVOs to undertake--under the general aegis of NRC--refugee self-reliance activities in the areas of food and wood production, water and health systems and feeder road construction.

Our second project instrument will be a Forestry-Fuelwood activity which will be sponsored jointly by the Ministry of National Planning and the Ministry of Natural Resources. This project will have two components: an institution building element aimed at the creation, within the GSDR, of a long-term capability to plan, monitor and evaluate a national forestry-fuelwood program,[1/] and--an operational element--designed to produce 15,000 hectares of woodland using refugee and non-refugee labor.

6. Specific Refugee Activities

--"In Situ" Schemes: Private voluntary organizations have already initiated pilot rehabilitation activities in and around existing

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1/ This project element will be financed under the DA account.

camps. Several of these food and wood production schemes show considerable promise and can be expanded to incorporate a wider element of the refugee labor force. AID financing will be used to support such expanded pilot efforts by covering expatriate advisory costs, special food ration work inducements, needed commodities and selected items of equipment. The USAID Mission recently informed PVO representatives in Somalia that we were willing to collaborate with them on the design of expanded pilot projects so that feasibility issues (technical, financial, economic and environmental) can be quickly and adequately analyzed. We believe that several of these pilot activities will be ready for AID financing support as early as June 1982.

--Radial Activities: There is sufficient flexibility in the government's current policy to permit refugee project activities in areas not immediately adjacent to existing refugee camps. Consequently, NRC has encouraged PVO organizations to draw up preliminary proposals for food and wood production activities--as well as attendant water system schemes--in areas within a five mile radius of camps situated in productive regions. To provide an overall development framework into which to fit these individual PVO activities, the USAID Mission is currently drawing up a "development-needs profile" for each major refugee region. We intend to offer these profiles to NRC to help (1) guage the relative importance of individual proposed activities, and (2) to insure full coverage of urgently needed regional requirements. AID financing will be used to support these NRC and NRA approved activities by funding technical advisory services, food-for-work procurement, and needed equipment and commodity supplies. It is

anticipated that several PVO "radial activities" will be proposed for financing by August 1982.

--Settlement Activities: Currently, there is an unwillingness in GSDR official circles to think in terms of long-term settlement for the Ogaden refugees. Part of this reluctance stems from the government's concern about its ability to meet the land and water requirements of Somalia's indigenous population, which is growing at a 3 percent annual rate. Scudder has persuasively argued that the refugee settlement issue in Somalia should be subsumed under the country's overall pressing need to open new lands to manage current and projected population growth.

We have already engaged key government officials in dialogue on the "new lands" requirements and found them receptive to the need for accelerated planning and survey work. We intend to pursue this dialogue in the upcoming weeks in the context of the multidonor Cooperation for Development in Africa (CDA) planning group under the coordination of the Ministry of National Planning. We are including a "new lands" component in our project paper on Fuelwood and Forestry Development to provide limited financing for preliminary planning, analytical and survey tasks on new land issues. Financing for the design and implementation of settlement activities[1/] (for mixed indigenous/refugee groups) will be incorporated into our regular agricultural/rural development activities.

1/ This will be "Spontaneous Settlements Facilitated by Government" rather than "Voluntary or Compulsory Settlements Sponsored by Government Agencies." Scudder, Ibid.

F. Food Assistance

1. Title III

USAID considers the Title III program--due to commence in FY 83 and continue through four years of the planning period--as a key element of our strategy to help increase agricultural productivity in Somalia. Title III will be used an an instrument to help change policy or practices which are currently impeding the full development of the agricultural sector. In addition, the local currencies derived from Title III sales will be used to provide budget support for specific food production projects. Finally, since the Title III program will be on a grant basis, and assuming adherence to the conditions of an agreement, it will have a direct, positive balance-of-payment effect.

