AN EVALUATION OF THE

SOMALIA COMMODITY IMPORT PROGRAM

649-K-602

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OVERVIEW OF EVALUATION

For purposes of this evaluation the Somalia Commodity Import Program (CIP) is considered to consist of three main elements:

1) Implementation, in terms of allocation of the foreign exchange made available, purchase and shipment of commodities, and their sale and/or utilization in-country.

2) Local currency generation, disbursement, and utilization.

3) Policy dialogue

This evaluation finds performance under the CIP agreements so far concluded to have been superior in the first and third of these areas and fully satisfactory in the second. In fact it may be worthy of consideration and emulation in other countries with CIPs. With regard to implementation there have been no undue delays or complications at any stage of the process, at least so far as these were under the control of the Mission. This record has been achieved against a background of unfamiliarity with the CIP and even with international trade on the part of Somali traders and the GSDR. Indeed, there has been a legacy of mistrust to overcome on account of past hostility to private enterprise exhibited by the GSDR. Further, it has been achieved without limiting eligibility under the CIP to a single commodity or a few commodities, as has been done in some other countries, and without relaxing efforts to direct imports into productive areas. Most CIP imports have in fact been utilized for agriculture and for agro- and light industries.

As for policy dialogue, it has been conducted under both

the first and the second CIP agreements. So far as is known the Somalia CIP is unique in the extent to which it has been used to promote reorientation of economic policies, in this case away from administrative controls and towards reliance on market forces and the private sector. This dialogue has been pursued with imagination and vigor and has yielded substantial results.

The local currency element, involving generations only from CIP I, though less spectacular in its results is still to be considered fully satisfactory. To be sure, only a relatively small proportion of the generations has yet been disbursed, and loans made so far with CIP-generated funds by the Somali Development Bank (SDB) have been somewhat limited in scope. But the generations have been fully programmed and await only project documentation before disbursement. And loans so far made by the SDB have laid a basis for diversification.

The evaluation should be regarded not so much as a critique of the past as a guide to the future. It should be possible to draw lessons from it particularly for the negotiation of the prospective third CIP agreement. In this connection, the following are the evaluation's main conclusions and recommendations.

Implementation procedures have worked well so far and no particular recommendations are made concerning them. However, the Mission should keep under continuing review the allocation of imports between the public and private sectors and their respective utilizations therein. It should be noted that allocations may be made both directly, by the Special Committee, and indirectly, through sales by private importers to the government. Some adjust-

ment of intra-sectoral priorities in favor of small farmers and artisans may also be desirable.

Where local currency is concerned, suggestions rather than recommendations have been made. The Mission should nonetheless continue to promote implementation of the development projects that have been designated to receive local currency and also the diversification of SDB loans and of the utilization of CIP generations generally. In scheduling local currency disbursements, their macro-economic impact should also be taken into consideration.

In the area of policy dialogue several recommendations are made. This is not a reflection on past performance but rather of the innovativeness that is called for in this area, into which AID has ventured only relatively recently and for which there are not many guideposts anyway. These recommendations attempt to take account of experience gained and also of changed circumstances, in particular the absence for the moment of an IMF program for Somalia. It is considered that covenants under a new CIP agreement should go farther than those under previous ones, especially in the areas of exchange rates and perhaps also interest rates. In addition, it would probably be desirable to pay more attention to compliance with existing covenants than heretofore.

Mainly, though, the recommendation of this evaluation is that the Somalia Mission maintain the level of dedication and imagination that it has so far shown.

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BACKGROUND

Somalia gained its independence in 1960 when the former British protectorate and the Italian Trust Territory were joined to become the Somali Republic. In 1969, as result of a military coup, the country became known as the Somali Democratic Republic and began operating under what it described as scientific socialism, strengthening its ties with the Soviet Union. Tensions with Ethiopia increased in the 1970s when Somalia set out to liberate the Ogaden area of that country, first by backing insurgencies and then, in 1977, by invading and occupying most of it. Subsequently the Soviet Union switched sides, supplying massive quantities of weapons and also Cuban troops to the Ethiopians. This turned the tide and Somali forces were obliged to withdraw from the Ogaden. Thereafter Somali President Siad Barre turned for military and economic assistance to the West, including the United States. An August 1980 agreement authorized the U.S. military to use facilities at Berbera and Mogadishu, and the U.S. undertook to provide Somalia with significant economic aid as well as FMS credits.

The Somali economy is small, relatively open, and predominantly agrarian/nomadic. The livestock sector (cattle, sheep, goats, and camels) employs about 60% of the population and produces 35% of GDP and 75 to 85% of exports. Crop farming accounts for about 10% of GDP and industry for about 8%. The economy is notable also for the size both of the earnings and remittances of its workers overseas and of the offshore balances held by its traders. The earnings of Somali workers overseas, chiefly in the Gulf states, have been estimated as high as $500 million a

year. An overvalued exchange rate has been a major factor in keeping these out of official channels. Another distinctive feature of the economy is a native entrepreneurial class of surprising vigor, as evidenced by its response, described in the following, to the CIP.

Over the years the Somali economy has undergone many vicissitudes. In the 1960-69 period the imbalances between the modern and urban sector and the agricultural/nomadic sector deepened, and there was mounting inflation and unemployment. In the 1970s the GSDR energetically expanded its control of the economy, the public sector absorbing virtually all development investment and most of the skilled manpower and managerial resources which did not emigrate to the Gulf. It dominated manufacturing and financial activities, controlled prices, and regulated or took over distribution and marketing. Livestock raising nevertheless remained predominantly private. The effect of these policies was only to deepen imbalances. From 1969 to 1977 economic growth barely kept pace with population, domestic food production stagnated, food imports rose, and export crop production declined. Following the withdrawal of Soviet credits in 1977 and the massive influx of refugees resulting from the conflict with Ethiopia, Somalia entered a period of growing balance of payments difficulties and of budgetary deficits which, financed by bank borrowing, led to severe inflationary pressures. The economic crisis persisted to the end of the decade.

In mid-1981, in a decisive move towards economic liberalism, the GSDR concluded a one-year standby agreement with the IMF involving major measures on both the supply and demand sides

of the economic equation: devaluation, discontinuance of the franco valuta (own foreign exchange) system for imports, liberalization of private sector imports with official foreign exchange, increases in agricultural producer prices, and closure of certain public enterprises. On the demand side fiscal and monetary policies were tightened and interest rates were raised somewhat. These measures, together with the substantial reduction in the growth of net credit to the government that they resulted in, produced a significant improvement in both the inflation rate and the balance of payments deficit. Nevertheless foreign exchange resources still fell far short of requirements, and the GSDR still needed support and encouragement in pursuing the liberalization and privatization of the economy.

In this context the Commodity Import Program was launched with the signing of the first CIP agreement in May 1982. It provided $18,5 million, compared with $144 million made available for imports by the GSDR in 1983. In view of the unfamiliarity of the private sector with the CIP and also a certain mistrust of GSDR intentions in view of past experience of its hostility, importers were slow at first in applying. Further, the commodities that they applied for tended to be items in strong demand -- cement for construction, batteries and tires for transportation, spare parts for heavy equipment -- rather than those relating directly to agricultural and industrial development. Later, however, the pace of applications picked up, and it was possible to target imports more precisely to agriculture and to agro-industry. Disbursements of the first CIP were substantially completed by the end of 1983. An IMF report appearing in February 1983

certified that the performance of the GSDR under the standby agreement had adhered to the established targets for 1982. Inflation declined and production rose during the period. Accordingly a second CIP agreement, this one providing $16 million, was negotiated and signed in August, 1983. No commitments have yet been made under this agreement, initially because of delays in securing the letter of commitment and subsequently through the need to sort out certain procedures with the GSDR. But applications totaling about $40 million have been received, and both commitments and disbursements are expected to be made shortly.

In 1983 the economy underwent adverse developments in the form of a ban on livestock imports from Somalia by Saudi Arabia, its traditional main market, which also suspended the oil grant which it had been extending to cover most of Somalia's requirements. A further devaluation in 1983 failed to overcome the widening of the spread between the official and the parallel exchange rates. Inflation, which hit 50% in 1983, appeared to be running considerably higher in 1984. Finally the GSDR failed to accept the conditions for an IMF Extended Fund Facility, which it had expected to conclude in early 1984. This is the background against which a third CIP agreement, if forthcoming, will presumably be considered and negotiated.

PROGRAM IMPLEMENTATION

Preliminary Actions

Negotiations were completed on May 20, 1982 and Grant Agreement No. 649-K-602 ($15,5 million) was signed on May 28, 1982. Conditions precedent to disbursement of funds were met on September 16, 1982, having been delayed by GSDR unfamiliarity with the preparation of the required legal opinion. On September 20, 1982, the Agreement was amended, adding $3,0 million. On September 25, 1982, Financing Request No. 1 was issued issued by the Ministry of Finance, and on October 7, 1982, AID/Washington (M/FM/BFD) issued AID Letter of Commitment 649-K-60201 in the amount of $18,5 million to Manufacturers Hanover Bank, New York, N.Y. This action facilitated issuance of letters of credit to suppliers.

During the negotiation phase, the Ministry of Finance and USAID/Somalia had agreed that approximately $15,5 million would be allocated to the public sector and the remainder ($3,0 million) to the private sector. However, when the implementation process began, it became apparent that public sector agencies lacked the local currency required as deposits in Somali Shillings equal to 100% of the CIF Mogadishu commodity cost. Such a local currency deposit requirement was one of the firm stipulations made by USAID/Somalia as a prerequisite to issuance of AID-financed letters of credit under CIP 1.

In view of the above, the Ministry of Finance acquiesced in the allocation of additional funds to the private sector. Also,it was agreed that all import application approvals, letters

of credit issuances, local currency deposit certifications, and uses of local currency counterpart must be signed by representatives of the Ministry of Finance and USAID/Somalia.

Appendix 1. shows the distribution of funds under CIP I indicating dollar amounts allocated to the public and private sectors and the countries from which commodities were supplied.

Private Sector Procurement

Upon issuance of Letter of Commitment 649-K-60201 to Manufacturers Hanover Bank, the Ministry of Finance informed prospective private importers individually and in a public radio announcement that financing was available under the CIP. Importers then were instructed by the MOF that when applying for financing under the CIP certain documents were to be submitted to a CIP Special Committee for review. This committee was composed of representatives from the Ministries of Finance, Commerce, Industry, and Agriculture and a representative from the Somalia Development Bank. Although a non-voting member of the Special Committee, the USAID/Somalia Supply Management Officer served as an advisor on AID regulations and international trade procedures. Also, he reviewed all applications and reserved veto authority for any proposed transaction which did not comply with AID regulations.

Prospective importers were asked to submit the following documents for review by the Special Committee:

1. Copies of all solicitations from US suppliers and/or suppliers in other code 941 countries. Importers were instructed to solicit from at least three suppliers. Solicitation of

proformas were to include the following:

a) Type, quantity, and origin of commodities

b) Commodity FOB price in US Dollars

c) Freight cost

d) Insurance cost if insured by supplier (if insured locally, payment for lost/damaged goods to be in US dollars)

e) Name and address of supplier to whom letter of credit to be opened.

f) Indication that the supplier had been notified by the importer that commodities involved were to be financed by USAID Commodity Import Program for Somalia and that all transactions under said program were to be governed by AID Regulation 1.

2. Copies of all proformas received by the importer were to be submitted to the Special Committee. The importer was required to indicate in writing which proforma was selected and the reason for the selection.

3. Copies of GSDR Ministry of Commerce Import license request (Form B) signed by the importer.

4. Letter of Credit application form from Commercial and Savings Bank of Somalia signed by the importer.

5. Letter from the Commercial and Savings Bank of Somalia attesting that the importer had adequate funds on deposit to cover the cost of the commodities in Somali Shillings.

6. Copy of importer's foreign trader's certificate (license to participate in foreign trade).

Further, in the event that the importer had a special relationship with a supplier e.g. exclusive distributorship, he was not required to obtain more than one solicitation but was required to furnish documentary evidence of that relationship to the Special Committee. (Such relationships are limited to US and other code 941 suppliers). The above listed instructions to importers were made available in English and Somali.

Allocation of Imports

The Special Committee held weekly meetings to consider applications received. By November 1983, the number of private sector applications had reached 130. The final selection was narrowed down to 87 with many of the remaining applications being duplications of those for the commodities approved. (Since then, as of May 1, 1984, in anticipation of CIP II, an additional 296 applications have been submitted).

A listing of applications approved under CIP I showing importer names, commodities purchased, quantities, and sources is attached as Appendix 2. As indicated in the appendix, a wide range of commodities was allocated for importation by the private sector comprising equipment, spares, and raw materials for the agricultural and industrial sectors, it is apparent that the $12,7 million allocated to the private sector was distributed on a rational and equitable basis, benefiting traders and end-users in Mogadishu and Hargeisa.

A total of 25 importers received allocations, 17 located in Mogadishu and 8 in Hargeisa. Nine importers procured new materials and/or equipment for their own use while the remaining

importers functioned as traders selling imported goods to end-users.

Following allocation approval by the Special Committee, USAID concurrence was obtained. The Special Committee then notified the importer that he could proceed with his letter of credit application. Also at that time, the importer deposited local currency (100% of CIF value) into a Special Account. The remaining steps in the documentation process were similar to other routine AID-financed transactions. A flow chart of this process is attached as Appendix 3.

Evaluation Findings

During the CIP evaluation, all participating traders located in Mogadishu (13) and one trader from Hargeisa were interviewed. Traders were questioned concerning logistics, banking, shipping, customs and other government clearance problems, and prices charged to end-users or in some cases to retailers.

a. Profits

From information disclosed by traders, it is estimated that profits averaged from 20% to 50% on sales within the private sector and 50% plus on sales to government entitles. During the procurement period there was a disparity in exchange rates (the official note ranged from 15.4 Somali shillings per one US dollar to 17.4 Somali shillings) and the parallel rate (black market) ranged from 25.0 to 35.0 Somali shillings.

Traders were asked why profits were not high given the fact that commodities were imported at the much lower official rates. Almost without exception, traders indicated that they

concentrated on quick turnover and considered it foolhardy to hold out for higher prices, particularly when the public was aware that the commodities had been imported at the official rate.

Typically, additional expenses incurred by importers were reported to consist of the following charges calculated on a percentage of CIF Mogadishu costs:

a) Customs and port charges (35%)

b) Bank and Bank interest charges (15%)

c) Income and selling tax (20%)

d) Warehouse expenses (30%)

When an average profit of 35% is added to these charges, the markup reaches 135% of CIF value. This is probably a very conservative estimate of mark-up to the customer. Some reasonably accurate price analysis of CIP transactions may be possible in view of the strict documentation requirements set up for the program. However, the current atmosphere of foreign exchange fluctuations, tax manipulations, gratuities and other intangibles would make reliable inquiries difficult.

b. Port clearance

With four exceptions (three in the private sector and one in the public sector), commodities were imported and cleared customs at the port of Mogadishu well within the 90 day limit imposed by the USAID. One very serious problem developed concerning a shipment of veterinary drugs (550,000 bolus - 4700 cases - of thiabendazole) valued at $354,232. The drugs were imported under the CIP by Mr. Jirdeh Hussein, one of Somalia's

leading traders and entrepreneurs. When the drugs arrived at port, the Ministry of Livestock and Forestry attempted to confiscate the shipment, alleging that only they had the authority to import drugs. The shipment was removed from the port and is currently stored in a warehouse owned by Mr. Hussein and padlocked by him and the Ministry. The release or payment in full to Mr. Jirdeh Hussein for these drugs has been made a condition for release of the forthcoming CIP II funds. U.S. Ambassador Oakley has taken an active role in this dispute and has been negotiating with the GSDR to obtain an equitable settlement. The drugs have an extended shelf life; however, they will be in high demand soon for cattle innoculations during the forthcoming rainy season.

As of May 1, 1984 two other private sector shipments remained in the port. One shipment of 29 Jeeps remains in the port storage area awaiting a decision by the Ministry of Juba Valley concerning a potential purchase from the importer, Liban Trading Co., which intends to establish a Jeep distributorship in Mogadishu.

The other shipment includes GMC pick-ups and two GMC truck-tractors imported by Khadar Dahir Mogeh. In this case the Ministry of Agriculture has indicated interest in purchasing the vehicles. Both importers are reluctant to clear the vehicles through customs and remove them from the port at this time.

In the event that the GSDR interested agencies finally decide to purchase, the vehicles would be exempt from customs duties and various other charges. Importers have informed the respective ministries that any intended purchased must be on a

100% payment in full in Somali shillings basis at the time of sale. They both stated that negotiations probably would result in a profit margin of not more than 20%.

The other remaining CIP-financed equipment still detained in the port consists of five Caterpillar excavators and four Caterpillar crawler tractors imported by the Ministry of Agriculture. (This case is discussed in detail in the section dealing with public sector procurement).

The prompt movement of commodities through customs and into the economy is evidence that demand was high for the items involved. It is also indicative of the anxiety level of private importers who are cognizant of potential losses through damage and/or pilferage while goods remain in the port. In all probability, speedy release of goods from customs in many instances was the result of effective gratuities. It is not unreasonable to assume that such costs are a routine business expenditure and calculated in the mark-up to the consumer.

c. Utilization of specific commodities

No coefficients exist for Somalia whereby overall additions to output and employment resulting from the CIP may be mathematically estimated. But from the following specific instances these effects may be seen to be substantial. As an initial commodity import program, the range of commodities selected appears excellent. Items were varied and directed to both the agricultural and industrial sectors. Most imports have had an immediate impact on the economy. For example, high yield vegetable seed imported from California produced excellent results and remains in high demand by farmers;

tires, batteries and vehicle spare parts were sold readily to truckers and others involved in commerce; cement was sold directly to farmers enabling them to continue construction of irrigation canals; and tractor spares put many farm tractors back into operation.

