

DIVESTITURE OF SOMALI MARINE PRODUCTS

PRIVATIZATION IN

SOMALIA

REPORT BY

R. Jack Meyers & Kenneth L. Murrell

CENTER FOR PRIVATIZATION

1750 New York Avenue, N.W.

Washington, D.C. 20006

Project No. 16

September 24, 1986

**Prepared for the
BUREAU FOR PRIVATE ENTERPRISE
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT**



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PROJECT PURPOSE AND SCOPE OF WORK

The Center for Privatization (CFP) has been awarded a contract through USAID's Private Investment Bureau (PRE) to survey the privatization potentials in the developing world. Through its activities, it recently came to CFP's attention that there was some strong interest in private enterprise investment in Somalia, particularly in the fisheries sector. CFP took the initiative as part of its contractual arrangements to explore this potential with emphasis on two levels: governmental desire and support for privatization and identified operations representing potential privatization.

CFP sent a team of two, consisting of R. Jack Meyers and Kenneth Murrell, to Somalia on June 11th for twelve days respectively to survey the socio-political, financial and resources based potentials for privatization of fisheries. Both Meyers and Murrell have had extensive previous experience in Somalia at the field, regional and central government levels, dealing with resource development, organization and management. The team operated in conjunction with and the support of the USAID Mission. At the end of their stay in Somalia, they left the Mission with a set of preliminary findings and had a three hour debriefing with the Mission Director, Deputy Director and the Private Sector Development Consultant. The following is a report containing their findings and recommendations.

The scope of work within which the team was to respond is included in Appendix II of this report.

EXECUTIVE SUMMARY OF FINDINGS AND RECOMMENDATIONS

Somalia is a country that is in dire financial condition. A land scarce in natural resources, supported since independence by various donor countries and deficit in infrastructural development, management skills, trained labor and

capital; it has a long hard journey toward financial autonomy. Somalia operates under a centrally planned economy (a legacy of its Russian benefactors) and is replete with the problems encountered with socialistic governments especially that of not having sufficient capital underpinnings to support non-revenue generating government agencies. Nonetheless the Somalis are generally a business minded people and entrepreneurial in spirit. Traditionally they are traders rather than producers and need to be trained in the management and organizational skills needed to sustain long term business involvement. The GOS has made strides in the last few years toward developing a philosophical posture and reorientating some policies toward private sector development and privatization. This posture is anticipated to continue; however, President Siad Barre appears to be the focal point and the impact on its continuance and progression is currently in question until determination can be made as to the President's condition following his recent serious automobile accident.

The Ministry of Planning is currently revising the Foreign Investment Law to make it more appealing for foreign entities to operate within country and market either domestically or for export. The German government has supplied advisors to work with the Ministry of Planning to institute new measures to laws and regulations that are currently conducive towards investment. The IMF has put strong pressure on the GOS to reevaluate its currency and develop a private commercial banking system. There are also plans underway to revise the Civil Service, to reduce its size, increase wages, and to modernize the Ministries through education and training of key level personnel. Presumably the surplus of manpower could be absorbed into the private sector once it takes off. Recently the Agricultural Development Corporation was formed from a former parastatal and is apparently successful in the area of grain marketing and agricultural implement sales. There is also evidence of small scale business activity proliferating as evidenced in the many small stores and consumer goods available.

Due to the low resources base, Somalia has primarily been supported since independence through donor country aid. Numerous projects have been implemented and due to the short term nature (2,3,5 year) of project involvement, poor design, or lack of maintenance, most have failed to sustain

themselves after the donor group exits. Eventually most of these projects have been resurrected after a period of time by another aid donor with the renovated project more grandiose in design and expenditure. Since these projects are designed under a different set of criteria than those assigned to an investment enterprise, with a goal toward financial profitability, they generally cannot stand alone and support themselves through revenue generation without a good deal of subsidization and thus, in many cases don't lend themselves as attractive vehicles for privatization. A case in point is the Somali Marine Products (SMP) which was the focus of this study. SMP was established through German (FNW) aid to develop and operate a fish processing and storage facility in Kismayu, conduct fishing operations up to the Horn in the north and the Kenya border in the south and organize and support artisanal fishermen to supply catch. The markets to be developed were in Saudi Arabia, Europe, the Orient and local. To date SMP has not been able to utilize its total facilities and its throughput is far below expectations. The new plant renovated an existing 10 ton blast freezer and 200 ton storage facility, expanded storage capacity to 1000 tons and added sophisticated electronic equipment. The old plant was planned on production parameters and was profitable. The new plant is probably oversized and is too costly to run based on available catch. FNW is due to terminate its involvement in SMP in December of 1987 and the Ministry of Fisheries will take over support and operations. The Minister of Fisheries has stated that the goal of SMP is to privatize, but not for another five years. In fact there seems to be some concerted effort to solicit joint venture partners with talks being conducted with the Chinese and some Italian investors. It was reported that SMP is ripe for private takeover if a reasonable offer were made to the Ministry. Another point that bears important relevancy here is that with the President's support and concurrence many things are possible. However, due to Barres' accident and unavailability no meetings were held with him, subsequently no comment can be made as to his position toward divestiture of SMP.

The following elements of the report detail the team's prospective pertaining to privatization potentials in general and the SMP specifically. In summation the following points were considered by the team to compose critical elements pursuant to privatization:

1. By far the most critical element is the continuance of governmental direction toward private sector development and of policies giving support and incentives towards this end. The recent automobile accident involving President Siad Barre and the seriousness of his condition leaves uncertainty as to this direction. Anticipation is that a status quo resolve should be forthcoming; nonetheless prudence would dictate a certain caution in the short run toward local investments.
2. The finalization of the Foreign Investment Law allowing an acceptable tax holiday, tariff and duty relaxation, repatriation of earnings, and foreign ownership and control.
3. Development of sufficient physical infrastructure to support investment. Specifically this means; roads, communications, power, water, ports and supplies.
4. Licensing, regulation and policing powers to protect resources from exploitation by exogenous parties. Discussions were held with the Ministries of Fisheries and Planning regarding protection of fisheries within Somalia's extended economic zone. There was general agreement as to the need for policing powers and patrol craft, however, there were no funds available nor had the decision been made as to where the authority and responsibility would reside.
5. A more cohesive plan for enablement of investments. Currently an investor must deal with a multitude of Ministries in order to implement operations. This trans-ministerial approach to development causes bottlenecks, unnecessary conflicts, and disgruntlement. One authority should have the responsibility for licensing and regulating private businesses. Perhaps a uniform commercial code should be developed.

