

Country Development Strategy Statement

FY 1985



SOMALIA

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COUNTRY DEVELOPMENT STRATEGY STATEMENT

USAID SOMALIA

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ANALYSIS

Introduction

More so than some countries, Somalia must be viewed in a regional context. The country's economy -- as well as much of its human energy -- is oriented toward a region of interests which includes Kenya and Ethiopia as well as neighboring Arab states across the Gulf of Aden.

Portions of Ethiopia, notably the Ogaden, are critical to the transhumant pastoral system upon which much of the Somali economy depends. The dry season grazing provided to Somali herds by this region is essential to the maintenance of the national herd which is the primary source of export earnings for the country. In addition, Somalia's two major rivers -- which offer promise of "drought-proofing" for significant areas of the country -- both rise in the watershed portion of Ethiopia. Somalia's other African neighbor, Kenya, has been a major trading partner over the years. Many areas of Northern Kenya are populated by ethnic Somalis and there is significant cross-border travel with a large number of Somali traders and migrant laborers actually employed in Kenya. The Arab states are important to Somalia both as markets for its principal export, livestock, and as the source of employment for over 100,000 migrant workers whose remittances have provided, in the past, an essential source of hard currency for Somalia. Livestock exports and migrant labor

have become significant factors in economic decision making both for the central government and individual family units.

Another important consideration in trying to understand Somalia is the country's susceptibility to drought. Climate patterns are largely unpredictable in this semi-arid land. While traditional crop production practices reflect the Somali's adaptation to semi-arid conditions -- thereby assuring sustenance even during dry years -- prolonged drought can cause severe problems at the subsistence level. Export crops are highly vulnerable to weather vagaries and cause severe setbacks in economic progress even during periods of seasonal dry spells.

A final point by way of introduction -- the Soviet Socialist past is giving way to a new look. The Government of Somalia appears increasingly serious about economic and social reform. Measureable progress has already been made in increasing literacy-rates, providing basic medical services and implementing family planning programs. In the economic sphere the government has collaborated closely with the IMF in an austerity stabilization program and taken appropriate policy changes -- including support for private sector initiatives -- to get its economy back on track.

Analysis of the Economy of Somalia[1]

-- Nature and Structure of the Economy

Somalia is a large, sparsely settled country, with a population of about five million (including refugees) scattered across a land area of approximately 285,000 square miles. Its varied topography includes arid areas, rugged mountains, and relatively fertile river basin areas. Its mineral and fossil fuel deposits are not considered exploitable at present.

Somalia's GDP accounts suffer from the paucity of data common in this country and have not been updated since 1978. A recent estimate by the Ministry of Planning indicates the current GDP at under two billion giving a per capita income of less than \$400 in 1983 dollars. This places Somalia among the poorest countries in the World.

Agriculture, including livestock, crops, fisheries and

1. This economic analysis relies heavily on secondary source material, the most helpful of which were the draft 1982 World Bank report, draft 1982 materials provided unofficially by the EEC representative, the USAID/Somalia Social and Institutional Profile (SIP) prepared by Boston University, the Economic Analysis for Somalia prepared by REDSO/ESA, the Development Strategy and Programme prepared by the Somali Government in July 1982, the February 1983 IMF report of Recent Economic Developments in Somalia, the September 1982 Elliot Berg Study on Encouraging the Private Sector, and the June 1981 World Bank Somalia Agricultural Sector Review (3 volumes) -- although other studies were also reviewed.

2. Of the country's total land area, 45 percent is suitable for productive grazing, 42 percent is unsuitable or only marginal grazing land, and the remaining 13 percent (8.2 million hectares) is potentially arable.

SOMALIA - Basic DataArea and population

Area	637,700 square kilometers
Population: Total (mid-1981 estimate)	4.90 million
Growth rate (1972-81)	6.7 per cent

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>
	<u>Prel.</u>			
	<u>(Annual percentage changes)</u>			

Selected economic indicators

Exports, f.o.b.	-3.2	25.5	-9.0	38.0
Imports, c.i.f.	43.2	17.0	-1.7	12.6
Government revenue and grants	22.8	4.8	25.2	55.9
Government expenditure	37.1	-5.3	10.1	47.3
Domestic credit	72.4	31.2	17.2	11.2
Domestic liquidity	37.4	20.2	30.8	10.6
Import-weighted effective exchange rate (depreciation -)				
In nominal terms	-4.2	-0.5	-3.5	-26.8
In real terms	6.1	36.1	23.4	-20.2

(In millions of Somali shillings)

Government finance

Total revenue	1,526	1,421	2,251	2,999
Transfers from local authorities	--	--	12	17
Grants (excluding grants in kind)	271	463	97	663
Budgetary expenditure	-1,797	-1,832	-3,081	-3,666
Transfers to local authorities	...	-132	--	--
Other expenditure	-1,447	-1,108	-301	-1,314
Overall deficit (-)	-1,447	-1,188	-1,022	-1,301
Financing	1,447	1,188	1,022	1,301
Foreign (net) <u>1/</u>	527	504	681	1,431
Domestic	920	684	341	-130
Banking system	(920)	(671)	(347)	(-135)
Cash balances	(--)	(13)	(-6)	(5)
Overall deficit as per cent of expenditure	44.6	38.7	30.2	26.1

1/ Includes loans in kind.

SOMALIA - Basic Data (concluded)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u> Prel.
<u>(In millions of Somali shillings)</u>				
<u>Money and credit (end-year)</u>				
Foreign assets (net)	318	145	126	-410
Domestic credit	2,957	3,879	4,546	5,054
Government (net)	1,231	1,902	2,250	2,115
Other	1,726	1,977	2,296	2,939
Money and quasi-money	2,813	3,381	4,421	4,888
Other items (net)	462	643	251	- 244
<u>(In millions of U.S. dollars)</u>				
<u>Balance of payments</u>				
Exports, f.o.b.	106	133	121	167
Livestock	75	102	105	125
Bananas	12	8	6	12
Other	19	24	10	30
Imports, c.i.f. <u>1/</u>	-394	-461	-453	-510
<u>Franco valuta</u>	-34	-55	-60	--
Other	-360	-406	-393	-510
Trade balance	-288	-328	-332	-343
Services (net)	-12	-8	19	20
Transfers (net)	94	200	212	228
Private	36	57	64	50
Official <u>2/</u>	58	143	148	178
Current account	-206	-136	-101	-95
Capital account	88	87	73	58
Private (net)	4	--	--	-45
Official (net) <u>3/</u>	84	87	73	103
Disbursement	(87)	(97)	(93)	(113)
Amortization	(-3)	(-10)	(-20)	(-10)
Errors and omissions	19	22	16	--
Overall balance	-99	-28	-13	-37
<u>Outstanding external debt</u> (end-year)	597.0	720.0	902.0	1,040.0
<u>Gross international reserves</u> <u>of Central Bank (end-year)</u>	51.0	25.0	42.0	43.0
<u>In number of months of non-franco</u> <u>valuta imports, c.i.f.</u>	1.7	0.7	1.3	1.0
<u>(1977 = 100)</u>				
<u>Mogadiscio Consumer Price Index</u> (annual averages)	136.2	217.1	313.2	388.7

1/ Imports, c.i.f. includes loans and grants in kind.

2/ Including grants in kind.

3/ Including loans in kind.

forestry is the predominant sector in the Somali economy.[2] Livestock production, by far the most important subsector, provides 38% of GDP, over 60 percent of total employment, and 80 percent of total foreign exchange earnings. Bananas are the only significant crop export at present although citrus shows some promise for the future. Somalia is also well known for its exports of frankincense and myrrh gum products, although these account for a very small percentage of total exports.

Settled crop production accounts for between 7 and 10 percent of GDP. Rainfed agriculture occupies some 540,000 hectares and provides a livelihood for approximately 600,000 people. Irrigated cultivation accounts for approximately 150,000 hectares with two thirds of this area under seasonal flood irrigation and the remainder under controlled irrigation.

Fisheries account for less than one percent of GDP involving two percent of the population with production fluctuating between 4,000 and 11,000 tons per year. Forestry, as an industry, has stagnated in real terms, although it still accounts for four percent of GDP.

The Somali manufacturing sector, which generates 5-10 percent of GDP, is small, inefficient and dominated by 85 public enterprises, including 15 major ones. It employs 16,000 persons of whom some 70 percent work in parastatals. About half the value added and employment in the manufacturing sector is provided by agro-processing industries. Although there was substantial growth in the number of public enterprises, new investment, and employment in the 1970's, there was a continual

decline in manufacturing value added as total capacity and utilization dropped. In the private sector, on the otherhand, the few industries able to survive during the scientific socialism period achieved a ten percent increase in value added per annum, both in absolute terms and per worker.

The contribution of the services sector, as estimated in the national accounts, increased from 27 to 32 percent during the 1970's. The estimated value of government services increased from 7.6 to 10.0 percent of GDP -- attributable in part to a real growth in government services and in part to unproductive overstaffing of government agencies and parastatals.

Labor migration, particluarly to the Gulf States, has made a significant contribution to GNP in recent years. Remittances from an estimated 100,000 Somalis now working in the Middle East provide a significant flow of funds into the country. In 1981 these remittances reached a peak of \$64 million before declining radically in 1982 when economic reforms -- urged by the IMF and other donors -- eliminated the semi-official mechanism for remitting funds.

Although conventional fuels (petroleum products) account for only 6 percent of total energy consumption, they play a vital role in the modern sector of the Somali economy, providing energy for transport, the electric power sector and industry. These petroleum imports represent a significant drain on the Somali balance of payments, accounting for an estimated 24 percent of the country's "official cash imports" in 1980.

-- Recent Economic Trends and Current Situation

Somalia has been operating under IMF stabilization agreements since 1980. The performance under the first agreement was not satisfactory and limits on expenditures and borrowings were exceeded. Beginning in 1981, the government became quite serious about adhering to the letter of the agreements. In the 1981-1982 program, Somalia devalued its currency by over 50%, using a two tiered system as a stepping stone, met restrictions on borrowing and expenditure, revised the interest rate structure, phased out several parastatals, and increased producer prices in the agricultural sector by moving to a free market determined system of pricing. According to the IMF, Somalia's performance under its stabilization program has been among the best in Africa.

As a result of the stabilization program the inflation rate has decreased significantly, from nearly 60% in 1980 to less than 30% in 1982. Good rainfall enhanced the effects of the newly instituted policies -- with commodity exports expanding and imports of non-donor financed commodities falling. However, the loss of transfers caused by the elimination of the Franco Valuta[3] system left the overall balance of payments deficit at \$37 million in 1982 as opposed to \$28 million in 1980. This is still well below the deficits of the late 1970's. Recent adjustments in the exchange procedures, including the provision

3. The Franco Valuta system was a procedure which permitted Somalis earning funds in foreign countries -- principally the Gulf States -- to repatriate these earnings by purchasing goods in the foreign country and then importing them into Somalia and selling them for shillings at a real exchange rate. It was abolished under the terms of the IMF agreement.

for Somali investors to maintain "external accounts" in the Central Bank have reportedly begun to attract some of the remittances lost when Franco Valuta was abolished. This is not reflected in the data because the accounts for the first quarter of 1983 are not yet available.

The government budget deficit has declined to 35% of total revenues and grants in 1982 versus 63% in 1980. More importantly, the deficit is no longer financed by domestic credit which serves to increase money supply and fuel inflation. The IMF credit is sufficient to cover the entire deficit.

Somalia's debt burden has been climbing over the past several years from \$597 million in 1979 to an estimated \$1,040 in 1982, two thirds of which is government to government debt. Reschedulings (primarily by the Arab governments and banks), moratoriums on payments to the USSR and some debt cancellations brought the debt service ratio down to 8.9% of export receipts in 1982. In the absence of these actions the ratio would have been in excess of 30%.