An outstanding example of immediate economic impact was the importing of 10,000 kg of acrylic yarn from Taiwan by a village private cooperative, Jileb Marka "alendi". During the evaluation a visit was made to the village located north of the town of Marka and approximately 90 kilometers south of Mogadishu. The village, composed mainly of mud huts and few small masonry buildings, is over 500 years old. It is situated on a knoll overlooking the Indian Ocean and is accessible only by four-wheel drive vehicle. There is no road to the village, only foot and animal paths. Approximately 2,000 people of various ages (infants to the very elderly) inhabit the village. There is a central water well but there are no modern conveniences of any kind except for a very recently purchased small diesel electric generator. A few villagers are fishermen but the main village enterprise is weaving. Over nine hundred people are actively engaged in the weaving process. There are three hundred weavers, with each weaver assisted by two support personnel. The entire production process is manual with the weavers and others using tools which appear to be of a type used hundreds of years ago. As told by a village spokesman, at some time in the past the weavers were situated in Mogadishu. However, the noise and clamor of modern times became unsettling to them and they moved to the present location. Their finished products

are very professionally crafted and in colorful designs which appeal to local markets.

Upon receiving a CIP allocation of $43,215 the cooperative purchased 10,000 kg of acrylic fiber yarn in hanks from a supplier in Taiwan. This quantity provided enough yarn to the weavers for a three months work period. When the finished cloth was sold on the local market the cooperative realized enough profit to buy an additional 10,000 kg of yarn (presumably under franco valuta type arrangements), thus providing an additional three months of work for the villagers. Also, profits enabled the cooperative to give modest bonuses to workers, and with residual funds a small diesel electric generator was purchased. In the absence of the CIP allocation, the cooperative could have waited up to two years to obtain an import license.

In this particular case, the impact of CIP funding was dramatic and indicative of the importance of giving special consideration and priority in the allocation process to small enterprises, particularly those with a sizeable labor force.

A second industrial enterprise benefiting from the initial CIP was the SVILA paint factory located in the industrial area of Mogadishu. The factory employs approximately 60 workers in the mixing, coloring,and canning of emulsified water and vinyl based paints applied to interior and exterior of typical buildings in Somalia.

The factory also manufactures a synthetic glue for carpentry use. According to company executives, the factory provides 80% of the country's total paint requirements. Under CIP I SVILA imported 500 metric tons of bagged calcium carbonate for

whiting from a supplier in Kenya. Previous purchase of similar material had been at the official rate of 15.4 shillings to the US dollar.

Company officials stated that the normal profit margin for the finished product is approximately 20% and that the CIP funded material cost would not measureably change that figure. Typically of importers and end-users interviewed, the SVILA managements staff had high praise for the CIP and hoped that future allocations could be made to them to enable the firm to increase production and production facilities.

Conclusions Re Private Sector Imports

Overall, the economic impact of imports by the private sector is very visible. Farming, transportation, industry and commerce in general all appear to have directly benefitted. Diversification of commodities and prudent allocations to a sizeable number of private importers resulted in very tangible, visible impacts to a virtually stagnant economy. A further significant fall-out of the program is the introduction of Somali businessmen to new world markets. Traditionally, trade patterns have been mainly with Italy and Great Britain. Other European countries have also done considerable exporting to Somalia. The CIP program introduced many importers to U.S. sources as well as suppliers in India, South Korea, Taiwan, Brasil, Pakistan. Since the inception of the program some Somali businessmen have travelled to the U.S. and the Far East and have begun to establish relationships with suppliers and exporters in various countries.

Public Sector Procurement

a. Allocations

Following the decision by the Ministry of Finance regarding how much should be allocated to specific agencies, the procurement procedure used was much the same as in other AID-financed CIP programs. A flow chart of this process is attached as Appendix 4. Allocations to specific public sector agencies are listed in Appendix 5. An analysis of allocations made indicated that the majority of items procured were critically needed spare-parts for government utilities and government owned and operated enterprises. Since much of the equipment involved is of Italian origin, a considerable quantity of the spare parts came from that country. A significant amount of equipment and spare parts was purchased from U.S. companies, for example Caterpillar Tractor Co. and Cameco.

b. Utilization By Specific End-users

The program evaluation included visits to two operational sites. A visit was made to the GSDR Agriculture Development Corporation rice mill located at Marka Shalambod. During a previous visit a year ago by USAID/Somalia staff, piles of unmilled rice were observed in various locations in the town. At the time of the evaluation visit, all available rice had been milled and had either been sold or was stored in government guarded warehouses. The purchase, arrival, and installation of CIP financed spare parts made it possible for the mill to function and exhausted the backlog of unmilled rice.

A visit was made to the SNAI Jowhar Sugar Estate which is located in Jowhar, a town 90 kilometers north of Mogadishu.

The estate is the oldest agro-industrial complex in Somalia and one of the largest. It is comprised of a cane-growing area 8,000 hectares in size and a sugar cane processing factory with a 100-ton-cane-hour rated capacity. The production of the factory has been in continuous decline for the last ten years for a number of reasons: lack of technical expertise, deterioration of plant equipment and machinery, lack of spare parts, and a drastic decline in the quantity and quality of available cane. The general director stated that complete rehabilitation of the estate, particularly the factory, could reach a cost of approximately $40 million. The Ministry of Finance allocated $2,5 million to the Ministry of Industry under the CIP for procurement of badly needed spare parts. In the short time since arrival of these spares, the following equipment has been put back into operation: two diesel generators, eleven D-6 and D-7 Caterpillar tractors, six D-4 Caterpillar tractors, three Poclain engines, and eight CAMECO cane loaders. The immediate impact of these AID financed spare parts is obvious, but the long term benefit, if any, is marginal. AID had waived policy determination 71 restriction for the emergency procurement of the spare parts. The waiver was justified on the basis that sugar produced at Jowhar was marketed for domestic use only and not for export. (Somalia continues to import approximately 60% of its domestic requirements). An allocation of $654,000 was made to the Juba Sugar Project for similar spare parts. The financing under CIP I of equipment and spares for either of these enterprises despite the alleged emergency requirements is questionable.

This is particularly evident in the allocation to Jowhar Sugar Estate, a faltering, uneconomic, aged facility which has

not received the level of support from the central government. According to USAID/Somalia SMO, there will be no allocations for these public sector enterprises under CIP.

A visit was made to INCAS, the parastatal enterprise whic manufactures corrugated boxes and plastic bags principally for packaging banana exports. Although modest in amount ($10,257), the INCAS Deputy Director advised that the AID financed spare parts for corrugated box machinery were vital to the continued operation of the plant.

Critically needed spare parts were also purchased for various utilities, for example, pumps parts for the Mogadishu Water Agency, pumps, and engines for the Kismayo Water Agency and equipment and spares for the Ministry of Post and Telecommunic tions.

The Ministry of Agriqulture imported equipment and truck spare parts and also seven Caterpillar excavators and four Caterpillar D6-D crawler tractors. (The total value of the excavators and crawler and tractors is approximately $1.5 million CIF Mogadishu). Since the middle of March 1984, the four excavators and four crawler tractors have been detained in the port of Mogadishu as the result of a dispute between the Ministry of Agriculture and Oceantrac, the Caterpillar dealer, the Ministry attempted to have Oceantrac pay port and customs charges. Oceantrac has refused, stating that the equipment was purchased directly by the Ministry and that they (Oceantrac) have only the responsibility for physical removal of the equipment from the port and other services normally associated with start-up of new equipment.

As of 1 May 1984, the matter remains stalemated. At some point USAID may have to intervene advising the Ministry of Agriculture of their responsibilities to bear port and customs charges.

An ironic sidenote is the fact that the only CIP I financed commodities remaining in the port are the Caterpillar equipment mentioned above and vehicles which await GSDR ministries decisions regarding possible purchase. In the case of the vehicles, the importers will set a deadline and in the event of non-action by the ministries, they will pay the customs duties, storage charges etc. and remove the vehicles for sale to private buyers.

Ocean Transportation

During the implementation of CIP I, problems arose concerning the availability of eligible flag vessels, compliance with the 50/50 U.S. flag statutes and the paucity of U.S. flag vessels available for service to Somalia ports. In some cases, suppliers often shipped on ineligible vessels, prior to receipt of confirmed letters of credit. Much correspondence and delays in payment ensued, but eventually most problems were resolved satisfactorily. In efforts to preclude recurrence of these violations and payment delays it has been recommended that for CIP II the Africa Bureau request the Administrator to grant a special exception to the 50/50 U.S. flag vessel rule on the basis that U.S. flag vessels are not available for service to Somalia ports on a regular basis. As an alternative, a blanket determination of non-availability of U.S. flag carriers could be made by the Director of the Office of Commodity Management for a period of one year with a renewal option.

Conclusions

Overall, the implementation of CIP I has been extremely successful. Commodity pipelines were well within acceptable limits; with minor exception goods moved through the port and customs promptly and without incident; equipment, spare parts, and raw materials entered directly into the economy and were put to use for intended purposes.

In one instance Jowhar Sugar Estate, there was a question about the long term viability of the public enterprise being assisted; however, from colonial days, traditionally Somalia's trade ties have been with Italy and Great Britain. Much of the existing equipment in the country originated in those countries. Nevertheless, less than 8% of the emergency spare parts and equipment replacements funded under CIP I were purchased from Italy and Great Britain. (Some spares were purchased from Belgium and Japan). Uniquely, the program has had an immediate, visible, and positive impact on the economy. In effect, it has provided a ray of hope to the private sector encouraging them to continue in efforts to establish or improve private enterprises.

Admittedly, the disparity in exchange rates has been a factor in the prompt utilization of available funds. Yet, measured against the negative impact to the private sector had the grant been a cash transfer or restricted to public sector use, the positive results mitigate appreciably the negatives associated with exchange rate disparity.

CIP II (649-K-603) Current Status

Grant Agreement No. 649-K-603 in the amount of $16,0 million was signed on May 28, 1983. Conditions precedent to disbursement of funds were met on August 20, 1983 and Financing Request No. 1 was submitted by the Ministry of Finance on November 23, 1983. Letter of Commitment 649-K-60301, in the amount of $16,0 million, was issued to Manufacturers Hanover Trust Bank, N.Y., N.Y. on March 13, 1984 (Issuance of the Letter of Commitment was delayed pending clarification of ocean transportation payment procedures).

It is planned that 85% of the CIP II Grant funds be allocated to the private sector and the remaining 15% to the public sector. Possible private sector purchases include fertilizer, vegetable seeds, hand tools, water pumps and spares, agricultural tractors and spares, and some veterinary pharmaceuticals. Raw materials and spares are the principal items contemplated for the industrial and transportation sectors. It is planned that public sector purchases be restricted to spare parts for agricultural equipment (mainly tractors) and water works equipment. Telex equipment for the city of Hargeisa is also being considered. An expanded CIP Special Committee has been formed and should be convening shortly. The CIP II Special Committee will be composed of representatives from the Ministry of Finance, the Ministry of Commerce, the Ministry of Planning, the National Economic Council, the Central Bank, the Somalia Development Bank, the Commercial and Savings Bank of Somalia and the USAID/Somalia Supply Management Officer (non-voting member).

As mentioned earlier, a shipment of animal drugs, questioned by the Ministry of Livestock and Forestry, remains detained in a local warehouse. The Ministry of Finance has been advised by USAID/Somalia that the issue is blocking distribution and sale of the drugs and must be resolved before any issuance of Letters of Credit can begin under CIP II. Hopefully, the issue will be resolved shortly. A further unsettling development was the recent decision to earmark $5,0 million of the Grant funds for the payment of ocean freight for PL-480 shipments[1]. This reduces available funds for procurement under CIP II to $11,0 million, a 31% reduction. With the lesser amount available, the Special Committee will be hard-pressed in their final allocation decisions in view of the fact that there are over $40 million in active private sector applications on file. Nevertheless, the review and approval process should progress smoothly, mainly because both the public and private sectors are now more familiar with CIP procedures and have been convinced that the program works. Hopefully the animal drug issue will be resolved immediately and the Special Committee will begin deliberations. Unless further unanticipated delays occur, it is estimated that allocations will have been made and letters of credit issued with deliveries CIF Mogadishu within 90 to 120 days.

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1) The Ministry of Finance will be required to deposit an equivalent amount in Somali Shillings in the CIP Special Account at the present exchange rate (17,73 per US$).

ASSESSMENT OF THE PROGRAMMING, MONITORING AND UTILIZATION OF CIP-GENERATED LOCAL CURRENCY.

The CIP has generated large local currency balances. These have been programmed but for the most part they are still unallocated, so there is need to assure that the machinery for allocation, which is already in place and has begun to function, completes its task promptly. The loaning through the Somali Development Bank of CIP-generated local currency for agricultural and agro-industrial purposes appears to be proceeding satisfactorily. There may be scope for diversification of these loans, however. Some suggestions are included for this as well as for enhancing knowledge of the agricultural sector.

Mechanism for allocation and control of CIP funds.

USAID and the GSDR have developed a local currency programming and monitoring system which is effectively working to insure accountability in the allocation and use of counterpart funds. Local currency proceeds from CIP importers (private and public entities) are deposited into the CIP Special Account with the Commercial and Savings Bank of Somalia. According to the Memorandum of Understanding (MOU) between the Ministry of Finance and USAID, dated July 10, 1983 (see Appendix 6), these proceeds are to be disbursed and used for development projects which are mutually agreed upon by the GSDR and USAID. These allocations are then reflected in the GSDR's development budget.

Two entities have been established to insure the proper management and control of the counterpart funds. The first, the Generated Shilling Proceeds (GSP) Committee, serves as the

reviewing authority for the use of CIP and PL 480 Title I generated proceeds. The second, the CIPL Unit, functions as guarantor that program objectives and provisions are being met. (See Appendices 6 and 7). The GSP Committee, composed of two officials from the Ministry of Finance and two officials from USAID, meets twice a year. It meets at the beginning of the calendar year to review the Annual Program Budget Plan and to assure that the projects and activities included in the plan are qualified for financing from CIP proceeds, as specified in the GSDR-USAID agreement. (See the Annual Program Budget Plan for 1984, attached to Appendix 6). It meets again at mid-year to review and adjust the budget schedule. The Committee also meets on an ad hoc basis as required.

The CIPL Unit, composed of six officials from the Ministry of Finance and a USAID representative, reports directly to the Ministry of Finance and is responsible for monitoring project expenditures and for the management of the CIP local currency proceeds. Also the CIL is intended to perform field audit inspections and on-going and final evaluations of activities funded by CIP proceeds.

The responsible Ministry or Agency for each project reflected in the GSDR development budget prepares and submits to the Ministry of Finance (CIPL Unit):

a) The project paper, the project agreement and the detailed budget.

b) A breakdown by line item of the 1984 budget prior to the disbursement of funds.

c) Monthly accounts and quarterly expenditures reports

(following the same line item format as the request in b) regarding the use of CIP proceeds.

In addition, the sponsoring Ministry or Agency maintains a separate account for each of the projects so funded, and institutes accounting procedures acceptable to the CIPL Unit, and makes all financial records related to the use of CIP proceeds available to the CIPL Unit upon request.

Once the above criteria have been met as verified by the GSP Committee, the Minister of Finance and the Director of USAID approve the immediate release CIP proceeds to the project.

The MOU also envisages periodic field audits carried out by independent accounting firms, jointly selected by the Minister of Finance and the Director of USAID, as well as on-going and final evaluations of all funded projects.

Status of allocation and disbursement.

Of the approximately So.Sh. 280 million generated by CIP I, So.Sh. 75 million was transferred from the CIP Special Account to Kismayo Port Project in July, 1983, but has not been used yet. (The U.S. is engaged in repairing this port's facilities, initially constructed with AID financing in the mid-1960's). The other allocation of CIP proceeds made in 1983 was a So.Sh. 50 million loan to the Somali Development Bank (SDB) for medium-term loans of up to five years to the private agricultural and agro-industrial sectors. (See Appendix 8 : Loan Agreement between SDB and Ministry of Finance with the concurrence of the U.S. Government). As of May 1, 1984 the entire loan of So.Sh. 50 millions had been approved and So.Sh. 30,4 million disbursed to 97 loan applicants. The remainder is expected to be disbursed by June 30, 1984. (See

Appendix 9, Somali Development Bank Report on Loan Allocations) Appendix 10, shows a SDB Progress Report dated 1/23/1984 as required by the CIPL Unit every six months. The next report, due in July, is expected to show the complete utilization of the So.Sh. 50 million loan.

The Annual Program Budget Plan for 1984 shows that So.Sh. 384,1 million in proceeds generated by CIP I and anticipated from CIP II have been programmed and approved by the Ministry of Finance and USAID. However, only a relatively small amount, less than So.Sh. 20 million, has already been disbursed. Most of this money has been used by Refugee Self-Reliance projects sponsored by USAID.

Appendix 11 shows a semi-annual progress report from one of the AID-financed projects which are receiving funds from CIP's proceeds. The CIPL Unit expects to release a few more millions for other small projects financed by USAID. However, the bulk of the programmed money in 1984 for GSDR development activities under the Public Investment Program (PIP) has not yet been disbursed pending receipt of project documentation.

