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MEMORANDUM

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Date: February 19, 1985

FROM: AFR/PD/EAP, John Heard

MEETING: Somalia CIP III (649-0125) PAAD Review

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| Date: | Feb. 21, 1985 | Date: | Feb. 22, 1985 |
| Time: | 10:00 AM | Time: | 3:30 PM |
| Place: | Room 1205 NS | Place: | Room 6941 NS |

Background

Attached for your review is the subject document, which was hand-carried to Washington today by Lou Cohen.

AGENDA

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Cover

PROGRAM ASSISTANCE APPROVAL DOCUMENT

FOR

SOMALIA

FY 1985 COMMODITY IMPORT PROGRAM

(649-0125)

Submitted by

USAID/Somalia

FEBRUARY 1985

# SOMALIA FY 85 COMMODITY IMPORT PROGRAM

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# SOMALIA: COMMODITY IMPORT PROGRAM

## I. Summary and Recommendation

### A. Problem

Although Somalia achieved independence in 1960, little was accomplished by way of development in the following nine years. Over this period the imbalance between the modern/urban sectors and the agricultural/nomadic sectors not only persisted but deepened. By 1969 the economy and society faced mounting unemployment, inflation and political unrest. On October 21, 1969, a group of senior military officers seized power and the following year proclaimed the Somali Democratic Republic to be a socialist state founded unpon scientific principles and Islam.

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

The years 1978 and 1979 were difficult ones for Somalia. They were characterized by growing balance of payments difficulties and by growing budget deficits financed by bank borrowing, with severe inflationary results. Over this period, there was a growing realization that the policies followed since the revolution had failed to produce the results expected particularly in terms of incomes, living standards and economic independence.

In 1980, in consultation with the IMF, Somalia took some initial steps to deal with the crisis. The principal aims were to reduce inflationary pressures and to improve the budget deficit by restricting government expenditure and borrowing. While the quantitative limits on expenditure and borrowing eventually were exceeded, the exercise, nonetheless, had a positive impact. Government expenditures rose only slightly compared to previous years with the result that inflationary pressures moderated significantly.

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

(a) abolition of the franco valuta system 1/ and the establishment of a two-tier excahnge rate;

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1/ Under the franco valuta system, importers with access to foreign exchange outside of Somalia were allowed to finance imports with those holdings.

(b) imposition of quantitative restrictions on government borrowing and a commitment to contain government expenditures and improve tax collections;
(c) commitment to raise interest rates to more realistic levels;
(d) commitment to review agricultural producer prices as circumstances warrant; and;
(e) commitment to phase out unprofitable and inefficient public enterprises.

These policy measures stood in sharp contrast to the policies and strategy of the past.

A new standby arrangement was reached with the IMF in 1982. The program included a further devaluation of the shilling, unification of the dual exchange rate, pegging the shilling to the SDR, further easing of controls on private sector imports and the liberalization of marketing and pricing policies. These policies were reinforced by tight fiscal and monetary policies, including another increase in interest rates.

The GSDR made substantial progress towards implementing all its commitments. The IMF report of February 1983 gave the GSDR high marks for its performance. Also, the IMF during its May 1983 review of the current standby was very pleased with the performance of the GSDR and indicated that the targets were being adhered to. During that visit, the team leader indicated that the GSDR had made greater progress in undertaking difficult reforms than any other country in Africa.

In 1983, a drought and a Saudi Arabian ban on cattle imports had a severe impact on the economy. Nevertheless, the GSDR observed all the quantitative targets under the standby arrangement through Septemeber 1983. A consultative group meeting was held in October, and the GSDR agreed to postpone new projects and revised the implementation schedule for ongoing projects. Following the consultative group meeting, the GSDR discussed with the IMF the use of the Extended Fund Facility for balance of payments support. Due to the inability to reach an accord on policy reform, an agreement was not reached on the EFF.

The economic and financial situation deteriorated rapidly in 1984, largely as a result of the Saudi ban on cattle and a drought. There was a slowdown in economic activity, a sharp rise in the rate of inflation, and a worsening of the balance of payments deficit.

On January 1, 1985, the GSDR announced new stabilization measures in preparation for a new IMF standby arrangement. The policy reforms included the acceptance of a market-determined exchange rate system for all private transactions, the elimination of import and export licensing requirements for most commodities, the control of credit and monetary expansion, and the raising of interest rates. These reforms coupled with major previous reforms, such as the freeing of agricultural prices and the placement of parastatals on a profit-making basis, have eliminated many of the major obstacles to achieving economic efficiency. The Mission is convinced that the GSDR is committed toward increasing the role of the private sector. In short, the GSDR has made tremendous progress in redirecting the economy away from controls and toward a freer market environment.