2. Title II

Our bilateral food assistance for the planning period will be directed toward supporting development projects in the agricultural and forestry sectors. The food-for-work (FFW) component of these projects will involve both indigenous and refugee populations. One activity proposed as an FY 82 start will be a refugee self-reliance project, which will have a FFW component and will, inter alia, involve refugees in agricultural production, rural roads and land clearing. A project being proposed in the forestry sector will involve both host and refugee populations in reforestation and conservation activities.

The food assistance provided as a component of these development projects will contribute to the attainment of several of our strategy objectives. The food aid will foster the development and conservation of

forestry resources, promote increased food production, enhance refugee self-sufficiency and, thereby, lessen the drain on limited budgetary resources. In addition, Title II multilateral aid (i.e., programmed through WFP) in support of refugee maintenance contributes to attainment of U.S. humanitarian goals.

G. U.S. and Other Donor Activities

Somalia is benefiting from the aid of numerous donors--both Eastern and Western. Counting all UN agencies as one entity, Somalia received capital, technical and food assistance from more than 25 bilateral and multilateral donors in 1980.

Major New Commitments to Somalia in 1980
(In Thousands of Dollars)

Donor	Capital	Technical	Food	Total
Italy	51,750	11,023	9,000 1/	71,773
USA	-	10,300	59,700 2/	70,000
UNHCR	-	34,008	17,452	51,460
World Bank	37,000	-	-	37,000
Germany (FRG)	12,056	18,657	1,828 1/	32,541
IMF	27,400	-	-	27,400
EEC	3,390	4,607	15,088 1/	23,085
Islamic Bank	20,990	-	-	20,990
WFP	-	-	19,258	19,258
IFAD	17,000	-	-	17,000
UAE	16,278	-	-	16,278
ADF	8,900	-	-	8,900
Iraq	8,000	509	-	8,509
OPEC FID	6,000	-	-	6,000
UN Agencies 3/	-	5,721	-	5,721
UNDP	-	4,720	-	4,720
UK	-	1,490	-	1,490
France	-	1,137	-	1,137
All others	6,000	2,473	-	8,473
TOTAL				432,145

Major multi-year capital assistance commitments include:

--World Bank: IDA credits of $99.2 million directed at the implementation of some 13 projects.

--UAE: $94.3 million for the sugar factory at Gelib and $48 million for the Berbera-Burao road.

1/ Based upon WFP average FOB prices as of March 31, 1981. Does not include freight costs, which may have been borne by the donor.

2/ Includes value of PL 480 Title II commodities ($27 million) and freight for these commodities ($13 million), PL 480 Title I commodities ($14.7 million) and a grain transport grant ($5 million) to cover freight.

3/ Not including UNHCR, WFP and UNDP.

--Saudi Arabia: $72 million for the sugar factory at Gelib and $10 million for the National University.

--EEC: $66 million for primarily construction projects, including the port, roads, a hospital and the National University.

--International Fund for Agricultural Development (IFAD): $17 million for agriculture projects.

--African Development Fund (ADF): $17.7 million for agriculture projects and $5.5 million for road construction.

--Islamic Bank: $20 million in commodity loans and $7.5 million for road construction.

--IMF: $12.4 million stand-by arrangement and $15 million trust fund loan.

--Arab Fund for Economic and Social Development (AFESD): $22.4 million for an irrigation project and $29 million for road construction.

--China: $92.75 million for construction and agriculture projects.

--Germany: $72.6 million in commodity aid and water projects.

--Iraq: $38 million in grants and loans to be used primarily in the agriculture sector.

--Italy: $51.75 million primarily in export subsidies.

--Kuwait: $21 million for the development of northern rangelands.

Multilateral donors (other than UNDP and EEC) provided some 50.33 percent of the total technical assistance commitments in 1980, with bilateral donors providing 41.57 percent. Nearly half of the total technical assistance package in 1980 went into the humanitarian aid and relief sector.

Eighty-three percent of the 1980 technical assistance resources coming to Somalia through the UN system were channeled through the UNHCR.