The IMF is currently negotiating a longer term Extended Fund Facility (EFF) which will address further policy reforms needed to achieve systematic rehabilitation and growth. The Consultative Group which was recently established for Somalia will be working along side the IMF to define the resource gap and mobilize the resources required to fill the gap and maintain the momentum of the past two years.

-- Macroeconomic Constraints

The macroeconomic constraints in Somalia encompass the full range commonly found in poor countries. Over the past two years the Government has taken significant strides in addressing some of the most basic problems. The next steps which have to be taken are critically important for the medium term stability of the economy. The major constraints to be addressed include:

- Failure to capture remittances from workers in the Arab states - estimated magnitude over \$150 million;
- Weak foreign exchange control with imports administratively controlled but not directed toward the most productive sectors;
- An excessive wage bill resulting from a large government payroll which, despite low salaries, places an extreme burden on the domestic budget;
- Weak fiscal management with inadequate budgeting and controls over ministerial obligations;
- Excessive government participation in manufacturing, agriculture and services sectors; and
- High government spending on defense.

In terms of the longer term economic perspective, three additional constraints will be important:

- Increasing energy expenditures which drain foreign exchange;
- The continuing fragile export base -- essentially only two commodities, livestock and bananas;
- The dearth of skilled manpower to manage and stimulate economic growth;
- An investment climate which has not yet reached a point of great interest to foreigners -- coupled with the likelihood that levels of foreign public assistance will decline; and
- Population growth hovering in the 2.5 - 3.0% range

and diverting resources from growth to subsistence.

Most of the macroeconomic constraints cited above require policy reform for resolution. The principal institutional constraints call for greater government control over expenditures and follow through on parastatal divestiture.

-- Impacts of Constraints on Development

Two constraints loom large in the short term -- the unfavorable balance of payments situation and the deficit in the domestic budget. Due to the scarcity of foreign exchange, the Somali government has been unable to sustain a development program of its own since it cannot import the foreign manufactured goods which are essential to undertake such a program. This tight foreign exchange situation affects the availability of fuel and spare parts, making the continuance of government operations a constant struggle.

In the private sector, the scarcity of foreign exchange makes it difficult for entrepreneurs to maintain existing facilities or expand their operations. AID's initial experience in the CIP indicates that there is a great pent-up demand for foreign exchange among the entrepreneurs, demand intensified by the recent elimination of the franco-valuta system -- a sanctioned, parallel foreign exchange market which functioned on repatriated earnings from the gulf states. There is not yet enough confidence in the government banking system to attract these repatriated remittances through the official system. Since the private sector must be relied upon to revive the small industry and services sectors of the economy -- as well as to

progressively assume responsibility for manufacturing, agriculture, and many services operations now operated by the government, the lack of hard currency for investment is a significant constraint on development.

The government budget deficit is also a constraint to development in the short term. In the period from 1978 to 1980, the government was trapped in a vicious circle whereby a large budget deficit caused high inflation which forced further increases in budget deficits which in turn caused more inflation. In 1981 and 1982, however, the government took strong fiscal steps to freeze inflation and began reducing the deficit in real terms. This move had the desired effect but also dried up development funds as scarce budgetary resources were used to cover recurrent costs rather than to finance development initiatives.

In the longer term, foreign private investment becomes of increasing importance in maintaining the momentum of growth. During the period of Russian domination in the 1970's, private initiatives were frowned upon, and the investment climate became untenable for local as well as foreign investors. In the late 1970's, the government began relaxing restrictions on private enterprise and is now encouraging the involvement of both foreign and local private capital. Although some doubts remain, local investors are gaining confidence and interest in investment is rising. Additional steps must be taken, however, to encourage the political and policy stability essential to attract foreign capital to Somalia and to highlight the profit margins possible in a market situation that has been artificially depressed.

-- Government Plans and Objectives

The Government's Five Year Development Plan (1982-1986) and the subsequent Development Strategy and Program (1982-1986) -- which was intended as draft of the program for the Consultative Group -- were formulated in the context of the macroeconomic situation. Some consideration was given to the macroeconomic constraints discussed above in Project identification and appraisal. The plan emphasizes public investments designed to either save foreign exchange or support exports which will generate additional foreign exchange.

Despite the best intentions of the government and the efforts of the IBRD team to establish investment priorities, the Government's current strategy and its related investment program are weak in certain aspects. The strategy's overall objective is sound -- ie. tightening fiscal policies and placing emphasis on projects with a rapid economic payoff. However, the investment program does not reflect this objective in-as-much as certain projects of dubious value (e.g. Gisoma Ranch) are given fairly high priority. In addition, the plan places undue reliance on the public sector's ability to undertake productive enterprises when support for the private sector would probably be more effective. Finally, the critically important issue of government salaries and over employment are not treated in the strategy nor provided for in the program.

The joint IBRD/IMF team which arrived in Somalia in May 1983 intends to negotiate a plan revision which corrects the deficiencies of the investment program. This revision will be

used in drawing up the provisions of the upcoming IMF Extended Fund Facility and serve as the platform for Consultative Group discussions in October 1983.

Specifically, the five year plan calls for a substantial increase in investment in the agricultural sector -- although much of this is for the Bardhera dam with the intent of impacting, in a longer term timeframe, on the petroleum import problem through provision of hydroelectric power. Investment for economic infrastructure is also increased with water resources absorbing the largest portion in this category.

Financing for the plan, estimated at over \$2 billion for the five year period, is projected to come from foreign financing (58%) - with 8.5% from commercial loans, 29.8% from concessional loans and 19.7% grant funded - and from domestic financing (17%) leaving a financing gap of 25%. Since the bulk of the foreign assistance is grant or concessional loan financing, the burden on the government is limited.

Beyond the government's development plans, the private sector is undertaking a development program of its own with numerous entrepreneurs indicating interest in establishing agricultural and livestock schemes, small businesses, and industries. With government resources heavily committed to infrastructure, the private sector resources are required to fill the gap in the rural and industrial development field. The interest expressed has been surprising to many in Somalia and as more experience is gained and greater confidence established, the private sector will increase in importance. The Government

acknowledges the development in the private sector but has not taken a role in directing the growth. The public sector role that is evolving is first to avoid being an impediment and secondly to facilitate the private sector development by establishing appropriate policies and providing infrastructural support.

THE SOCIAL SETTING

-- INTRODUCTION [4]

The Somali people are ethnically the most homogeneous in Africa, with five major clan families deriving language and culture from similar Cushitic origins and adhering predominantly to Sunni Islamic beliefs. A small percentage of the population in the south reflects some Bantu heritage. The population of Somalia was estimated to be around five million in 1981, including some 500,000 refugees in camps. Approximately 45 percent of this population is below the age of fifteen.

The land, climate and location of Somalia have shaped its historical development. The land consists of nearly 628,000 square kilometers of semi arid area and savannahs, capable of supporting extensive nomadic pastoralism and stretches of dryland agriculture. Two major rivers offer opportunities for irrigated production. The longest coastline in Africa has enabled the Somalis over the years to emerge as skilled traders and

4. This analysis relies heavily upon the Social and Institutional Profile (SIP) prepared by Boston University in 1982-1983

businessmen throughout East Africa and the Gulf States. The Somali entrepreneurial talent and ingenuity is widely acknowledged throughout the region today.

Traditionally Somali societal norms stressed the importance of the individual within a strong egalitarian framework. Organizational structures provided for communal decision-making at various levels within an extended family and clan grouping. A limited hierarchy existed among clans, both with respect to gender -- with women in less prominent decision-making roles -- and occupation, with certain manual skills such as leatherworking, blacksmithing and fishing viewed less highly than others.

By some accounts, incursion of "modern" forms of organization has disrupted the traditional cohesiveness. However, other historians and social scientists assert that both tradition and the dynamism of the society have been strengthened as a reaction to the outside. The dynamism is most apparent in the microeconomic survival strategies:

"The functioning of the Somali economy must be understood in terms of the varied strategies employed by extended families to generate real income and avoid undue risk.... attempts to identify poverty groups under the assumption that families are either nomad, settled, or urban are misguided to the extent that many families are simultaneously engaged in at least two, and frequently all three, sectors.... if families do, in fact, pursue the 'mixed' strategies we have been suggesting, the need to target development assistance is reduced..."[5]

Defining the mixed microeconomic strategies is a complex

task. A generally accepted breakdown suggests that roughly 50% of the population is primarily nomadic, another 20% involved in settled agriculture, 10% are rural traders, and the remaining 20% live in urban areas. Many refugees apparently come from nomadic backgrounds, but some have farming experience as well. In many households women are serving as the heads of household and this impacts on the choice of economic strategies. More detailed data on household and extended family "mixed" economic strategies should be generated in the next year under several USAID supported efforts.[6]

The SIP includes a comprehensive analysis of recent attempts to identify those Somalis living in extreme poverty and concludes that approximately 34% of all Somali's are "absolutely poor". Of this group, about 19% are settled farmers, and 6% nonagriculturists and the remainder are refugees.[7][8] Thus absolute poverty is present in Somalia, but in a very limited sense and primarily among the refugees.

Despite their frequent movement and geographic dispersion, Somalis have preserved a high degree of cultural, social, and linguistic unity over the centuries. The Somali clan system assigns each individual a place in the society and an extended

6. These studies include the migration study, external employment study, internal employment study, the HRD assessment, microlevel studies under the Bay Region and Central Rangelands projects, and the sociological study of the Juba River Valley.

7. Assumes calorie based poverty line and all refugees below the poverty line.

8. Vali Jamal, "Nomads, Farmers and Townsman, Incomes and Inequality in Somalia". Addis Ababa, ILO/JASPA Working Paper #29, 1981

network of relatives to call upon for support in time of need. Social interaction in the rangelands is strikingly democratic while among the southern, more settled cultivators, it is more formalized and territorial, with political affairs and management decisions more under the direction of the community leaders.

Microeconomic Strategies

Dividing the Somali nation into sedentary farming and nomadic households can be misleading. This standard classification masks the fact that households of two or three occupation types are often grouped together in larger extended family management units to exploit agricultural as well as other opportunities. While individual family units enjoy considerable autonomy in day to day affairs, they constitute a single unit when it comes to the allocation of resources and pooling of risk. Individuals, capital and consumer goods are transferred from one household to another to adjust for income losses, to obtain higher prices for produce, to take advantage of employment opportunities, to start a new enterprise such as a shop, or to place a child closer to a school. An increasing number of families have begun to invest in commercial enterprises, urban real estate and trucking. The strategy chosen by individual family units varies according to the age and sex of the members, their access to land, water, and pasture resources, the location of commodity and labor markets -- and the links to relatives in urban areas.

The nomadic peoples of Somalia have adapted well while in wresting a living from their challenging environment. To take

advantage of widely scattered pastures, clans manage their herds by dividing them into smaller units entrusted to individuals or small groups. These wander widely during the wet season, and usually regroup near permanent water sources during the dry season. The units have considerable autonomy since they must initiate action in the face of rapidly changing environmental conditions.

In the interriverine area, assets exploited by extended families include arable land as well as livestock pasturages. Bay region agriculturists have long engaged in multiple income strategies involving the transfer of labor and capital resources from one decentralized management unit to another in response to changing circumstances. This pattern has enabled residents to cope with unpredictable weather patterns and take advantage of changing opportunities. It has also created important linkages between local, national, and even international commodity and labor markets, as households allocate their energies and resources between different productive activities in response to changing conditions. Income strategies have broadened to include migrant wage labor on modern plantations, in the city, and most recently in the Gulf States.