6. There is a very real potential for private investment in Somalia in certain areas. Fisheries offers the highest potential as it is the most readily accessible resource, has the quickest response time for profitability and is probably the best encouraged by the GOS and the ministries. The export potential for high quality fin fish and in particular, shellfish is very high. There have been successful examples of profitable fisheries investments, however and unfortunately, these successes may be due to an absence of proper regulation and enforcement of licensing agreements.
7. The SMP is probably over designed and too large a complex to be operated profitably. It is questionable that the supply of catch would reach the capacity of the plant without entailing prohibitive transportation costs. As such, it is probably not a good candidate for privatization as a total complex without a subsidy arrangement.
8. A fishery business venture would stand a better chance of success if it is kept small and utilizes the available services of existing parastatals such as SMP.

The team's recommendations based on these findings are:

1. USAID increase emphasis on private sector development and privatization and continue to liaise with GOS officials and businessmen to determine opportunities.
2. USAID institute a change of philosophy toward technical assistance, in the case of privatization support, away from the "project" concept to an "enterprise" concept. The difference being the measurement of return to investment and management whereas a project is measured in economic terms as benefit to society as a whole, the enterprise is concerned with return to the investor. In short, in order for AID to support privatization, they must begin to think, plan and manage as businessmen rather than bureaucrats or project planners.

3. Scale down the size of enterprise projects to the level of individual or small company capability. An individual with a successful enterprise will have more impact in terms of replication than a large corporation. The SMP, even if profitable, is far too large an undertaking for the average investor or investor groups. Therefore in searching for privatization potentials it would be best to think small scale or segmented industries.
4. AID should initiate some serious thought on helping Somalia with infrastructure development. The road from Kismayu to Mogadishu is deteriorating monthly and soon will become impassable. The U.S. can gain a great deal of goodwill and ultimate benefit to the Somalis by repairing and rebuilding this road and doing so as quickly as possible. AID should also consider helping the Somalis regulate and patrol their Marine Resources. Talks were initiated by this study team with the Minister of Fisheries and Planning, USAID and the U.S. Embassy pursuant to this topic. All parties were interested and agreed that it was a high priority issue and that further discussions were in order.
5. AID investigate fishing potentials and explore methods of supporting fisheries development at both the project and enterprise level. AID should also consider discussing support of SMP after FNW pulls out. SMP is an excellent vehicle to stimulate local fishing and to develop open sea fishing below the Horn. It can generate foreign exchange and utilize an underexploited resource through its operations. It however, may never be a profitable operation in its own right due to its size and operating cost. This however bears further investigation and a feasibility study is recommended. Nonetheless, as an in-place operation to encourage fisheries by providing a market outlet, services, training, boats and gear it should be considered as a worthwhile investment from the

developer's viewpoint. Five years of support may be sufficient to encourage divestiture and an acceptable supply of catch from local fishermen and open sea fishing to justify private investment.

6. AID look into the privatization of several other areas that would have a high potential to entice investment capital; hides and skins, hotels, cargo operations, and labor intensive, light industries might prove to be attractive enterprises. Discussions should be held with the appropriate officials concerning the development and support of free trade zones centered around the ports in Mogadishu and Kismayu.

COUNTRY ASSESSMENT

The following comments on the Country Privatization checklist are concise and represent current interpretation per the study teams perspective.

COUNTRY PRIVATIZATION CHECKLIST

COUNTRY: Somalia Fisheries

FACTORS

CURRENT STATUS AND TRENDS

A. Host Government

- | | |
|---|--|
| 1. Top Level Commitment: | Increasing rhetoric (policy of support - little real experience). |
| 2. Enunciated Policy: | Beginning to form but expected to be disjointed and unstable. |
| 3. Power to Implement: | Basically limited, weak organizational and managerial government infrastructure. |
| 4. Mid/Lower Level of Commitment: | Mixed, depends on individual advantages and costs. |
| 5. Accessibility for Dialogue: | Good - up to Ministerial level, beyond at present uncertain. |
| 6. Awareness/Availability of SOE Costs: | Good - but must be very carefully interpreted, not GOS but donor. |
| 7. Private Sector Influence on Policy: | Growing but primarily behind the scenes. |

8. Officials' Dependence on Outside Income: Very high, Public Servant's salary barely covers 10 - 20 % family direct expenses.
9. Open Economy vs Managed Economy: Donor driven at this point, moving towards more involvement of private business, but banking services practically non existent.

B. Political/Economic Environment

1. Legal Barriers to Privatization: Decreasing, new Foreign Investment Law coming, special laws can be pushed through with top level support
2. Economic Stability: As long as donors keep putting in assistance, there is some.
3. Political Stability: 15 years of single person presidency, presently, being strongly affected by President's recent auto accident and advanced age.
4. Unemployment Level: Unknown, underemployment most extremely high.
5. Physical Infrastructure: Very poorly developed outside of Mogadishu.
6. Regulatory Climate: Strong potentially, weak in operating but can be major obstacle.
7. Parastatal Share of Economy: Difficult to answer in fisheries, approx. 30 - 50% in distribution and sales with very little in actual production.

8. Reasons for Parastatals: Gives credits to Ministries, keeps top officials legally involved and part of "Scientific Socialism" pronounced by Barre and Eastern Bloc influence.

C. Business Climate

1. Role of Informal Sector: Growing, and in fisheries long history of shark fin and dried fish trade.
2. Management Entrepreneur Pool: Limited but expanding at rapid rate.
3. Ethnic Minorities: Very little except southern fisheries areas and northern Ethiopian refugees.
4. Permits to Start/Expand Business: Can be had but each one requires "special" deal
5. Freedom to Hire/Fire Personnel: Examples set in GRP boat factory for firing but very limited elsewhere.
6. Parastatal Preferences/Obstacles to Competitors: Support of parastatals to monopolistic levels, little incentive for competition.
7. Tax Climate: Legal tax holidays - Local and Regional taxes often imposed if not assertive and supported by high level officials. A shadow tax is levied at all levels through pay offs.