However, the economy still needs assistance during this critical transition period. The private sector remains skeptical of the reforms and it takes time for new enterprises to be formed and to operate efficiently. Some further policy reforms are still needed. Based on USAID/Somalia's experience and analysis, a new FY85 CIP is needed and justified.

B. U.S. Response

In consideration of the Somali economy's continuing difficulties, substantial progress made to date by the GSDR in correcting those problems, the GSDR's admirable performance on implementing the FY1983 CIP, and the objectives of the U.S. economic assistance to Somalia, A.I.D. proposes to grant the Government of the Somali Democratic Republic $30 million from the Economic Support Fund in Fiscal Year 1985. This grant will again be utilized through a Commodity Import Program (CIP) to provide short-term balance of payments relief through the financing of imports critical to the productiveness of the Somali economy.

The CIP will provide continued support for the IMF stabilization exercise. It will do this by providing a portion of the financial support necessary (both in foreign exchange and local counterpart generations) to bridge the resource gap until the new policy measures take effect. By focusing upon inputs necessary for increased agricultural productivity, it will also contribute directly to investments in the agriculture sector. This will have a rather immediate economic impact and thus demonstrate the benefits of economic reform.

The CIP also will continue to provide direct support for the private sector. Procurements receiving priority consideration are those which will increase the forward and backward linkages with the agricultural sector. Included in this category is small, light, industrial equipment. The GSDR is continuing to look to the private sector to support economic growth. The Mission sees this FY1985 CIP follow-on grant as an imporatant tool for providing continued support for this trend. In addition the CIP will continue to provide general support for economic growth. Because of the inappropriate policies which eroded export performance and expanded the requirement for food imports, Somalia simply does not have access to the foreign exchange that it requires to improve its economic performance. The IMF prognosis for the future is optimistic but several years of austerity are required to reach sustainable growth. The CIP program will provide essential productive inputs during this period of austerity and political adjustment.

Finally, the CIP will generate counterpart funds which will be deposited in a special account in the Central Bank of Somalia. Their use will be jointly determined by the Mission and the GSDR. The majority of such funds will be utilized to support the development projects in the GSDR budget which, due to overall fiscal constraints, has been severely curtailed. This will provide a much needed, non-inflationary source of financing for GSDR development activities. A portion will be utilized to support the local currency costs for the rehabilitation of the Kismayo port and to strengthen the capacity of the Somali Development Bank to make credit available to the private sector, particularly for agricultural investment. Other innovative uses for the local currency are being actively explored by the GSDR and the Mission.

C. Terms and Conditions

The Mission, in recommending this form of program assistance,

- -- expects strict GSDR adherence to the IMF stabilization exercise;
- -- expects increased efforts to improve the performance of the Government through civil service reform and more appropriate incentives for technical personnel;
- -- expects continued efforts to expand the market economy and encourage investment in the private sector;
- -- expects continued progress in rendering import procedures more efficient; and
- -- expects further progress in developing a strategy for dealing with inefficient parastatals.

The Mission believes that the CIP has become an important element in its economic assistance strategy in Somalia. It is indispensable for achieving policy reform, for promoting the private sector, for relieving budgetary pressures, and for providing essential imports needed for achieving economic development.

Conditions Precedent

--Abolishing Export Monopolies. A Presidential Order will be issued stating that no agency or firm has a monopoly in exporting any product from Somalia and that private firms are allowed to export any product free from Government export licensing.

--Private Financial Institutions. A Presidential Order will be issued stating that the private sector is encouraged to participate in establishing financial institutions, including banks, savings and loan, insurance companies and credit unions, for the purpose of promoting savings and investment in the country.

--Private Trade Organizations. A Presidential Order will be issued stating that individuals, private sector companies and businessmen may organize indipendent, private trade organizations for the purpose of promoting economic, commercial, industrial and civic progress in Somalia.

D. Grant Administration

The grant will be administered in accordance with A.I.D. Regulation 1, using standard commodity financing procedures, be restricted to Code 941 source and origin procurement, and will strive for disbursement within 24 months. Commodities procured under this grant may not be used in the production for export of palm oil, citrus or sugar products. The grant is expected to have both short and long-term beneficial effects on the U.S. balance of payments. All statuatory criteria have been met.

E. Recommendation

USAID/Somalia recommends that a $30 million grant be authorized to the Government of the Democratic Republic of Somalia for financing the importation of selected commodities and commodity related services to be used primarily for strengthening agricultural production and productivity.