Substantial numbers of Somalis have engaged in trade and transport in scattered communities throughout East Africa and parts of the Gulf. The ability of families to maintain liaison with members in these far-flung locations has been impressive. A network of information on the availability of wage employment, variation in seasonal, sectoral and national wage rates, and the costs of moving in response to new opportunities is kept current

even in remote communities. The stepped-up migration of Somalis to the Gulf in recent years has been greatly facilitated by these networks. Visible signs of remitted earnings, (e.g. investment in water tanks in pastoral areas and small shops in agricultural areas) bear witness to the continued vitality of Somali extended family organizations which have been referred to as "multi-national enterprises in microcosm".

-- Local Development Institutions

Traditionally, access to public resources was controlled by two types of social institution: clan groups, which united extended families on the basis of kinship ties through the male line, and user associations, which were established to create and maintain physical works.

An individual household's access to pasture or arable land existed by virtue of its affiliation with the local clan group. These groups were (and remain, to some extent) a kind of corporation in which all members were shareholders, with chiefs and elders as officers. In general, members were not guaranteed particular land parcels, but had the right to cultivate or graze a share of land, provided clan obligations were fulfilled. In the rangelands, lineage mates made formal contracts of alliance, which not only served to establish political obligations, but provided the basis for labor-sharing on community projects, as well as defense and management of the group's grazing resources.

Under "user organizations" groups of villagers -- without regard to clan affiliation -- were organized to clear bush, open new lands, plant and harvest and to engage in house

construction. The most important resource managed by this type of organization was, and still is, water. Water user associations, democratically elected, established regulations for water usage and system maintenance, and levied fines for such infractions as wasting water or polluting it.

The nature and effectiveness of the control exercised by Somali traditional institutions has been weakened in recent years by the expansion of the central government authority and the introduction of technological changes. At the same time the obligations that close kins bear to one another remain powerful influences in their lives, especially in the absence of effective alternatives.

Over the years land has been controlled by its use, not by ownership. Recently, especially near urban areas, there has been a shift away from "user rights control" as land has become valued as a good to be acquired, leased or sold in the "market". This trend is expected to accelerate with the renewed emphasis on private initiatives.

-- IMPLICATIONS FOR USAID STRATEGY

In view of the complexities of the social setting, there is a need for more in depth studies if donor strategies are to achieve optimal impact. In the meantime, several considerations stand out for AID programming:

- Most families follow a microeconomic strategy which features a great diversity of economic activity. Therefore, the need for specific targeting of our development activities is reduced.

- A majority of the Somali people are involved in the export of either livestock or labor. Therefore, the AID strategy should contain outward looking components -- both studies to increase understanding of the situation and specific programs to provide support to the export sector.
- Numerous traditional organizations incorporating several family units control important resources (water, land, some economic activity). Therefore, AID projects should utilize these institutions in preference to creating new institutions.

The Agricultural Sector

-- Overview

Agriculture, including farming, livestock and forestry, is the mainstay of the Somali economy. This sector, which accounts for over 60 percent of gross domestic product (GDP)[9] and some 90 percent of export earnings, provides employment to 80 percent of the population. The pastoral system supports the subsistence of between 60 and 80 percent of the population, provides fresh milk and other dairy products daily to the burgeoning urban population of Somalia, and provides over 80 percent of the preferred live-slaughtered meat for the Arabian peninsula. While providing 1.5 million animals to the export trade and nearly another half-million to domestic municipal slaughter, the system has proven resilient enough to recover from the 1974-1975 drought, to utilize pastures in war-torn areas, and to provide

9. The overwhelming preponderance of the Agricultural sector presents an opportunity for significant increases in GDP with only marginal increases in productivity in the sector. A 10% improvement in production or productivity in this sector will result in a 6% increase in GDP. A similar 10% increase in manufacturing value added would raise GDP by only 1%.

steadily improving prices to producers.

Herd movements take maximum advantage of seasonal, often erratic rainfall and pasturage,. In the north, the highlands house the permanent homewells, the traditional dry season preserves of major subdivisions of the Somali people. From these areas, camel herders ranged south into the Haud (Ogaden Region of Ethiopia) following the rains during the wet seasons. Most of the women and children remain behind tending flocks of sheep and goats in the permanent pastures. From central Somalia, herders generally move westward from home wells into wet season pastures in the Ogaden, or eastward to take advantage of rainfall along the Indian Ocean coast. In years of drought, movements of herds and people increase dramatically as livestock owners take special steps to save their herds. Changes in the mix of the national herd -- toward cattle and sheep and away from camels -- reflect sensitivity to the market for meat in Saudi Arabia, but it is not known what effects such changes may be having upon the rangelands or upon subsistence security.

The livestock trade is a major example of the efficacy of the Somali private sector. Even in periods of strongest government challenge to private capital, livestock merchants were much too important to national revenues to be tampered with. Intermediaries in the livestock trade begin assembly of commercial herds in the countryside. Initial buyers may be close kinsmen of a livestock owner, or more distant relatives, who act as outlying agents to larger volume traders. Herders may also take animals to larger markets and consign their animals to a

trader who is trusted to know the details of international market conditions.[10] Traders compete keenly with each other. Trade has expanded into the hinterlands with transport growth and the new national highway has accelerated penetration of the countryside by major traders. Some larger traders have invested in cement water tanks in order to stimulate concentrations of animals on accessible truck routes; traders may own or charter trucks to assemble herds. Other traders have fenced valley bottoms to harvest feed for animals, or own hay storage compounds near the ports. Despite substantial trade, and the concentration of exports in the hands of a few hundred enterprises, there is little evidence that producers are being bled of their production.

However, supply constraints are not known, since there is little quantitative information on production nor on effective services available to primary producers. Without much better data on offtake rates, composition by age, species and sex of the commercial stream (including domestic sales and exchanges) and geographic and seasonal trade variations, it is difficult to say whether there is a looming supply constraint to the increase of exports, or a threat to subsistence food production from rising export price incentives.

Farming in Somalia is made up of two sub-sectors -- rainfed

10. Somalia's strategic location in the economy of the Gulf and its access to Gulf markets for export of meat and labor are not solely modern phenomena. From very early times, commercial activity along the coast proved compatible with Somali nomadic life in the interior. Somali mercantile ports figured in accounts of Greek, Arab, Chinese and Portuguese travellers over the first sixteen centuries of the Christian era. Livestock production has been partly commercialized for centuries, and some state that Somalis have exported livestock since 1300's.

and irrigated. Rainfed farming, comprising 77 percent of the total cultivated area, includes Somalia's major crops: sorghum, pulses, millet, maize, sesame and groundnuts. Historically, this sub-sector has been characterized by low per capita productivity because of inadequate economic incentives and lack of technical inputs. Due to a combination of good weather and liberalization of the market which led to higher producer prices, maize and sorghum production increased in 1981 by 42 percent and 47 percent respectively over the 1976-80 average, while even further increases were attained in 1982.

Irrigated farming, mainly along the Shebelle and Juba Rivers, accounts for the remaining 23 percent under cultivation. One third of this area is devoted to controlled irrigation with the remainder to flood or recession cropping. Besides being less susceptible to drought, irrigated farming tends to be more capital intensive, and oriented either toward import substitution (cotton, sugar) or export crops (bananas, citrus). Recently, an energetic, market-oriented group of irrigation farmers has emerged and seized upon the opportunities opened by the liberalization of marketing conditions, favorable prices and good weather. As a result, banana production and exports in 1982 increased by 43 percent and 67 percent respectively over 1981, sugarcane production in 1982 reached "unprecedented levels"[11], and grapefruit production climbed to 18,000 metric tons in 1981 in contrast to 3,000 in 1978.

Thus, livestock and farming (both rainfed and irrigated)

have apparent potential for considerable future growth during non-drought years.[12] This potential includes bringing up to 230,000 additional hectares into irrigation, upgrading 110,000 hectares of land from uncontrolled flood irrigation lands to controlled irrigation, and increasing crop yields on dryland and irrigated land by 100 percent.[13] The realization of these further gains is the major task confronting Somalia and its development partners.

Small-scale forestry is the predominant source of energy for Somalia. Eighty-six percent of national energy consumption is in the form of fuelwood and charcoal, and annual wood consumption is estimated at 5 million cubic meters. Although this rate of utilization could be met by Somali's bushlands and woodlands if it were evenly spread throughout the country, the demand, in fact, is concentrated in the urban areas, refugee camps and in agricultural settlements. As a result, significant hinterland areas are being severely deforested. The trend is having an adverse effect on both farming and livestock due to the loss of benefits which normally flow from trees--such as moisture retention, soil stabilization, siltation control, nitrogen fixation and fodder production. Thus, reforestation is becoming increasingly important both in terms of meeting Somalia's energy needs as well as enabling the livestock and farming sectors to reach their potentials.

12. The fisheries sector may have the potential to increase production somewhat but current production is so small that a significant contribution to GDP would not be possible.

13. REDSO Economic Analysis, p. 18

-- Constraints and their Impact on Development

- Knowledge Base: Although Somali agriculture has been the subject of numerous studies, many of these have been superficial or derived from questionable sets of base-data. Thus the dynamics of the agricultural sector are not adequately understood, and key technical issues remain hotly debated and unresolved. The recent Social and Institutional Profile (SIP) concludes that from an analytical standpoint rather than being "studied to death", Somali agriculture has hardly been touched.
- The more serious gaps in knowledge relate to ecological issues, micro-level strategies and technology choices. In the ecological area the lacunae range from the unknown capacity of the rangelands to support current or expanded herds to the effects of introducing additional irrigation in the river valleys and intensifying dry land agriculture. Micro strategies are hampered by inadequate information about family level decision making -- a complex and dynamic situation affected by pastoral and sedentary modes of production as well as migrant flows to urban areas in Somalia and overseas labor markets. With respect to choices of technology, the returns to existing technologies are still matters of speculation, and directions for future technology development are unclear. Until more reliable data is accumulated in these three basic areas, project interventions will remain "first generation" in nature and impact less than optimal.
- Climatic Variability: Somali farmers have developed, and are operating, an efficient production management system, given the climatic situation and their level of technology. However, the heavy reliance on dry land cereals production and range fed livestock leaves the country vulnerable during dry years and slows the rate of food production increases even during years with favorable growing conditions.
- Labor Availability: There are indications in several preliminary studies that a labor scarcity is felt in the rural areas during peak production periods. Furthermore, increasing complexity of technology will require more skilled labor. Future growth in the sector will be constrained depending upon the severity of this shortage.