- | | |
|----------------------------------|--|
| 8. Accounting/Audit Skills: | Limited, records often very confused, requires careful review. |
| 9. Other Donor Presence/Support: | Yes some increase to support of privatization. |

D. Financial Markets

- | | |
|---|--|
| 1. Long Term Financing Types/
Activity Level: | Yes in words but little effective machinery for it. |
| 2. Financial Markets Types/
Activity Level: | State controlled banking only - mainly nonfunctional. |
| 3. Significance of Non-Bank Financial
Institutions: | Donor support critical, poor successes. |
| 4. Availability of Local
Entrepreneurial Capital: | Very Limited. |
| 5. Foreign Investment Interest/
Restrictions: | Yes supposedly declining but subject to dramatic shifts. |
| 6. Capital Flow In/Out Trends:
(e.g., flight of capital) | Outflow supposed heavy but little real information. |

E. U.S. Influence

- | | |
|--|---|
| 1. Conditionality Opportunities for
Leverage: | Yes, but not a great success rate using them. |
|--|---|

2. AID Mission Support: Yes at top level, limited at staff level.
3. Embassy/Commercial Officer Support: Policy level but limited real expertise or experience.

INDUSTRY/ENTERPRISE ASSESSMENT

1. Overview

This study deals with the fisheries sector specifically with particular attention paid to the Somalia Marine Products (SMP) operations.

Fisheries is by and large a relatively untapped resource as expressed from the Somali viewpoint. With a coastline approximately 3300 kilometers in length, a significant nutrient base associated with five major upwellings and river discharge, allowing for a potential annual harvest in excess of 100,000 tonnes, fisheries represents a very rich endowment and in fact one of the few natural resources to be found in Somalia. Resource records and harvests vary widely depending on publication cited and figures quoted are suspect.

Culturally, Somalis are not fishermen but pastoralists living in the interior of the country. Historically, fisheries have been limited to a few coastal villages that practice subsistence fishing and a small dried fish trade. Most fishing activities are associated with riverine Bantu stock, Bajunis and Bavanese along the south coast and small groups of Somalis along the north coast. Not only is fishing generally disdained from an ethnic viewpoint but is also a financially uninspiring industry from an artisanal level due to its seasonality and product perishability. As a result of this emphasis combined with both the technical and capital constraints at the artisanal level, the reported fisheries harvest is estimated to be about 10% of potential.

This is not to say that the potential does not exist for a viable fisheries enterprise. In fact, a number of successful enterprises have occurred including a U.S./Somali joint venture (Prodma) in Kismayu, Italian trawling and some small scale activities. It should be noted that there is currently no practical resource protection for fisheries and that there is a decided encroachment into Somali territorial waters from both foreign fishing fleets and artisanal in-shore fisheries. Two traditional outlets for artisanal fisheries are Djibouti in the north and Kenya via Mombasa in the south. Thus while on the surface there may appear to be a low level of catch landed on Somali shores there is in fact a significant on-going shadow economy exploiting Somali territorial waters. This exploitation includes both fin and shellfish and while considered significant, is not estimatable and probably at current levels, does not cut into stocks.

The GOS recognizes fisheries as having a significant role towards cash generation, employment and nutritional improvement and has stepped up activities in the last few years to support and encourage its development. Recently the GOS has taken a decided posture toward encouragement of private enterprise and indeed it is rumored that there are currently over twenty five companies operating fishing related ventures of one size or another within the country. Meetings held with the Minister of Fisheries, Permanent Secretary and Director of Marketing enforced this posture and emphasized these important facts:

1. Private enterprise was being encouraged as a GOS policy and specifically by the Ministry of Fisheries.
2. A new investment law was drafted and was being prepared for vote. This new law designates the allowances for foreign investment in Somalia and the rules for repatriation of earnings. Current law allows for repatriation of exports by formula of 65% earnings allowed for repatriation and 35% retained in Somalia with a conversion to Somali Shillings through a mix of commercial and auction rates. The IMF has worked with the GOS in adjusting these rates to a single effective one.

3. Domestic consumption of fish is being encouraged with the result that at least in the Mogadishu market, demand exceeds supply. It should be noted that Somalis are not traditional fish eaters and that this phenomena of demand increase is localized and may partially be a result of artificially low prices set by the GOS favoring the consumer. The real test of the change in consumer tastes will occur when effective transport will allow surplus catch to be trucked into the interior. Reports of increased fish consumption patterns in the north were heard from several sources.
4. The highest potential for fisheries still lies in export of high quality fin fish and shellfish to Europe and the Far East with lower quality fish and fish meal marketed domestically or perhaps to China.

The following are GOS projects or entities involved in fisheries which represent either a potential for privatization or register impacts associated with fisheries development that should influence potential investors decisions.

North East Coast Fisheries Enterprise (NECFISH)

This project is funded by an IDA credit for a World-Bank designated pilot project to explore offshore fisheries and rehabilitate north coast facilities. The design involves eventual attraction of joint venture partners. The project has been in the implementation mode for a little over a year and has run into some managerial and technical problems. Recently a new sub-contractor was brought in to handle offshore catch and assessment. The coastal rehabilitation includes jetty repair and development of cold storage facilities at Berbera and Bosaso. DANIDA is cofunding a portion of the project to develop transport and cold storage capability. Initial impressions are that stocks are not as abundant as anticipated, whether this is due to catch methods, transitory schooling, or actual low levels of resource remains to be assessed. Marketing, in-hospitable climate, inaccessibility and

cultural impact associated with increasing individual catch need to be further addressed in order to determine potential success for investors. This level of assessment is still at least a year off.

In addition to the cited World-Bank and DANIDA activities associated with NECFISH, the European Economic Community (EEC) and U.N. are working on cold stores for artisanal fishermen and development of a training center in Berbera along with collection centers and markets along the coast east of Berbera.

The Ministry of Fisheries has placed a priority on development of fisheries on the north coast and encourages investors to first look at this area.

Japanese International Cooperation Agency (JICA)

JICA has an ongoing small technical assistance effort involving the establishment of cold storage and ice production to support the Mogadishu fish supermarket. JICA has also supplied several refrigerated trucks which were being used to transport catch from the area around Adle to Mogadishu. Originally these trucks were supplied by JICA but are now rented out to individuals or agencies.