Germany, the largest technical assistance donor in 1980, utilized one third of its funds in the industry sector, and made significant contributions in the natural resources, agriculture, education and transport and communications sectors as well. USAID was by far the largest donor in agriculture and was also involved in natural resources and health activities. Nearly all of Italy's technical assistance and substantial percentage of the UK's and France's commitments went into the education sector. The UNDP was active in several sectors with its largest contribution going into agriculture.

A significant portion of donor assistance to Somalia consists of food aid. USAID was the largest contributor in 1981, followed by WFP and EEC.

1981 Food Imports to Somalia
(In Thousands of Dollars)

I. Refugee, Drought and Flood Relief and Food for Special Projects:	
USAID Title II	31,600 1/
WFP	13,100 2/
EEC	12,000 2/
Other Donors	8,100 2/
TOTAL	64,800
II. Food for Commercial Sale:	
USAID Title I	15,000
Franco-valuta and commercial imports	55,885 2/
TOTAL	70,885

1/ Includes $19.8 million in commodities and $11.8 million for freight costs.

2/ Based on WFP prices as of 9/30/81. Freight costs which may have been borne by the donor are not included.

The value of total food imports to Somalia in 1981 amounted to approximately $135,685,000.[1/]

Food import projections for 1982 are not available, but USAID expects to provide $11.9 million in PL 480 Title II commodities (plus $6.2 million to cover freight costs)[2/] and $14.5 million in Title I commodities. The EEC has agreed to provide $18 million, Australia $3.6 million, and Japan $5.8 million[3/] in food aid for 1982.

Information on future donor plans for Somalia is sketchy, but a leveling off of donor assistance in Somalia is implied for the next few years since a major contributing factor to the increased donor interest in Somalia in past few years was the large influx of refugees. Infrastructure for refugee support is now in place and more precise figure on refugee population (650,000) has become available. The resultant decrease in aid for humanitarian relief allows for a shift in emphasis in donor resources toward development aid. A slight increase in assistance levels to sectors other than humanitarian relief has been hinted at by several donors, with emphasis on those sectors which individual donors feel require aid for the long-term benefit of Somalia.

1/ The U.S. donated portion of food for refugees, drought and flood relief (including freight) amounted to 48.8 percent of the 1981 total. Title I food amounted to 21.2 percent of total commercial imports.

2/ This includes $5.2 million in commodities plus $2.8 million for freight costs given to WFP.

3/ Japanese food aid of $5.8 million will go toward refugee relief in Sudan and Nigeria, as well as Somalia.

Summary of Assistance to Somalia--1980
(Resource Flows)

		$ Million
I.	Inflow of official transfers	144.14
	a. Cash grants	(74.33)1/
	b. Grants-in-kind (food and pharmaceuticals)	(69.8)
	(1) U.S. Title II grants	((27.9))
II.	Net official capital inflows	87.9
	a. Cash loans	(36.3)2/
	(1) USG	((----))
	b. Commodity loans	(61.9)2/
	(1) U.S. Title I	((17.7))

The U.S. portion of major new commitments to Somalia in 1980 (including PL 480 freight costs) amounted to approximately 16 percent of the total. It should be noted that, with the exception of Iraq and the UAE, not many new project agreements were signed in 1980 with Arab countries on a bilateral basis, although previously signed commitments remain very high. The U.S. is certainly one of the major bilateral donors to Somalia. The expansion of the U.S. program, however, has not kept pace with the overall expansion of externally financed assistance to Somalia. Future U.S. food aid is expected to decrease as refugee needs decline. This, together with a slight increase in technical assistance levels and the implementation of the CIP, would indicate a leveling off of overall U.S. assistance to Somalia in the next five years.

1/ Does not include technical assistance grants to Somalia. (U.S. technical assistance flows amounted to $2.7 million in 1980.)

2/ Does not add to total probably due to netting out of loan repayments.