- **Institutions:** Although agencies in the Agriculture Sector are among the strongest in government, there is scope for considerable institutional improvement. The Ministries of Agriculture and Livestock and the National Range Agency, in particular, have a number of competent individuals at-the-top but notable gaps in trained manpower prevail at the middle level. Reduction of the Government budget will require that employment in the ministries decrease significantly if appropriate salaries are to be paid. The planning capability of these agencies is weak depending as it does on spasmodic and "crash" data-collecting efforts which too often rely on unverified "facts" from aging reports. The principal weakness of these institutions, however, has been their proclivity to over-reach and function in areas (e.g., marketing, input supply -- even production) best left to the private sector.
- **Policy:** At the policy level, two constraints have proved formidable: The first has been the emphasis on parastatals as vehicles for agricultural development; and the second, an adherence to unwise pricing policies. As previously indicated, the policy emphasis on public sector dominance is currently being re-evaluated. A liberalization of price policies has begun with the dismantling of the Agricultural Development Corporation. This encouraging step must be further encouraged and market pricing allowed to prevail. A related policy matter which requires additional analysis is the effect of large shipments of concessional or donated foods currently being imported into the country. These foodstuffs are undoubtedly impacting on consumption patterns -- which will be reflected in the demand structure in the future.
- **Markets:** Somalia now has only two major exports, livestock and bananas. The livestock market is vulnerable to exogenous factors such as competition from Australia and New Zealand and stiffening health requirements in the importing countries. The competition factor is not critical since the Somalia stock is viewed as a premium commodity in the Arab world and there is ample room on the demand side for expansion of exports if marketing procedures can be improved. The health factor is more worrisome, however, because it will take time for Somalia to develop the infrastructure to comply with quarantine or "disease free zones" requirements. Any serious loss of market will have a dire ripple effect on both the economy and the ecology in Somalia.
- **Government Plans:** Government plans for the sector are defined in two documents, the Five Year

The Government has taken its responsibilities in the formal education sector very seriously. Following the development of a romanized script for the Somali language in the late 1960's, the opportunities for literacy were greatly improved. A crash program for adult literacy in 1973-75 increased literacy from 5% in 1972 to an estimated 60% by 1980. Primary education is now available to all and -- although not every child participates in the primary school program -- 50% of the school aged children are now enrolled. The proportion of female students in the primary school system has risen from 22% to 37% during the past decade. Secondary schools provide schooling for only 7% of the secondary aged children. The majority of the graduates of the secondary school find employment with government ministries. The National University includes faculties of Arts and Sciences, Agriculture, Law, Economics, Engineering, Medicine and Education. The University serves as the primary source of professionals for Government ministries.

Beyond the formal education system, there is a large and growing inservice system. Several government ministries have developed their own training programs to provide specialized training related to their functioning - e.g. primary health care training, agricultural extension training, etc. This inservice system is critical to the development effort and is supported by numerous donor programs.

The primary constraints in the education sector are:

- the lack of adequate facilities;

- the shortage of sufficient trained teachers;
- the linguistic diversity -- with Somali as the medium of instruction at the primary and secondary school levels, Italian in most faculties at the University and English throughout the donor supported inservice training;
- the shared responsibility for formal education between two ministries, the Ministry of Education and the Ministry of Higher Education.

HEALTH

Health and nutrition conditions throughout Somalia are poor. The average life expectancy is 44 years and infant mortality ranges between 146 (urban) and 174 (rural) deaths per thousand with an estimated 25-33% of the remaining children dying before the age of 5 years. The primary causes of infant death are malaria, diarrheal diseases, malnutrition and problems arising from radical female excision and infibulation. Impure water supplies, lack of waste disposal, poor food hygiene and nutritional deficiencies all contribute to poor health.

Up until the early 1980's the emphasis in the health sector had been on curative facilities with little outreach capability. Of 80 "hospitals" in the country, fifty are staffed only with nurses or medical assistants. Intensive health care services are concentrated in Mogadishu and the quality of service is hampered by the uneven supply of appropriate drugs.

Since the early 1980's, the Government's health strategy has been shifting increasingly toward rural oriented primary health care. The newest plan of the Ministry of Health puts emphasis on the preventative nature of primary health care services. Primary

health care systems are now planned for eight regions of the country supported by various donors.[15]

The major constraints in the health sector are as follows:

- the project oriented, vertical organization of the Ministry of Health leads to a series of similar divisions with overlapping responsibilities;
- the government monopoly on the delivery of health care services and pharmaceuticals results in non-care when the government system breaks down; and
- the lack of coordination between various programs in the ministry leads to spreading scarce resources too thinly.

POPULATION

Population growth has been approaching or exceeding 3.0% (excluding refugee influxes) which will result in long term pressures on the fragile resource base. Until recently, the government had taken a firm pronatalist stand on population issues. Recently there has been an increasing awareness of the need to slow population growth in order to enhance economic progress.

There is no official government policy on population policy as yet. However, a proposed policy has been submitted by the Ministry of Health which calls for an increasingly active

15. In addition to the two regions being undertaken by USAID, CARITAS is beginning the Gedo region, Italian assistance - Hiran region, Community Action for Abroad (Australia) - Sanaa region, UNICEF/WHO - Lower and Middle Shebelle and Northwest regions

information program and making contraceptives available throughout the country. The womens movement -- which is very strong in Somalia -- is a major supporter of a liberal population planning policy. The Mission believes that the new population policy will be issued early in 1984 and that rudimentary programs now in operation will expand quickly.

The major constraints to be dealt with in population/family planning are as follows:

- the lack of knowledge in rural areas concerning family planning methods.
- the lack of reliable information on attitudes, practices and traditional approaches to child spacing;
- the shortage of appropriately trained staff; and
- the lack of suitable distribution mechanisms.

Other Donor Assistance

Somalia has relied heavily on foreign assistance for the past several years. Approximately 25% of GNP is made up of transfers from donors which was in the \$450 - 500 million range in 1983. This assistance comes from 25 different donor groups -- multilateral and bilateral.

Approximately 70% of donor assistance is concentrated in the areas of agriculture and livestock production, energy development, road/port rehabilitation and construction, and water resources development. (The first donor assistance table provides a detailed breakdown of donor funding.)

Assistance for the agriculture sector goes primarily to irrigation and dam development, extension, and crop production, while rangeland development and veterinary services attract the bulk of donor financing in the livestock area. Under the water resources sector, urban water supply and groundwater (well) development receive the most attention. Road construction and rehabilitation represents 75 percent of total assistance in the transport and communication sector for 1983.

The activities of the various donors showing their relative importance in various sectors is depicted graphically in the second donors table. The significant contribution of the Arab Funds -- Arab Development Fund, Kuwait Fund and Saudi Fund -- is clear from the graphs. Other multilateral agencies -- EEC, IBRD, and ADF/ADB -- also play a major role in Somalia's development program. On the bilateral side, the major donors are Germany, the U.S., and Italy.

Some donors are also active in general balance of payments support. These include the IMF with its Stand-by Arrangement, Saudi Arabia with its Oil Facility, and the U.S. with its CIP and PL-480 Title I program. The IBRD is likely to join this list by providing a Structural Adjustment Loan in 1984-85.

In addition to providing assistance in support of the government's budget, donors have taken a constructive role in policy dialogue, both individually and as a group. A local donor group was established in 1982 under the chairmanship of the IBRD resident representative and has met monthly to bring better coordination to donor activities. The group has set up sectoral

sub-groups to focus dialogue with the government on policy planning issues and implementation strategies. A Consultative Group for Somalia has recently been established to provide a forum for discussions on investment allocations, needed policy reforms, and long range planning for development.

Total Donor Assistance by Sector

(In Millions \$)

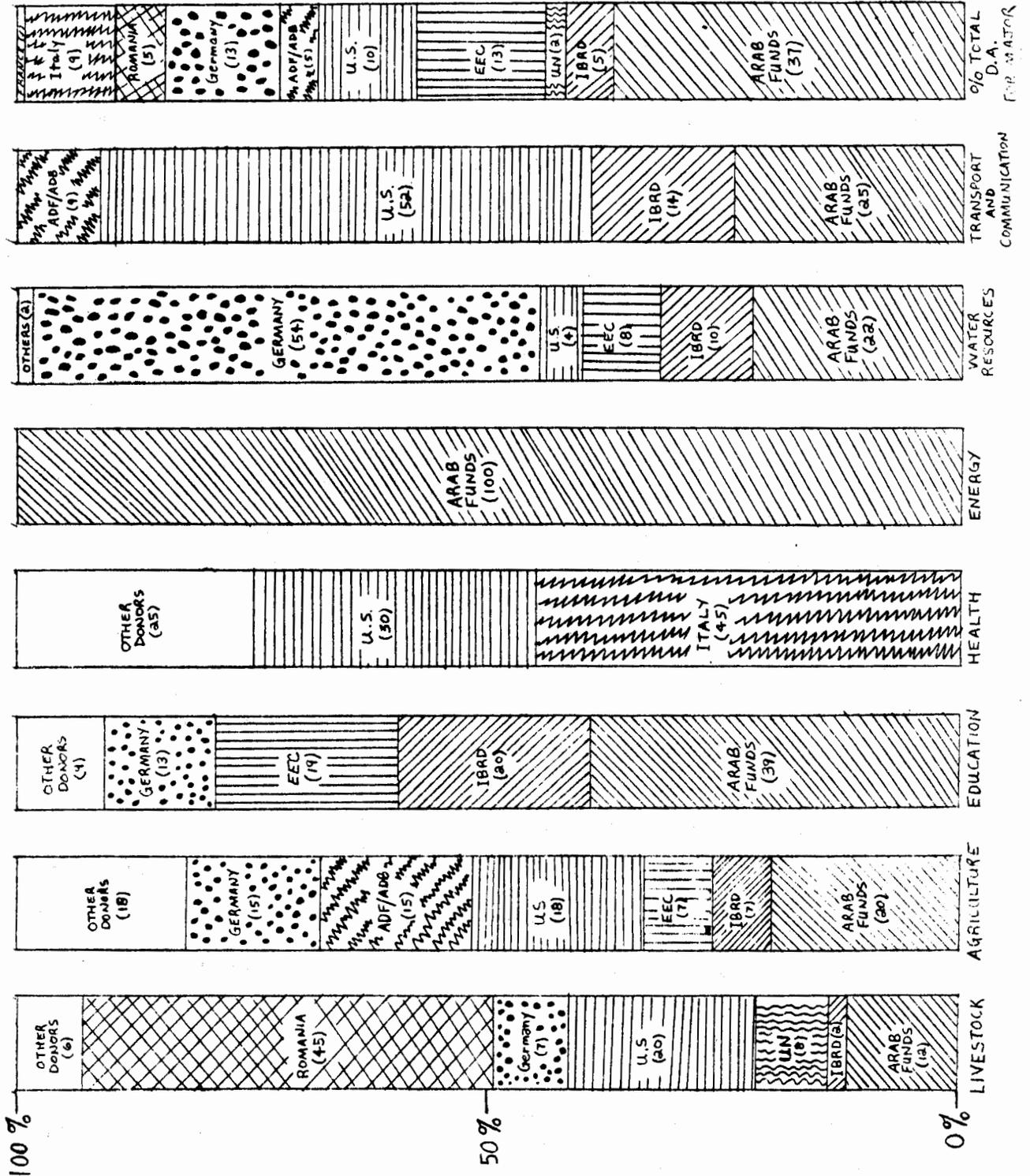
	<u>1984</u>	<u>% Total Assistance</u>	<u>1984-1986</u>	<u>% Total Assistance</u>
Agriculture	130	51.5	401.7	42.2
Livestock	33	13.0	123.8	13.0
Transport & Communica- tions (Roads, ports)	24.2	9.5	83.0	8.7
Energy, elec. power stations	15.6	6.2	48.6	5.1
Health	13.3	5.3	40.7	4.3
Education	11.9	4.7	40.9	4.3
Water Resources	10	4.0	103.3	10.8
Fisheries	6.8	2.7	23.1	2.4
Forestry & WLF	6.4	2.5	20.3	2.2
Minerals	1.0	.4	44.9	4.7
Manufacturing	.4	.2	22.4	2.3
	<u>252.6</u>	<u>100.0</u>	<u>952.7</u>	<u>100.0</u>

Major Donor Project Assistance
in 1984

(In Millions \$)

<u>Donor</u>	<u>1984</u>	<u>% Total Assistance</u>	<u>1984-1986</u>
Arab Funds	85.3	37	215.2
EEC	31.1	13	70.0
Fed. Rep. of Germany	30.5	13	104.5
Italy	19.9	9	69.1
United States	19.6	10	66.6
Romania	13.0	5	51.6
IBRD	12.5	5	39.5
ADF/ADB	12.2	5	36.7
UNDP	5.4	2	13.0
France	2	1	27.3
	<u>231.0</u>	<u>100.0</u>	<u>693.5</u>

PERCENT LEVEL OF MAJOR DONOR ASSISTANCE (PLANNED 1984)



STRATEGY

-- INTRODUCTION

The USAID strategy for Somalia addresses simultaneously the short term macroeconomic constraints and the longer term development needs. The strategy consists of a mix of project and non-project assistance, studies and dialogue to achieve specified long and short term objectives. The constraints to development in Somalia are many and varied and thus the strategy is an encompassing one.

