

SEP 24 1980

## ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: AAA/AFR/DR, <sup>jwKoehring</sup> ~~John W. Koehring~~

SUBJECT: Somalia - Grain Transport Grant 649-0117

Problem: Your approval is required to execute a \$5 million grant from the Economic Support Fund to the Government of Somalia (GSDR) to finance ocean transport of urgently required food grains for indigenous and refugee populations.

Discussion: A program grant to the GSDR is proposed in the amount of \$5 million for obligation in FY 1980 to be financed by Economic Support Fund appropriations. The grant will provide for budgetary support to enable the GSDR to finance the ocean transport of urgently required food grains for both indigenous and refugee populations.

Somalia's current economic and financial difficulties have largely resulted from a rapid expansion in government expenditures to provide for the victims of a severe drought (1973-1975), to finance major development projects, and, in 1977-1978, to meet the exigencies of a major border conflict with the country's western neighbor. The drought, and later, inadequate producer prices, adversely affected the volume of exports of livestock and bananas, which together account for over 90 percent of total exports. Moreover, inadequate producer prices adversely affected output of food crops, necessitating large food imports. The resulting pressures on the balance of payments and domestic prices were, until 1978, masked by large inflows of official aid, but have since become apparent with the sharp decline in such assistance.

Somalia's performance since January 1980 has been dominated by an unexpected intensification of the refugee problem associated with the border conflict. During the last quarter of 1979 and the first quarter of 1980, there was a massive inflow of refugees from the Ogaden region on Somalia's western border with Ethiopia. By mid-June 1980, the estimated refugee inflow accounted for about a third of the total Somali population -- comprising 700,000 persons in refugee camps and an additional one million persons already absorbed into Somali society. Thus, notwithstanding foreign bilateral and multilateral aid, Somalia's internal and external financial resources have been severely strained. For calendar 1979, the overall balance of payments deficit was larger than projected by the IMF, the fiscal situation more difficult, and domestic inflation higher.

As pointed out in FY 82 CDSS for Somalia, the Mission considers it essential to move toward a program which addresses Somalia's financial constraints. The GSDR deficit in the current account has been increasing steadily to a level of 814 million shillings in 1979, despite its tight fiscal policy with regard to salaries and heavy contributions to the development budget by other donors. IMF proposals concerning devaluation and stabilization reforms will have both direct and indirect effects on the budget as the Government attempts to maintain stability during the

difficult first years of the reform program. The present AID project portfolio will have a long run effect on the financial situation as agricultural production increases reducing imports, and livestock production increases to provide additional foreign exchange earnings from exports. However, the current need for foreign exchange support is critical, and action must be taken immediately to help Somalia reach the point where some of the objectives of current projects can be realized.

The GSDR has made a concerted attempt to promote social and economic development using its own resources. It has revised its public finance structure by decreasing salaries of government employees and revising and modifying the tax structure. Along with the IMF, the GSDR is reviewing agricultural price policies. Pivotal to a reorientation of the government's development strategy is also the question of monetary reform, linked to the realignment of Somali Shilling to other international currencies. Dependence on Central Bank financing must be reduced as domestic expenditures continue to outstrip revenues with inflationary results.

The proposed program grant, by financing the ocean transport of FY 1980 PL 480 Title I food grains, will make possible the provision of 60,000 metric tons of food grains to Somalia's rural and urban poor as well as to refugees. The proposed grant, covering a one-year period with \$5 million scheduled for obligation by September 20, 1980, will assist the GSDR to maintain economic stability. All proceeds from the sale of these grains, beyond the acquisition costs, will be deposited in the special Title I account to be used for such purposes as agreed upon by AID and the GSDR.

#### Committee Action and Congressional Apprisement

The Project Review has considered this project and has recommended approval pending the resolution of several minor issues. Revisions were subsequently received and the project was reviewed again. Full approval was recommended at an ECPR chaired by the DAA/AFR on September 23, 1980. The Congressional Notification was transmitted to Congress on September 12, 1980 and the 15 day waiting period expires September 26, 1980. Under the human rights project review procedures for 1980, all ongoing and new projects for Somalia have been approved.