The supermarket appears to be well run and maintained by Somalis however, the question remains as to how well this will continue. The potential problem arises not so much from technical capability but from replacement parts necessitating foreign exchange. The supermarket and local fresh fish markets were operating well as suppliers of fish and supposedly local demand is outstripping supply. The refrigerated trucks were running well and able to provide a consistent supply to the Mogadishu market. It appears that the supermarket is tending to set market prices and may be creating a monopolistic control. Fishermen with high quality catch are beginning to sell outside of both the supermarket and auction market to select clientele. The important point here is that the demand for fish is increasing and the suppliers are keeping pace with both desired species and better handling i.e. quality control.

Glass Reinforced Products (GRP)

This Swedish Aid (SIDA) project was started in 1976 as part of a resettlement program under the Ministry of Fisheries and consists of a facility at Gezira to produce a variety of fiberglass boats from 6.4 to 10 meters with inboard diesel motors. GRP is also experimenting with a glass molded Sri Lankan designed boat, glass cold boxes and water tanks. The plant is operated under a management contract with a Swedish company and is currently operating as an autonomous parastatal. Discussions are underway to make the operations private under a joint venture arrangement. The general problems holding up this arrangement are: the unrealistic constraints under the current foreign investment law - specifically the foreign exchange and repatriation part, a high asset value placed on the facilities, and the high price of GRP boats due to the devaluation of the Somali Shilling. On a positive vein are a concessionary interest rate granted by one of the investors, very low labor costs, sales to donor supported projects and foreign sales potential (Kenya).

The manager at GRP seemed confident that the revision on the foreign investment law would occur and that the operations would be made private by next year.

Coastal Development Project (CDP)

The coastal development is a parastatal operation involved in the development of four fishing settlements of 5000 people each in Ale, Adle, El Ahmed and Brava respectively. The CDP was established by presidential decree during the drought to move nomads out of relief camps in the interior, resettle and educate them to become fishermen. The official reports indicate that the original 15000 involved in the program has declined to 4000 remaining in the settlements.

Several donor agencies have supplied funds for the infrastructural development of the settlements including roads, housing, schooling, medical assistance and boats and gear. The impact on fisheries production has not been assessed but it is reported that seven tonnes per day of catch comes from Adle and how much

of this comes from the refugees is not known. The refrigeration plant and compressor at Brava have never been used and there is no indication of fishing effort there beyond some few Bravanese.

It would have been interesting to have gotten more information on this resettlement scheme in order to interpret the nomad's ability to transition to an alternate life style, particularly one as culturally un-inspiring as fisheries.

The Somalia Union of Cooperatives

There are apparently 27 fishing co-ops scattered along the coastal communities. Typically the co-ops are to provide a means to upgrade gear, purchase boats and market catch. In reality, the process does not run efficiently and in fact, there are accusations that co-ops are the reason production is low. It is also stated that the co-ops are political entities which act as a disincentive to private enterprise and that special influence is exerted by co-op leadership to continue give away policies in terms of fishing gear and services to control market prices at low levels. Whether this is factual or not it remains that there is an apparent significant conflict and ill-will between co-ops and the rest of the public sector particularly the Ministry of Fisheries. This examination of the co-ops, albeit superficial and possibly one-sided, never the less indicates a less than optimistic prospect of including them in a privatization scheme, at least as they apparently operate.

Somalia Marine Products (SMP)

Funded with German (FNW) grant funds SMP has offices in Mogadishu and a functioning fish factory in Kismayu including a processing room, a ten ton blast freezer and 1000 ton cold storage capacity. The factory operates two 23 meter fish collector ships one equipped with an ice maker, and both with cold storage facilities for collecting from small fishermen. The plant is managed by Somali nationals with a German consultant team of three technical experts who are responsible for co-management, plant operation development of local artisanal fishing activities and fleet operations.

The Minister of Fisheries serves as chairman of the board and interacts with the Mogadishu office which carries on government liaison, marketing and joint-venture negotiations with foreign business. There are currently some serious discussions being held with the Peoples' Republic of China (PRC) which is interested in developing a joint-venture arrangement in which they would supply a vessel(s) and management to both run the vessels and train Somalis in fleet management and fisheries. The PRC company would presumably market high quality fish to Europe and send lower quality to China. Apparently the hold up on negotiations is the PRC's inability to come up with hard currency. Discussions are also being held with a group of Italians, in fact, GOPA (the German management consultant) has prepared a feasibility study which includes several vessels as collector ships and trawlers together with storage and on-shore facilities. The returns on the investment look quite good.

The concept of SMP was to center operations around the rehabilitation of the Kismayu fish plant originally built by a joint American/Somali venture in the middle 60's with a 10 ton blast freezer and 200 ton cold storage capacity. The plant was modernized in the early 80's with FNW funds, to include a complete renovation and 800 tons of additional cold storage refrigeration units. The plant is completely self-contained with electronically controlled generators, compressors, water treatment plant and complete inventory stores. The comment was made that perhaps the equipment is too sophisticated for Somalia and a manually controlled less sensitive system might prove more durable and reliable in the long term.

To supply the plant, fishing operations were to include collector ships, 6.4 and 8 meter GRP vessels operated by the SMP itself and provision of gear and equipment to artisanal fishermen to supply and sell fin and shell fish to the factory or collector ships. SMP has the coastal and pelagic fishing rights from the southern boundary with Kenya to just south of the Horn in the north at Ras Hafun.

In May 1985, SMP fish production exceeded 272 tons (54 more than the previous 1984 period). The profit and loss figures distributed by SMP show an operational profit of \$53,000. for 1983 and \$231,000. for the first half of

1984. These figures are suspect and need verification as to accounting methods and criteria for "profitability".

The important point is that the plant is operational and that production and sales have taken place. However, there are some significant problems that, unless rectified, could cause the undoing of operations. First, Saudi Arabia, which was a major purchaser refused to accept an agreed upon delivery of approximately 400 tons stored in the Kismayu freezers giving the explanation of a cholera outbreak. However, there may be more to this, as medical experts indicate cholera cannot be transmitted through frozen fish. Saudi Arabia has also cut off the livestock market to Somalia suggesting an apparent rift in relations, better markets elsewhere, or both. Without this important Saudi connection SMP has a backlog of storage and must seek other hard currency markets. Supposedly there are established markets in Europe and Kenya with the previously mentioned potentials in China and Italy. Second, production through-put is far short of expectations. Local fishermen are not supplying expected tonnage particularly in the Kismayu area. At the time of this study catch was being transported from Adle by road for processing and freezing at the Kismayu plant. Management said that this was a profitable exercise but trucking catch over 400 miles for processing is highly questionable. Third, FNW is due to pull out of the project in December 1987. The management contractor, GOPA, will no longer be funded by the German aid money and will most likely pull out unless an investor steps in. Fourth, SMP has not been able to establish an effective domestic market. They point out that Mogadishu is the only reliable sales point and that the supermarket, local auction and co-ops have the monopoly there.