An important element of the strategy is the continued accumulation of data, both through projects and "second generation" studies. The paucity of reliable data has been a severe obstacle to effective planning since the first days of AID's involvement in Somalia. In the past three years, USAID has undertaken a series of "first generation" studies to identify sector level constraints and design preliminary program strategies to address these constraints. Throughout the discussion in this CDSS you will find "second generation" studies are identified which will contribute, during the planning period, to an ongoing refinement of the USAID development strategy.

A second crosscutting theme in the USAID strategy is the attempt to strengthen the private sector and encourage it to play a more significant role in Somalia's development. A private sector thrust permeates our entire program even though it is featured separately for discussion purposes in sections of the

CDSS.

The USAID rural development program remains concentrated geographically in the Bay and Central Rangeland Regions. During the planning period there will be some expansion into the Juba River Valley but, in the beginning, this will be of an exploratory nature -- ie. studies and assessments -- and not require a high level of field supervision or logistical support. Under the CIP program we will be working with entrepreneurs in the Northwest region but this effort will be managed from Mogadishu. The Kismayo Port project will fall outside the area of USAID concentration but AID monitoring of this large infrastructure project can be carried out by the Mogadishu based engineering staff.

The USAID strategy focuses on three major goals with several specific objectives under each goal.[16]

The three major goals are:

- In the near term, help stabilize the economy so that the balance of payments position is favorable, the budget deficit is reduced, and inflation brought under control;
- In the medium term, undertake structural

16. Under each goal, specific objectives have been subsumed which will contribute to its achievement, and specific constraints identified which affect achievement of those objectives. Thus, the strategy becomes a constraint oriented approach with delineated objectives and goals to be attained over the planning period. The means proposed for overcoming the constraints are separated into three major categories of assistance: projects which include all the development assistance funded activities; non-project which includes PL-480, CIP, Counterpart funds, and Consultative Group activities; and the studies program which will further refine the planning function.

SOMALIA
SUMMARY STRATEGY

GOALS	OBJECTIVES	CONSTRAINTS	USAID STRATEGY				
			PROJECTS	NON-PROJECT	STUDIES		
STABILIZATION 1-5 YEARS 1981-1985	IMPROVED BAL OF PAYMENTS	LOW REMITTANCES			MIGRATION		
		FRAGILE EXPORT BASE			EXPORT PROMOTION		
		UNCONTROLLED IMPORTS		CIP PL-480 TITLE I			
		HIGH ENERGY COSTS	ENERGY ADVISOR				
	REDUCE PUBLIC DEFICIT	HIGH GOV'T PAYROLL COSTS		COUNTERPART			
		UNRESTRICTED SPENDING		CG DIALOGUE			
		INEFFICIENT PUBLIC ENTERPRISE		CG DIALOGUE	DIVESTITURE STUDY		
		MILITARY SPENDING					
		STRUCTURAL ADJUSTMENT 1-10 YEARS 1981-1991	GNP GROWTH RATE OF 6.0 % BY 1989	STYMIED PRIVATE SECTOR	EXPORT PROMOTION	CIP	EXPORT PROMOTION
				LACK OF FOREIGN CAPITAL		SUPPORT FOR IMF CIP	MIGRATION EXTERNAL EMPLOY.
HIGH POP. GROWTH	FAMILY PLANNING			CENTRAL COMMODITY			
5% PER ANNUM INCREASE IN FOOD PRODUCTION BY 1989	TECHNOLOGY GAPS		AG DELIVERY 0113 BAY REGION 0112 PROD. PLAN & RESCH IRRIG. REHAB & DEV	CG DIALOGUE	AG. RESEARCH STRATEGY (ISNAR)		
	PRICE POLICY			CG DIALOGUE	DIVESTITURE STUDY		
	LABOR AVAIL.		PROD. PLAN & RESCH		INTERNAL LABOR		
	INPUT COSTS			CIP			
INCREASE AGRIC. EXPORTS	DROUGHT VULNERABILITY		IRRIG. REHAB & DEV		SHABELLI VALLEY JUBA VALLEY		
	THREAT TO MARKETS		EXPORT MARKETING		EXPORT POTENTIAL		
	DROUGHT VULNERABILITY		CENTRAL RANGE BAY REGION COMP. GRND. WATER				

GOALS	OBJECTIVES	CONSTRAINTS	USAID STRATEGY			
			PROJECTS	NON-PROJECT	STUDIES	
IMPROVED QUALITY OF LIFE 1981-1991	INCREASE INCOMES BY 2.5% PER ANNUM	SEE STABILIZATION SEE STRUCT ADJ.	SEE STABILIZATION SEE STRUCT ADJ.	SEE STABILIZATION SEE STRUCT ADJ.	SEE STABILIZATION SEE STRUCT ADJ.	
	RAISE LIFE EXPECT TO YEARS [1]	CURATIVE ORIENT.	BASIC RURAL HEALTH REGIONAL PROJECTS			
		LACK OF RURAL FACIL	BASIC RURAL HEALTH			
		LACK OF DRUGS		DIALOGUE	PRIVATE SECTOR	
	DECREASE CHILD MORT. TO /1000 [1]	ENDEMIC DISEASES	EPI BASIC RURAL HEALTH			
		LACK OF KNOWLEDGE	BASIC RURAL HEALTH			
		HIGH POP GROWTH	FAMILY PLANNING	DIALOGUE		
		LACK OF DRUGS		DIALOGUE	PRIVATE SECTOR	
	DECREASE FERTILITY BY 7%	LACK OF KNOWLEDGE	FAMILY PLANNING		DEMOGRAPHIC & PREVELANCE STUDY	
		LACK OF POLICY		DIALOGUE		
		LACK OF CONTRACEP.	REGIONAL FAMILY PLANNING		PRIVATE SECTOR	
	IMPROVE MANPOWER CAPABILITY	LACK OF TRAINING	RURAL DEV. MGMT. ANDP ALL PROJECTS		HRD ASSESSMENT	
	IMPROVE GOVERNMENT INSTITUTIONS	DEVELOP ESSENTIAL GOV'T CAPACITY FOR PLANNING & IMPL.	LACK OF INCENTIVES		COUNTERPART	
			LACK OF TRAINING	RURAL DEV. MGMT. ALL PROJECTS		HRD ASSESSMENT
		LACK OF DATA	STUDIES PROGRAM		ALL ABOVE	

1. TARGETS TO BE DEFINED BASED ON CURRENT STUDY
UNDER FAMILY HEALTH INITIATIVES PROJECT.

adjustments within the economy to achieve economic growth; and

- In the longer term, improve the quality of life for the people of Somalia.

The Summary Strategy Table provides an overview of the strategy including goals, objectives, constraints and the USAID program.

STABILIZATION

The USAID strategy for the short term stabilization program focusses on two major goals, improving the balance of payments position and decreasing the budget deficit of the Government. We intend to utilize the IMF/IBRD structural adjustment program as the platform for ongoing discussions with the government and allow the pace of progress during these discussions to determine AID assistance levels on the macroeconomic front. The CIP and PL-480 Title I and/or Title III programs will be the primary mechanisms for supporting the stabilization program.

The CIP will provide essential imports to compensate for the constricted foreign exchange situation. A portion of the CIP has been reserved for essential imports which are required by the private and public sectors to maintain and operate existing facilities. Major items in this category include spare parts in the agricultural, manufacturing, and transport sectors. The provision of these items will have an immediate "shot in the arm" effect on the economy, particularly in the balance of payments area.

The PL-480 program will provide critically needed food imports and help bridge the food supply gap during the period of

foreign exchange restrictions. Despite recent increases in cereal production, there is still insufficient production of some crops, notably rice. Other essential cereals, such as wheat and sesame seed for cooking oil, will probably never be produced in sufficient quantities to satisfy national demand. The PL-480 program will focus on these commodities in short supply.

The counterpart funds generated from the sales of both the CIP and PL-480 commodities are also an important element of the USAID strategy as they provide support for development projects during the period of fiscal restraint. Without these funds, there would be little available for the development program because nearly all the funds would be committed to the recurrent administrative budget of the government.

The CIP, PL-480, and counterpart funds are also important to the ongoing policy dialogue on economic stabilization -- giving the U.S. Government credibility and leverage as a major contributor to the stabilization program. In negotiating the FY 84 to FY 86 agreements for these programs, the USAID will reinforce the IMF "second generation" program with particular emphasis on the following policy concerns:

- Agricultural price policies which lead to market equilibrium pricing;
- Interest rate policy to encourage rates which reflect the real cost of capital;
- Public sector employment and wage policies which provide performance incentives while holding the line on the total wage bill;
- Public enterprise policies which encourage divestiture of inappropriate public enterprises;

- Private sector policies which encourage private entrepreneurs to move into areas previously monopolized by the Government and to increase the activities of small business; and
- Tax and customs policy to encourage an equitable and appropriate tax system.

The USAID will continue to support the IMF in the area of fiscal reforms. A recent, critical analysis of the IMF criteria in the fiscal area, undertaken by the Mission and REDSO economists, [17] resulted in concurrence with the IMF approach in each instance -- with the exception of the elimination of the Franco Valuta system without the provision of a suitable alternative. As discussed in the analysis section, the IMF negotiations have been particularly effective in Somalia, and we will continue to look to them for leadership in this area. The upcoming IMF reform package will continue the progress in critical areas including: exchange rate modifications, government fiscal policy, revenue generation, expenditure control, and allocation of foreign exchange.

During the planning period, the Mission will undertake additional studies on specific macroeconomic concerns. One analysis, in the balance of payments context will focus on how to extract the remittances from Somali workers in the Gulf states. [18] The Mission will undertake a "GSDR portfolio review" of public sector enterprises leading to recommendations on

17. Economic Analysis for Somalia FY 85 Country Development Strategy Statement (CDSS), Callison, C. Stuart and Dijkerman, Dirk W., REDSO/ESA, April 1983

18. This analysis will be undertaken as part of a wider migration study, in the human resources sector and ultimately as a separate final study of its own.

leasing, divestiture, joint venture, or liquidation of parastatals. The objective of this study will be to reduce pressures on the national budget by weeding out unprofitable public enterprises.

STRUCTURAL ADJUSTMENT

The structural adjustment program is designed to get the economy back into a self sustaining growth mode. This is a multidonor initiative supported by all the donors active in Somalia and coordinated by the Consultative Group and the local donor representatives. The objectives under this program are:

- Maintain a growth rate of 2.5% per annum in the per capita GNP [19].
- Increase agricultural production by 5% per annum.
- Maintain incremental increases in agricultural exports.
- Develop improved government capacity for planning and implementation.

The first of these objectives forms the essence of the structural adjustment program. In order to accomplish it, the private sector will be required to make a major contribution. Each of the donors in Somalia is developing programs to contribute to this effort. The IBRD is expected to initiate a structural adjustment loan to provide the core of the effort. AID, through the CIP program, has begun to provide support by making available foreign currency for essential imports. The

19. GNP is utilized rather than GDP to reflect the remittances from the Gulf states which should properly be accounted for in the Somalia accounts

trend in recent months is for increasing proportions of the imports to be done through the private sector and this approach will be continued. An increasing emphasis will be placed on equipment and raw materials in the upcoming CIP programs to provide support for the small manufacturing sector. A portion of the counterpart funds generated by the CIP program will be utilized to establish a small enterprise loan window at the Somali Development Bank.