#### Environmental Analysis

In accordance with AID Regulation 16, paragraph 216-2(F) and (G), a negative determination is appropriate regarding the environmental impact of the grant. Since the grant will be used for shipping food grains with limited environmental effects, an environmental assessment or environmental impact statement is not required. A negative determination is therefore recommended.

9/30/78 (78 4:1)

CLASSIFICATION:

Att 1 to App 32, Ch. 3, HB 4

DEPARTMENT OF STATE AGENCY FOR INTERNATIONAL DEVELOPMENT		1. PAAD NO. <b>649-0117</b>
PROGRAM ASSISTANCE APPLICATIONAL DOCUMENT		2. COUNTRY <b>Republic of Somalia</b>
PAAD		3. CATEGORY
COLOR T. Dutcher Assistant Administrator		4. DATE <b>September 16, 1980</b>
Charles Campbell Director, USAID/Somalia		5. OYB INCREASE <b>\$5,000,000</b>
APPROVAL REQUESTED FOR COMMITMENT OF: \$ <b>5,000,000</b>		6. OYB CHANGE NO.
TO BE TAKEN FROM: ESF Funds FY 1980		10. APPROPRIATION - ALLOTMENT
11. TYPE OF FUNDING: LOCAL CURRENCY ARRANGEMENT	12. LOCAL CURRENCY ARRANGEMENT	13. ESTIMATED DELIVERY PERIOD
<input type="checkbox"/> LOCAL <input checked="" type="checkbox"/> GRANT <input type="checkbox"/> INFORMAL <input checked="" type="checkbox"/> TYPICAL <input type="checkbox"/> NONE		14. TRANSACTION ELIGIBILITY DATE <b>Sept. 26, 1980</b>
15. COUNTRY RES FINANCED		

16. PERMITTED SOURCE	17. ESTIMATED SOURCE
U.S.: <b>\$5,000,000</b>	U.S.: <b>\$5,000,000</b>
Industrialized Countries:	
Local:	
Other:	

18. SUMMARY DESCRIPTION:  
 This assistance will make possible the provision of 60,000 metric tons of food grains to the rural and urban poor of Somalia, as well as to refugees, by financing the ocean transport of FY 80 PL 480 Title I grains.

**BEST AVAILABLE DOCUMENT**

DATE	ACTION
7/29/80	APPROVED
9/14/80	
9/24/80	
7/23/80	
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DAA/AFR; WNorth  
 AFR/DR, JKoehring  
 AFR/DR, NCohen  
 AFR/DR/EAP, SCole  
 AFR/GC, Glecce  
 AFR/EA, RHynes (Draft)\*  
 AFR/DP, JMartin (Draft)\*  
 AFR/DP, SLiapis (Draft)\*  
 AFR/DR/ARD, PRussell (Draft)  
 AFR/DR/SDP, BBoyd, (Draft)\*  
 PDC/FFP, RGold (Draft)\*

APPROVED: *[Signature]* DATE: **9/24/80**  
 DISTRIBUTED: *[Signature]* DATE: **9/24/80**

\*Same as Action Memorandum

Implementation Plan

The Grant Agreement will be signed in Washington on September 29, 1980 between the Government of Somalia (GSDR) and AID. Standard Form 1034, a Public Voucher for Purchases and Services other than Personal, will then be executed and the funds deposited in the GSDR's freight account at the Irving Trust Bank in New York. Upon deposit of the funds in the account, a letter of credit will be issued against which payment of freight charges for the grain shipments will be made.

Recommendation: That you sign the attached IEE recommending a Negative Determination (TAB A), and sign the attached PAAD (TAB B), thereby authorizing the proposed project.