CONCLUSIONS

The local currency generated by CIP, which is handled jointly by the CIPL with that generated by PL 480 Title I, is significant. (A combined total of about So.Sh. 600 million is programmed for 1984). The GSP Committee has reviewed projects in the Annual Program Budget to assure that they meet stipulations laid out in the CIP and PL 480 agreements; and the CIPL has managed counterpart proceeds and assured that these proceeds are

used for the intended purposes. Both have coped with major tasks and both have done so more than adequately. It is to soon for these early relatively small disbursements and the huge but still unallocated CIP and PL 480 proceeds to have had a positive impact on development in Somalia. The Mission states, however, that allocations to development projects are imminent.

The only project or program which was implemented in 1983-84 was the So.Sh. 50 million loan from the GSDR (from CIP proceeds) to the SDB. This amount was completely utilized for the purpose stipulated in the loan agreement, namely establishing a credit program for the provision of loans up to a maximum of So.Sh. 4 million to the private agricultural and agro-industrial sectors. The credit was disbursed for the following subsectors or components of the agricultural and agro-industrial sectors: farming, (all types) 56%, livestock projects 9%, fishery projects 11%, agro-industries 8%, poultry 5%, bakeries 3%, and dairy farms 8%. Most of the credit for farming was intended for land development purposes, which include land clearance, repair of irrigation ditches, and so forth. Another important use of the credit was for the purchase and repair of water pumps. The remainder was for tractors and farm equipment. As mentioned previously, a total of 97 loans has been made.

The processing of SDB loans usually takes two to three months. Farmers can apply for loans only at the Central Bank's office in Mogadishu. Then an appraisal of the properties used as collateral is made; and in the case of loans for farming the title of the land or farm is required to be notarized. Finally,

the applications and pertinent documents are reviewed by SDB officials. For loans over So.Sh. 500,000 a loan has to be approved by the SDB board of Directors. It takes about another 1 to 2 months before the money is actually disbursed. The SDS charges 10% interest rate for loans of 5 years term and up to 12% for loans for terms over 5 years.

As for the adequacy of the SDB loan appraisals, the Agriculture Division staff is relatively small - two or three agronomists who perform the appraisals and about two clerical staff. Agricultural Division professionals have participated in seminars on development banking and rural development projects. Emphasis on part of the SDB is given to continuing training at all levels. However, staff salaries have remained stagnant for the last 2 years, which might induce SDB employees to look for job opportunities in the private sector or abroad.

All loans made by the SDB fully met the conditions specified in the loan agreement. The SDB timely submitted to the Minister of Finance and USAID the financial and progress reports required by the agreement. The SDB requires loan applicants to present fixed assets as collateral, and for farming loans they must have title to the cultivated land or farm. A new loan of So.Sh. 50 million is included in the 1984 GSDR Annual Budget Plan, probably earmarked for the same type of loans as described previously.

RECOMMENDATIONS

1. Use of Local Institutions for On-Lending Operations to Private Borrowers

There are two lending institutions in Somalia, namely the Somali Development Bank (SDB) and the Somali Commercial and Saving Bank (SCSB). In the GSDR Annual Program Budget Plan for 1984 allocations are made of So.Sh. 50 million to the SDB for a second agricultural and agro-industrial loan and of So.Sh. 40 million to the SCSB.

On the basis of the successful implementation of the first So.Sh. 50 million loan it would be highly desireable that the GSP Committee consider a third loan to the SDB.

The first So.Sh. 50 million was used only to finance investment loans for up to five years terms, secured by requiring fixed assets as collateral.

The third loan might be earmarked, at least in part for small and subsistance farmers (yamboleys) and for small agricultural processing industries with fewer than 10 workers. In this case provisions and conditions such as the following could be included in the agreement.

A. Loans for Qualified Small Farmers and Yamboleys

1. A loan maximum of So.Sh. 100,000 would be established.
2. Loans would be used to finance agricultural inputs to farmers who meet the definition of qualified (see below).
3. The term of the loan would not exceed twenty four (24) months.

4. For each loan, the SDB would finance not more than 75% of the total activity cost.
5. The SDB would not require land or fixed asset collateral from the applicants.
6. The criteria for small farmer would be developed by the SDB with the concurrence of the USAID (size of area planted, only family workers, etc.)
7. To be accepted the small producer should show interest in planting new crops and varieties and in using better farming techniques to increase yields and obtain higher production.

B. Loans for Small-Scale Agricultural Processing Industries with Fewer than 10 Workers.

1. A maximum of perhaps So.Sh. 300,000 per loan would be established.
2. The term of the loan would not exceed 60 months.
3. For each loan, the SDB would finance not more than 75% of the total activity.
4. The SDB would not require fixed assets as collateral from applicants.

The loan would be used to finance small-scale agro-industries using locally-produced raw materials and employing fewer than 10 workers including family labor. Examples of such small industries are grinding of cereals; extracting vegetable oils from sesame seeds, peanuts, etc.; preparing sausages and other meat products from beef, lamb, etc.; producing sugar-like products from small crushing mills.

2. The final recommendation is that USAID consider the allocation of CIP proceeds for the prelimnary preparation of an Agricultural Census in Somalia to be conducted in the late 1980's. Since preparation for the 1985 Population Census has already started under the auspices of the United Nations, the Italian Government, USAID, the U.S. Census Bureau and the GSDR, it may be possible to use some of the expertise of census advisors, data collection consultants and data processing experts to assist in the planning of the Agricultural Census. The Somalia CDSS identifies several key constraints to improved performance of the agricultural sector, one of which is "inadequate information and data on which to base policies to achieve increased productivity". The Agricultural Census would ameliorate this problem and would also serve as the base for constructing a reliable agricultural statistical system in Somalia. International organizations like FAO and the World Bank may be interested in participating in this endeavor, also bilateral donor assistance from Italy, Sweden, and Germany might be obtained.

POLICY DIALOGUE

The achievements of the policy dialogue with the GSDR that has been carried on through the CIP cannot readily be quantified. It is fair to say, however, that it has been conducted with both discretion and vigor and that is results, in terms of turning the economy away from administrative controls and towards the operation of market forces, have been substantial.

The potential for policy dialogue inherent in the Somalia CIP is perhaps unusual. It provides a significant proportion of the foreign exchange officially available for imports, especially by the private sector. And it is on a grant basis, which gives it a standing different from that of even a concessional loan. Also it came at a strategic time, when after several years of structuring itself on a socialist model and of being heavily dependent on the Soviet Union, the GSDR undertook to liberalize the economy of the country and to open it to western influences. Thus it may have been more amenable than most governments. At the same time few, if any, other CIPs have had their inherent potential for policy dialogue actualized to the extent that the Somalia one has. In this, of course, it has followed along the lines of the Administrator's new directions for AID, one of which is policy dialogue. But this direction may itself be regarded as innovative.

Since policy dialogue is so prominent a feature of the Somalia CIP, an evaluation without discussion of it would be incomplete. Such discussion presents problems, however. It lacks clear benchmarks, such as rates of disbursement of foreign exchange

or local currency, which evaluations have customarily relied on. Further, there is the chance that a policy change sought would have been carried out anyway or, even if it has not been, that it may be some day. And not to have all the policy changes sought carried out may be a sign not of ineffectiveness but rather of boldness of approach. The proper criterion of success may be said to be rather how well conceived the changes were, in terms of the country situation and its requirements, and how vigorously, within judicious limits, they were pursued. For these and other reasons there is bound to be a tentative and subjective element in any assessment of policy dialogue; and recommendations must be conditioned on economic and political circumstances which now, or may in the future, prevail.

On this basis the policy dialogue component of the Somalia CIP may be given high marks. Not all the policy changes sought have come about, and it will be necessary to continue to press the GSDR, perhaps more strongly than heretofore, concerning them. But others, no less important, have been achieved. In any case the CIP, by virtue of its significant role in the balance of payments and the economy generally, has given an important impetus to policy changes and so also to the transition of Somalia from its socialist past to a market economy.

The specific aims of the Somalia CIP have been to support the balance of payments, reorient the economy away from administrative controls and, in conjunction with the latter but still as a separate emphasis, encourage the private sector. Support of the balance of payments, especially in terms of the commodities brought in and their impact, is dealt with in the

section.
implementation/ See also Appendix 12 for tables and a note relating to the role of CIP in the balance of payments. Reorientation of economic policies and encouragement of the private sector have been sought through covenants attached to the first and second CIP agreements and, prospectively, to the third as well. (The existence of the CIP has itself been a strong support to the private sector.) Policy changes of major importance, relating to budgetary performance, domestic credit, and government employment levels, have been accomplished. Substantial progress has been made towards liberalization of agricultural prices, elimination of inefficient public enterprises, and improvement of import licensing procedures at least so far as the CIP is concerned. Areas where progress to date has been less adequate include adjustment of exchange and interest rates, stimulation of private investment and savings, and incentives for retention of technically qualified government personnel. The foregoing all relate to covenants attached to the first CIP. Progress towards changes sought through the second CIP has not so far been reported by the GSDR, although in some cases it is known to exist. But no commitment of funds under this agreement has been made yet either.

Before dealing with the specifics of policy dialogue, one feature of it as carried on under the CIP deserves comment. This is the tying of the CIP agreements, both the first and the second, to a major extent to the GSDR's adherence to IMF programs. Surely this is appropriate. The IMF, as an international organization without conspicuous vested interests, is in a position to press the GSDR in areas in which the U.S. is not, at least

without the risk of backlash and counterproductiveness. Further, the IMF approach, in both its underlying philosophy and its specific measures, is close to our own. Thus to a degree we can in this way have our cake and eat it too. At the same time such tying itself poses risks. One of these is that the IMF programs may not achieve as much in certain areas as appears to be required for the well-being of the economy. The other is that an IMF agreement may lapse without another being put in its place, at least for a certain time. As discussed below, both these contingencies may be considered to have come to pass in Somalia. This is not necessarily an occasion for suspension or withdrawal of the CIP, however. In fact in a certain sense it may present an opportunity.

Since the policy dialogue with the GSDR has been carried on mainly through the covenants included in the CIP agreements, the discussion of its specifics can perhaps best proceed through comments on those in both the CIP I and CIP II agreements. Certain additional considerations, also related to policy dialogue, follow thereafter.

CIP I covenants

The CIP I agreement, concluded in May, 1982, contained covenants relating to review and phasing out of public enterprises, encouragement of foreign and domestic private investment, managerial and technical training and incentives, formation of a consultative group, and periodic consultation with the Mission. The most notable one, however, called for adherence to existing and future IMF programs as required by agreements between the GSDR and the IMF. This seems appropriate, as noted above. Accordingly this discussion will begin with comments on the specific provisions of the IMF program, considering not only the degree of their observance but also their effect on the economy.

The IMF agreement which came into force shortly after the conclusion of the FY 1982 CIP was largely concerned with budgetary performance: reduction of the budgetary deficit and thus of the growth of net domestic credit to the government. Along with the limits set for these aggregates, specific measures were prescribed on both the revenue and the expenditure sides. The former consisted of improvements in the tax system and the latter of suspension of cost-of-living increases and of limitations on government hiring. The GSDR met these criteria, by and large, in 1982. In fact an absolute reduction of 6% in net domestic credit to the government was achieved, thanks in part to foreign assistance. This was of particular importance in containing the growth of money supply and thus of inflationary pressures.

Another principal concern of the IMF program was adjustment of the exchange rate for the Somali shilling, which on

account of inflation had become seriously overvalued. Following the conclusion of the CIP agreement and the institution of the IMF program in 1982, a devaluation of 59% against the dollar was carried out. The IMF was surely justified in requiring devaluation, in view of the unfortunate consequences of an overvalued exchange rate -- penalization of exports, encouragement of imports and capital flight, development of a parallel exchange market, involvement in administrative allocation of imports, and loss of government revenues, especially those deriving from customs. Even so it may be questioned whether this devaluation went far enough, at least in its implementation by the GSDR. An IMF chart shows the real import-weighted effective exchange rate for the Somali shilling as higher at the end of 1982 than in 1979. (This rate takes account of difference in inflation between Somalia and its trading partners as well as of changes in their exchange rates.) The IMF report containing the chart, SM/84/71, does not give figures, and it is not possible to reconstruct the underlying calculations here. But the real appreciation over the period appears to have approached 15%. And despite the devaluation of 1983, it has probably gone on increasing, as evidenced by continued widening, even in proportional terms, of the spread between the official and the parallel rates.

This outcome raises the question of whether future CIP covenants should not deal with the exchange rate independently of IMF programs. They might not need to deal with the whole of the exchange system, as the IMF programs have done, although this would probably be desirable. But they could still specify the rate to be used for CIP transactions, at least to the point

of saying how it is to be arrived at. An auction system of some sort would allow market forces to play a role in determining this rate, which might then become a standard for non-CIP transactions. Such a system has already been proposed in the CIP II PAAD as a means of encouraging private investment. But it would seem even more important in this wider, macroeconomic context. Another possibility would be to impose a surcharge of some amount on top of the official rate. But this amount, and also any subsequent changes in it, would have an element of arbitrariness in the absence of any clear criteria for setting it. Still another possibility would be to require the importer to pay a percentage of his local currency at the time of the arrival of his goods and at the official rate then prevailing, so as to reap the benefit of any devaluation taking place since the opening of his letter of credit. Finally, the importer might be required to put up a portion of the foreign exchange himself, presumably out of his overseas holdings. But the effectiveness and feasibility of these last two possibilities might be questioned. Still the Mission would be in the best position to assess these options, which would in any case have to be negotiated with the GSDR.

The CIP as it has operated heretofore has had at least two important merits. It has had an educative function, making Somali importers aware of sources of supply with which they were unfamiliar as well as demonstrating the reliability of the system. It has also permitted the direction of resources into priority areas such as agriculture and light industry. So far as possible

a new system should be structured so as to preserve these advantages. Doing so is not without risk since to some extent it involves the substitution of administrative decisions for the operation of market forces. But there are political as well as economic risks in the Somali context in investments requiring even a few years for their pay-back. So a degree of direction is probably justified.

Also under the IMF program the GSDR was expected to raise interest rates to positive levels. These could then play a role in encouraging savings, increasing remittances from Somali workers abroad, and stemming capital flight, while also serving an allocative function. In 1982 interest rates were raised by an average of five points, which amounted to between 17 and 100% but left no significant lending rates higher than 14%, while the highest deposit rate was 11%. No adjustments have been made since then. These rates compare with price inflation of 24% in 1982 and 50% in 1983, so that interest rates have remained negative by a wide margin. Thus as with exchange rates consideration should be given to future CIP covenants relating to interest rates independently of IMF programs. In both cases, however, there should be coordination with the IMF as far as possible.

Significant also as a feature of the IMF program was the liberalization of agricultural producer prices. These were intended to become essentially market-determined, with official prices remaining only as minimum guaranteed prices. Prices for livestock, the principal product of the agricultural sector and also the country's main export, were mostly market-determined

already, so that the foregoing applied mainly to crop production. Substantial liberalization appears to have taken place here, as evidenced by the results of the importation of vegetable seeds under the CIP, which would have been unlikely under continuing price controls. But the extent of the liberalization is not clear, and efforts should be made to clarify it as well as other aspects of the agricultural situation, as will be discussed elsewhere.

Other requirements of the IMF program were the elimination of certain public enterprises and the liberalization of import licensing. Some progress appears to have been achieved under both these headings, but the extent of it is not clear and continuing efforts are in order. Public enterprises in Somalia have been no less inefficient than those elsewhere in Africa, particularly when attempting to control major elements of the economy. The complexities of the import licensing system have been a factor in favoring participation in it by the stronger and better-financed importers.

Non-IMF-related covenants

In addition to those relating to the IMF program, certain other covenants were included in the CIP I agreement. One of these concerned the revitalization of the private sector and so largely overlapped with the IMF condition about abolishing public enterprises. Specifically, the GSDR was to review and if warranted phase out public enterprises in the agricultural and agro-industrial sectors. It appears that substantial steps were taken in fulfillment of this covenant, including the establishment

of an evaluation unit. Much remains to be done, however, as has been acknowledged by the Mission. A second non-IMF covenant aimed at encouraging foreign and domestic private investment, particularly in agriculture. Apart from the general encouragement of private investment to be derived from devaluation, price liberalization, and certain other policy changes, however, nothing notable appears to have occurred in this area. The situation seems to be similar with regard to a third such covenant, namely the establishment of managerial and technical training programs and of incentives for the retention of technically qualified personnel. Although existing training programs have been maintained, new ones have not been undertaken and retention incentives are still lacking. But a study of the civil service system now being carried out by a U.S. team may reveal a basis for such incentives.

The final two covenants under the first CIP appear to have been dealt with satisfactorily. One of these was that the GSDR would attempt to form a Consultative Group, under World Bank auspices, for Somalia. The GSDR moved vigorously on this front, and a Consultative Group meeting was in fact held in October, 1983. The other was to consult with the USAID at no longer than six-month intervals concerning the implementation of the CIP. No difficulty was reported by the USAID in consulting with the GSDR at intervals more frequent than that.

CIP II covenants

Covenants under the second CIP agreement, which was signed in August, 1983, include adherence to the IMF program, actual reduction in government employment, incentives for the retention

of technical personnel, stimulation of private savings and investment, improving import procedures, and phasing out or privatizing state enterprises. To some extent these are repeats of covenants under the first CIP agreement. The IMF program, however, is another story.

Adherence to IMF program

Instead of specifically listing the provisions of the IMF program, as in the discussion of the first CIP, the CIP II PAAD simply speaks of whatever IMF program may be in force. In particular it refers to an Extended Funds Facility which was expected to be agreed on in early 1984. This was a reasonable expectation at the time, and the inclusion of such a covenant in the agreement was appropriate. But an EFF agreement was not concluded, through the unwillingness of the GSDR to accept certain conditions, particularly relating to exchange rate adjustment, deemed essential by the IMF. An EFF agreement with Somalia now appears unlikely any time soon, although another IMF standby may be a possibility.