The dialogue, begun under the stabilization program, will continue under the auspices of the Consultative Group for Somalia. A major effort will be to encourage investment in the most productive areas and to have foreign exchange resources allocated according to a pre-approved priority list.

Several studies are planned to address the next set of questions in the economic growth area. Among these are: migration and the repatriation of foreign earnings, the dynamics of the extended family economic system, and export promotion inducements.

The Mission is in full concurrence with the government that agriculture is the key to long term economic stability in Somalia. Therefore, a major emphasis is placed on agriculture in the structural adjustment program and the USAID strategy. The specific objectives of our program in the agricultural sector are to increase food production and maintain agricultural exports. The Mission plans to continue its current emphasis on bringing about production increases through improved dryland farming while developing selected new programs in irrigated agriculture and

agriculture research so as to maintain momentum toward our overall objective.

The current portfolio of agricultural projects, including the Bay Region Development Project, the Agricultural Delivery Systems project and the Central Range project have been instrumental in delineating the problems of the sector and establishing the institutional and factual base for bringing about increases in agricultural production. These projects will be extended into a second phase, in a leaner form, to test the dryland methodologies and strategies identified in the first phase. Recent evaluations of the current portfolio reveal that, while incremental production increases are achievable in dryland agriculture (and that further interventions in dryland production are needed), the drylands do not offer the potential for dramatic production increases -- needed to accomodate the countries 3% population growth rate. The history of drought in two out of every five years means that productive strategies must move more toward irrigated farming as insurance against drought risk. Our first step in the irrigated subsector will be to assist in planning studies for the rehabilitation of existing schemes along the Shabelli and Juba rivers and the development of the Juba River valley. Next, we will help analyze and initiate investments in small to medium sized schemes along the Juba river in conjunction with the Juba River Development scheme. Our agricultural research program will build on the research strategy currently being developed under the Agricultural Delivery Systems project and is likely to focus on adaptive research in both dryland and irrigated crops. Particular emphasis will be given

to complementing on-farm research carried out under existing agriculture sector projects.

The forestry-fuelwood program begun with refugee financing in 1983 forms an important link in the strategy during the structural adjustment period. Forestry resources are closely related to agricultural and livestock outputs in as much as trees are used as browse for the country's animal population and for soil stabilization in dry land farming areas. The forestry sector is also important in the macro-economic context because it is the most important energy source in Somalia and meeting energy requirements has been a large drag on the foreign exchange resources. The data generated under the current fuelwood program will provide the base for new programs designed to utilize this scarce resource more efficiently.

The food production program will be complemented by a series of projects which aimed at maintaining current agricultural exports. As discussed in the macroeconomic analysis section and the short term stabilization sections, agricultural exports are the mainstay of Somalia's trade and must be increased if the economy is to become healthy. The Mission plans to undertake an export marketing project with primary emphasis on livestock. The vulnerability of the livestock market to exogenous forces such as foreign health requirements and international competition for traditional Somali markets was pointed out in the analysis section. The livestock promotion project will address the animal health constraint and deal with several endogenous constraints in the livestock marketing system (holding areas, fodder availability, market information, shipping, etc.). The Kismayo

Port Rehabilitation project will assure a continuing export outlet for the large livestock herds in the southern portions of the country. The preliminary economic analysis for this project indicates that nearly all the exports from this port are agricultural (bananas, livestock, citrus and molasses) and that the economic returns from the port are great when the loss of exports is taken into account.

In support of multidonor coordination, the Mission will continue the policy dialogue through the Consultative Group. This dialogue will focus on rationalizing the development and investment plans in the agricultural sector and monitoring the price and taxation policy on agricultural production. The objective is to assure that an appropriate market determined pricing mechanism -- ie. government interventions which do not distort the terms of trade to the rural sector -- is maintained.

Studies to be undertaken which relate to agricultural production include: the development of the agricultural research strategy, analysis of the labor shortage phenomenon, an examination of export crop alternatives to strengthen the vulnerable Somali export base, and technical appraisals of the Shebelli and Juba River Valleys.

IMPROVED QUALITY OF LIFE

The third major goal in the USAID strategy is to help improve the quality of life for the people of Somalia. This goal encompasses objectives in program areas: economic well being, health, population and human resources.

The first objective is to help increase per capita incomes by 2.5% per annum. The efforts discussed in the stabilization and structural adjustment portions of the strategy are designed to increase incomes in the aggregate. In terms of quality of life we are more concerned with maintaining the equity values inherent in the Somali lifestyle. Currently, we feel that we are not knowledgeable enough about the micro-economic decision making system and the complex linkages between male and female, rural and urban, refugee and citizen, pastoral and sedentary, internal and external employment to be proscriptive in defining precisely what interventions, if any, are required to maintain equity. Therefore, we intend to undertake significant micro-level studies to define the dynamics involved in the economic system and to use the results of these studies to re-direct the project activities with respect to equity. A continuing effort will be made to define more precisely the spheres of economic control and decision making of women as well as the status and needs of the growing number of female-headed households. We do not anticipate undertaking any programs with the sole purpose of promoting equity, beyond the refugee rehabilitation projects which are already underway. (In this CDSS, a special section following the strategy section has been devoted to the Somalia refugee situation.)

In the human development sector, the Mission will continue its "surgical approach" whereby selected AID interventions are carefully targeted to demonstrate the feasibility of innovative approaches. Such has been the case in the health sector where under our Rural Health project -- despite slow implementation

progress -- the government has adapted the ideas of primary health care as their own and is directing their own and other donor resources into a replica of the AID model. We intend to serve this catalytic role in other human development sectors.

In the health sector we have two overall objectives: to raise life expectancy, and to decrease child mortality. Data collected under the ongoing Family Health Survey will be available in December of 1983 to permit quantification of these objectives. The focus in the health sector is on changing the current curative orientation of health services to a preventative approach. Following up on recent analysis of the role for the private sector in the health sector, [20] we also intend to work with the government in utilizing private sector channels in the provision of some health services -- particularly pharmaceuticals.

The primary intervention in this sector will be the continuing Basic Primary Health project which, despite several initial problems in implementation, has begun training staff and establishing a system for delivering preventative services to the rural population. This project will be complimented by our continued use of centrally funded projects to provide assistance in communicable diseases, vital statistics, immunization, and support for the private sector in health.

Policy dialogue in the sector will focus on the involvement

20. Supporting Recovery of Recurrent Drug Costs Associated with A Primary Health Care Program in Somalia, Norman S. Lane, MSCI, April 1983.

of the private sector in the provision of pharmaceuticals and in the delivery of services at the village level through commercial pharmacy and locally paid health workers.

In the population sector, Somalis have made significant progress over the past two years in moving from a strongly pronatalist position to active interest in population planning programs. We intend to expand our current activities in hopes of helping the country reduce its fertility rate by 7% during the planning period.

We will bring together our disparate family planning activities -- now regionally and centrally funded -- into one family health/family planning project during the early part of the planning period which will strengthen the institutions responsible for the nascent family planning program, provide the technical assistance and technical studies required to keep the program moving and furnish commodity support for the program.

On the policy side, the regional population officer has begun working with the leading Somali activists in drafting a population policy for the government. The policy has tacit approval at the highest levels and it is expected to be officially issued prior to the initiation of our new AID project. To help with sector level dialogue and the management of the new program, we are creating a full time population officer position in the mission.

In the human resources sector our emphasis will be on manpower development -- rather than the formal education sector which is already supported by several other donors (Italy, IBRD).

We anticipate concentrating on management training to provide support to both the private and public sectors.

The major human resources initiative will be the rural development management project which will focus on providing management training at select levels in the private and public sectors to fill the need for improved management. Of course, each of the projects in the current USAID portfolio include funds for specific technical training and some --Agricultural Delivery Services, Basic Rural Health -- have a large component of specialized local training. We intend to continue to utilize the AFGRAD and AMDP programs for providing critically needed training which cannot be provided under project financing, such as planning, financial analysis, and evaluation.

In cooperation with the S&T staff, USAID will undertake a complete HRD assessment during the summer of 1983. The results of this assessment will enable us to clarify our specific intentions in this sector.

IMPROVEMENT OF GOVERNMENT INSTITUTIONS

A crosscutting goal of all our activities in Somalia is to improve the government institutions with which we work. The cumulative negative effect of institutional inertia is one of the most crucial factors affecting development in Somalia. Public sector institutions have been overloaded with tasks and supernumerary staff while being shortchanged on competent managers. The Mission approach to the needed improvement in the public sector institutions is to be wary of needless reinforcement of public sector institutions and to focus on first

defining the appropriate public sector role, then to strengthen those institutions which are necessary to perform that role. This strengthening is accomplished at several levels including: within the projects, by the direct hire staff in their assistance in project management, and through policy dialogue.

Nearly all our projects are designed to develop the capabilities of the government institutions by providing training, technical assistance and resources to the institutions. The introduction of US management techniques are an important component of our project strategies. Our direct hire staff provide assistance in contracting, procurement, and administration of projects to their counterparts in the ministries. The mission has intentionally used the host country form of contracting to establish improved capabilities in contracting and contract management on the Somali side. The recently created CIPL unit which is Ministry of Finance unit established with USAID assistance to manage the counterpart funds is another example of the direct support provided by the Mission to develop host country capabilities.

We are also addressing the issue of host country capability on a policy level. A serious constraint at present in achieving performance objectives is the lack of incentives in the civil service system. AID has been discussing some approaches to resolution of this problem with key government officials over the past several months. We are proposing that the government begin by instituting a hiring freeze to permit attrition to reduce the rolls. Next, we are urging that carefully defined and comprehensive job descriptions be drawn up so that individuals

understand their responsibilities and incentive bonuses can be linked to their performance. We are willing to finance parts of the bonus system if it is properly established and controlled and the government can present evidence that it will be able to absorb the costs in its own budget at some reasonable point. The Mission intends to raise this issue for treatment in the upcoming Consultative Group meeting. We intend to continue to press for reform in this area.

Somalia's Refugees

-- The Current 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 thirty-three camps established in the northwest, Hiran, Gedo and Lower Shabelli Regions. 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 early 1982, the crisis had been brought under control.

The influx of refugees started to drop off to only a handful each month.[21] Some refugees left the camps either to return to the Ogaden or settle elsewhere in Somalia. Refugee health and nutrition improved as food supplies became stabilized. The government and donors turned their attention to programs for rehabilitating the refugees and making them more self-supporting. Some of these programs were set up in the camps -- e.g., vocational training -- others, such as agricultural production schemes, have been implemented in areas adjacent to the camps. In April 1983 the Government announced that it was changing its policy on refugee settlement in Somalia and would now sanction settlement for those refugees who wished to do so, providing the international community would help underwrite the settlement costs. Given the reluctance of most refugees to return to the Ogaden under present conditions and the poor prospects for improvement in the region, the donor community has reacted positively to the policy change. A special task force of donors -- under the chairmanship of the UNDP Resident Representative -- has been set up by the Minister of Planning to help draft the government's refugee settlement strategy. This effort is being closely coordinated with the UNHCR and UNDP planning for ICARA II as well as with the government's planning for the consultative group meeting.

-- The Preferred Solution

Most recognize that repatriation of refugees to the Ogaden is the most desirable solution to the Somalia refugee problem.