Finally, USAID is playing a major role in encouraging donors to coordinate their assistance strategies for Somalia. USAID meets regularly with other donors to coordinate development activities in the agriculture sector. The World Bank's Resident Representative has recently agreed to our suggestion that he chair monthly luncheon meetings for donors active in providing development assistance to Somalia. In addition, preliminary discussions have already been held between the IBRD/IMF and the GSDR relative to the establishment of a consultative group for Somalia. If such a formal coordination mechanism evolves, it will be greatly enhanced by the sector-specific donor coordinating efforts already under way here.

H. The Host Country Development Plan

1. The 1979-81 Plan and Its Implementation

The Three-Year Development Plan (TYDP) for 1979 to 1981 focused mainly on the consolidation and completion of projects begun under the previous Five-Year Development Plan and on a few new projects considered to have high priority. Although the TYDP provided some insights into GSDR priorities and intentions, it was more a list of problems and projects than a phased commitment of resources to meet economic and social goals. It forecasted a rate of economic growth of between five and ten percent, but made no attempt to relate the growth to projected levels and types of investment.

The TYDP attempted to give priority both to the productive and social sectors of the economy. Agriculture was to have received 35 percent of planned expenditures. The stated goals were self-sufficiency in food grains, the expansion and diversification of the export base and

the reduction of agricultural imports. It was clear from the outset that implementation of the Plan would prove difficult since it projected expenditures at over twice the actual level of the 1974-79 period. Donors were expected to cover some 64 percent of the Plan's total cost mostly in the form of concessional grants and loans. A large amount of financing was expected to come from a surplus in the ordinary budget--an unlikely prospect, given previous trends in budgetary performance.

The actual implementation rate of the Plan realized in 1979 was only 51 percent.[1/] Particularly discouraging was the fact that the implementation rate for agriculture amounted to only 24 percent.

The Ministry of National Planning has cited a number of reasons for the implementation problems of 1979, such as: a lack of financial resources, both domestic and foreign; inflation; shortages of building and other materials; a scarcity of technical and managerial staff; and poor project preparation. Not specifically mentioned, but most certainly very real factors, were the massive influx of refugees from the Ogaden and military expenditure outlays. Given the persistence of these factors over time, the rate of implementation cannot be expected to have improved significantly in 1980 and 1981.

2. The New Five-Year Plan

While the new Five-Year Plan for 1982-86 has not yet been officially published, a draft copy has been shown to USAID for use in the CDSS exercise. The Plan appears to offer several distinct advantages over

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1/ Reliable figures are not available for 1980-81 performance.

its predecessor. In the first place, it has been cast within an overall macroeconomic framework. Individual project undertakings will be assessed against the economic targets outlined in the Plan--after having been subjected to feasibility analyses. Thus, for the first time in Somali economic planning history there will be an attempt to relate levels and types of investment against objectives in the Plan.

Another feature of the new Plan is its explicit recognition of recurrent cost obligations which will be left in the wake of new project undertakings. The Five-Year Plan projects a growth rate in GDP (at factor cost) of 4.4 percent per annum. Household consumption is also projected to increase by 4.4 percent per annum. With the 3.1 percent population growth rate assumed in the Plan, this would allow for some improvement in economic welfare.1/

The 1982-86 Plan is less overly ambitious than its predecessor. Total investment is expected to amount to So.Sh. 16,299 million over the Plan period (in constant 1980 prices). When one compares this projection with what would have resulted from actual 1979 TYDP expenditures over a five-year period after adjusting for inflation (So.Sh. 11,495 million), and allowing for devaluation and its impact on shilling costs, the level of projected expenditures seems fairly realistic.

The Five-Year Development Plan places a greater emphasis upon the productive sectors than did the TYDP. Agriculture is to receive 50 percent of planned expenditures as opposed to 35 percent under the TYDP

1/ These growth rates in GDP and household consumption may prove too optimistic. Much depends upon the actual availability of projected donor financing.