## II. Political Considerations

### A. Political and Social Overview

Since independence in 1960, Somalia has charted a course toward emerging as a country in its own right and integrating itself into the community of nations. In order to do this, Somalia has had to rely on the legacy left to it by its past colonial administration, a perceived threat from its neighbors and assistance from international donors. Somalia has also experimented in political philosophies moving from a colonial era to one of almost total state control and most recently, due to a growing recognition on the part of Somalia's leaders that state control does not work in Somalia's economy, toward economic liberalization utilizing the private sector and adapting an attitude of free enterprise development.

Political liberalization has not yet come of age in Somalia. Clan and tribal relationships are predominant and relaxing the reigns of authority has proven to be difficult for Somalia's leaders. Younger leaders are emerging however and, as the population, especially in Somalia's urban areas, become more outward looking in their approach to the world and Somalia's role in the community of nations, we are seeing an increase in social and political awareness.

### B. U.S. - Somali Relations

Somalia's move toward a more capitalistic oriented economy, and recognition that a liberalization of its political process will be a necessity to further development and integration with the world economic community has obliged it to turn to western nations for economic and military assistance. U.S. - Somalia relations have been improving since 1979 and in August 1980, the U.S. and Somalia concluded an agreement which provided for significant economic assistance as well as military sales.

### C. U.S. Interests and Objectives

#### 1. Political Stability in the Horn of Africa

A negotiated settlement of the Somali - Ethiopian conflict and regional stability are major U.S. foreign policy objectives. Withdrawal of all regular Somali military forces from the Ogaden was a U.S. congressional condition for proceeding with Somalia's military assistance program. Somali officials have stated that they will not send troops back into the Ogaden and President Siad has publicly stated that Somalia has no territorial claims upon any of its neighbors but has also called for self determination for the people of the Ogaden. No Somali - Ethiopian discussions aimed at obtaining a negotiated settlement have been initiated. President Siad has stated his readiness for such discussions and reiterated his readiness in a speech on October 22, 1984 but the Ethiopian occupation of Somali territory has continued to be a major obstacle.

2. Humanitarian Assistance

Assisting Somalia in meeting the needs of the large numbers of refugees, who have moved into the country to escape political instability, warfare and drought, is also an important U.S. objective. Accordingly, the U.S. has provided substantial amounts of food aid and other refugee related commodities.

3. Economic Stability and Growth

The development potential of Somalia has not been realized to date due to external factors and recognized weaknesses in the past management of the economy. The Somali Government currently has adopted a pragmatic approach in resolving its economic difficulties in order to move towards self-sustained growth. It has taken a number of politically and economically difficult decisions, including movement toward greater private enterprise and compliance with stringent IMF conditions for standby agreements. Somali success in this effort constitutes an important U.S. objective in both a political and economic sense.

## III. Overview of U.S. Economic Assistance

### A. USAID Strategy

The USAID strategy is based on two premises:

- Somalia receives assistance from numerous major donors and therefore our resources should be focussed in areas where we can be more effective than others.

- A carefully integrated blend of political dialogue, program assistance and project assistance would have the optimal long-run effects

Over 70% of the Somali national development plan is financed by contributions from approximately 25 donors. Increased emphasis on adhering to the Public Investment Program as approved by the Consultative Group has begun to minimize overlap and clarify various donor programs.

In developing its strategy, the Mission avoided sectors which already had considerable donor involvement, or where the Mission felt that other donors were more able to provide the necessary assistance.

In most cases the project activities cannot be successful without significant policy changes which are derived from the policy dialogue, often supported by program assistance. The interweaving of resources with consistency of purpose makes the various forms of assistance mutually reinforcing.

The strategy has both a short-term and a long-term objective.

Short-term - Provide balance of payments support, reduce the public deficit, and support promising areas for future growth.

Long-term - Build a base for productivity in a diversified and outward-oriented economy.

The short-term objective addresses the problems of macroeconomic stabilization which is a prerequisite for real longer-term development. The long-term objective constructs the human, technical, and institutional base necessary for the country's full development.

The Mission has selected three development schemes that cut across the entire strategy.

- High priority to indigenous private sector development to encourage an increasing role for the private sector in the economy.

- An emphasis on policy reform to address the principal constraints to efficiency in both the public and private sectors.

- Encouragement of the outward orientation of the Somali economy which has given it resiliency.

B. Stabilization

In the short-term stabilization program, the strategy is to provide the macroeconomic support through mechanisms that support the private sector rather than the public sector. Further, this support serves as the vehicle for major policy dialogue. The Mission has identified several key macro policies, consistent with the IMF reforms, which are at the heart of the policy dialogue.

- Through counterpart funds generated by balance of payments support programs, we have begun to play a majdr role in helping the country develop budget control policies.

- Civil service reform is an area where great strides have been made in having the concept accepted, but where we are well aware that more technical and financial assisstance will be needed before the reform becomes a reality.