Were the refugees ready to accept voluntary return under a 21. Informal estimates on the number of refugees currently in the Somali government sponsored camps range from 450,000 to 500,000.

repatriation strategy the following problem areas would be avoided:

- Excessive Money Outlays: Donors and the GSDR are currently spending approximately \$120 million annually to "maintain" the refugees in Somalia camps. Adding a rehabilitation settlement element to the program will increase this outlay by at least another \$60 million per year. Were the refugees to return to the Ogaden they would be virtually self-sustaining -- with donors furnishing only about \$20 million a year to assist in upgrading their standard of living.
- 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 the camp residents. While their food/health needs are being met, many of the refugees in the camps are frustrated -- living as they are incomplete lives. A large portion 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 can be implemented in the next 5 years -- 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 tested. Staff need to be trained. As Scudder[22] suggests, crash settlement projects can be expected to fail. Secondly, it is likely that a number of

22. 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.

23. "Refugees want out of camps but their solution is often markedly different from the government's. The refugees want to start near the border, be with kinsmen, migrate to urban areas; once the camp develops a life of its own even the camp will be

refugees (nomadic group) do not want to be resettled. [23]

-- The Second Best Approach

Since the repatriation option is not open at the present, due to tensions in th Ogaden, the second best approach must be opted for -- assisting refugees in the camps to become more self supportive and assisting to those who wish to settle, to do so. This is preferable to a policy of indefinite relief since, over the long term, it will reduce the burden on donors, provide productive lives for some of the refugees and possibly, even enhance development in Somalia. [24]The strategy for this approach must be carefully planned and implemented. No single donor or multilateral agency has the wherewithal to implement a comprehensive refugee rehabilitation/settlement strategy. A programming framework must be established to avoid fragmentation and/or wastage of scarce resources. Several different formulas appear to be called for rather than only one -- e.g. development of land for refugee ownership, refugees as rural labor, further movement to the cities, etc.

-- USAID Strategy

Our refugee assistance efforts will be aimed at three policy objectives:

- To assure that the "maintenance operations" (i.e., preferred to the relocation to a distant settlement." (Barry Stein, p. 55, describing characteristics of refugee groups throughout the LDC world.)

24. The common ethnic and linguistic background of the refugees and the indigenuous population makes resettlement easier in Somalia than in most refugee situations.

food and health needs) for the refugees in the camps continues to be adequately managed

- To provide greater opportunities in and around the camps for productive employment
- To assist the GSDR in planning and implementing a refugee settlement program.

a. Maintenance Program:

Working through WFP, we will continue to provide -- on an annual basis -- an appropriate percentage of the food commodities donated to the Somalia refugee program by the international community. We will support UNHCR and CARE in their ongoing efforts to establish increasingly more effective food distribution channels and procedures in the refugee camps. Assisted by CDC, we will continue to monitor camp health conditions and provide special assistance, as needed, when disease outbreaks threaten.

Using our specially recruited food monitors, we will continue to function in an oversight role on refugee matters in Somalia -- making sure that humanitarian concerns are safeguarded, the relief program is adequately managed and U.S. financed commodities are properly utilized. As lapses occur we will lobby for corrective action, within a multi-donor framework, escalating our efforts as necessary within the bureaucracies in Mogadishu, and the international agencies in Rome and Geneva.

b. Productive Employment:

Using a special \$12 million appropriation provided during FY 1982, USAID recently launched a rehabilitation program which will enable a segment of the Somalia refugee population to:

- produce a portion of their food
- improve their water supply systems
- obtain marketable skills
- develop fuelwood and energy resources.

The program is co-sponsored by the National Range Agency (NRA) and the National Refugee Commission (NRC) and will be implemented, for the most part, by U.S. private voluntary agencies.[25] This permits the program to build on the experience gained to plan for resettlement and to use existing projects as pilots for resettlement. Special concern is being shown in the design of these activities to obtain accurate base-line data so that technical strategies can be tested over a three year period -- and production results properly attributed. Those schemes which prove successful will be incorporated as agricultural and fuelwood production components in the Mission's development portfolio starting in FY 1986.

c. Refugee Settlement:

We will follow a two-prong approach in pursuing refugee settlement objectives. Working with other donors, under UNHCR leadership, we will help devise a strategy of "near-term settlement" whereby groups of refugees are incorporated into ongoing crop-production and fuelwood schemes which currently suffer from a shortage of labor or show expansion possibilities. Since major infrastructure requirements for those schemes have

25. Five subactivities have been approved to date: EIL, CARE, VITA, AFRICARE and Save the Children Foundation. Several others are under review.

already been put in place, the costs for establishing refugee "add-ons" should be minimal.

Our major thrust in the settlement area will be to work with other principal donors, under GSDR-UNDP leadership, to set in motion a settlement planning process. The refugee settlement issues, as such, will be subsumed under the broader concern of opening new lands for the country's overall population -- which is increasing at a 3 percent annual growth rate. Technical assistance teams will be formed to:

- examine existing land maps to determine where land use and soils surveys should be carried out.
- review lessons learned from prototype settlements (Kurtanware and Sabele) so that realistic relocation strategies can be drawn up.
- line up donor financing to install the minimal infrastructure needs (access roads and water systems) at the selected settlement areas emphasizing self-help and simplicity.

USAID has already earmarked funds to finance our share of the settlement planning costs. As these plans unfold, we will recommend that AID finance actual settlement costs in conjunction with the development of the Juba River Valley -- under the Irrigation Development and Rehabilitation project which commences in FY 85.

AID PRIORITIES

POLICY REFORM DIALOGUE

AID resumed its program in Somalia in 1979 -- after a several year hiatus. During 1979-1981, USAID energies were expended on designing new projects and establishing a degree of implementation credibility. As a result, GSDR/USAID policy dialogue at the macro and sectoral levels did not receive its full due. With the deterioration of the economic situation after 1980, however, and the ensuing increase in U.S. assistance through PL-480 and the CIP programs, the basis for a policy dialogue became not only possible but necessary. By 1982, with the Mission more adequately staffed, USAID initiated a dialogue with the GSDR -- in conjunction with IMF and IBRD efforts -- on several important policy issues.

In Somalia, as in most developing countries, dialogue on policy issues is difficult. Prescriptions for remedying policy failures through reform measures are not always obvious or clear cut; and, when they are, they are often resisted by those who would be affected by a change in the status quo. In Somalia, the dialogue problem is compounded by lack of basic economic data -- a situation that can be traced back to the rather "leisurely" approach taken by Somalia's former metropolises.[26]

26. A lament about "the poor economic data base" is almost de rigueur in CDSS documents -- but the base in Somalia is exceptionally fragile even when compared to a region like the Sahel.

The need for continued policy change in Somalia is critical. The country has been beset with major economic problems resulting, in part, from past policy failures -- such as the overvalued exchange rate, inadequate producer prices, inefficient public enterprises and state farms, and guaranteed employment programs. Policies have to be formulated to unleash productive energies inhibited by an excessively "centrally planned" approach which flourished during the 1970s -- when Somalia, enthused with scientific socialism, was wrapped in a Soviet embrace which allowed for little economic contact with the West and little opportunity for encouragement of private sector activity.

With the gradual shift in economic orientation which has taken place over the past few years, the potential for successful policy reform is probably higher in Somalia than in many poor countries. The Somalis can be refreshingly open and frank with outsiders on needed policy reforms -- as visitors discover during their stay here. IMF officials have been pleasantly surprised by the degree of cooperation shown by the Somalis in implementing the policy reforms required by the 1981-1982 Standby agreements. The latest IMF published report gives the GSDR high marks for adhering to the guidelines during the prescribed period.

The Mission strategy on economic reform dialogue is based on the conviction that reform flows from a process -- not a consultant's report. The process which we have launched is comprised of the following:

- Taking steps to establish a sound intellectual foundation for any reform measures we put forward: This is a formidable task in a country where the colonial power showed little intellectual curiosity and post-independence studies have too often served up a mix of tired and unproven assertions. We have made a beginning, however, and feel fortified by studies that have been completed here during the past year.[27] These analyses will give the U.S. real credibility with other donors and the GSDR in the upcoming round of policy reform dialogue.

- Challenging Conventional Wisdom: The IMF and IBRD have taken the lead on policy reform in the past and bring impressive resources to any such discussions. Unfortunately, their recommendations on the Somali economy are devised by non-resident experts who try to glimpse local economic realities during a few hurried and frustrating visits each year. As a result, their suggestions sometimes lack relevance -- both at the macro and micro levels. By sharing with them the results of our analyses and on-the-ground experiences, we believe we will be instrumental in having their recommendations tempered or strengthened as the need may be.

- Catalyzing bilateral and multilateral donors: Given the level of bilateral assistance to Somalia, donors should be able to exert a much greater leverage for economic reform than they have done in the past. There are several reasons why this has not happened. Some donor reps are indifferent or timid. Others lack development skills. Some are excessively negative. The U.S. Mission can play a significant role in energizing the donor community. During the past year, we have been instrumental in getting a monthly donor meeting launched -- chaired by the IBRD Resident Representative. The usefulness of this monthly meeting is already apparent and will become even more so after the first Consultative Group session in Paris in October 1983. AID/W and the State Department have also been effective in furthering the policy dialogue at the highest levels of the IBRD and IMF in Washington and at senior levels in European capital cities.

27. An agricultural sector assessment (Hogan), a sociological and institutional profile (Hoben, Harris and Aronson), a private sector study (Berg), manpower and training recommendations (Thorton), a livestock marketing appraisal (Polson), the Juba Valley study (Stephenson, Zalla, Gunn) and a macro economic appraisal (Callison and Dijkerman).

- Using the overall influence of the U.S. Government as leverage in Somali Government circles: Most Somalis we work with see U.S. economic aid as critical to the country's welfare. They are open to frank discussion with the U.S. on those policy reforms which we believe are needed. Because of this close contact we have been and will be able, at times, to tip the balance where there is a hesitancy to push the needed policy reforms through the Government.

The specific policy reform goals to be the focus of our efforts during the planning period are discussed in detail in the strategy section of this document. In summary, they are:

- Movement toward the establishment of an open exchange rate regime;
- Sustained adherence to IMF goals on expansion of domestic credit, central government borrowing, and debt management, external payment arrears;
- Completion by an agreed date on reform of the tax structure (including customs duties) and improvement of enforcement and collection procedures;
- Discontinuation of government policy of "employer of last resort" and reductions in supernumerary staff in government agencies and parastatals;
- "Privatizing" certain state-operated enterprises along the lines recommended in the Berg report such as leasing to foreign firms and eliminating their monopoly/monopsony rights;[28]
- More realistic setting of priorities among development projects; and
- building follow-on into the Somali budget.

28. This also includes several possibilities beyond the Berg report, ie., opening private banks, eliminating or modifying the state monopoly on drug procurement and sales, permitting a return to private practice by doctors, nurses and traditional birth attendants, and the establishment of private hospitals and clinics.

Private Sector

-- The Setting

During the years of "scientific socialism", the GSDR sought to nationalize and/or contain private sector activities -- making the country an unattractive risk for foreign investors and stifling local enterprise. The past two years have seen considerable change in the private sector climate here. While earlier doctrines have not been officially abandoned, the "old policy of neglect or active discouragement of the private sector" has turned into a "fitful and uneven, but unmistakable quiet revolution." Significant "de facto" policy changes which support the new "laissez faire" approach are evident. Negotiations are underway with investment groups for the establishment of private banking institutions, and private Somali investment groups are becoming involved in previously forbidden areas such as mining, vehicle procurement and agricultural equipment import. Somali entrepreneurs and farmers, particularly in the rainfed and flood irrigation cropping sectors, have responded vigorously to the liberalization of economic conditions, including the commercial availability of land and the reduction in the roles of Government marketing agencies.