(a share which would have been even larger had the two-tier exchange rate not been used in the calculations). Clearly, the Plan recognizes the importance of the agricultural sector as an exporter, a potential producer of food which is now imported, and as a source of employment for future entrants in the labor force. Only 5.9 percent of total Plan resources are to be devoted to the social sectors as against 12 percent in the TYDP (once again, a share which would have been even smaller had a two-tier rate not been used in the calculations). See Table I of this section for planned sector investment.

Particularly encouraging is the emphasis given to the private sector--which is expected to contribute 16 percent of the domestic funding over the period of the Plan's implementation. Considerable emphasis is placed on providing appropriate opportunities and incentives to the private sector through better exchange rates, higher prices and access to intermediate and capital goods.

Table I

Investment by Sector[1/]
FYDP 1982-86
(So.Sh. Million)

		So.Sh.	Percent
I.	AGRICULTURE	8,094.3	49.7
	1. Crop production	771.9	4.7
	2. Irrigation	4,410.6	27.1
	3. Livestock	2,495.3	15.3
	4. Fisheries	388.1	2.4
	5. Forestry	28.6	0.2
II.	OTHER ECONOMIC SECTORS	6,779.1	41.6
	1. Mining	580.2	3.6
	2. Manufacturing	1,972.4	12.1
	3. Energy	659.3	4.0
	4. Water resources	1,500.4	9.2
	5. Transport and communication	1,348.6	8.3
	6. Tourism	257.3	1.6
	7. Trade and commerce	457.5	2.8
III.	SOCIAL SERVICE SECTORS	968.1	5.9
	1. Information	43.0	0.3
	2. Education	646.9	4.0
	3. Health	204.7	1.2
	4. Labor and employment	33.8	0.2
	5. Statistics	24.8	0.1
	6. Administration	14.9	0.1
IV.	REGIONAL PLANS	457.1	2.8
GRAND TOTAL		16,298.6	100.0

1/ This table is calculated at 1980 prices using dual rate of foreign exchange for imported components of investment: So.Sh. 6.3 = 1 US$ for crop production and irrigation investments, and So.Sh. 12.5 = 1 US$ for all other investments.

Source: FYDP Draft, Ministry of National Planning.

II. SUMMATION OF AID ASSISTANCE STRATEGY

A. The Premise

USAID/Somalia's assistance strategy for FY 1984 through FY 1988 is based on the assumption that the GSDR will continue to undertake important economic policy reforms and sustain this effort through the eighties. These policy reforms have to be made if current economic difficulties are to be overcome, and if an environment of economic and social stability so vital to the country's development is to be realized.

The major policy reforms the IMF, the World Bank and AID consider vital to the country's stabilization are as follows:

--a devaluation of the currency;

--the elimination of inefficient parastatals;

--provision of higher farm gate prices to farmers;

--the assumption of a greater role by the private sector in the economy; and

--the phasing out of the practice of government employment for all school leavers.

The GSDR has taken steps in each of these areas over the past year--in consultation with the IMF and IBRD. It is clear, however, that a long, uphill battle lies ahead for Somalia.

B. The Objectives

AID's primary objective is to assist Somalia over the next five years to attain economic stability, and thus establish the required foundation for sustained growth over the longer term. To attain these objectives, AID proposes to:

--provide balance-of-payments and budgetary support to assist the GSDR overcome its current financial crisis;

--support the GSDR's emphasis on food crop and livestock production through programs designed to assist small farmers in improving farm technology, removing constraints to credit and marketing, increasing livestock offtake, and to reduce the human resource constraint in the agriculture sector through technical assistance and training to strengthen the technical and managerial manpower base;

--assist the GSDR in expanding the role of the private sector in the economy;

--foster the conservation and development of forestry and energy resources;

--improve and expand the technical and administrative capacity to deliver basic health care services in rural areas, develop extra-budgetary health financing mechanisms, and support population information/awareness programs; and

--assist the GSDR maintain humanitarian relief programs for refugees and support projects which promote refugee self-sufficiency.