This situation poses a dilemma of some sharpness for the U.S. On the one hand we could impose IMF -- type conditions on our own -- the panoply of targets for the budgetary deficit, domestic credit, the balance of payments, external debt, and so forth. This however would be a highprofile operation, exposing the U.S. to criticism from those who might be adversely affected. An additional drawback would be the need to monitor GSDR performance across a broad range of criteria, an operation requiring considerable expertise as well as time. On the other hand, we could simply leave out the performance conditions that the IMF

has been concerning itself with and focus on the others. The difficulty here is that in the absence of such performance conditions, whether imposed by the IMF or somebody else, the economy is likely to deteriorate rapidly, leaving the CIP with little useful function to perform.

The function of an evaluation is more to point to the existence of such a dilemma than to resolve it. Nevertheless it is appropriate to point out that in the face of this dilemma it may not be necessary simply to withdraw the CIP or refuse to negotiate a third agreement, which coming on top of the suspension of livestock exports to Saudi Arabia and of the Saudi oil grant could be devastating for Somalia and for U.S. interests here. Instead there may be some via media, some covenants that could be required in conjunction with a third CIP which would be strategic without being unduly intrusive. They might thereby retain some of the advantages of the two courses outlined above while minimizing their drawbacks. Candidates for such covenants may be found in the proposals made earlier for action independent of the IMF regarding exchange and interest rates. These were for a higher rate for foreign exchange made available under the CIP and for interest rates at least approaching a positive level in real terms. If they were worth going ahead with alongside an IMF program, they would be more so in the absence of one. Indeed, continuing the CIP under that circumstance without action on the exchange rate could ease the pressure on the GSDR to devalue. Coordination with the IMF, so far as possible, would still be important, however.

Non-IMF-related covenants

Reduction in government employment: The GSDR has undertaken not merely to avoid increasing the number of its employees but actually to reduce it. This is to be accomplished by limiting new hires to half the number that leave. Although the likely rate of reduction is not specified, this is a step at least towards reducing the government's wage bill, the largest component of its expenditures.

Incentives for the retention of technical personnel: This is a repeat of the covenant in the 1982 agreement, about which nothing significant appears to have been done apart from the introduction of the U.S. team studying the civil service system. Savings from a reduction in the overall level of GSDR employment as envisaged above would enhance the ability of the GSDR to offer incentives.

Stimulation of private savings and investment: This covenant calls for studies of the foreign investment code and for liberalization of the granting of licenses for domestic small industry. It also calls for an auction system for foreign exchange made available under the CIP. The latter would no doubt be useful here, but it may be of greater significance as a step towards a market-determined exchange rate, as discussed previously.

Efficient import-licensing procedures: This covenant envisages the application of the simplified procedures developed for the licensing of CIP imports to imports generally. It is not specified, however, of what the simplification of CIP procedures has consisted. Neither is it clear in what respects general

import licensing procedures can or should be simplified.

Phasing out or privatizing state enterprises: Under this covenant a procedure by stages for the privatization of state enterprises is envisaged. First there would be a management contract and then a leasing arrangement, followed by private equity participation and finally majority private ownership. This procedure would seem an improvement over privatization undertaken abruptly or without preparation. The success of this approach may depend, however, on the availability of private interests to perform these functions which are acceptable to the GSDR. It is not clear whether their availability has as yet been ascertained.

As mentioned earlier, no overall survey of compliance with the covenants included in the CIP II agreement has so far been made. This is not to say that such progress does not exist; in fact it is known to exist in some cases such as improvement of incentives for private investment through revision of the investment code. But in the absence of a mechanism such as would be afforded by regular meetings of a responsible committee, it is difficult to say where matters stand except during the preparation of a CIP PAAD, which necessitates such a review. The establishment of such a committee, consisting of appropriate representatives of the GSDR and the Mission, could serve not only to assure compliance but also to identify difficulties and to provide assistance or make allowances as required. Also, as may be apparent from the foregoing discussion of them, the covenants under the CIP II agreement are not completely specific. A joint committee such as envisaged here could serve to clarify

their intent pending negotiation of a CIP III agreement, in which the intentions of the covenants could be made more explicit.

GENERAL ISSUES

Sectoral and intra-sectoral priorities

Under both the first and the second CIPs, priority has been given to commodities required for agriculture, agro-industry, and small-scale light industry, in that order. In view of the initial unfamiliarity of Somali importers with the CIP and their consequent need to import commodities that were readily salable, these priorities were not so clearly reflected in the commodities brought in under the first agreement. To a considerable extent these consisted of cement, batteries, and tires, for which there were also urgent needs, in construction and transportation. Commodities brought in under the second agreement should conform more closely with the CIP priorities, as indicated not only by the illustrative list included as an annex to the CIP II PAAD but also by the natureof applications from importers so far received.

The CIP priorities are consistent with the nature of the economy, which is heavily agricultural and which has little potential for large-scale or heavy industry. The direction of CIP commodities into particular areas may call for some discussion, however. This of necessity involves some substitution of administrative judgement for the operation of market forces, the guidance of which is in most instances more reliable. Even in the Somali situation market forces are not without merit. For example, the batteries and tires brought in under the first CIP served to rehabilitate trucks and buses required for the movement of goods and people and so may have been no less useful than

commodities directly utilizable by the agricultural sector. Nevertheless political as well as economic uncertainties in Somalia introduce distortions in favor of consumer goods and others which promise shorter-term pay-backs. Thus the direction of imports through appropriate incentives into equipment and materials required for production, where the returns are slower in coming, is probably justified at this time. Still it would be advisable to move as rapidly as circumstances permit in the direction of market determination.

Priorities within sectors may also merit discussion. A significant proportion of the agricultural commodities under the first CIP consisted of heavy items such as tractors and diesel-powered water pumps. Applications for the second CIP so far received also run in this direction. Evidently these are destined for farms of substantial size. Small farmers, except perhaps by banding together, would lack the financial means to acquire such equipment. (A mitigating factor may be the renting out of tractors for the plowing of small farms). This is not necessarily to question the way the CIP has operated so far. For the most part it has had to work with those who were not only willing but able to take the risks associated with it, which given not only the unfamiliarity of the program but past opposition to private business on the part of the GSDR were perceived as great. Still the thrust of AID's efforts in agriculture is towards the small farmer. In fact this thrust is reflected in the summary sheet for the Somalia CIP in the FY 1985 Congressional Presentation. It results not only from social reasons but also from the fact that small agricultural holdings tend to be more productive,

in terms of land and also of inputs. Thus in the future attention should probably be given to developing channels for commodities directly utilizable by small farmers, such as hand tools and perhaps also fertilizer. Before this could be done, however, considerably greater knowledge of the agricultural sector than now seems to be available would probably be required. For example, little seems to be known about the land tenure system or even the relative numbers of small farmers and the size of their holdings.

Where small-scale light industry is concerned, care needs to be exercised in two respects. There should be reasonable assurance that industries for which equipment is being imported under the CIP are competitive with imports in the long run. Otherwise, even if there is some generation of employment or saving of foreign exchange associated with the industry, there will be a net loss to the economy, if only through the opportunities for more productive investments foregone. Such cases often lead to requirements for protection or subsidies as well. Further, the industry should not be unduly dependent on imported raw materials. If import and foreign exchange allocation was left to the market, access to imported raw materials would not be a problem -- although the competitiveness of the industry in question might be. Bud administrative allocation in some form, even if now removed, could recur. In this case the industry would be vulnerable. No CIP-financed imports are known to have gone against these criteria. But opportunity cost as a criterion for CIP allocations ought to be specifically recognized. Further, in a

manner analogous to that of giving consideration to commodities for small farmers, the concept of small-scale industry should be extended down to include shops or even individual artisans utilizing lathes or sewing machines or comparable equipment. In working out the channels for supplying such commodities there may be some need to make administrative allocations. Still market forces should be relied on to the maximum extent possible.

Local currency generations

This subject is dealt with in the second section of this evaluation, particularly with regard to amounts generated and the programming and monitoring of utilizations. But there is another dimension of the subject which also deserves attention. The total under the FY 1982 CIP was estimated at So.Sh. 278 million, or about 6% of money and quasimoney as calculated by the IMF for 1983. In the event of a substantial increase in the exchange rate for CIP transactions, these generations might be increased significantly. In any case they are large enough to have an appreciable effect on the balance of expansionary and contractionary forces in the economy. This being so, sterilization in some form of a part of these generations rather than their full utilization might be justified. In any event, the macro-economic dimension of local currency generations should be taken into account in discussions of policy relating to them. This might require a distinction between cases in which importers of commodities under the CIP sold them to the private sector and cases in which they sold them to government entities. In the former

the transactions presumably involve a net subtraction from money supply. In the latter the possibility at least exists of financing transactions through an increase in net credit to the government from the banking system.

RECOMMENDATIONS RELATING TO POLICY DIALOGUE

1. Action on the exchange rate independent of the IMF

The Mission should come up with a replacement for the present arrangement, insofar as it involves the use for CIP transactions of an official rate which seriously overvalues the Somali currency. The IMF programs to which the CIP agreements have been tied aimed at effective depreciation of the official rate for the Somali shilling, which was generally agreed to overvalue it. They appear not to have achieved it, however, and no IMF agreement is now in force. The present, increasing overvaluation of the Somali currency by definition, creates some form of windfall in connection with CIP imports and also causes local currency generations to fall short of their potential. The exchange system as a whole may not be under our purview, but at least through action on the rate applied to CIP transactions we might influence it. Two main approaches suggest themselves for use, presumably in connection with the negotiation of a CIP III agreement since the CIP II agreement has already been concluded. One is some form of auction system and the other is the imposition of a surcharge over the official rate. The balance of advantage would appear to lie with the former since a surcharge would involve an element of arbitrariness both in initially setting and in subsequently changing its amount. The Mission should, however, make its own assessment of these and other possibilities in the light of prevailing conditions. Insofar as possible the replacement should be structured to preserve the advantages of the pre-

sent arrangement, in particular the directing of imports into productive sectors and the educating of importers.

2. Action on interest rates independent of the IMF

In parallel with the foregoing discussicn of the exchange rate, IMF programs have been only partly effective in bringing interest rates up to an approximation of positive levels. Although there is no instrument fully ready to hand through which we could act on interest rates, CIP local currency generations being advanced to the Somali Development Bank should give us some leverage. The institutional structure for extending credit is rudimentary, however, and knowledge of credit arrangements in the economy is limited. The Mission should require action from the GSDR on interest rates, especially in the absence of an IMF agreement. But it would probably be better to begin with studies of the situation rather than with specific actions.

3. Adjustment of intra-sectoral priorities under the CIP

Provision should be made for importing significant amounts of commodities directly utilizable by small farmers and artisans. Such imports appear to have been of limited importance so far.

4. Equipment for small-scale light industry

It is appropriate that the CIP be utilized as an incentive for investment in light industry, which by its longer-term nature involves risks not necessarily present in the importation of consumer goods. In the allocation of resources, however, there

should be recognition of the principle of opportunity cost, so that care is taken to select industries which are competitive with imports in the long run. In addition, they should not be unduly dependent on imported raw materials.

5. Local currency programming

In view of the magnitude of the CIP generations, which would be increased by a shift to a higher rate, consideration should be given in policy discussions to the macro-economic impact of disbursements as well as to the effectiveness of their utilization. Under certain circumstances it might be justified to sterilize in some fashion a part of these generations rather than disburse them, in view of the inflationary impact that their disbursement could have.

6. Compliance with covenants

Regular meetings, on a monthly or quarterly basis, with appropriate GSDR representatives should be instituted to monitor compliance with the covenants under the CIP agreements. In addition, covenants under the prospective CIP III agreement should be made somewhat more specific than those under CIP II. Meetings could serve as an informal method not only for bringing about compliance but also for clarifying the meaning of existing covenants where necessary and for identifying difficulties in implementation and providing assistance or making adjustments as required.

CIP I

DISTRIBUTION OF FUNDS TO PUBLIC & PRIVATE SECTORS BY SOURCE COUNTRY

U.S. (000) (36.8% of Total)				$6,792,364
Public Sector (54.5%)			$3,701,254	
Private Sector (45.5%)			3,091,110	
Other 941 Countries (54.0% of Total)				9,954,093
Public Sector (7.7%)			$769,481	
Pakistan (7.0%)		$703,350		
India (.5%)		48,210*		
Kenya (.2%)		17,921**		
Private Sector (92.3%)			9,184,612	
South Korea (71.3%)		7,095,867		
Turkey (9.8%)		979,875		
Brazil (5.5%)		543,245		
India (2.3%)		226,438*		
Kenya (2.0%)		202,507**		
Taiwan (1.4%)		136,680		
899 Countries (excludes 000 and other 941) (9.2% of Total)				1,696,583
Public Sector (74.5%)			$1,264,171	
Italy (39.0%)		$662,501*		
U.K. (31.9%)		541,222		
Belgium (3.6%)		60,448		
Private Sector (25.5%)			432,412	
Italy (14.8%)		250,226*		
Japan (10.7%)		182,186		
Sub-total				$18,443,040
Total allocations Private Sector (68.9%)				(12,708,134)
Total allocations Public Sector (31.1%)				(5,734,906)
Fees for cancelled L/Cs				1,690
Unallocated balance reserved for contingency bank charges				55,270
Total funds distribution under CIP I				$18,500,000

*Total India Public and Private: $274,648 (2.8% of 941)
**Total Kenya Public and Private: $220,428 (2.2% of 941)

*Total Italy Public and Private: $912,727 (53.8% of 899)

APPENDIX 2

CIP I

PRIVATE SECTOR IMPORTS BY COMMODITY

AND SOURCE OF SUPPLY

COMMODITY	IMPORTER	QUANTITY	SOURCE	(CIF MOG. $ AMOUNT
Vegetableseeds	Arab Essa Haid(M)	1,400Kg	U.S.	73,497
	Mohamed Haji Abdullahi (H)	1,100Kg	U.S.	14,874
Coconut Oil	Sunshine Soap Co.(H)	35M.T.	U.S.	49,245
Tallow	Sunshine Soap Co.(H)	102M.T.	U.S.	90,492
Acrylic yarn	Mohamed Omar Ali(M)	10,000Kg	Taiwan	43,215
Soap chemicals	Abdi Ismail Mohamed(H)	70MT	India	64,169
Caustic Soda	Sunshine Soap Co,(H)	60M.T	U.S.	37,366
Veterinary drugs	Jirdeh Hussein (H)	550,000 (Bolus)	U.S.	354,232
Cement	Khadar Dahir Mogeh(M)	10,000M.T	Korea	653,250
	Aaren Co.(M)	1,500M.T	Kenya	114,570
	Ali Botan Abdi(M)	12,000M.T.	S.Korea	759,780
	Ali Mohamed Farah(M)	15,000M.T	Turkey	979,875
	Nur Aden Shirwa (M)	11,000M.T	S.Korea	696,465
Chemicals for paint	SVILA (M)	500MT	Kenya	87,937
Galvanized Pipe	Mohamed Farah Siad(M)	9,167	India	83,627
Water pumps	Mohamed Farah Siad(M)	6	India	36,213
	Jirdeh Hussein(H)	100	U.S.	52,273
	Mohamed Ali Mohamoud(M)	69	U.S.	212,743
Sprayers	Khadar Dahir Mogeh (M)	1500	S.Korea	60,300
Gabions	Khadar Dahir Mogeh(M)	4,280	S.Korea	44,863
Drilling Bits	Mohamed Ali Mohamud(M)	100	U.S.	183,716
Drill Rig Spares	" " "		U.S.	159,756