Attachments:

- A. PAAD
- B. Initial Environmental Examination

Clearances:

AFR/DR/EAP, SCole ASL  
AFR/DR, NCohen WPC  
AFR/EA, CCarr (Draft)  
AFR/EA, RHynes (Draft)  
GC/AFR, GLece HL 7/24/80  
AFR/DP, JMartin (Draft)  
AFR/DR/ARD, PRussell (Draft)  
AFR/DR/SDP, BBoyd (Draft)  
AFR/DP, SLiapis (Draft)  
SER/COM/ALI, PHagan (Info)  
PDC/FFP, RGold (Draft)  
DAA/AFR:WENorth

Drafted: AFR/DR/EAP, SMeyer: dph: 9/22/80: X28286

## I. Summary and Recommendations

### A. Problem

Somalia is included in the U.N. Register of the world's least developed countries. In the best of times it has difficulty mobilizing the natural and financial resources required to sustain its population and support a meaningful development program. In recent years, it has had increasing difficulty in covering its budgetary and foreign exchange deficits without external financial assistance. At the same time, the structure of Somalia's balance of payments has been weak and deteriorating. Until 1978, however, this underlying weakness was largely masked by substantial inflows of external assistance which allowed for a small overall balance of payments surplus and an accumulation of reserves. By 1979, official inflows of payments registered a deficit of \$43 million, an amount equal to 38 percent of that year's exports.

A recent IMF mission to Somalia has estimated that in 1980 some \$100 million in official flows will be required in addition to the \$28 million to be provided through the IMF. Such a level of assistance will not allow for any accumulation of foreign exchange reserves, nor will it allow for any real growth in the Somali economy in per capita terms.

Somalia's economic problems, difficult in and of themselves, are being compounded by the refugee problem. Approximately 1.4 million refugees have fled to Somalia from southern and eastern Ethiopia during the past two years. Somalia, one of the poorest countries in the world, has taken on the task of housing and caring for approximately 700,000 of these refugees. In addition, another 500,000-700,000 are outside the refugee camps and are struggling to stay alive in Somalia's arid countryside. The refugee influx is not expected to diminish in the near future and has already increased the country's population by 25 percent.

It is estimated that the Somali Government is currently spending \$100,000 to \$200,000 a day out of its own resources on these refugees. This amounts to over 10 percent of its total national budget. Furthermore, given the fact that most of the refugees will be unable to return to Ethiopia, Somalia will have to absorb not only short-term maintenance costs, but also the longer term investment costs associated with their absorption into the Somali economy.

Despite increasing levels of international assistance for the refugees, the refugee problem has created such a drain on GSDR resources, both domestic and foreign, that by the spring of 1980 Somalia's foreign exchange reserves had fallen to the equivalent

of two weeks imports. The Central Bank also reported that Somalia's crude oil imports alone require \$7 million every twenty days and that virtually all of the country's foreign exchange earnings are mortgaged for the payment of its petroleum import bill.

The chronic shortage of foreign exchange recently reached a critical point. The GSDR is faced with having to finance the ocean transportation for 60,000 metric tons of food grains which the GSDR wished to purchase, financed by an FY 1980 PL 480 Title I credit of \$17.7 million. With principal exports of bananas and livestock, Somalia is dependent upon foreign producers for providing its basic food grains. Ocean freight, though, for these grains will cost a little over \$5 million, an amount the GSDR is unable to finance.

#### B. U.S. Response

A program grant is proposed in the amount of \$5 million for obligation in FY 1980 to be financed by Economic Support Fund appropriations. The grant will provide for budgetary support to enable the GSDR to finance the ocean transport of urgently required food grains for both indigenous and refugee populations.

The proposed AID grant covers a one-year period with \$5 million scheduled for obligation by September 25, 1980. This assistance will make possible the provision of 60,000 metric tons of food grains to rural and urban poor, as well as to refugees, by financing the ocean transport of FY 1980 PL 480 Title I food grains. All proceeds from the sale of these grains, beyond the acquisition costs, will be deposited in the special Title I account to be used for such purposes as agreed upon by AID and the GSDR.