C. The Rationale for AID Assistance

1. Assisting in Meeting the Financial Crisis

Over the past several years, Somalia has faced severe economic problems. Stagnation in production and exports, a rapidly rising budget deficit, an accelerated inflation rate, a worsening balance-of-payments situation, and depletion of foreign reserves have led to a deterioration in the quality of life for Somalis and carries the potential for serious

social instability. This situation was attributable in part to the general worsening of the international economy as well as skyrocketing energy costs, but it was also brought about by faulty domestic policies and weakness in economic management. Drastic economic remedies were called for and the government agreed to a stabilization program with the IMF in 1981.

AID's strategy is to join with the IMF, the World Bank and others in assisting Somalia in its economic stabilization effort. AID will support the stabilization program by providing quick disbursing assistance through a multi-year CIP (ESF) and PL 480 Title III food inputs. The CIP will be directed toward financing raw materials, spare parts and capital equipment required by the economy, with increasing emphasis on private sector investment requirements. The counterpart proceeds obtained from the sale of the commodities will be used to meet the local costs of development projects, primarily in the agriculture, livestock and health sectors. The five-year Title III program will contribute to encouraging agricultural sector reforms, beyond increasing producer prices, which are deemed essential to increasing productivity. As with the CIP, the proceeds from the food sales will be made available to support the local cost element of development projects.

2. Support to Food Crop and Livestock Production

For the five-year planning period, AID strategy will continue to devote the bulk of its assistance to the increase of basic food crops and livestock production. Since the re-initiation of the AID program in Somalia in 1978, 74 percent of our development assistance has been directed toward the agricultural and livestock sectors. The rationale for AID's

concentration in these sectors remains valid and will continue to remain so for the foreseeable future.

Our strategy is based on economic realities in Somalia. Agriculture clearly holds the most potential for the country's long-term development. Somalia has the capability, in terms of physical and human resources, to return to food self-sufficiency and to become an exporter of basic crops, such as sorghum and millet, in addition to livestock. Weak performance of basic food crop production in recent years, however, coupled with a rapidly increasing population, has resulted in food deficits and a rising food import bill. Poor performance of the export sector further weakened the balance-of-payments and reduced the capacity of the economy, due to the need to pay high food bills, to afford industrial imports critical to increased agricultural productivity. Somalia is caught up in a vicious circle that must be broken--through increased food production and improved export performance.

Our strategy, in support of the government's, must be production oriented. Output can be significantly expanded by increasing productivity and by bringing non-farmed, arable land into use. At least 600,000 hectares of new land can be brought into production through water development programs and through improved technology. Somalia's livestock sector, currently providing approximately 80 percent of foreign exchange earnings, can be expanded and qualitatively improved over the short-term through emphasis on animal health, controlled grazing and improving the private marketing system.

Our agriculture assistance strategy over the next five years will continue to emphasize the strengthening of public and private systems within the sector including research, extension, veterinary services, credit management and agro-industrial development. Our program encompasses activities which will establish an overall farm systems research and extension capability, improved farm management, water resource development and irrigation rehabilitation, and new land development.

In the livestock sector, our assistance will be aimed at better rangeland management, improved animal health and the creation of a stronger marketing infrastructure. With herd expansion limited by available rangeland, increases in livestock offtake will have to result from a concentration on the quality and marketing aspects of production. Possibilities of disruption of the export market from disease outbreaks must be diminished through the establishment of a dependable drug supply system--particularly along stock routes and in holding areas. Expansion or construction of holding facilities, establishment of fodder points and watering areas and the upgrading of transport modes must be undertaken to insure an increase in the number and quality of animals exported.

3. Reduce the Human Resource Constraints in Key Sectors

As will be noted in other portions of this submission, human resource deficiencies exist in all sectors and serve as a major impediment to Somalia's economic and social development. Since the problem cannot be overcome in the short-term, a sustained, multi-donor effort is called for.