APPENDIX 2

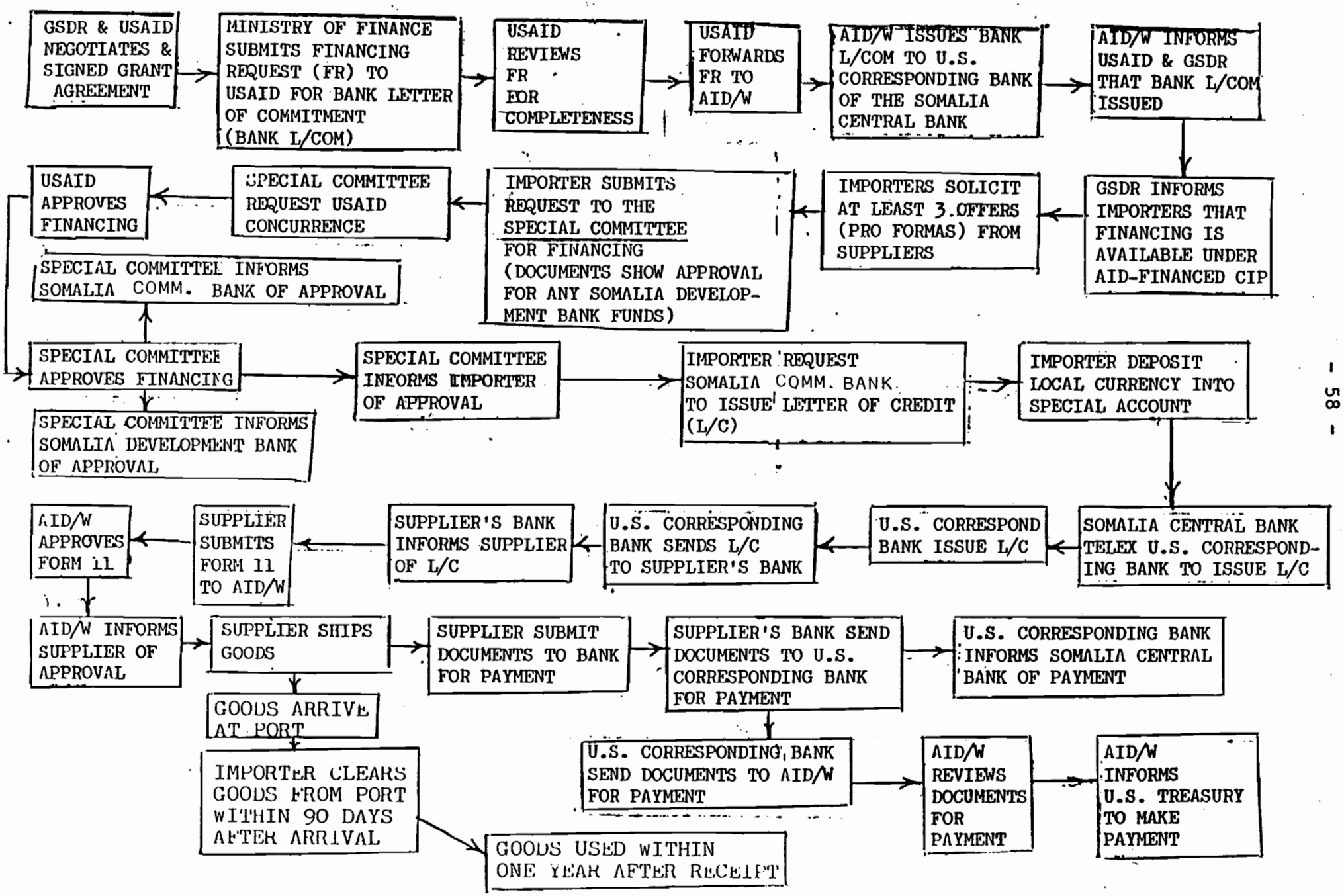
COMMODITY	IMPORTER	QUANTITY	SOURCE	AMOUNT
Diesel Engine Generator & Spares	Mohamed Ali Mohamoud	1	U.S.A	231,313
Electric Generator & Spares	Mohamed Ali Mohamoud	1	U.S.A	13,625
Electric Generator & Spares	Guled Hotel	1	U.S.A	22,852
Bread Making Machinery	Red Sea	1	Taiwan	93,465
Farm Tractors & Spares	Jirdeh Hussein	30	Brazil	396,195
Trailers & Ploughs	Jirdeh Hussein		Brazil	146,650
Construction Equipment	Suleyman Habane Aye			
Wheel Loader	" " "	1	U.S.A.	96,250
Grader Tractor	" " "	1	U.S.A.	146,247
Motor Grader	" " "	1	U.S.A.	147,407
Pump Truck Body	" " "	1	U.S.A.	17,423
Trailer	" " "	1	U.S.A.	13,595
Trailer	Khadar Dahir Mogeh	2	U.S.A.	30,362
Sugar Cane Crushing Equipment & Spares	Giama Gani Ahmed	1	India	36,436
Jeep Vehicles	Liban Trading Co.	40	U.S.A	556,458
GMC Vehicles	Khadar Dahir Mogeh	16	U.S.A	378,846
Mack Trucks	Suleyman Habane Aye	1	U.S.A	63,862
Vehicle Spares	Ali Mahdi Warsheekh		Italy	250,226
Vehicle Spares	Khadar Dahir Mogeh		Japan	130,294
Vehicle Spares	Mohamoud Haji Abdi Abusila		Japan	51,892
Tires & Tubes	Ahmed Hussein Bulbul	5,000	S. Korea	652,313
Tires & Tubes	Khadar Dahir Mogeh	11,238	S. Korea	1,190,867
Tires & Tubes	Sheikh Ali Mohamed	9,800	S. Korea	969,187
" "	Ali Botan Abdi	2,000	S. Korea	257,327
" "	Hassan Abdi Khayre	2,500	S. Korea	383,086
Storage Batteries	Arab Essa Haid	6,000	S. Korea	190,952
" "	Ahmed Bodleh Yusuf	6,000	S. Korea	201,141

+ Mogadishu (M) - Hargeisa (H)

SOMALIA CIP

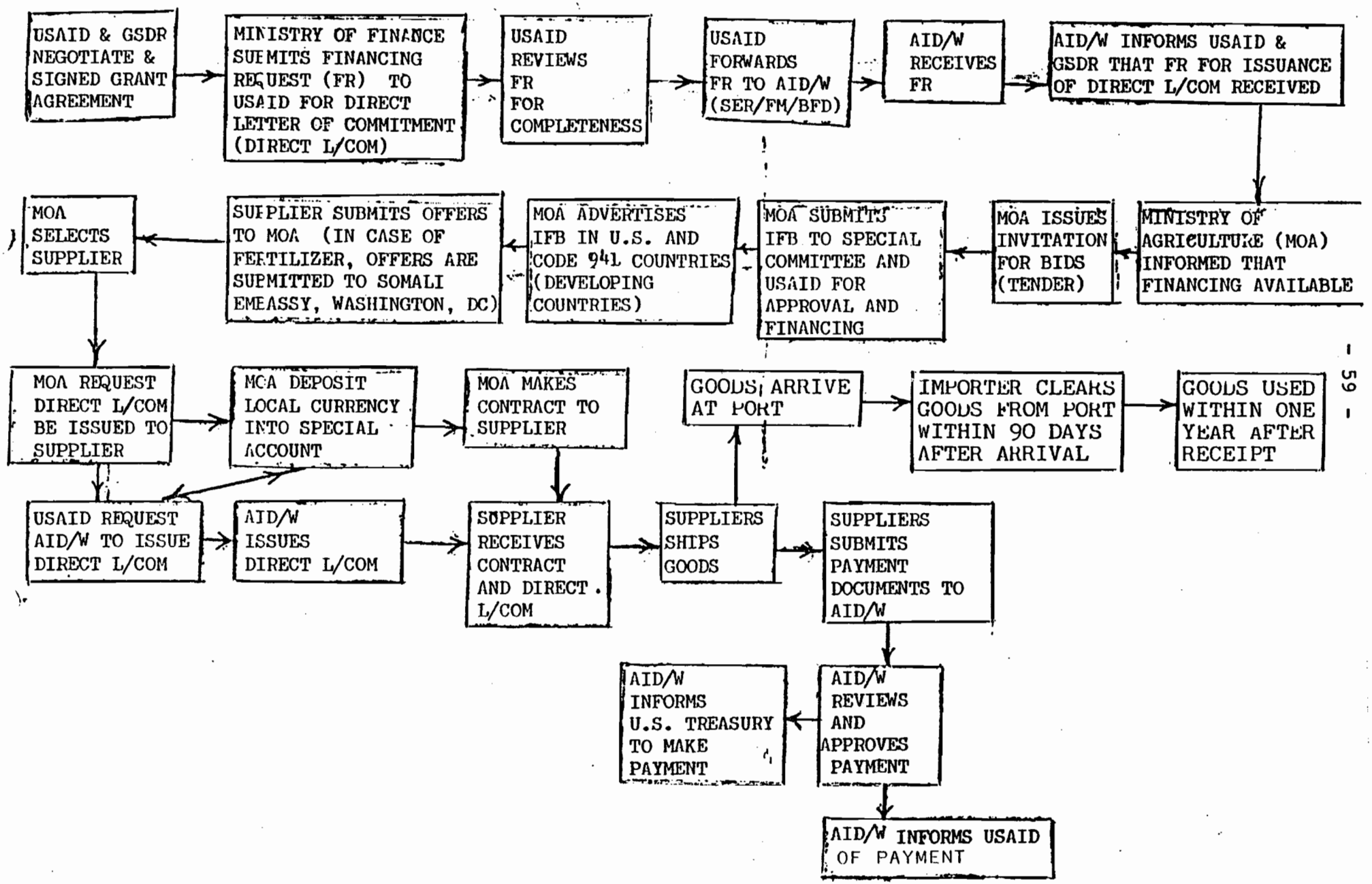
APPENDIX 3

PRIVATE SECTOR TRANSACTIONS



SOMALIA CIP

PUBLIC SECTOR TRANSACTION



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APPENDIX 5

CIP I

PUBLIC SECTOR PROCUREMENT

GSDR Entity	COMMODITY	QUANTITY	SOURCE	U.S. (CIF MOG) VALUE
Ministry of Agriculture	Bulldozer Spares		Italy	37,838
	Truck Spares		India	26,502
	Heavy Equipment		U.S.	1,499,160
	Heavy Equipment & Spares		Belgium	60,449
			Sub total	1,623,948
Post Telecommunication	Channels for K.E.station	12	Italy	100,500
	Spares for K.E. station		Italy	36,515
	Transmeter&Receiver		U.K.	41,479
	Battery Chrges	60	U.K.	62,181
			Sub total	240,675
Juba Sugar project	Tractor Spares		Italy	54,856
	Tractor Spares		Kenya	17,921
	Plant Spares		U.K.	209,840
	Truck spares		U.K.	36,535
	Mill Rollers		U.K.	191,186
	Welding materials		U.S.	10,145
	Metal sheets,bass,plates		U.S.	102,093
	Tires and tubes		U.S.	31,732
			Sub total	654,732
SNAI (Jowhar Sugar Estate)	Tractor spares		U.S.	337,655
	Cane loader Spares		U.S.	252,357
	Mill spares		U.S.	904,389
	Tapered roller bearing		U.S.	32,440
	Copper wiring		U.S.	24,764
	Tires & tubes		U.S.	68,814
	Engine spares		Italy	115,711
	Locomotive diesel Engine		Italy	81,733
	Tractor & Loco Spares		Italy	162,141
	Rails & Accessories		Pakistan	703,350
INCAS	Spares for corrugated box machinery		Italy	10,257

APPENDIX 5

2

GSDR Entity	COMMODITY	QUANTITY	SOURCE	VALUE
Agriculture Development Agency	Rice mill spares		Italy	62,953
Kismayo Water Agency	Pumps,engines		India	21,708
Mogadishu Water Agency	Pump spares		U.S.	437,734
		Total Public sector Procurement		5,734,907

Appendix 6

Amendment Number One

to the

Memorandum of Understanding

between

The Ministry of Finance

and

The U. S. Agency for International Development

for the

Programming of Generated Proceeds

under the CIP and P.L. 480 Title I Programs

dated July 10, 1983

The purpose of this amendment is to revise certain procedures related to the programming of CIP and P.L. 480 Title I-generated proceeds; and to establish the program funding parameters for 1984. The provisions of this amendment replace those provisions included in the original memorandum of understanding.

I. Purpose:

The purpose of these procedures is to provide guidance to all concerned parties regarding the mechanisms and responsibilities for the use of the local currency generated under the Commodity Import Program (CIP) and the P.L. 480 Title I Program. Guidance regarding the types of programs which can be financed is found in the various CIP and P.L. 480 Title I agreements.

II. Policy:

The funds derived from the issuance of Letters of Credit under the CIP program and the sale of food commodities under the P.L. 480 Title I program will be used to finance activities which contribute to Somalia's development. The determination as to which specific activities qualify for financing under these provisions will be a joint GSDR-USAID determination based on the provisions of the specific CIP and P.L.480 Title I agreements.

The GSDR and USAID agree to implement specific procedures for programming, releasing, and controlling the generated proceeds,

and for monitoring and evaluating the implementation of specific activities.

The bulk of the generated local currency proceeds will be used to finance activities designed to increase agricultural, health, manpower and private sector developmental objectives. Local currency proceeds also will be used in support of other development activities within the program parameters spelled out in the GSDR's Public Investment Program (PIP) and the specific CIP and P.L. 480 Title I agreements.

III. Procedures and Responsibilities:

A. Collection of Proceeds: For the CIP program, the CIP Special Committee of the Ministry of Finance will be responsible for insuring that the required local currency amounts are deposited in the special Generated Shillings Proceeds account by private and public sector agents prior to the issuance of letters of credit in connection with the importing of CIP-financed commodities. For the P.L. 480 Title I program, the Director General's office of the Ministry of Finance will be responsible for insuring that the required local currency amounts are deposited in the special Generated Shillings Proceeds account, in a timely fashion, by those entities (public or private) entrusted by the GSDR with the local sales of P.L. 480 Title I food commodities.

B. Programming of Proceeds: The Ministry of Finance and USAID will jointly program the allocation of CIP and P.L. 480 Title I proceeds. The 1984 programming scheduled is attached and forms part of this Memorandum of Understanding. The Ministry of Finance will obtain USAID's concurrence prior to any disbursement of CIP or P.L. 480 Title I proceeds for activities not included in the Annual Budget Plan for 1984.

Two special entities have been established to insure that the generated proceeds are managed in conformity with the policy stated in Article II above. The first, the Generated Shilling Proceeds (GSP) Committee, will provide general oversight direction and guidance in the enactment of the policy guidelines. The second, the CIPL Unit, will function as the day-to-day guarantor that policy objectives are being met.

IV. The GSP Committee:

The GSP Committee serves as the reviewing authority for use of proceeds generated under the Commodity Import and the P.L. 480 Title I programs. The Committee consists of two officials of the Ministry of Finance and two officials from the USAID Mission. The Committee will prepare its recommendations for the joint approval

of the Minister of Finance and the USAID Director. Normally the Committee will meet twice a year: once at the beginning of the program year to review the Annual Program Budget Plan; and once at mid-year to review the special adjusted schedule to reflect previous approvals which should be deobligated and new urgent requirements which should be considered. The Committee also will meet on an *ad hoc* basis as required.

For the final review of the Minister of Finance and the USAID Director, The Committee will assure that the detailed plans for the projects in the Annual Program Budget Plan will:

- directly contribute to the development of Somalia;
- support GSDR and USAID development priorities as spelled out in the Government's Public Investment Program and USAID's CDSS strategy;
- be programmed in accord with stipulations laid out in the governing P.L. 480 and CIP agreements; and
- not duplicate requests already budgeted for under other agreements.

V. The CIPL Unit:

The CIPL Unit is the special office in the Ministry of Finance which serves as the staff arm of the GSP Committee. The CIPL Coordinator is responsible to the Director General of the Ministry of Finance. The CIPL Unit will have a six person staff.

The CIPL Unit has the following principal functions:

- to insure that the release of CIP and P.L. 480 Title I proceeds is effected in accordance with the Annual Budget Plan;
- to review the budgets and allocations to insure that CIP and P.L. 480 Title I proceeds are used for the intended authorized purpose consistent with Article II (Policy) above.
- to monitor the expenditure of generated CIP and P.L. 480 Title I proceeds by conducting, on a selective basis, field inspections and audits of activities funded; and
- to perform formative and terminal evaluations of the activities funded to determine what impact they have had and what lessons should be drawn for use in preparing the subsequent Annual Budget Plan.

VI. CIP and P.L. 480 Title I proceeds and the GSDR Development Budget:

In consonance with GSDR policy, the allocation of CIP and P.L. 480 Title I proceeds will be reflected in the GSDR Development Budget. However, the U.S. Government requires that the use of CIP and P.L. 480 title I proceeds be carefully accounted for and programmed for specific development activities. To meet these requirements, the Ministry of Finance and USAID agree to the following minimum criteria:

- for those activities included in the Annual Budget Plan to receive CIP or P.L. 480 Title I proceeds, the responsible Ministry or Agency will prepare and submit to the Ministry of Finance (CIPL Unit) a breakdown by line item of the 1984 budget prior to the disbursement of funds;

- the responsible Ministry or Agency will submit to the Ministry of Finance (CIPL Unit) monthly account returns and quarterly expenditure reports (following the same line item format as the request) regarding the use of CIP or P.L. 480 Title I proceeds;

- the sponsoring Ministry or Agency will maintain one separate bank account for CIP or P.L. 480 Title I funded activities titled in the name of all projects so funded; and institute accounting procedures acceptable to the Ministry of Finance (CIPL Unit); and

- the sponsoring Ministry or Agency will make all financial records regarding the use of CIP or P.L. 480 Title I proceeds available to the Ministry of Finance (CIPL Unit) upon request.

Once the above criteria has been met and reviewed by the GSP Committee, the Minister of Finance and the Director of USAID will approve immediate release of CIP on P.L. 480 Title I proceeds to the project. The release of funds will be made on a quarterly basis unless the Minister of Finance and the Director of USAID approve a different disbursement schedule.

VII. Audits:

Periodic audits of all CIPL Units's functions will be carried out by an independent audit firm selected by the Minister of Finance and the Director of USAID. The audits will not be limited to fiscal and budget entries, but cover all functions of the CIPL Unit including field activity monitoring and evaluation. The audit will be prepared in four copies and circulated to the Minister of finance, the Director of USAID, the GSP Committee and the CIPL Unit.