#### C. Recommendations

USAID/Somalia recommends that a five million dollar (\$5,000,000) grant from FY 1980 Economic Support Funds be authorized to the Government of the Somali Democratic Republic (GSDR) for financing the ocean transport of urgently required food grains for indigenous and refugee populations, subject to the following provisions:

- Shipment will be on U.S. flag vessels to the extent such vessels are available. If U.S. flag vessels are not available, shipment may be on flag vessels of any Code 899 country.
- Such other terms and conditions as AID may deem advisable.

#### Environmental Analysis

In accordance with AID Regulation 16, Paragraph 216-2(F) and (G), a negative determination is appropriate regarding the environmental impact of this grant. Since the grant will be used for shipping of food grains with limited environmental effects, an environmental assessment or environmental impact statement is not required. A negative determination is, therefore, recommended.

## II. Special U.S. Interests

Somalia is a key country for U.S. policy in East Africa. The U.S. has a strong interest in the peace and stability of the Horn of Africa and in its freedom from foreign domination. In this connection, the U.S. is concerned about the security, political independence, and territorial integrity of Somalia.

Over the past two years, U.S.-Somalia relations have improved significantly as Somalia has taken a more moderate stand on international issues. The Government of Somalia supports the Egyptian-Israeli treaty as an important first step toward a comprehensive Mid-East peace. In addition, since late 1978 the Somali ports of Mogadishu and Berbera have been available to U.S. Navy ships deployed in the northwest Indian Ocean, the Gulf of Aden, and the Arabian Sea. Somalia's geographical location in the Horn region is thus of strategic importance to the United States.

The U.S. and Somalia are now entering a new phase in their relationship. The relationship stems from a shared view of some of the dangers the two countries face in the Indian Ocean area, a determination to meet the challenge of Soviet aggression and a mutual recognition of the contribution a supportive relationship makes to the peace and security of the region.

In the context of this new cooperative relationship, the U.S. attaches high priority to assisting the development of the Somali economy in order to provide a better life for the Somali population. In this regard, the U.S. aid program has grown rapidly in the past few years, focusing on development of agriculture and rangeland management techniques, health care, refugee relief and nutrition. AID plans to seek nearly \$53 million over the next two years for the Somali bilateral development assistance and food aid program. In addition, the U.S. has donated over \$50 million in money, food, and relief supplies to assist the refugees presently in Somalia. The \$5 million EFS grant for the transport of food grains would further demonstrate U.S. willingness to assist Somali economic development, as well as indicate to the Somali Government that the U.S. is interested in a closer overall relationship, within the framework of our Indian Ocean strategy.

## III. Economic Analysis

### A. Background

Somalia, designated one of the 28 least developed countries by the U.N., is located on the Eastern Horn of Africa. A population of some 3.5 million reside in its 647,000 square kilometers. Over 80% of the population is directly involved in agriculture with some 40% being cultivators.

The economy of the country relies heavily on the primary sector, particularly agriculture and livestock. The mainstays of its exports have traditionally been livestock (84%), and bananas (10%). The country has been in a food deficit position for many years with food imports amounting to over 20% of total imports. These food imports meet 30% of Somalia's food requirements.

The private sector in agriculture is dominated by small subsistence farms which, in aggregate, account for 80% of the cereals and oilseed production of the country. Typically, the private small farmers are producing for subsistence with a small marketable surplus to provide for purchased necessities. At present, less than 1% of the potentially cultivable land is under cultivation. Yields are very low and technologies utilized are primitive. Over the past 10 years the small farmer segment has taken a back seat to capital intensive, semi-industrialized agriculture undertaken on State farms. The government has now recognized this imbalance and is planning to devote greater resources to the small farmer segment.

Livestock production is the most important industry in Somalia. Over two-thirds of the population is engaged in transhumant grazing of livestock in the rangelands. Livestock production contributes about 75-80 percent of total foreign exchange earnings through export of live animals and animal products. Over the three-year period, 1974-1976, an average of 1.5 million live animals were exported annually, of which 57 percent were sheep, 38 percent were goats, while cattle and camels accounted for 3 percent and 2 percent respectively.