AID's five-year strategy will be to continue to concentrate our assistance in developing the managerial and technical skills needed in

areas related to food crop and livestock production, rural health delivery systems and agro-industrial development.

Direct inputs by AID into the formal educational system in Somalia are not contemplated during the planning period, even though we realize serious deficiencies exist in the present formal system. Rather, AID will concentrate on the technical training and management improvement programs required by the productive sectors to fill immediate and medium-term needs. The World Bank, and other major donors, are providing direct assistance to formal education programs in hopes of meeting the longer-term skills requirements of Somalia's economy.

4. Expansion of the Role of the Private Sector

Government policy now encourages the private sector to assume an expanded role in Somalia's economy. Several inefficient para-statals have been eliminated with their functions being assumed by private entities, and the government is seeking assistance from AID and other donors in defining policy reforms intended to stimulate domestic and foreign investment. AID is responding to this request with technical assistance in the areas of policy reform, investment code adjustment and technical and managerial training. The CIP and PL 480 Title III will provide foreign exchange and generate local currency in support of private sector expansion.

5. Foster the Development and Conservation of Forestry and Energy Resources

USAID's strategy in the forestry sector will be directed toward regeneration of Somalia's depleted fuelwood resources. Our strategy is designed to complement activities being implemented or proposed by other donor countries who are members of the CDA group. Our assistance will be

in the form of a FY 82 sector grant project which will extend through the planning period. The grant will strengthen Somali institutions working on forestry and energy problems, and will assist in the establishment of firewood plantations, village wood lots and shelterbelts. Private voluntary organizations, a few of whom are already engaged in fuelwood activities, will be engaged in the coordinated program which will use PL 480 Title II resources--in addition to other inducements--to implement the fuelwood strategies.

In the energy sector, very little applied research on alternate technologies has been undertaken in Somalia. Our strategy calls for assistance in increasing awareness of energy problems, underwriting training opportunities, and financing pilot schemes which introduce renewable technologies. The key element in this strategy is the infolding of a planning capability within the government. Without a planning unit lobbying on a daily basis within the government bureaucracy, the introduction of important renewable energy technologies and the institution of conservation practices is not likely to take place--given the stiff competition for government resources.

6. Refugees--A Strategy for Self-Sufficiency

The refugee problem in Somalia has imposed a significant burden on Somalia's financial and human resources over the past four years. To help relieve this burden AID will begin in 1982 to support interventions designed to make refugees more self-sufficient. Refugee "self-reliance" activities will include skills training, rural works and conservation programs. The CDA fuelwood project will also employ refugees on reforestation

schemes, and several of the proposed activities in the agriculture sector will draw from the refugee as well as the local population during their implementation phases.

7. Health and Population

Given the level of resources which the GSDR, USAID and donor community will be directing to the health sector, a selective strategy must be adopted for the near term. Our strategy will be to:

--assist the GSDR in training and supporting a community health worker system in two regions of the country (Togdheer and Bay Regions). The priority will be to develop the management and logistical capacity of the Ministry of Health to sustain the community program--which will be based on the provision of economically feasible health services at the local level;

--urge voluntary agencies and other donors to devote their energies to development of regional rural health systems in other parts of the country;

--continue to support selective immunization programs, nutrition activities, and provision of potable water systems to refugees--since mortality and morbidity in the countryside are tied so closely to preventable communicable diseases and water borne diseases; and

--work with the GSDR to introduce fee-for-service and commercial sale of pre-packaged drugs through primary health care centers. This approach to financing health care is a necessity since other sources than government budgets must be found to sustain a country-wide system.