For the Ministry of Finance:

Minister of Finance

For the U. S. Agency for International Development:

Director, USAID/Somalia

Date: JAN - 9 1984

Annual Program Budget Plan for 1984 - Summary

	P.L. 480	CIP	Total
I. USAID Projects/Activities:			
Reflected in GSDR Budget	88,754,000	29,000,000	117,754,000
Not Reflected in GSDR Budget	50,000,000	39,000,000	89,000,000
II. Public Investment Program:			
Reflected in GSDR Budget	69,200,000	316,100,000	385,300,000
TOTAL I and II	207,954,000	384,100,000	592,054,000

Annual Program Budget Plan for 1984

I. USAID Projects and Activities

A. Funding to be reflected in the GSDR Budget (Source: PL 480 Title Proceeds):

Livestock	Number	So. Sh.	So. Sh.
Artificial Insemination	698-0410.20	6,254,000	
Central Rangelands Development	649-0108	15,000,000	
Poultry Development	698-0410.36	1,000,000	
Livestock Marketing	649-0109	2,000,000	
Agriculture			
Juba Development Analytical Studies	649-0134	5,000,000	
Production Systems Planning & Research	649-0126	3,000,000	
Agricultural Delivery System	649-0112 (ID 02)	13,000,000	
Bay Region Development	649-0113 (AD 02)	13,000,000	
Education			
Rural Development Management	649-0119	2,000,000	
Energy			
Energy Advisor Support	0424.02	500,000	
Health			
Rural Health Delivery	649-0102	6,000,000	
Family Health Initiatives	698-0662.03	3,000,000	
Expanded Program for Immunization	698-0410.23	4,000,000	
Family Health Services	649-0131	1,000,000	
Water Resources			
Comprehensive Groundwater Development	649-0104	14,000,000	
SUB-TOTAL (A)			88,754,000

B. Funding to be reflected in the GSDR Budget (Source: CIP-generated proceeds):

Forestry	Number	So.Sh.	So.Sh.
CDA-Forestry	649-0122	10,000,000	
Rural Development			
Refugee Self-Reliance	649-0123	10,000,000	
Other			
Policy Initiatives/Privatization	649-0132	1,500,000	
Baidoa Electrification		2,000,000	
Private Sector Advisor Support		500,000	
Burao Health Training Facilities		5,000,000	
SUB-TOTAL (B)			29,000,000

C. Other Proposed Allocations NOT Reflected in GSDR Budget:

1. From PL 480 proceeds:		
- USAID Trust Fund:	20,000,000	
Contractor Support (19,000,000) Project Design/Evaluation (1,000,000)		
- Self-Help Activities	5,000,000	
- Reserve for USAID Projects	25,000,000	
2. From CIP proceeds:		
USAID OE	14,000,000	
Reserve for USAID Projects	25,000,000	
SUB-TOTAL (C)		89,000,000
TOTAL A, B and C		206,754,000

II. Public Investment Program Support

A. Funding to be reflected in the GSDR Budget (Source: PL 480 Title I proceeds):

Agriculture	Number	So.Sh.	So.Sh.
Mogambo Irrigation	JB 05	8,000,000	
Janale-Buro Mareerta-Qoryoley	IR 02	14,000,000	
Afgoi-Mordinle Project	IR 04	6,800,000	
Extension and Farm Management	ID 02 (649-0112)	5,700,000	
Northwest Agricultural Project	(XXXX)	10,000,000	
Health			
Nutrition Programme	HS 10	1,700,000	
Livestock			
Northern Rangelands Dev.	RD 01	6,000,000	
Tse Tse Survey and Control	AH 07	17,000,000	
SUB-TOTAL (A)			69,200,000

B. Funding to be reflected in the GSDR Budget (Source: CIP-generated proceeds):

Education		
Technical Education	TV 01-02	45,900,000
Energy		
Jesira Power Station	EP 01-04	17,000,000
Regional & Rural Development		
Self Help	MP 01	10,000,000
Transport & Communication		
Duduble (Jowhar)	(XXXX)*	57,000,000

Project	Number	So.Sh.	So.Sh.
Transport & Communication (Cont'd)			
Road Hargeisa-Borama	09 RO	1,500,000	
Road Afgoi-Baidoa	RO 10	16,000,000	
Road Burdhubo	(XXXX)*	32,000,000	
Road Afgoi-Audegle	(XXXX)*	3,000,000	
Road Afgoi-Balad	(XXXX)*	--	
Inter Arab Telecommunications	TL 08	3,500,000	
Water Resources			
Mogadishu Water Supply	UW 01	35,000,000	
Urban Water	UW 03	5,200,000	
Other Allocations			
Somali Development Bank (loan)		50,000,000	
Somali Commercial and Savings Bank (loan)		40,000,000	
SUB-TOTAL (B)			316,100,000
TOTAL A, B			385,300,000
TOTAL I and II			592,054,000

This Committee consist of two officials from the Ministry of Finance and two from the USAID Mission. The Committee prepares its recommendations for the joint approval of the Minister of Finance and USAID Director.

B. THE CIPL UNIT

The CIPL Unit, established in December 1982, is the special office in the Ministry of Finance which serves as the staff arm of the GSP Committee.

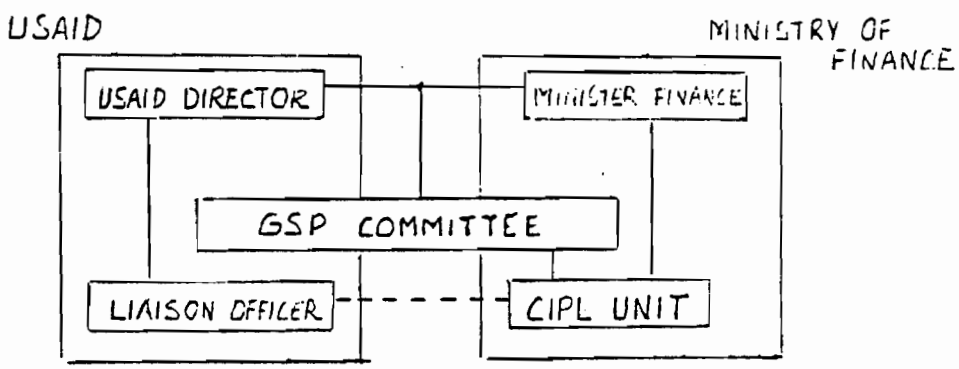
This Unit has the following principal functions:

- to ensure that the release of CIP and PL 480 Title I proceeds is effected in accordance with the Annual Budget Plan;
- to review the budgets and allocation to ensure that the CIP and PL 480 Title I proceeds are used for the intended authorized purpose;
- to monitor the expenditure of generated CIP and PL 480 Title I proceeds by monitoring project monthly financial returns (which all projects are required to submit to the CIPL Unit) and conducting, on a selective basis, field inspections and audit of activities funded; and
- to perform formative and terminal evaluations of the activities funded to determine their impact and lessons learned.

IV. CONLUSSION

The CIPL Unit along whith the GSP Committee were designed as a part of management system to enhance the financial accountability, and developmental impact of counterpart funds generated under the CIP and PL 480 Title I programs. An organizational chart is given below. The CIPL Unit Coordinator, Hussein Sheikh Omar is in a position to answer any questions concerning project funding, accounting and reporting in particular.

ORGANIZATIONAL CHART



Appendix 8

AGREEMENT BETWEEN

THE SOMALI DEVELOPMENT BANK

and

THE MINISTRY OF FINANCE OF THE GOVERNMENT
OF THE SOMALI DEMOCRATIC REPUBLIC

with the concurrence of the

GOVERNMENT OF THE UNITED STATES OF AMERICA

for the

LOAN OF SOMALI SHILLINGS FIFTY MILLION

TO THE SOMALI DEVELOPMENT BANK

Dated: [illegible]

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LOAN AGREEMENT

Dated July 9, 1983

Between

The Somali Development Bank, Mogadishu ("Borrower")

And

The Ministry of Finance of the Government of the Somali Democratic Republic ("GSDR" or "Lender")

With the concurrence of

The United States of America, acting through the Agency for International Development ("USAID")

Article 1: The Agreement

The purpose of this Agreement is to set out the understandings of the Borrower and Lender named above ("Parties") with respect to the undertaking by the Borrower of the Project described below, and with respect to the financing of the Project by the Parties.

Article 2: The Project

The Project will consist of a loan from the GSDR to the Somali Development Bank (SDB) of Somali Shillings fifty (50.0) million from local currency proceeds generated under the USAID-financed Commodity Import Program (CIP). This amount will be disbursed to the SDB subsequent to the signing of this agreement by the authorization of the GSDR Minister of Finance, with the written concurrence of the Director of USAID. This loan is being made available to the Somali Development Bank for the express purpose of establishing a credit program for the provision of loans to the private agricultural and agro-industrial sectors. This credit program, and the loans made under it, are aimed at stimulating economic activity in the food-producing sectors, i.e., agriculture, including livestock and fishery components. This project will be for a duration of seven (7) years, commencing on the signing date of this Agreement. The disbursement of the loan to the SDB, criteria for and conditions of the loans to be made by the SDB and reporting requirements are set out in detail in the following articles.

Article 3: Financing

The Loan: To assist the Borrower to meet the costs of carrying out the Project, the Somali Ministry of Finance agrees to lend the

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Borrower under the terms of this Agreement not to exceed Somali Shillings fifty million (So.Sh. 50.0 million) ("Loan"). This amount is referred to as "Principal".

Upon the signing of this Agreement, the Ministry of Finance, with the written concurrence of the Director of USAID, will authorize a transfer of the total amount of So. Sh. 50.0 million from the CIP Special Account in the Somali Commercial and Savings Bank to the Somali Development Bank. This transfer will be executed within ten days of the signing date of this Agreement.

Article 4: Loan Terms

Section 4.1 The SDB agrees that loans made from the funds provided under this agreement will meet the following conditions:

(a) The loans made under the above-mentioned credit program will be used to finance agricultural inputs to farmers (including livestock producers and fishermen), and to finance equipment, raw materials, and spare parts to private agricultural industries.

(b) The loans will not be used to finance the importation of goods under the USAID-sponsored Commodity Import Program.

(c) The interest rate charged by the SDB for loans under this credit program will not be less than the GSDR-established interest rates for agricultural sector financing.

(d) For each loan, the SDB will finance not more than seventy-five percent (75%) of the total activity cost.

(e) In order to focus on small and medium-sized entrepreneurs, a ceiling of Somali Shillings four (4) million per loan will be established. Only one loan at a time will be made to any individual, business or project.

(f) The period of an individual loan by the SDB will vary depending on the specific purpose of the loan, but it will not exceed sixty (60) months.

(g) Only Somali citizens, and individuals not employed by the Government of Somalia, will qualify for loans under this credit program.

Section 4.2 Interest paid to the Ministry of Finance.

Following the date of the first disbursement hereunder, the Borrower will pay to the Ministry of Finance interest at the rate of five percent (5%) per annum on the outstanding balance of Principal.

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These interest payments will be made according to the schedule in the attached Annex and will be forwarded to the Ministry of Finance within twenty (20) days subsequent to the close of each year following the signing date of this agreement.

Section 4.3 Repayment of the Loan

The Borrower will repay the Principal during the term of the Loan, to the CIP Special Account, according to the schedule in the attached Annex.

Article 5: Termination of Full Payment

Upon payment in full of the Principal and accrued interest, this Agreement and all obligations of the Borrower and the Ministry of Finance under it will cease.

Article 6: Reporting Requirements

The Borrower will submit to the Minister of Finance, USAID Director and the CIPL Unit Co-ordinator semi-annual reports on loan implementation. These reports, written in English, shall include details as to the type, location, activity and amount of each loan made, any principal and interest payments received, and other pertinent information such as interest rate charged. The reports will be submitted no later than two weeks following the close of each six-month period during the duration of the Project.

Article 7: Clarification or Amendment of Agreement

Amendment of any of the provisions of this agreement may only be made in writing, signed by both parties, and with USAID written concurrence.

The parties may, by implementation letters, confirm and record their mutual understandings on aspects of implementation of this agreement, or to record revisions or exceptions which are permitted by the agreement, only with the concurrence of USAID in such letters. Such letters may not be used to amend the text of the agreement.

Article 8: Legal Effect of USAID Concurrences

The parties hereto understand that this agreement has reserved to USAID certain rights of concurrence to or approval of this agreement, and implementation letters or amendments thereto, because the funds being provided are local currencies generated under the USAID Commodity Import Program that require USAID agreement for their use. The parties hereto further understand and agree that

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USAID, in reserving any or all of the foregoing approval or concurrence rights, has acted solely to assure the proper use of proceeds generated by United States Government funds, and that any decision by AID to exercise or refrain from exercising these rights shall not be construed as making AID a party to this loan agreement. The parties hereto understand and agree that AID may exercise the foregoing rights without thereby incurring any responsibility or liability to the parties jointly or separately.

Article 9: Communications

Whenever any party shall send any notice, request, document, or other communication to the other party, it shall also submit a copy of such communication to USAID. The communication will be in writing and will be deemed duly given or sent when delivered to such party or USAID at the following address:

To the Borrower:

Mail Address: P. O. Box 1079
Mogadishu

To the Somali Ministry of Finance:

Mail Address: P. O. Box 583
Mogadishu

To USAID:

Mail Address: American Embassy
P. O. Box 574
Mogadishu

All communications will be in English, unless the Parties and USAID otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

IN WITNESS WHEREOF, the Borrower and the Somali Ministry of Finance, each acting through its duly authorized representative, have caused this Agreement to be signed in Mogadishu (in triplicate) in their names and delivered as of the day and year first above written.

SOMALI DEVELOPMENT BANK	SOMALI MINISTRY OF FINANCE
By: [signature]	By: [signature]
Title: President	Title: Minister Finance

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USAID hereby concurs in the above use, under the specified terms and conditions, of the local currencies generated under the USAID Commodity Import Program.

Date: July 9, 1983

James M Kelly

James Kelly
Mission Director
USAID/Somalia

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ANNEX

AMORTIZATION SCHEDULE

Total Amount of Loan = So. Sh. 50.0 Million

Payment sequence, made after the close of each year of project period	Interest Paid to Ministry of Finance (So.Sh.)	Repayment of Principal to CIP Special Account (So.Sh.)	Total (So.Sh.)
1	2,500,000.00	6,140,990.90	8,640,990.90
2	2,192,950.45	6,448,040.45	8,640,990.90
3	1,870,548.43	6,770,442.47	8,640,990.90
4	1,532,026.30	7,108,964.60	8,640,990.90
5	1,176,578.07	7,464,412.83	8,640,990.90
6	803,357.43	7,837,633.47	8,640,990.90
7	411,475.02	8,229,515.28	8,640,990.90
TOTAL	10,486,936.30	50,000,000.00	60,486,936.30

AMENDMENT NUMBER ONE

TO THE

AGREEMENT BETWEEN

THE SOMALI DEVELOPMENT BANK

AND

THE MINISTRY OF FINANCE OF THE GOVERNMENT

OF THE SOMALI DEMOCRATIC REPUBLIC

WITH THE CONCURRENCE OF THE

GOVERNMENT OF THE UNITED STATES OF AMERICA

FOR THE

LOAN OF SOMALI SHILLINGS FIFTY MILLION

TO THE SOMALI DEVELOPMENT BANK

Dated 12/4/84

The purpose of this amendment is to change Sections 4.2, 4.3 and the Annex as follows:

Section 4.2 Interest paid to the Ministry of Finance

Following the date of the first disbursement hereunder, the Borrower will pay to the Ministry of Finance interest at a rate of five percent (5%) per annum on the outstanding balance of Principal. These interest payments will be made according to the schedule in the attached annex and will be deposited into the CIP Special account within twenty (20) days subsequent to the close of each year following the signing date of this agreement.

Section 4.3 Repayment of the Loan

The Borrower will repay the Principal during the term of the Loan, to the CIP Special Account according to the schedule in the attached Annex.

ANNEX AMORTIZATION SCHEDULE

Total Amount of Loan = So.Sh. 50.0 Million

Payment sequence, made after the close of each year of project period	Repayment of Interest to CIP Special Account (So.Sh.)	Repayment of Principal to CIP Special Account (So.Sh.)	Total (So.Sh.)
1	2,500,000.00	6,140,990.90	8,640,990.90
2	2,192,950.45	6,448,040.45	8,640,990.90
3	1,870,548.43	6,770,442.47	8,640,990.90
4	1,532,026.30	7,108,964.60	8,640,990.90
5	1,176,578.07	7,464,412.83	8,640,990.90
6	803,357.43	7,837,633.47	8,640,990.90
7	411,475.62	8,229,515.28	8,640,990.90
TOTAL	10,486,936.30	50,000,000.00	60,486,936.30

IN WITNESS WHEREOF, the Borrower and the Ministry of Finance, each acting through its duly authorized representative, have caused this amendment number one to be signed in Mogadishu (in triplicate) in their names and delivered as

of the day and year first above written.

SOMALI DEVELOPMENT BANK

Mohamoud Mohamed Nur
President

MINISTRY OF FINANCE

Abdullahi Ahmed Addow
Minister

USAID hereby concurs with the above amendment.