#### B. Recent Developments

Somalia's current economic and financial difficulties have largely resulted from a rapid expansion in government expenditures to provide for the victims of a severe drought (1973-1975), to finance major development projects, and, in 1977-1978, to meet the exigencies of a major border conflict with the country's western neighbor. The drought, and later, inadequate producer prices, adversely affected the volume of exports of livestock and bananas, which together account for over 90 percent of total exports. Moreover, inadequate producer prices adversely affected output of food crops, necessitating large food imports. The resulting pressures on the balance of payments and domestic prices were, until 1978, masked by large inflows of official aid, but have since become apparent with the sharp decline in such assistance.

Somalia's performance since January 1980 has been dominated by an unexpected intensification of the refugee problem associated with the border conflict. During the last quarter of 1979 and the first

quarter of 1980, there was a massive inflow of refugees from the Ogaden region on Somalia's western border with Ethiopia. By mid-June 1980, the estimated refugee inflow accounted for about a third of the total Somali population — comprising 700,000 persons in refugee camps and an additional one million persons already absorbed into Somali society. Thus, notwithstanding foreign bilateral and multilateral aid, Somalia's internal and external financial resources have been severely strained. For calendar 1979, the overall balance of payments deficit was larger than projected by the IMF, the fiscal situation more difficult, and domestic inflation higher.

#### 1. Balance of Payments Deficit

Somalia's external payments position, already difficult at the time of the negotiation of the IMF credit tranche standby arrangement in November 1979, deteriorated further toward the end of 1979 and has improved only moderately during the first five months of 1980. In 1979, reflecting partly the massive import of food, clothing, medical supplies and other refugee requirements, the value of imports rose by 43 percent to SDR 305 million (Table 1). By contrast, the value of exports declined by 6 percent to SDR 82 million, mainly because of a fall in the volume of livestock exports. The deficit on the service account more than doubled, and private unrequited transfers fell by more than half. Accordingly, despite a doubling of official unrequited receipts, the current account deficit tripled to a record SDR 159 million. Official loan receipts, mainly concessionary, were slightly higher than in the previous year and net foreign assets of the commercial bank declined by some SDR 11 million. Nevertheless, the overall balance of payments deficit (excluding gold revaluation adjustment) reached a record SDR 68 million, or more than double the projected deficit at the time of the negotiation of the IMF stand-by arrangement in November 1979. Consequently, the level of gross official foreign reserves fell from SDR 99.2 million at the end of 1978 to SDR 38.5 million at end-1979, equivalent to seven weeks of 1979 imports.

During the first five months of 1980, the external payments position improved, mainly due to receipts of official foreign aid in cash-and-kind. Although imports continued at a high level, a substantial part of this was in the form of aid in-kind. Export receipts were about the same level as in the corresponding period of 1979, as gains in non-livestock exports were offset by a fall in the volume of livestock exports, accounting for 84 percent of all exports, due to adverse weather conditions. The balance of payments is thus expected to deteriorate during the course of 1980 with no significant increase in exports foreseen.