Coinciding with this attitude change on the GSDR side, there has been an increased sensitivity on the part of USAID to privatization possibilities in Somalia -- a country which traditionally has placed high value on individual enterprise. This sensitivity has been prompted partly by AID/W nudging, partly by a series of project evaluations which have revealed the

problems induced by too heavy a reliance on GSDR public institutions, and partly by several USAID commissioned analyses which have suggested some directions a change in course might take.[29]

-- USAID Objectives

The USAID privatization strategy has three objectives:

- the continuation of a policy dialogue aimed at developing a climate in which Somalia's private sector can flourish;
- the redirection of USAID project strategies (current and planned) to preclude inadvertent support for public sector institutions in areas where private enterprise could be more efficient, and incorporation of a private sector bias in upcoming projects; and
- the creation of a process which will lead to increased U.S. private investment in Somalia.

-- Creating a Favorable Climate

Important steps have been taken by the GSDR since 1980 to open up the economy and encourage private capital investment. Included here have been the elimination of some public trading monopolies, and a more liberal policy toward private leasing of land. The next set of reforms should be directed towards the following objectives:

29. Of particular note are "Encouraging the Private Sector in Somalia" Elliot Berg Associates, September 1982, "The Economics of Improving Animal Health and Livestock Marketing in Somalia", John Holtzman, Michigan State University, June 1982, "Social and Institutional Profile of Somalia", Boston University African Studies Center, October, 1982 (draft).

- a more open foreign exchange regime: This may call for further exchange rate adjustments, the reintroduction of parallel market facilities for imports, or, at a minimum, better institutional support for the current system of incountry foreign exchange accounts.
- a more open international trading regime: the import of many key products is now either restricted to public sector monopolies (food grains, vegetable oils, veterinary drugs) or left without allocations of foreign exchange.
- a more open internal trading regime, particularly as regards farm products: For lack of short term credits to support internal trade, the internal market in farm products remains thin; and
- a more open investment climate: public and private monopolies continue to dominate most areas of endeavor in Somalia from banking, freight forwarding, and insurance on the one hand to most light industries on the other. Many government sanctioned monopolies should be opened up to competition. With the elimination of these monopolies, price controls, which are now pervasive in Somalia, should be phased out.

In preparation for the October 1983 Consultative Group meeting, the GSDR has agreed to work closely with the IMF/IBRD on the design of a recovery program. An IMF/IBRD joint team will spend several weeks in Somalia in May and June drafting the provisions of the program. USAID will use the occasion of the visit to obtain donor agreement on the desired sequence of reform measures required to stimulate greater private sector involvement in the Somali economy. Laying out a realistic sequencing and timing strategy is essential in view of the number of reforms required, the ability of the society to absorb major change without disruption, and the danger of supercharging the atmosphere during donor-GSDR negotiating rounds on reforms. The agreed upon first set of measures will then be worked into program agreements as covenants for negotiation prior to agreement. The process -- definition, donor consensus seeking,

and negotiation -- will be repeated on a biannual basis.

-- Reformulating USAID Project Strategies

Our effort will be, first of all, "curative" in nature -- to make sure that current projects do not reinforce or strengthen needless public sector operations, for example: government purchasing entities vis-a-vis private trading associations in the agricultural sector, and public dispensing of drugs vis-a-vis sales by private pharmacies.

Next, we intend to build in a privatization bias in each of our proposed new activities. In this connection, we recently revised the scope-of-work for three upcoming USAID studies (i.e., livestock marketing, human resource development, and the urbanization assessment); they now call for a greater design sensitivity to privatization possibilities in their respective areas. In the proposed export marketing project our focus has turned to factors like product demand, consumption patterns, market structures, product mix, and market cycles in addition to the need for price reform. Through the CIP program we have become active in promoting privately organized service organizations to provide production inputs to small farmers, and we hope to extend this effort in the direction of credit facilities. Approximately 50 percent of the \$18 million CIP grant for FY 82 has gone to Somalia's private sector; we anticipate a similar pattern in future years.

-- Process Leading to More U.S. Private Investment

Somalia is now beginning to attract investor attention not

only because of changes in the GSDR attitude toward private capital, but because of the country's geographic location astride the Gulf of Aden and Indian Ocean. A number of U.S. firms which have settled in the Persian Gulf states are establishing ancillary operations in neighboring countries. Over a dozen of these firms have sent representatives to Somalia in recent months to test the new climate. What they have found is a gauntlet of practical difficulties -- ranging from chaos at the airport to inferior hotel facilities to mid level bureaucratic lethargy in government offices. At the same time, they have discovered an almost naive eagerness on the Government's part to lure them into joint ventures.

Our strategy in this area will be, first of all, to encourage further reforms in the economy conducive to foreign capital investment through our ongoing policy dialogue with the government and other donors. Secondly, through our own and other donor technical assistance efforts, we intend to work with the government in establishing an office at the Ministry of Industry to promote, facilitate and expedite private foreign investment in Somalia. The GSDR has already requested foreign experts from AID, IBRD and Germany to work in this area. Thirdly, we will begin to involve OPIC, Eximbank and the Trade and Development Program more extensively in Somalia in support of U.S. investment projects. The feasibility studies, and financing and insurance facilities provided by these organizations will be essential to U.S. investors in Somalia. Fourthly, incountry, we are setting up an information service for U.S. businessmen on opportunities for investment in Somalia. The service will consist of:

- up-to-date information on key production sectors in Somalia;
- profiles of key Somali firms indicating which are reasonably well managed and consequently, good candidates for joint ventures;
- a tracking system for where new investments are taking place (housing, construction, food processing, etc.); and
- a listing of local consultants capable of providing logistical and engineering support services. Through the facilities of OPIC and USDOC, this information will also be made available to investors in the United States.

In short, we are gearing up for a longterm effort in Somalia in support of foreign private investment. We do not anticipate immediate results. We do not need immediate results. What we need, and will get with the steps outlined above, is motion in a direction that will mark Somalia increasingly as an attractive site for foreign investment.

Technology Transfer

The Mission's technology transfer objectives are first, to be as creative as possible in introducing ideas, influencing attitudes and devising strategies that are both modern and adaptable to Somalia's economic and social setting, and secondly, to assist Somali insitutions in the development, testing and promotion of technologies which will lessen the country's dependence on foreign assistance.

Over the past few years some steps have been taken under the AID program to establish a technology transfer process in the agricultural, forestry, water and health sectors. At the two training schools in Baidoa and Burao, heavy stress has been

placed on preventive disease technologies. Under the well drilling program in the Bay region Somali crews have been trained in the latest water provision techniques. The forestry grant is enabling American PVO's to demonstrate new tree planting and conservation practices in areas adjacent to refugee camps. Cadres of "technical transfer agents" are being trained under the AID-financed agricultural projects -- to enable them to introduce cultivation changes at the local level.

While we have had some success in transferring modern technologies -- particularly in the health and water areas -- it is clear that the efficacy of our agricultural technologies has been exaggerated. It is also clear that we have placed an excessive burden on government sponsored institutions. Concerning the latter, we intend over the planning period to make greater use of existing forms of local social organizations -- including those based on traditional kinship community and region -- in the design and implementation of development initiatives.[30] We also intend to become much more selective in targeting our assistance to the public agricultural sector, to the areas of policy formulation and testing -- and research.

Research is the principal means by which we will improve our understanding of Somali's socio/economic situation for the purpose of making program adjustments and/or formulating policy reform proposals. We have recently completed a formal review of

30. As the SIP points out: "these groups perform important functions in the articulation of rural people's interests, dispute settlement, the mobilization and management of resources for community projects, and the organization and management of commercial activities."

each of the research elements of the Mission's program and are using the results of that review to formulate a multi-year research strategy to assure that urgent research commitments are fully attended to and that newly identified research problems are addressed in a timely fashion.

In a sense, the Mission's entire program is being turned into a research laboratory with each of the individual activities designed to yield data and conclusions which will enhance the effectiveness of other related elements of the program. Each major project -- Agricultural Delivery Systems, Central Rangelands, Groundwater, Forestry and Refugee Self-Reliance -- is being made "research sensitive" with emphasis on baseline data accumulation, hypothesis-testing and scientific compilation and interpretation of results. USAID technical assistance experts are in effect "research teachers" who look upon effective research methodology as one of the principal skills to be imparted to their counterparts.

As its principal formal research undertaking, the Mission has agreed to assist the GSDR in devising an overall strategy for Somalia's agricultural sector. Under AID auspices, ISNAR (International Service for National Research)[31] is currently assessing Somalia agricultural research needs over the long term and preparing a draft action program.

31. ISNAR is a member of the World Bank-sponsored CGIAR (Consultative Group for International Agricultural Research) which includes such major international research institutions as IRRI, CIMMYT IITA, ILRAD, etc. ISNAR serves as a means to link their expertise with the national research needs of developing countries.

Acceptable "interim" agricultural technologies will be agreed upon for the short term -- while the institutional framework is devised to stimulate interaction between the biological and social scientists leading to the "newer" adapted technologies. USAID will play a prominent role in the research sector through the Agricultural Research and Planning Project which commences in 1984.

RESOURCE REQUIREMENTS

RESOURCE FLOWS

-- Funding Levels

USAID/Somalia projects a slow but constant growth in DA funds over the planning period. We would also like to project an incremental increase in ESF funding -- given its key role in the structural adjustment program -- but have taken into account ESF levels transmitted in recent guidance messages.

The bulk of the financing under the DA category will continue to be in the Agriculture account. However, as ESF funding declines, more CIP type activities will be initiated under DA funding. In this way, funding will be channeled directly to the private sector and CIP type activities will be initiated under components of several upcoming projects including Livestock Marketing and Irrigation Rehabilitation and Development.

The PL-480 assistance program is expected to shift from Title I to Title III during the planning period to take advantage of a multi-year commitment. We anticipate continuing to provide all Title II assistance through the World Food Program as that minimizes the management workload on the mission.

We foresee no serious absorptive capacity problems since much of the program for the planning period consists of phase two extensions of projects which were begun in 1979 and 1980. The new

projects are limited to: Kismayo Port Rehabilitation -- a major construction project to be undertaken by US construction and engineering firms; Livestock Marketing, aimed primarily at support to the private sector; Irrigation Rehabilitation and Development, also tilted toward the private sector; and, Energy Management, a small planning and advisory program.

-- Staffing

The Mission has been severely understaffed over the past four years. Although sufficient positions have been allocated from Washington, vacancies have remained unfilled for unconscionable periods. Since this is a one tour post, the turnover rate is high and waiting periods between departure of one employee and arrival of a replacement can stall the program in its tracks each year during the transfer period.

We currently experience a lack of depth in the mission. Of three positions in the program office, only one is filled. Of two positions in the projects office, only one is filled. We have only one engineering position to undertake two major engineering projects, Kismayo Port and Groundwater -- and to supervise and monitor the construction components of each of the other projects. Each of these positions is critical to management of our large portfolio and AID/W support is needed in getting them filled.

The Mission has initiated steps to strengthen local staff capabilities to provide additional support for the USDH staff. The current local-hire salary scale has complicated our efforts since it is not competitive with other labor rates in this part

of the world. Consequently, we have begun to explore the use of alternative contracts to attract the kind of professional staff -- economists, engineers, financial analysts -- we would like to hire. We have also begun an "internship" training program and an ongoing training program for clerical staff to teach them the essential skills so that they can better serve in a regular position after completing training. These courses may be extended to professional staff after the Mission has an opportunity to evaluate the effectiveness of the clerical courses.

Thus, the Mission is attempting to fill the USDH positions with qualified individuals and upgrade local staff to enhance Mission portfolio management. The Mission economist position will be augmented by a local hire to generate the information required for meaningful policy dialogue. The Mission will continue to draw heavily on REDSO staff for technical advice and expertise.

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