Date 12/4/84

Louis A. Cohen
Director
USAID/Somalia

Appendix 9

BANKIGA HORUMARINTA SOOMAALIDA

Muqdisho

~~U S A I D L O A N S~~

LOANS FUNDED FROM CIP PROCEEDS

No.	USAID-D/L	PROJECT	SPONSOR	LOCATION	LOAN AMOUNT	PERIOD OF LOAN	DATE APPROVED
1	USAID-D/1	Beer (Diyaarin Dhul)	Maxamed Aadan Afmagad	Kismaayo	SO.SH. 244.000	5 Years	24/7/83
2	" D/2	" (" ")	Maxamed Guuleed Cadde	Kismaayo	" 372.000	5 Years	25/7/83
3	" D/3	" (Dh.Diy.&Motoor)	Makoomo Maxamed Yarow	Kismaayo	" 225.000	4 "	19/7/83
4	" D/4	" (Matoor Waraab)	Shirkadda Tusaale	Jalalaqsi	" 112.500	3 "	21/7/83
5	" D/5	" (Dh.Diy.& Matoor)	Xasan Cabdi Yuusuf	Afgooye	" 150.000	4 "	14/7/83
6	" D/6	" (Matoor Waraab)	Axmed Maxamed Nuur	B/Dheere	" 112.000	3 "	1/8/83
7	" D/7	" (Dh.Diy. & Matoor)	Kaayow Cali Cismaan	Luuq	" 150.000	4 "	20/6/83
8	" D/8	" (Matoor Waraab)	Axmed Cali Shirwac	B/Dheere	" 135.000	3 "	1/9/83
9	" D/9	Xoolo Naaxin	Isk.Xoolo Dh.Hantiwadaag	Iskushubam	" 320.980	5 "	9/8/83
10	" D/10	Beer (Dhul Diyaarin)	Shekh Maxamed Aadan Jiim	Qoryooley	" 175.000	4 "	8/8/83
11	" D/11	" (Dhul Diyaarin)	Muudey Maxamed Muudey	Jannaale(Marka)	" 102.750	3 "	5/9/83
12	" D/12	" (Dh.Diy.& Matoor)	Maxamuud Axmed Maxamed	Jawhar	" 500.000	4 "	6/9/83
13	" D/13	" (Matoor Waraab)	Xaaji Saalax Maxamuud	B/Dheere	" 105.000	3 "	6/9/83
14	" D/14	" (Matoor Waraab)	Xaaji Xaamud Axmed Xasan	Jawhar	" 150.000	3 "	31/8/83
15	" D/15	" (Matoor Waraab)	Maxamed Xasan Maxamuud	Afgooye	" 125.000	3 "	15/8/83
16	" D/16	WARSHAD CAANO	Warshadda Caanaha Hargaysa	Hargaysa	" 4.000.000	5 "	13/9/83
17	" D/17	WARSHAD KALUUN	Tropical Fish Company	Muqdisho	" 2.000.000	5 "	13/9/83
18	" D/18	Beer (Dhul diyaarin)	Mahdi Sharaxow Baraki	Jannale(Marka)	" 100.750	4 "	4/8/83
19	" D/19	Beer (Cagaf)	Shekh Maxamed Nuur(Boqols.)	Kismaayo	" 500.000	5 "	18/8/83
20	" D/20	DIGAAG	Abshir Diini Cawaale	Lafole(Afgoi)	" 500.000	4 "	3/8/83
21	" D/21	Beer (Dhul diyaarin)	Shirkadda Ayaan	Qoryooley	" 477.000	4	30/7/83
22	" D/22	Doon Kalluumaysi	Saalax Aadan Maxamuud	Muqdisho	" 402.740	5	23/8/83
23	" D/23	Beer (Dhul Diyaarin)	Shirkadda Harar	Afgooye	" 300.000	5	5/7/83
24	" D/24	FOORNO ROOTI	Xasan Cali Cawaale	Buroo	" 1.000.000	5	6/9/83
25	" D/25	Beer(Dh.Diy. & Matoor)	Shirkadda Cigaal	Afgooye	" 361.080	5	19/9/83
26	" D/26	Beer (Motoor Waraab)	Ibrahim Cumar Iikow	Baardheere	" 112.500	3	6/10/83
27	" D/27	Beer(Dh.Diy. &Motoor)	Axmed Khaliif Xasan	Baload	" 500.000	5	2/10/83

No.	USAID-D/L	PROJECT	SPONSOR	LOCATION	LOAN AMOUNT	PERIOD OF LOAN	DATE APPROVED
28	USAID-D/28	Beer(Dhul-Diyaarin)	Maxamed Cab/hi Daoar	Kismaayo	SO.SH. 276.000	4	15/10/83
29	USAID-D/29	" (" ")	Mordinle Agr.Liv.Co.S.p.A.	Afgooye	" 500.000	5	16/10/83
30	" D/30	" (" ")	Abuukar Cabdi Cusmaan	Afgooye	" 500.000	5	16/10/83
31	" D/31	" (" ")	Cali Axmed Cusmaan	Baload	" 476.000	4	16/10/83
32	" D/32	" (" ")	Maxamed Colow Guuleed	Jawhar	" 243.675	4	15/10/83
33	" D/33	" (" ")	Cali Shekh Cabdi	Kismaayo	" 239.700	4	15/10/83
34	" D/34	" (" ")	Muuse Cabdi Jibriil	Hargaysa	" 250.000	4	16/10/83
35	" D/35	" (" ")	Nuur Cabdi Kaamil	Hargaysa	" 300.000	4	10/11/83
36	" D/36	" (" ")	Beeg Xaaji Faarax	Qoryooley	" 201.000	4	6/11/83
37	" D/37	" (" ")	Shekh Yarow Cabdiyow	Baardhere	" 157.500	4	21/11/83
38	" D/38	" (C a g a f)	Axmed Cali Gacal	Afgooye	" 333.750	5	28/11/83
39	" D/39	" (Dhul-Diyaarin)	Abuukar Daahir Hori	Kismaayo	" 416.875	4	20/11/83
40	" D/40	" (Motoor Waraab)	Cali Cumar Cali	Baardheere	" 105.000	3	27/11/83
41	" D/41	FOORNO	Cabdiraxman Axmed Yusuf	Muqdisho	" 500.000	5	6/12/83
42	" D/42	DOON KALLUUMAYSI	Shirkadda Kisocean	Kismaayo	" 500.000	4	18/12/83
43	" D/43	Beer(Dhul Diyaarin)	Cusmaan Jaamao Yuusuf	Afgooye	" 500.000	5	11/1/84
44	" D/44	KALLUUN	Shirk.Kallum. ee Caluula	Caluula	" 2.500.000	5	30/1/84
45	" D/45	Naaxin Xoolo	Shirk. MAID ee Caanaha	Buroo	" 4.000.000	5	30/1/84
46	" D/46	Beer (Qalab)	Shirk. Beeral. GALAD	Baload	" 2.000.000	5	30/1/84
48	" D/48	DIGAAG	Shirk.Digaagga CeelCirfid	Muqdisho	" 2.000.000	5	30/1/84
49	" D/49	Beer(Dhul Diyaarin)	Cali Maxamed Faarax	Jannale(Marka)	" 209.700	4	1/2/84
50	" D/50	Beer(Motoor & Saldh.)	Maxamed Cali Xaaji	Balaoad	" 500.000	3	8/2/84
51	" D/51	Beer(Motoor Waraab)	Maxamed Cabdiladh.Yusuf	Baardhere	" 116.250	3	12/2/84
52	" D/52	Beer(Dhul Diyaarin)	Yuusuf Cabdi Ismaaciil	Hargaysa	" 401.475	5	9/2/84
53	" D/53	" (" ")	Cabdulcasis Maxamed Dir.	Hargaysa	" 401.475	5	11/2/84
54	" D/54	" (" ")	Aw Yuusuf Cilmi Boon	Hargaysa	" 401.475	5	11/2/84
55	" D/55	" (" ")	Maxamed Ismaciil Cabdulle	Hargaysa	" 401.475	5	9/2/84
56	" D/56	" (" ")	Cali Maxamed Qawdhan	Hargaysa	" 387.450	5	12/2/84
57	" D/57	" (" ")	Yusuf Xuseen Jibriil	Hargaysa	" 401.475	5	11/2/84
58	" D/58	" (" ")	Aadan Buuni Bile	Hargaysa	" 401.475	5	11/2/84
59	" D/59	" (Motoor Waraab)	Bashiir Cali Diiriye	B/Dheere	" 110.250	4	16/2/84
60	" D/60	" (Motoor Waraab)	Shirkadda Casiis	Afgooye	" 187.500	3	16/2/84
61	" D/61	" (Motoor Waraab)	Maxamed Cisman Shekh	B/Dheere	" 110.000	3	18/2/84
62	" D/62	" (Dhul Diyaarin)	Shirk. Beeraha ee Barwaaqo	Jalalaqsi	" 300.000	3	20/2/84
63	" D/63	" (" ")	Nuur Xasan Faarax	Qoryooley	" 444.150	4	23/2/84

No.	USAID-D/L	PROJECT	SPONSOR	LOCATION	LOAN AMOUNT	PERIOD OF LOAN	DATE APPROVED
65	USAID-D/65	Beer (Matoor Waraab)	Nuuxow Xaamud Gacal	Baardheere	SH.SO. 107.513	3	22/2/84
66	" D/66	" (Dhul Diyaarin)	Yuusuf Xaaji Aadan	Hargaysa	" 200.000	5	21/2/84
68	" D/68	" (Qalab beereed)	Cabdulcasis Maxamed Salax	Afgooye	" 2.000.000	5	26/2/84
69	" D/69	XOOLO NAAXIN	Iskaashatada DAAWAD	Garowe	" 4.000.000	5	27/2/84
70	" D/70	Beer (Qalab beereed)	Axmed Qumane Rooble	Kismaayo	" 1.200.000	5	26/2/84
72	" D/72	" (Dhul Diyaarin)	Shirk. Beerta Sagaalaad	Afgooye	" 385.000	3	26/2/84
73	" D/73	" (" ")	Shirk. Beeraleyda GALBEED	Balcad	" 335.000	3	28/2/84
74	" D/74	" (" ")	Saruura Mawallim Cismaan	Kismaayo	" 480.000	4	29/2/84
75	" D/75	" (" ")	Salaad Maxamed Maxamuud	"	" 400.000	4	29/2/84
76	" D/76	" (" ")	Muumina Daahir Kuusow	"	" 329.000	4	29/2/84
77	" D/77	" (" ")	Cali Warsame Axmed	"	" 300.000	4	29/2/84
78	" D/78	" (" ")	Cali Abiikar Cismaan	"	" 230.000	4	29/2/84
79	" D/79	" (" ")	Saalax Barre Maxamed	"	" 260.000	4	29/2/84
80	" D/80	" (" ")	X.Saalax Maxamed & Xaawo	"	" 150.000	3	29/2/84
81	" D/81	" (" ")	Cabdiraxman Cali Ismaaciil	"	" 100.000	3	29/2/84
82	" D/82	" (" ")	Maxamed Nuur Maxamed	"	" 500.000	4	14/3/84
83	" D/83	" (C a g a f)	Axmed Shekh Aadan Ismaaciil Sugaal	Hargaysa	" 387.450	5	20/3/84
84	" D/84	" (")	Ismaaciil Jeelle Diiriye	"	" 387.450	5	20/3/84
85	" D/85	" (")	Maxamed Cigaal Cawad	"	" 401.475	5	20/3/84
86	" D/86	" (DhuDiy. & Motoor)	Shekh Aadan Jaamac	"	" 375.000	4	28/3/84
87	" D/87	" (Dhul Diyaarin)	Saalax Bashiir Cumar	Kismaayo	" 150.000	4	26/1/84
88	" D/88	" (Dhul Diyaarin)	Isk. T/Wadaag ee GALNIMCO	"	" 200.000	4	25/1/84
89	" D/89	" (Matoor &Dh.Diy.)	Xuseen Xaaji Xuseen	"	" 200.000	4	25/1/84
90	"	" (Dhul Diyaarin)	Xaliima Warsame Isaaq	Qoryooley	" 450.000	4	5/10/83
91	"	" (Dhul Diyaarin)	Shirkadda SABLAALE	Jawhar	" 200.000	3	8/4/84
92	"	" (Dhul Diyaarin)	Cabdulqadir Shekh Maxamed	Afgooye	" 500.000	5	1/4/84
93	"	" (Dhul Diyaarin)	Shekh Abuukar Shekh	"	" 235.000	3	30/11/83
94	"	" (Dhul Diyaarin)	Isk.Dhoof.Naax.Xoolaha WARDHEER	SHALAMBOD	" 493.000	4	28/2/84
95	"	DOON Kalluumaysi	Cabdinuur Budul & Cabdiraxman	Muqdisho	" 300.000	3	10/7/83
96	"	Beer(Dhul Diyaarin)	Shirk. Mash. Beerta LIIBAAN	Balcad	" 500.000	5	14/1/84
97	"	Beer(Dhul Diyaarin)	Saalax Cali Cabdulle	Balcad	" 490.000	5	26/3/84

APPENDIX 10

SOMALI DEVELOPMENT BANK
STATEMENT OF GOVERNMENT LOAN POSITIONS AS OF 22/1/1984

Loan No.	Borrower	Projects	Approved Somali Sh.	Appv.L date	Terms Yrs	Int. Rate%	Dis. Am't	Date
1	Mohamed Adan Afmag	Agriculture	224,250	24/7/83	5	10	224,250	15/8/83
2	Mohamed Guled Adde	"	272,000	25/7/83	5	"	372,000	4/8/83
3	Maka Mohamed Yarow	"	225,000	19/7/83	4	"	225,000	3/8/83
4	Agricultural Co.	"	112,500	21/7/83	3	"	112,500	4/9/83
5	Hasan Abdi Yussuf	"	150,000	14/7/83	4	"	150,000	29/9/83
6	Ahmed Mohamed Nur	"	112,500	1/8/83	3	"	112,500	18/8/83
7	Kayow Ali Osman	"	150,000	9/8/83	4	"	150,000	30/11/83
8	Ahmed Ali Shirwa	"	135,000	1/9/83	3	"	135,000	30/10/83
9	Aliwadag Livestock	Livestock	320,980	9/8/83	5	"	320,980	5/9/83
10	Mohamed Ahmed Jiim	Agriculture	175,000	8/8/83	4	"	175,000	6/9/83
11	Mohamed Mudey	"	102,750	5/9/83	3	"	100,000	15/9/83
12	Ahmed Mohamed	"	500,000	6/9/83	4	"	-------	-------
13	Salah Moh'd Addo	"	105,000	6/9/83	3	"	105,000	27/9/83
14	Moh'd Ahmed Hasan	"	150,000	31/8/83	3	"	-------	-------
15	Ahmed Hassan Moh'd	"	125,000	15/8/83	3	"	125,000	19/9/83
16	Milk factory	Livestock	4,000,000	6/9/83	6	12	3,908,980	7/1/84
17	Fish Company	Fisheries	2,000,000	6/9/83	5	10	830,020	24/10/83
18	Mahdi Sharaxow	Agriculture	100,750	4/8/83	4	"	100,750	20/8/83
19	Moh'd Nur Sheikh	"	500,000	18/8/83	5	"	500,000	24/10/83
20	Dini Awale	Poultry	500,000	3/8/83	4	"	500,000	20/8/83
21	Agricultural Co.	Agriculture	477,000	30/7/83	4	"	477,000	15/10/83
22	Salah Adan Moh'd	Fisheries	402,740	23/8/83	5	11	402,740	30/10/83
23	Agricultural Co.	Agriculture	300,000	5/7/83	5	10	300,000	25/8/83
24	Ali Awale	Bakery	1,000,000	6/9/83	5	11	1,000,000	8/12/83
25	Agricultural Co.	Agriculture	361,080	19/9/83	5	10	361,080	28/12/83
26	Ibrahim Cumar Likow	"	112,500	6/10/83	3	"	112,500	21/12/83
27	Ahmed Khalif Hasan	"	500,000	2/10/83	5	"	500,000	27/10/83
28	Abdullahi Da'ar	"	276,000	15/10/83	4	"	276,000	17/11/83
29	Agro-Livestock Co.	"	500,000	16/10/83	5	"	500,000	17/11/83
30	Abdi Osman	"	500,000	16/10/83	5	"	500,000	23/11/83
31	Mohamed Hussein	"	476,000	16/10/83	4	"	-------	--------

APPENDIX 10

Loan No.	Borrower	Projects	Approved Somali Sh.	Approv.Ldate	Term Yrs	Int. Rate%	Dis. Am't	Date
31	Mohamed Olow Guld	Agriculture	243,675	15/10/83	4	10	243,675	6/11/83
32	Sheikh Abdi Ahmed	"	239,700	15/10/83	4	"	239,700	20/11/83
33	Ali Abdi Jibril	"	250,000	16/10/83	4	"	250,000	20/12/83
34	Abdi Kamil	"	300,000	16/10/83	4	"	300,000	11/12/83
35	Haji Farah	"	201,000	20/5/83	4	"	201,000	11/12/83
36	Yarow Abdiyow	"	157,500	21/11/83	4	"	157,000	15/12/83
37	Ali Ga'al	"	333,750	28/11/83	5	"	333,750	15/12/83
38	Dahir Horri	"	415,875	20/11/83	4	"	415,875	14/12/83
39	Omar Ali	"	105,000	27/11/83	3	"	105,000	28/12/83
40	Abdirahman Ahmed Y.	Bakery	500,000	6/12/83	4	11	500,000	3/1/84
41	Ocean Co.	Fisheries	500,000	18/12/83	4	"	500,000	3/1/84
42	Jama Yusuf	Agriculture	500,000	11/1/84	5	10	-------	--------
			18,712,550				16,128,820	

PRJ # 1-1.9c

Save the Children Federation–USA

SOMALIA PROGRAMME

Appendix 11

Appendix 11

P.O. Box 7069
Mogadishu, Somalia

Letter #878/S.F.C.
March 12, 1984

Memo:

To: Frank Pavich, RA/RD - USAID

From: Alvin G. Lodge

Subject: Semi-Annual Forestry Sub-Project Report - July - Dec 1983

Enclosed please find the above report. That on the Self-Reliance (Agriculture) Sub-Project will be forwarded shortly.

Your comments would be welcome.

cc: Lodge

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Save the Children Federation — USA
C/o UNHCR Box 2925
Mogadishu, Somalia
Tel. 81994 Telex Geosource 701

Save the Children Federation — USA
54 Wilton Road
Westport, Conn. USA 06880
Tel. (203) 226 - 7272 Telex. 681918

Frank Pandi
USAID

Save the Children USA
Monthly Report, February 1984
Qorioley Forestry Project

I. Progress

Technical

The nursery has nearly 348,000 forestry trees and 30,000 fruit trees. The trees are quickly reaching size for outplanting. The main problem occurring in the nursery is with the Cassia Siamea seedlings. They are suffering from some sort of nutrient deficiency or excessive minerals in the soil. Soil samples are being analyzed to see if anything can be discovered. Experiments with nutrient supplement are being held to see if we can improve the seedlings performance. The watering regime is being reduced to slow the growth of the faster growing species as well as to harden them to the dryer ambient that they will soon face.