Other Private Sector Activities

As mentioned earlier in the text, there are a reported 25 companies operating in the fisheries sector. Some of these were identified either by name or through discussions with owners and operators. Identified companies were Somilfish (an Italian-Somali joint-venture), Aero Gulf Trading Establishment, Fintecs, and the Banadu Fishing Company. Many of these companies are looking for hard currency joint ventures and all suggest they are profitable and could increase profits with capital expansion and foreign markets. It also becomes

quite clear that the operations were highly individualized and the successful entrepreneur knew the Somali "business" system very well and how to operate to his benefit.

2. Industry/ Enterprises Checklist

This checklist pertains to the privatization potential of Somali Marine Products (SMP).

FACTORS

CURRENT STATUS AND TRENDS

A. ECONOMIC VIABILITY

- | | |
|--------------------------------|---|
| 1. Profitability Track Record. | Records show profit of \$53,000 for FY '83 and \$231,000 for first half of FY '84. Records require verification as to accounting methods and assumptions. |
| 2. Subsidy Element. | SMP is a grant aided project with infrastructure and expatriate management provided. |
| 3. Protection Element. | Licensing available on an exclusive or non-exclusive basis. |
| 4. Market Share. | Very low domestically, wide open for foreign markets. |
| 5. Import Competition. | Not applicable. |
| 6. Domestic Market Potential. | Marginal due to single major market outlet (Mogadishu) and competition. |
| 7. Export Market Potential. | Almost limitless for shellfish, world market somewhat depressed currently for high quality fin fish, almost nil for low quality. |

8. Staffing, Organization,
Management.

Doesn't seem to be a problem for the processing plant. However, there is a major problem in fleet operations in terms of vessel size and appropriate gear. Also it is proving very hard to get the local fisherman to supply sufficient quantities to justify the plant size.

9. Wage and Salary Structure
(including perks).

Wages are very low in Somalia due to national poverty, a large civil service, and lack of jobs. The private sector tends to pay higher wages and provides perks such as meals and transportation. However, a very strong shadow economy exists which requires monetary lubrication to keep the parts moving. These "wages" are exogenous to operations but are absolute necessities and simply have to be treated as a cost of operation or there is no sense in even considering an enterprise in Somalia. Fortunately, these exogenous costs are not disruptive or unreasonable once the "system" is understood. In addition, it must be realized that laborers and management will always conduct a little business on the side out of operation resources. This is to be expected and as long as it's not blatant or beyond acceptable parameters, will have to be tolerated.

10. Plant Productivity (building)/
Equipment/Parts.

As mentioned in the text the SMP plant in Kismayu is a modern, efficient, self-contained operation able to accommodate 10 tons in the blast freezer and up to 1,000

tons in freezer storage. It is most likely over-designed for a realistic throughput and too sophisticated for the environmental and maintenance standards of Somalia. The parts store is well maintained but the material inventory is subject to a high degree of importation which makes it reliant on remuneration of foreign earnings through the central banking system. Currently SMP is experiencing a three to four month holdup of cash flow. Unless the situation is remedied, operations could come to a rapid halt.

11. Adequacy Power/Utility/
Transport

The plant is self contained as to power, utility, and the transport seems adequate. However, the water supply is very poor. In fact, a brown sludge is pumped from the Juba River through the local system. This means the plant has to maintain a storage system, settling tank and filtration. Also, there have been chronic fuel shortages and what petroleum is available has a very high sulfur and moisture content which plays havoc with engines.

12. Dependability of Accounting
Records.

The accounting records are highly unreliable and would necessitate a thorough audit before being acceptable.

B. DEAL "DO-ABILITY"

1. Potential Operating Independence.

There are two areas of concern here: (a) The Ministry of Fisheries, which, in fact, owns and control SMP, has an intermediate-term goal in divestiture of SMP. However, the Ministry of Fisheries does not contemplate this occurring for at least five years; (b) the FNW is pulling out of the project in December of 1987 which in all likelihood means that GOPA will terminate its contract and that while Somali management is capable, the lack of support funds and, in particular, delay in foreign exchange cash flow (central bottlenecks) will probably cause the plant to close, as one GOPA technician estimated, within six months. Thus FNW and GOPA are actively seeking investors to supply additional catch and an additional avenue for cash flow. It can be contemplated that the Ministry of Fisheries would also welcome an outside investor and would, in fact, speed up their divestiture time horizon.

As far as Government support of divestiture in response to numbers 2 through 7 in B, it would be impossible to speculate at this point in time due to the Minister's position. However, it can be safe to assume that the Government would not accept paper or lower asset prices nor offered financing as long as SMP is donor funded. Later there may be a different posture.

CRITICAL ISSUES: MACRO VIEW

In terms of contextual or environmental factors impinging on privatization, the following areas will be examined: the Government of Somalia, the United States Government, other multilateral and bilateral donor agencies, and the overall business climate in Somalia.

These issues will be discussed in terms of the following four factors: policy-level assumptions, resources commitments, experience base, and operational capacity. This follows an analytical framework developed earlier by Ken Murrell for examining, in Somalia, the institutional capacity of the agricultural sector (Draft UNDP/The World Bank report, 1985). The following matrix further defines the scope of the section and briefly summarizes the current status in each area in terms of privatization potential.