III. ASSISTANCE PLANNING LEVELS

A. Development Assistance (DA)

The proposed assistance planning levels shown in Table I of this section are adequate to support the strategy proposed in Part II. The bulk of resources for the planning period, as for the current period, are being directed to the rural sector, primarily for agriculture and livestock activities. The DA funding level shows a gradual increase through FY 87 from recent levels (i.e., $16.2 million in FY 81; $17 million in FY 82), with a slight decrease in FY 88. The increases, however, cannot be termed real since they have not been discounted by an annual inflation factor. The major activities to be funded with these resources are farming systems research, farmer training, water and forage supply systems, forestry systems management and energy planning and conservation programs. Funding for refugee rehabilitation activities are included in funding levels for rural development, since these activities are part of the Mission's rural development strategy.

The level for human resources development may appear understated throughout the planning period--in view of Somalia's skilled manpower shortage. It should be noted, however, that all our activities in the rural sector will have a significant manpower training component focused on particular sub-sector needs.

The funding reflected in the health/population sector is in support of disease/nutrition surveillance, manpower development, demographic surveys and family health/child spacing activities. We will be making a major effort to move the GSDR toward commercial sale of drugs and fee-for-

service as the only feasible way to sustain a country-wide rural health care program. The health/population resource level may also appear low. This results from our reluctance to increase funding for this sector until we have a better sense of (a) how successful our present health delivery project will be, (b) how willing the government will be to expand its nascent population programs, and (c) how willing the government will be to implement pay-as-you-go health services.

B. PL 480

The Title III program which we propose for FY 83 will be for a five-year period and will run through FY 87. It represents, along with our CIP, USAID's contribution to the economic stabilization effort currently being implemented under the aegis of the IMF. Together with the CIP it will be used to induce policy reforms critical to the development of the agricultural sector. The program will diminish in value during the last three years based on the likelihood that domestic cereal production will increase and the need for food imports will be reduced.

The Title II bilateral program will support refugee rehabilitation and food-for-work activities which we are proposing for FY 83. Food for the maintenance support of refugees is programmed through the WFP through the planning period, although at a diminishing level, since refugee self-sufficiency activities will reduce the need. In addition, funding for WFP food-for-work programs, other than that for refugee maintenance, is included throughout the planning period. These programs will run at an annual rate of $4 million and are included in the amounts shown in the table for the WFP.

C. Economic Support Funds

Our assistance planning level includes continuing support to the economic stabilization effort through a CIP (ESF). The stabilization program is expected to lead to renewed economic vitality; however, it will take time for the impact of policy changes to work their way through the system. Production increases will be realized gradually, assuming continued financing of the imports required for the productive sectors is available throughout the planning period.

D. Staffing Implications

For the five-year planning period, continuation of AID staff at the current level--22 direct hires and 26 FSNs--is adequate to effectively manage the proposed assistance levels. While there will be changes in the skills mix over the period, as old development assistance projects phase out and new activities come on line, the total number needed will remain constant.

PROPOSED ASSISTANCE PLANNING LEVEL (PAPL)
(in $ millions)

	FY84	FY85	FY86	FY87	FY88
I. ECNOMIC SUPPORT	62.4	58.9	57.1	51.0	39.5
A. Commodity Import Program (ESF)	30.0	30.0	30.0	30.0	30.0
B. P.L. 480, Title III	15.0	13.0	13.0	10.0	--
C. P.L. 480, Title II	17.4	15.9	14.1	11.0	9.5
1. Bilateral	(2.4)	(2.9)	(3.1)	(3.0)	(3.5)
2. WFP	(15)	(13)	(11)	(8)	(6)
II. DEVELOPMENT ASSISTANCE	19.6	21.9	25.0	27.0	25.0
A. Rural Development (Agri/Livestock/ Forestry)	14.4	17.1	20.3	22.0	21.0
B. Health and Population	2.4	2.0	1.0	1.0	--
C. Human Resources Development	0.8	0.8	0.7	1.0	1.0
D. Selected Development Activities (Energy)	2.0	2.0	3.0	3.0	3.0
III. TOTAL ASSISTANCE (I & II)	82.0	80.8	82.1	78.0	64.5