The watering of fuelwood plantation is continued during February. Holes are being dug to replace the dead seedlings. The new plantation site is cleared and the waste about to be burned. The trunks of the cut bush were treated with a misture of oil and diesel to slow the regrowth. A fence of bush and thorns was constructed around the entire 40 hectares. The remaining 60 hectares were clearly marked as project land to avoid future land tenure confusion.

Extension

The extension team was very active during the month of February. In addition to their normal activities of promoting trees in the camps and villages, they started a fuelwood conservation program and began establishing holding nurseries in the villages. The fuelwood conservation program began with the secondment of two women from VITA who are now part of the extension team. They have training in the promotion of wood conserving stoves. In addition to their work promoting stoves they will further our

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contacts with the women committees in the camps and villages in the area of forestry. In the first couple weeks on the site they have trained with the present extension staff and community outreach team.

Holding nurseries have been established in three of the villages where approximately 60,000 trees will be planted in the Gu season. Having the holding nurseries will reduce the transportation problems at the time of the rains. The villages are fencing in the nurseries and preparing a water system on their own. Once the trees are delivered to the villages the trees will be cared for by the forestry councils.

Community Outreach

During the first two weeks of February all CORT members were involved in a village economy survey in the villages of Mayna Farax, Fakairo and Farakanne. The data is being compiled for future use. Unfortunately this month CORT have not been able to meet with the various Community Committees. CORT staff have worked hard in trying to get them to meet but every meeting had to be cancelled because of the other committments of the Camp Commanders. Two members of CORT did participate in an agricultural meeting with camp1 officials and dryland farmers. The proposal of the Corn Grinding Project in camp 1 was completed this month and will be submitted to UNHCR early in March. The details of the project have been translated into Somali and will be given to the Community Committee next time they meet. Robyn Crooke and Patricia Caffrey attended the income generating meeting held by NRC in Mogadishu. Ruqiya Hashi and Robyn Crooke attended a nutritional workshop held by RHU in Mogadishu. Patricia Caffrey attended a workshop in Nairobi on micro industries. IDE visited the project to discuss the training of 3-4 refugees in donkey cart building and repairing. CORT will be involved in contacting the community committees to discuss the criteria for selection for these refugees. This month CORT was successful in meeting with the Camp 2a & 2b women's committees to discuss the small vegetable growing project and the possibilities of other small projects for women. Robyn Crooke also attended a women's

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committee meeting in camp 2a which FHI held to discuss their fuel saving wood stove project. At the end of February two Somali women joined the forestry extension sector, they were recommended by VITA. CORT will work closely with them to promote conservation of wood and nutrition education with the women in all Camps.

Program Development

Barry Deren the extension forester left Somalia at the end of February. David Libby will be working in his place until he replaces the Project Coordinator, John Nittler who is leaving in June. Plans are to recruit an extension forester at that time.

II/III. Problems/Solutions

Technical

One of the main barages on the Shabelli River has broken and the river cannot be used for irrigation below the Qorioley Barage. This has created problems for us since the holding nurseries were depending on the existing irrigation system for water. The holding nurseries will not be able to be used until the barage is fixed; the time is unknown. The main nursery has sufficient water in the reservoir to last until the rains arrive.

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IV. Personnel for February

	Men	Women	Mandays
NRA staff	5	0	120
Permanent	37	11	1152
Temporary	83	42	3012
Total			4284

V. March Activities

Technical

Complete replacement pit digging
continue weering in the outplanting and nursery
Begin pit digging at the new site
Survey the new site to determine canal layout
Harden off trees in the nursery

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Extension

Finalize village and camp tree planting plans
Complete holding nurseries
Arrange and present first wood conservation seminar

Community Outreach

Submit corn grinding proposal to UNHCR.

Orient the two new members on the staff - the irrigation engineer and forestry extension manager.

Work closely with forestry extension and plan schedule for the new women working in their section.

Continue to work with forestry and agriculture sectors to develop a small gardening project with the women.

Orient NGO and Volags to work with Community Committees.

Continue to meet regularly with women and identify possible small projects involving women.

Organize community committees to select candidates for the IDE donkey training project.

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Appendix 12

NOTE ON THE ROLE OF THE CIP IN THE BALANCE OF PAYMENTS

Some idea of the role of the CIP in the balance of payments may be gained from the fact that foreign exchange provided for imports by the GSDR in 1983 totaled $144 million, compared with CIP disbursements in that year estimated at $18 million. On the basis of the previous year's performance, however, only about 25% of the $144 million, or $38 million, was made available to private sector importers. In contrast, 60% of the $18.5 milion FY 1982 CIP went to the private sector, and up to 85% of the FY 1983 CIP is being made available to it. Other relevant comparisons are with the current account deficit of $131 million in 1982 and of $107 million in 1983. The timing of the CIP has been strategic in that a Saudi Arabian ban on livestock imports from Somalia resulted in a $35 million shortfall in official foreign exchange earnings in 1983. Further, a Saudi oil grant, which amounted to $43 million in 1982, was not renewed for 1983.

From IMF Report No.SM/84/71, April 2, 1984

APPENDIX

Table II. Somalia: Foreign Financing, 1980-83

(In millions of U.S. dollars)

	1980	1981	1982	1983 Prel. est.
Grants	143	150	157	148
Project grants	3	36	29	9
Saudi oil grants	--	--	43	39
Commodity import program (CIP)	--	--	--	18
Food grants	66	104	85	81
Food aid-Refugees	(66)	(104)	(81)	(78)
Food aid-Budgetary support	(--)	(--)	(4)	(3)
Cash grants	74	10	--	1
Loans (net)	87	79	124	99
Disbursements	97	93	132	107
(In cash)	(36)	(16)	(9)	(15)
(PL 480-Title I)	(...)	(...)	(15)	(15)
(Project loans)	(...)	(...)	(108)	(77)
Amortization	-10	-14	-8	-8
Memorandum items:				
Total loans (gross) and grants	240	243	289	255
Project loans and project grants (including PL 480-Title I)	...	...	152	101
Grants in budget 1/	77	46	76	70
Public investment program (PIP) 2/	188	209	177	133
Imports of PIP-related goods 3/	...	...	137	86

Sources: Data provided by the Somali authorities; and staff estimates.

1/ All grants excluding refugee food aid.
2/ For 1980-81 actual expenditures according to the Ministry of National Planning's Evaluation of the Three-Year Development Program, 1979-81. For 1982-83, assumes equals project grants and project loans in kind (PL 480 included) plus development expenditures.
3/ For 1982-83, equals project loans and grants.

From IMF Report No. SM/84/71, April 2, 1984

Table I. Somalia: Balance of Payments
(Including Grants and Loans in Kind), 1980-83

(In millions of U.S. dollars)

	1980	1981	1982	1983 Rev. proj.	1983 Prel. est.
Goods and services (net)	-336	-309	-338	-294	-307
Exports, f.o.b.	133	114	131	145	101
Livestock	102	98	106	109	75
Bananas	8	6	8	15	8
Other	24	10	17	21	18
Imports, c.i.f..	-461	-422	-478	-454	-407
Foreign exchange	-276	-145	-193	-200	-144
Franco valuta	-55	-60	--	--	--
External accounts	--	--	-5	-30	-24
Oil grants and CIP 1/	--	--	-43	)	-57
Food aid 1/	) -130	-217	-100	) -224	-96
PIP related goods 1/	)		-137	)	-86
Trade balance	-328	-308	-347	-309	-306
Services	-8	-1	9	15	-1
Of which: interest payments	(-2)	(-10)	(-14)	(-15)	(-21)
Transfers	200	214	207	207	200
Private	57	64	50	60	52
Official	143	150	157	147	148
Current account	-136	-95	-131	-87	-107
(excluding official transfers)	(-279)	(-245)	(-288)	(-234)	(-255)
Capital account	87	79	84	47	60
Private	--	--	-39	-28	-28
Official	87	79	123	75	88
Loan disbursements	(97)	(93)	(132)	(95)	(107)
Amortization payments	(-10)	(-14)	(-8)	(-20)	(-8)
Capital subscriptions and others	(--)	(--)	(-1)	(--)	(-11)
Errors and omissions	21	3	-2	--	-10
Overall balance	-28	-13	-49	-40	-57
Financing	28	13	49	40	57
Central Bank (net)	44	33	64	40	40
Assets	26	-17	28	-16	-15
Liabilities	17	50	36	56	55
Of which: Use of Fund credit (net)	4	30	34	50	48
Purchases	(4)	(30)	(34)	(50)	(48)
Repurchases	(--)	(--)	(--)	(--)	(--)
Commercial bank (net)	-16	-20	-15	--	17
Memorandum item:					
Gross official reserves	25	42	14	30	29
(In weeks of cash imports) 2/	(3.9)	(10.7)	(3.7)	(6.8)	(9.0)

Sources: Data provided by the Somali authorities; IBRD; and staff estimates.

1/ In the form of either loans or grants-in-kind. CIP refers to commod ty import program and PIP to public investment program.

2/ Cash imports include foreign exchange, franco valuta, and external account imports.

IMPORTS BY COMMODITIES 1979- 1982(*)

(in Millions of So.Sh.)

Item	1979	%	1980	%	1981	%	1982	%	1983 1/	%
Foodstuff	222.6	12.2	274.9	15.8	224.0	18.7	557.6	23.0	263.9	13.3
Beverages & Tobacco	62.4	3.4	48.4	2.8	15.7	1.3	57.6	2.4	79.5	4.0
Textiles & Household	26.4	1.5	20.9	1.2	23.7	2.0	22.5	0.9	23.1	1.2
Medicines & Chemicals	44.3	2.4	143.7	8.3	49.4	4.1	70.0	2.8	69.9	3.5
Manuf.Raw materials	66.5	3.7	29.7	1.7	48.2	4.0	75.9	3.1	75.6	3.8
Agricultural inputs	22.8	1.3	30.5	1.7	8.4	0.7	1.4	0.1	19.9	1.0
Petroleum	281.4	15.5	410.3	23.6	452.4	37.7	991.9	41.0	729.[illegible]	36.5
Construction materials	49.8	2.7	32.4	1.9	58.7	4.9	203.2	8.4	263.2	13.2
Machineries & Parts	205.2	11.3	240.2	13.8	141.2	11.8	219.8	9.1	126.3	6.3
Transports & Parts	342.2	18.8	236.5	13.6	128.2	10.7	157.4	6.5	129.3	6.5
Farm Machineries	230.9	12.7	142.6	8.2	6.9	0.6	12.7	0.5	4.3	0.2
Others	264.2	14.5	129.3	7.4	41.9	3.5	54.0	2.2	208.5	10.5
Total	1818.6	100.0	1733.4	100.0	1198.7	100.0	2424.0	100.0	1992.6	100.0

(*) Imports made against payments on foreign currencies.

1/ Jan.-Sept. Preliminary.

One U.S. Dollar = So. Sh. 17.38 (Official Exchange Rate)

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and circumstances that might materially affect, or that is reasonable to believe might so affect, the Grant or the discharge of responsibilities under this Agreement.

Section 5.5. Other Payments. Grantee affirms that no payments have been or will be received by any official of the Grantee in connection with the procurement of goods or services financed under the Grant, except fees, taxes, or similar payments legally established in the country of the Grantee.

Section 5.6. Minimum Size of Transaction. No foreign exchange allocation or letter of credit issued pursuant to this Agreement shall be in an amount less than ten thousand United States dollars ($10,000), except as A.I.D. may otherwise agree in writing.

ARTICLE 6

Special Covenants Concerning Program Implementation and Achievement of Program Objectives

Section 6.1. IMF Stabilization Program. Grantee covenants to adhere to the IMF Stabilization Program to reduce yearly increase of expenditures and borrowing, establish more realistic exchange rates, and align prices and interest rates to realistic market rates.

Section 6.2. Efficiency of Public Enterprises. Grantee covenants to review the management of public enterprises in the agriculture and agro-industrial sectors in order to determine ways to improve efficiency in operations, and investment policy decisions; and where indicated by such reviews and where considered necessary to achieve development objectives, Grantee covenants to phase out inefficient public enterprises, with first priority on the agriculture sector, which is vital to economic growth.

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Section 6.3. Foreign Investment. Grantee covenants to take initial steps toward investment code reform and other policy measures in order to encourage foreign and domestic private investment in developing the economy, particularly in agriculture.

Section 6.4. Technical Personnel. Grantee covenants to increase emphasis on management and technical training programs and to establish economic incentives to encourage retention of technically qualified personnel in agriculture and related industries.

Section 6.5. Private Savings and Investments. Grantee covenants to undertake a review of government policy reforms necessary to encourage increased private savings and investments.

Section 6.6. Efficient Import Procedures. Grantee covenants to undertake measures necessary to assure that its foreign exchange allocation and import licensing systems work efficiently and enable private importers, including small value importers, to participate fully as beneficiaries of the Agreement.

Section 6.7. Formation of Consultative Group. Grantee covenants to pursue with the World Bank the objective of establishing a consultative group for Somalia under World Bank auspices.

Section 6.8. Periodic Consultations. Grantee and A.I.D. agree to meet periodically, but no less than every six (6) months, to discuss the status of the economy, associated economic issues and the relationship of the A.I.D. program to those matters.

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Section 5.4. Completeness of Information. The Grantee confirms:

(a) That the facts and circumstances of which it has informed A.I.D., or caused A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Grant, are accurate and complete, and include all facts and circumstances that might materially affect the Grant and the discharge of responsibilities under this Agreement; and

(b) That it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Grant or the discharge of responsibilities under this Agreement.

Section 5.5. Other Payments. Grantee affirms that no payments have been or will be received by any official of the Grantee in connection with the procurement of goods or services financed under the Grant, except fees, taxes, or similar payments legally established in the country of the Grantee.

Section 5.6. Minimum Size of Transaction. No foreign exchange allocation or letter of credit issued pursuant to this Agreement shall be in an amount less than ten thousand United States dollars ($10,000), except as A.I.D. may otherwise agree in writing.

ARTICLE 6

Special Covenants Concerning Program Implementation and Achievement of Program Objectives

Section 6.1. IMF Stabilization. Grantee covenants to adhere to the IMF stabilization program and any subsequent IMF program, such as the forthcoming extended fund facility.

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Section 6.2. Reduction of Government Employment. Grantee covenants to reduce the central government's staff by hiring only half as many people as leave government employment during 1984.

Section 6.3. Economic Incentives for Technical Personnel. Grantee covenants to initiate a review of the possible government reforms necessary to establish economic incentives to encourage retention of technically qualified personnel in major ministries.

Section 6.4. Stimulate Private Savings and Investment. Grantee covenants to continue to liberalize rules and regulations which act as disincentives to private savings and investment in Somalia. As part of this covenant, the Grantee agrees: (1) initiate a study of the foreign investment code; (2) initiate a study of the feasibility of an auction system for foreign exchange transactions, and (3) liberialize the granting of domestic light-industry licenses.

Section 6.5. Efficient Import Procedures. Grantee covenants to review the USAID established special system for import licensing and report on the feasibility of applying this approach or an alternative to all imports.

Section 6.6. Parastatals/State Enterprises. The grantee covenants to initiate a detailed study of a selected parastatal or staff enterprise, agreed to by A.I.D., to identify the preferred sequence of events to increase private participation in that entity.

Section 6.7. Periodic Consultations. Grantee and A.I.D. agree to meet periodically, but no less than every six (6) months, to discuss the status of the economy, associated economic issues and the relationship of the A.I.D. program to those matters.

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List of Principal Contacts

Dr. M.M. Nur, Head, Treasury Department, Ministry of Finance

General Mussa Rabileh, Minister of State, President's Office

Abdullahi Mohamed Osman, Deputy General Manager, Mogadishu Water Agency

Dr. Omar Hersi Omar, General Manager, SNAI (Jowhar Sugar Estate)

Traders: Arab Essa Haid, Mohammed Farah Siad, Ali Mahdi Warsheekh, Ahmed Hussein Bulbul, Mohamed Ali Mohamoud, Dahir Abdullahi Kadie, Khadar Dahir Mogeh, Ali Mohamed Farah, Nur Aden Shirwa, Sheikh Ali Mohamed, Jirdeh Hussein, Hassan Abdi Chaire, Ahmed Badlech Yusuf, Giama, Gani Ahmed

Mohamed Omar Ali, Director, Jileb Marka Alendi--weavers' cooperative

Abdurashid Abdi Kaire, Operations Manager, SVILA Paint Company

Shirkadda Harar, Farmer in the Afgooye area

Hussein Sheik Omar, Coordinator, CIPL Unit, Ministry of Finance

Mohamed Kodah, Central Statistical Department, Ministry of Planning

Christer Stenbeck, Statistical Advisor to the Ministry of Planning

Osman Yusuf, Director General, Somali Development Bank

Issa Haji Mussa, Director of Operations, Somali Development Bank

Abdulkadir Aden, Head, Agriculture Division, Somali Development Bank

Dr. Osman Aweys Nur, Director General, National Economics Council

Dr. Alan Eames, Head, UNIDO Mission

Andrew Hayman, World Bank Resident Representative

C. Borthurst, UNDP Resident Representative

Farah Jama, Deputy Director, INCAS

G. Jewayni, IMF Advisor to Central Bank