	<u>Policies</u>	<u>Resources</u>	<u>Experience</u>	<u>Operational Capacity</u>
Govt. of Somalia	growing more positive	no support identified	practically non-existent	minimal with more hinderance than help
U.S. Government	increasingly supportive	increases possible	minimal in Somalia	somewhat untested
Donor Agencies	variable	some willingness	little evidence in Somalia	unknown
Business Climate	N/A	very limited & blocked	trade & import primarily	small scale now, potential growth

1.0 Government of Somalia

The Government of Somalia (GOS) support for privatization activity in both the Ministry of Fisheries and the political machinery of the President's office seem to be increasingly supportive. Some changes in the Foreign Investment Law are anticipated and an "open door" philosophy was heard directly from Ministry officials. It was also reported that the President had gone on record endorsing more private sector activity however, with his physical condition unknown, this policy shift needs more time to be tested. Even with

increasing policy support there is no indication that the Government can support or has supported this position with the resources necessary to help develop private sector activity. The government is having to turn increasingly towards outside donor assistance just to continue its minimal level of activities. The physical infrastructure -- roads, communications, electricity, and water supply, etc.-- is deteriorating rapidly and there are no funds available for repair and maintenance. Without this basic infrastructure private investors will have to be self supportive.

Even if resources were available, the government's lack of experience in assisting the private sector would severely diminish any chances of Somalia making a timely shift towards privatization. The experience of the Government up to this point has not been in helping establish a private sector but more to keep this sector small and under surveillance and control. The operational capacity of the Government to provide supportive services -- regulation, resources surveys, market identification etc. -- is also minimal. The Ministry of Fisheries has potential to develop into an agency to assist the development of private sector fisheries but the operational reality of that will be dependent upon the Ministry itself getting organized and developing its staff in order to provide a few basic prioritized services to attract and support private sector development. Another drawback that is of tantamount importance for private sector development is a strong and reliable banking system. Somalia's state owned and operated banking system is simply not responsive to development of a market-oriented economy. There are measures under consideration measures for commercializing and privatizing a segment of this system but how long it would take to make these operational is unknown.

In short, the GOS may send out signals it is shifting policy in favor of privatization but this shift will not occur quickly and not before experience is developed in supporting the private sector with some clear cut incentive provided for doing so. The institutional capacity of the Government is growing, particularly in fisheries, but we are looking at a five-ten year program of development in order to effectively support and encourage major privatization activities.

2.0 United States Government

Current U.S. policy, particularly in Africa, emphasizes a shift towards more public sector development in terms of administration and management training and development of incentives to stimulate production and employment. In addition, this shift in policy encompasses a definite thrust toward private sector support and development. The U.S. and particularly its Agency for International Development (AID) Mission in Somalia are supportive of privatization and private enterprise development but as of yet has not achieved a success in this area. Its staffing and experience to accomplish this goal, as opposed to the traditional development approach, is limited and the interests in this policy at the operating level were not identified. Neither incentives or expectations of success were noticed and for those reasons it is also unlikely that U.S. policy support of privatization will make much difference in the short run. More resources and more capable and experienced personnel with a business orientation will be required by USAID in order to develop what is a very different approach to development assistance. Somalia is a good place to experiment in developing this supporting capacity since both its Mission Director and Deputy Director were very knowledgeable as well as favorably disposed to shifting AID emphasis to private sector development. In briefing the leaders of the AID Mission, it became apparent that they had given a good deal of thought to private sector activity and that they would both like to have far more direct Mission influence in how the support services could be offered to the host Government and to the private parties involved.

3.0 Other Donor Agencies

While interviewing the major donor agency representatives (UNDP, The World Bank, GTZ, etc.) it was apparent that a policy statement in support of privatization was possible but the resources, experiences, and developed capacity to see the policy implemented was lacking. PVO's and NGO's were also interested in privatization and if there is truly a supportive policy framework higher up, they as well as the major multilateral donors might be in a position to encourage and facilitate privatization. It isn't happening yet but the potential exists and if there could be a coordinated donor policy

mechanism the chances of a significant breakthrough in Somalia could be improved. The first few successes will definitely represent a significant challenge and if donor coordination in support of privatization occurred it would improve the chances for successful model of privatization.

4.0 Local Business Climate

Private sector business in Somalia and particularly, Mogadishu, appears to be growing at an increasing rate. Imported goods and new services (document copying is the best example) are showing up in increasing numbers. No record of new business ventures was identified but it was reported that there are now approximately 25 private sector fisheries businesses which is twice the number identified last year. The expansion of business activity is in very small scale operations and primarily import or trader oriented. As the private sector grows, with either government support or benign neglect, there is potential for larger scale development in Somalia. However, historically there has been only limited experience with businesses larger than one man can control. The climate is improving and in some way the frenzy of business activity could represent one of the most positive signals for increased privatization. Small scale though it is there is a growing experience base forming. The SMP fish factory represents an example of a more vertically integrated business venture which has potential as a pilot project if scaled down realistically. In most people's opinion the cooperatives have not been successful. In the few cases where they do produce they are reportedly run more as a single person proprietorship with one strong leader exerting significant pressure and providing incentives to operate closer to capacity. In fisheries the power of the co-ops may be waning but the most critical factors for increasing production are a reliable market mechanism and a set of incentives (likely more material than monetary, i.e., radios and hard goods) operating to encourage artisanal production. Joint venture operations and foreign currency earning exports are possibilities but again successful experiences are lacking as is a proven operational capacity taking advantage of the one abundant Somali resource. In fisheries the business climate for foreign encroachment in Somali territorial waters may be too open since no effective means of patrol or regulation of offshore fisheries is in place. Along the same lines, there is an undocumented export of fish products

occurring but since there is a direct benefit to the Somalis involved this is not quite the problem that foreign poaching represents. Small-scale businesses would continue to develop if the banking and other support services of the Government could be improved to keep pace with the private sector demand. This is where the policy rhetoric needs to be followed with resources support, increases in experience in assisting businesses and improved public sector operational support for identifying resources, and markets and helping facilitate the development of business activities in the hands of private Somali and foreign businessmen. Increased private sector economic activity needs all four areas of support from policy to resources to experienced assistance to operating mechanisms for business development. This is not a short-term program but it appears that enough different institutions, both foreign and domestic, are saying that this is what they would like to see happen. The prognosis is positive assuming no dramatic shifts at the top level in Government but again it's a five - ten years start up with a real need for extra support given to the first few operations of any scale if they are to establish a success to be emulated by others.