Table 3. Somalia: Balance of Payments, 1978-80

(In millions of SDRs) 1/

	1978	1979	1980	
			Proj.	Rev. Proj.
Goods and services (net)	<u>-136.3</u>	<u>-232.0</u>	<u>-195.7</u>	<u>-187.8</u>
Trade balance	<u>-132.4</u>	<u>-223.0</u>	<u>-98.9</u> 2/	<u>-177.9</u>
Exports, f.o.b.	87.4	82.1	99.5	92.7
Livestock	72.4	58.3	76.8	65.3
Bananas	7.5	9.0	8.8	10.0
Imports, c.i.f.	<u>-219.8</u>	<u>-305.0</u>	<u>-198.4</u> 2/	<u>-270.6</u>
Franco valuta	<u>-60.6</u>	<u>-25.7</u>	...	<u>-24.7</u>
Services (net)	<u>-3.9</u>	<u>-9.0</u>	<u>-6.8</u>	<u>-9.9</u>
Unrequited transfers (net)	<u>84.4</u>	<u>72.7</u>	<u>49.9</u> 3/	<u>84.0</u>
Government	<u>22.1</u>	<u>45.0</u>	<u>48.9</u>	<u>55.6</u>
Private	<u>62.3</u>	<u>27.8</u>	<u>1.0</u> 3/	<u>28.4</u>
Current account balance	<u>-51.9</u>	<u>-159.2</u>	<u>-55.8</u>	<u>-103.8</u>
Capital account	<u>52.2</u>	<u>78.7</u>	<u>37.3</u>	<u>91.3</u>
Official	<u>62.6</u>	<u>64.8</u>	<u>31.3</u> 4/	<u>80.3</u>
Private	<u>0.2</u>	<u>3.0</u>	<u>-4.2</u>	<u>--</u>
Commercial bank	<u>-10.6</u>	<u>10.9</u>		<u>--</u>
Trust Fund loan	<u>--</u>	<u>--</u>	<u>10.2</u>	<u>11.0</u>
Allocation of SDRs	<u>--</u>	<u>2.5</u>	<u>2.5</u>	<u>2.5</u>
Errors and omissions (net)	<u>-1.0</u>	<u>10.1</u>	<u>--</u>	<u>--</u>
Overall balance, surplus or deficit (-)	<u>-0.7</u>	<u>-67.9</u>	<u>-16.0</u>	<u>-10.0</u>
Change in net official assets 5/ (increase = -)	<u>0.7</u>	<u>67.9</u>	<u>16.0</u>	<u>10.0</u>
<u>Memorandum items:</u>				
Gross official reserves				
In millions of SDRs	99.2	38.5	43.6	61.5
In number of month's non-franco valuta imports, c.i.f.	7.5	1.7	2.6	3.0

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

1/ Converted from Somali shillings into SDRs using the following period average exchange rates: 1978, So. Sh. 7.8813 = SDR 1; 1979, So. Sh. 8.1331 SDR 1; and 1980, So. Sh. 8.0939 = SDR 1. Reserve data are converted at end period rates.

2/ Excludes franco valuta imports and official loans in-kind.

3/ Excludes the equivalent of franco valuta imports.

4/ Excludes official loans in-kind.

5/ Excludes valuation adjustment of monetary gold.

## 2. Fiscal Performance

The refugee problem has also impinged on the Government's fiscal situation. In particular, ordinary expenditure has been adversely affected by the refugee problem, the increased cost of petroleum imports and general international inflation. Moreover, the refugee problem has caused an unforeseen, substantial increase in extrabudgetary expenditures.

The fiscal situation worsened further towards the end of 1979, remained difficult during the first quarter of 1980, but appears to have improved significantly since then as a result of external aid. In 1979, as a result of the large outlays on refugees and higher defense expenditure, total government expenditure increased markedly. According to preliminary results, total government expenditure rose by 28 percent over the 1978 outturn or by 9 percent above the last IMF projections. With substantially increased import duty receipts, total revenue rose by 8 percent over the 1978 outturn. Grants also increased by more than a quarter. Nevertheless, reflecting the larger expenditure, the overall budget deficit nearly doubled in relation to the previous year to So. Sh. 814 million, equivalent to 31 percent of total expenditure compared with the 29 percent projected by the IMF. Most of the foreign loans procured by Somalia during the year were for public enterprise to finance specific projects. Accordingly, the overwhelming portion of the budgetary deficit was financed by the Central Bank.

During the first quarter of 1980, the pressures of the refugee problem continued to impact on the fiscal situation. The overall budget deficit appears to have widened compared to the corresponding period of 1979, as budgetary expenditure rose by 8 percent and revenue amounted to about 80 percent of the receipts during the first quarter of 1979. This shortfall in revenue is attributable to a substantial fall in receipts of import duties due to a shift in composition of imports towards nondutiable goods.