ACOMPLISHMENTS

The team made initial contact with the Mission following the day of arrival in Somalia. AID determined that William Darkins was to be responsible for our activities while in country. Darkins passed this responsibility over to Michael Huston, the contract hire private specialist for the Mission. Mike arranged for transportation, set up initial meetings and scheduled the trip to Kismayu. Besides meetings with various Mission staff, the team met various Ministerial officials, donor agency managerial and technical staff and private sector businessmen. From these interviews, a three day trip to Kismayu in which the SMP plant was inspected, together with a side trip to Brava and the GRP factory at Gezira, the team was able to establish an understanding and perspective regarding the GOS policy toward privatization, the Ministry of Fisheries attitude and specifically, the potential of converting SMP to a privately held business. The team departed the country after having left a set of findings with the Mission concluding with a three hour debriefing

session with Mission senior staff.

The team felt that it had satisfactorily assessed the fisheries potential for privatization, encouraged the Ministry that foreign investors were willing to become involved in fishing ventures and in general felt that a renewed interest in fisheries development was engendered from discussions held with AID, private consultants and multilateral donor groups.

RECOMMENDED FOLLOWUP

It is recommended that SMP be examined in more formal detail and a feasibility study conducted to determine investment potentials. It is also recommended that consideration be made to support SMP through donor aid until such time as it could be privatized.

The Center for Privatization should examine various potential areas for privatization in Somalia. Areas brought to the team's attention that may have high potential for divestiture and profit potential and yet could remain relatively small are:

- Hides and Skins
- Hotels
- Cargo Operation
- Dried Fruit and Juices
- Light Industry
- Small Scale Construction

It is also recommended, assuming political stability and continued emphasis toward privatization, currency and civil service reform, decentralization and encouragement of foreign investments, that CFP continue to promote and investigate potential divestitures in Somalia as it may possibly be approaching a take-off stage.

APPENDIX I

State Owned Enterprises

The following were reviewed and/or visited during the course of this study:

Glass Reinforced Products (GRP)

Somali Marine Products (SMP)

Northeast Coast Fisheries (NECFISH)

Meat Plant in Kismayu

Coastal Development Project (CDP)

APPENDIX II

SCOPE OF WORK

1. Evaluate the extent of commitment of the Government of Somalia to privatization in Somalia, both in principle and with specific reference to divestiture of Somalia Marine Products (SMP). (See Country Enterprise Checklist.)
2. Conduct discussions with Mission and GOS officials.
3. Make site visit to Kismayo.
4. Evaluate potential long term viability of privately operated fisheries and their benefits to the Somalia economy, with particular reference to the operating climate created by the GOS.
5. Identify other potential privatization activities in Somalia and work already accomplished.

APPENDIX III

Trip Chronology and/Professional Contacts of Central Importance

- 06-07 Washington D.C. Pre project briefing at CFP with Gordon Johnson and David Levintow.
- 06-11 Arrive Mogadishu
- 06-12 USAID Mission meeting with Loring Waggoner and Michael Huston. Established parameters for study, trip schedule to Kismayu, people to meet and general logistics.
- 06-12 Meeting with Adrian Saunders consultant for the Coastal Development Project. Saunders discussed the four settlements and the problems inherent.
- 06-13 Official Non-work day, Reports reviewed and discussed.
- 06-14 Ministry of Planning meeting with M. A. Ragae, Director, Private Promotion and Investment Division. Discussed mechanism to develop a business application and changes in the Foreign Investment Law.
- Ministry of Fisheries meeting with Mohammed Aden Ali, Minister of Fisheries and Mohammed Hassan, Permanent Secretary. We were told the party-line rhetoric and that Privatization for SMP would be five years off. Discussed the need for infrastructure development, education of GOS employees, a re-emphasis toward a market economy and the need for a policing power to protect marine resources.
- 06-15 Ministry of Planning, M. Elabeh, Permanent Secretary. Discussed the Foreign Investment Law revision also discussed the success of the privatization of the Ag Development Corporation.

Dr. Peter Magdlenner GTZ (German Consultant), economic advisor for privatization to help GOS remove obstacles effecting operation of the private sector. Stated that there were approximately one hundred state owned companies and agencies and that there was not a great amount of pressure toward privatization of these. He also stated that formation of individual companies was occuring and that GTZ was an advisory group helping to draft legislation, not for investment promotion, but to remove the obstacles which negatively affect and constrain private investment particularly foreign investment.

06-15 World Bank, Brian Falconer, Resident Representative. Brian presented an overview of the Bank's projects and Bank's arrangements and general philosophy. He mentioned that one of the problems inherit with entrepreneurial business development in Somalia was that Somalis are traditionally and philosophically traders and as such had no experience in managing production assets. Thus a period of education and training was needed to form a sufficient base of expertise needed prior to private business proliferation. He mentioned that a Somali Chamber of Commerce was formed with former Prime Minister Ibrahim Egal appointed as President however, the Chamber was currently in a state of limbo due to the Presidents' state of health.

Falconer also mentioned the need to move from a centralized economy, the formulation of private banking system and the IFC support of monetary stabilization. World Bank projects were discussed and detailed in section D, E and F of this reoprt.

06-15 NECFISH, Richard Chamberlain, General Manager. General discussions were held concerning NECFISH's operations and fishing potentials in the south. Chamberlain pointed out that there was high potential but that the major constraints were:

lack of infrastructure, a restrictive foreign investment law and lack of banking facilities.

- 06-15 Glass Reinforced Products, Amund Haarde, General Manager. The factory operations and a joint venture potential were discussed along with problems and constraints of business ventures in Somalia.
- 06-17 Trip to Kismayu with a brief stop in Brava. Stop over in Brava was to observe local fishing activities and to inspect the fishing plant built under the Coastal Development Project. No discernable fishing activities were taking place and no GRP boats were observed. The fishing plant consisted of a cleaning and drying area, freezers, equipment and a store room. There was a considerable amount of shark fins drying, but the freezers and compressor had never been used and the tools had long since disappeared.
- 06-18 Somali Marine Products (SMP), Kismayu
- 06-19 SMP, inspection of plant and discussions with Salad Farah Ismael, Manager, Gerd Friedrich, Co-Plant Manager and Joergen R. Christensen, Fleet Manager about operations, fishing catch and long run potentials.
- 06-19 Acting Governor, Lower Juba Region, M. Sabriah, courtesy call to the acting Governor. Brief visit and discussion with acting plant director, Kismayu Meat Plant.
- 06-20 Trip back to Mogadishu.
- 06-21 Ministry of Fisheries, Permanent Secretary M. Hassan. Discussions of preliminary findings of trip and general appraisal of potential U.S. investor involvement in Somalia needing a great deal of support and protection from the GOS and a great deal more infrastructural development before a significant risk level was removed.