The Somali authorities have maintained strict expenditure control during the first half of 1980. All ministries are now requested to submit quarterly returns to the Ministry of Finance. As part of the Government's austerity program, a reduction of 5 percent in the nonwage budgetary allocations of all ministries has been effected. Use of material resources is being curtailed and accountants from the Ministry of Finance have been auditing accounts of other ministries. Besides new revenue measures introduced in June 1980, the Government intends to make efforts to collect outstanding arrears from public enterprises. In addition, further revenue measures are under consideration.

### 3. Monetary and Credit Developments

The overall monetary situation has been substantially affected by the developments noted above. In order to meet the needs of the refugees, the Government resorted increasingly to bank credit, as did the public enterprises, particularly those concerned with the imports of food and other basic commodities. Consequently, total domestic credit which had increased by 19 percent during the fourth quarter of 1979, rose by a further 6 percent during the first quarter of 1980, and the ceilings on net credit to Government and on net domestic assets of the Central Bank were exceeded. The Government has since tightened credit controls and during the first five months of 1980, credit to Government rose by less than 4 percent, while credit to the public enterprises and the private sector combined fell.

### IV. Grant Justification

As pointed out in FY 82 CDSS for Somalia, the Mission considers it essential to move toward a program which addresses Somalia's financial constraints. The GSDR deficit in the current account has been increasing steadily to a level of \$14 million shillings in 1979, despite its tight fiscal policy with regard to salaries and heavy contributions to the development budget by other donors. IMF proposals concerning devaluation and stabilization reforms will have both direct and indirect effects on the budget as the Government attempts to maintain stability during the difficult first years of the reform program. The present AID project portfolio will have a long run effect on the financial situation as agricultural production increases reducing imports, and livestock production increases to provide additional foreign exchange earnings from exports. However, the current need for foreign exchange support is critical, and action must be taken immediately to help Somalia reach the point where some of the objectives of current projects can be realized.

The GSDR has exhibited a determined and courageous attempt to promote social and economic development using its own resources. It has revised its public finance structure by decreasing salaries of government employees and revising and modifying the tax structure. Along with the IMF, the GSDR is reviewing agricultural price policies. Pivotal to a reorientation of the government's development strategy is also the question of monetary reform, linked to the realignment of the Somali Shilling to other international currencies. Dependence on Central Bank financing must be reduced as domestic expenditures continue to outstrip revenues with inflationary results.

### V. Implementation Plan

A grant agreement will be signed in Washington on September 27, 1980 between the Government of the Somali Democratic Republic (GSDR), through the Embassy of Somalia and AID. Standard Form 1034, a Public Voucher for Purchases and Services other than Personal, submitted with the PAAD,

will be executed and the funds deposited in the GSDR's freight account at the Irving Trust Bank in New York. Upon deposit of the funds in the account, a letter of credit will be issued against which payment of freight charges for the grain shipments will be made.

INITIAL ENVIRONMENTAL EXAMINATION

Project Country: Somalia

Project title: Grain Transport

Funding: FY(s) 1980 \$ 5,000,000

Period of Project: 1 year

IEE Prepared By: Steffi Meyer, AFR/DR/EAP

Environmental Action Recommended: Negative Determination

Concurrence: Bessie Boyd, *B. Boyd* AFR/DR/SDP

Assistant Administrator Decision:

APPROVED: *[Signature]*

DISAPPROVED: \_\_\_\_\_

DATE: 24 SEP 1980

I. Description of the Project:

A program grant of \$5 million, financed by ESF appropriations, to enable the Government of Somalia to finance the ocean transport of urgently required PL 480 Title I food grains for both indigenous and rural populations.

II. Examination of Nature, Scope, and Magnitude of Environmental Impacts:

In accordance with AID Regulation 16, Paragraph 216-2(F) and (G), a negative determination is appropriate regarding the environmental impact of the grant. Since the grant will be used for shipping food grains with limited environmental effects, an environmental assessment or environmental impact statement is not required.

III. Recommended Environmental Action:

A negative determination is recommended.