President Representative, his Assistant and his Deputy discussed Fisheries Sector and status of project and program interests.

06-22 USAID's presentation of findings and debriefing session. Meetings with Pierre-Conti North Coast Fisheries Project and Borgas of Somalia Marine Products in Mogadishu offices.

06-22 Departure to the United States.

APPENDIX IV

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APPENDIX V

Supplementary Memorandum

Copy of findings presented to USAID Mission.

Itinerary

The team of Jack Meyers and Ken Murrell arrived in Mogadishu on June 11 with a scheduled departure date of June 22.

During their time in-country they collected data from the libraries of USAID, UNFAO, World Bank and personnel files; and conducted interviews with USAID, GOS officials and staff, UNFAO, UNDP, World Bank, Foreign companies doing contract work and Somali Marine Products facility and discuss operation with the plant manager.

Purpose

The team was contracted through the Center for Privatization to investigate privatization potentials in the Somali Fisheries sector with particular attention paid to the southern region. In addition, the team was to identify other operations for future investigation that have privatization potential.

Scope of Work

1. Evaluate the extent of commitment of the Government of Somalia to privatization in Somalia, both in principle and with specific reference to divestiture of Somalia Marine Products (SMP).
2. Conduct discussions with Mission and GOS officials.
3. Make site visit to Kismayo.
4. Evaluate potential long term viability of privately operated fisheries and their benefits to the Somalia economy, with particular reference to the operating climate created by the GOS.
5. Identify other potential privatization activities in Somalia and work already accomplished.

Findings

In the brief period of time that the team was in country they were able to meet with key individuals involved with fisheries projects in Somalia and through discussions ascertain a general perspective towards the stated goals of fisheries development and the associated constraints therein. They were also able to discuss the specifics of enterprise development and operations with the managers at GTZ's Glass Reinforced Products (GRP) and Somali Marine Products (SMP) from which a micro enterprise perspective was determined. The following are the initial findings of the team. A final report will be prepared in the U.S. and submitted to the Center for Privatization citing more detail including a set of recommendations.

Looking contextually at the Somali situation the following five areas are deemed appropriate for review. These areas represent the Policy Development, the Economic/Institutional Resource Base, the Education/Experience Base, the Operational/Institutional capacity within the country for supporting private sector development and finally, the natural resource base.

Policy Level: As concerns both the Somali government and the major bi-lateral donor (USAID) there has been an apparent strengthening of their policy commitment to privatization and private sector development. This trend was identified through the discussions held with U.S. and GOS officials here and in the U.S.. In addition the drafting of a new Foreign Investment Law and personal assurances by ministry officials that the door is open for all types of unrestricted private investment activities a policy in support of privatization.

Economic/Institutional Resource Base: As concerns the necessary resources to support an increase in private sector activity there was very little found in our investigation which we felt represented a significant commitment made to encourage or facilitate private sector growth. This was less true of the U.S. government since this report itself is being supported with USAID's funds. In terms of a GOS commitment of resources to help develop private sector activity there was nothing identifiable. It was not apparent that there were direct large capital infusions planned to support this policy shift towards the private sector. The direct costs associated with this policy shift are those of setting up the means by which GOS and USAID mechanisms move towards helping to establish, appropriately regulate and to entice and sustain private investment, i.e. pricing policy implementation, public infrastructure, law enforcement, and other governmental supporting services.

All of these actions require financing and nothing in our study identified any actual direct commitment of local or donor resources in this way in Somalia in terms of fisheries privatization.

Experience/Education Base: The necessary experience in promoting private sector development was not identified in our survey. This is true both in GOS and U.S. organizational capacity. Since independence the predominant emphasis toward resource development has been through project focus utilizing bi-lateral aid either through grants or loans. The prospective therefore is decidedly different than that perceived through the eyes of an investor. This understanding and empathy towards the needs of entrepreneurial functions and the shift in attitude from bi-lateral aid/project development to policy, regulation and support of the private sector will require a buildup of experience along with increases of education and training.

The current SOMTAD Project is a step in the right direction but even more specific business skill training is essential to ensure and sustain private sector buildup.

Operational/Institutional Capacity: In Somalia it appears one of the major obstacles facing development is often the complete lack of an operational capacity to make something happen and to have this sustainable over time. In terms of private sector development this appears even more problematic through no research was identified which commented on the number of private business

successes and failures. The capacity to develop and then operate a profitable business venture in Somalia, in other areas than trade, has the potential to be developed. Both the GRP boat factory and the SMP fisheries activities represent how capable Somali workers are but few examples exist (the exception being perhaps the hotel and restaurant business in Mogadishu) that show success in longer term profitable business operation beyond the size of what a single owner can control by himself. The substantial donor assistance and use of outside expertise has been historically a prime factor in development activity and an abrupt shift away from that does not appear to be occurring. However, the transition towards a private sector capability is seen as moving forth with the number of fisheries related business basically doubling over the last year.

Natural Resource Base: Catch records and resource surveys indicate a significant resource fisheries base and a sustainable yield potential. However, these records are more of a business assessment than of a species specific projection. From interviews some conflicting yield prognoses were put forth leaving the team with the viewpoint that it is generally accepted fisheries has a high potential but that a site specific resource survey is required prior to any investment. It has also become apparent that there is a tendency for overdesign particularly in the fisheries sector with plants designed on potential utilization rather than those experienced as actual. It would seem at this point to rationalize utilizing the services of an existing fisheries plant for processing and freezing of catch and developing an enterprise at the appropriate scale and technology along with market development to insure an acceptable level of profit.

In conclusion these general findings reflect an identification of an apparent policy shift in both governments towards private sector development but do not present a particularly optimistic scenario of this occurring quickly. This appears true because of the critical need for resource commitments mentioned earlier and the lack of the years of experience and training required for a significant take off. Conditions seem ripe for a movement in the private sector direction but the path is not well worn and there are expectations that the significant support and encouragement will be coming from both the GOS and U.S. governments. It appears that these early private sector entrepreneurs will have the most difficult time in terms of gaining real operational and not just policy support from the government, developing local and export markets and in managing business organizations of any significant size.