- Active encouragement of trade to make the most of the uniquely diversified Somali family.

C. Development Sector

In the development sectors our strategy is to concentrate on the agricultural sector while addressing overall human resource constraints in those ministries which directly affect it.

Within the agricultural sector the strategy calls for continued but declining emphasis on dryland activities.

- The dryland portion of the sector affects the largest numbers of people, is most intimately linked to livestock production, and in good years is very productive.

- It is also the most risk prone, with drought of varying severity two years out of five. This makes shifts to more sophisticated technologies less likely.

A new emphasis will be placed on the irrigated subsector where more reliability is possible due to control of the scarcest resource, water.

- Each of the two river basins offer potential for significantly increased and diversified production and hence possible food self-reliance for Somalia.

- The efficiency of water use on existing irrigation schemes will be of the highest priority.

- It is most likely that "minimum input" packages will continue to be the basis of production, but continued production research is necessary to define the most appropriate production packages.

The strategy for livestock is to promote exports through the improvement of infrastructure and animal health, diversification of markets, moving toward a more value-oriented stage (e.g., meat processing) and research into more marketable animals.

Other sectors are targets to opportunity. In population we have found the government receptive to begin to develop a population policy which will have long-term payoffs. We will be assisting them in testing reasonable approaches.

D. Improvement of Government Institutions

Nearly all AID's projects are designed to develop the capabilities of the government institutions by providing training, technical assistance and resources to the institutions and, where appropriate, to reduce the role of government by helping the private sector provide the services.

AID also addresses the issue of host country capability on a policy level. A serious constraint at present in achieving performance objectives is the lack of incentives on the civil service system. AID has been discussing some approaches to the resolution of this problem with key government officials over the past year.

E. Resources

The strategy calls for total resources of $85 to $90 million per year exclusive of PL-480 Title II. Of this amount 75% is for macroeconomic support at the beginning of the planning period, declining to 66% at the end of the period.

The major macroeconomic resources are Economic Support funds provided as a commodity import program primarily through the private sector, along with PL-480 Title I/III providing food for sale to the private sector.

Development Assistance resources will come primarily from the Agriculture, Rural Development and Nutrition account, with small amounts from Education, Human Resources and Population accounts. Small amounts of Special Development Activities funds will be utilized for Private Voluntary Organizations programs.

In this strategy we have identified the following benchmarks for what we would plan to achieve by 1989. These benchmarks will be reviewed each year in the annual work plan to check on progress.

- Inflation - the annual rate of increase in the consumer price index will be less than 25%.
- The budget deficit will be reduced to 25% or less of total expenditures.
- Non-livestock exports will constitute more than 20% of total expenditures.
- Private sector share of bank credit will be greater than 40%.
- Civil Service reform recommendations will be completely implemented.

## IV. SURVEY OF SOMALIA ECONOMY

### Introduction

Somalia is a large country, with 17% more area than France, and a rapidly expanding population which has grown from 2.2 million in 1960 to 5.5 million in 1984, a 148% increase (Table 1). The population, excluding refugees, is growing about 3.1% annually but the influx of refugees increased growth to above 9% in the late 1970's. Large inflows of refugees from Ethiopia continued in 1983 and 1984 but official population estimates have not been published.

1. POPULATION GROWTH

| Year | Population (million) | Annual Percent Increase | Index |
|---|---|---|---|
| 1960 | 2.23 | 2.4 | 100 |
| 1965 | 2.50 | 2.0 | 112 |
| 1970 | 2.79 | 2.2 | 125 |
| 1975 | 3.13 | 1.3 | 141 |
| 1976 | 3.36 | 7.3 | 151 |
| 1977 | 3.65 | 8.6 | 164 |
| 1978 | 3.99 | 9.3 | 179 |
| 1979 | 4.32 | 8.2 | 194 |
| 1980 | 4.61 | 6.2 | 207 |
| 1981 | 4.87 | 5.6 | 218 |
| 1982 | 5.09 | 4.5 | 228 |
| 1983 1/ | 5.30 | 4.5 | 238 |
| 1984 1/ | 5.54 | 4.5 | 248 |

1/ Assumes the same growth as in 1982.

Source: IMF, International Financial Statistics, November 1984, and IMF, 1984 Yearbook.

Income per capita is among the lowest of African developing countries and Somalia is classified by the United Nations as a least developed country (Table 2).

## 2. GNP PER CAPITA IN SELECTED COUNTRIES

| Country | GNP Per Capita (1982$) |
|---|---|
| Malawi | 210 |
| Tanzania | 280 |
| Somalia | 290 |
| Kenya | 390 |
| Sudan | 440 |
| Zambia | 640 |
| Zimbabwe | 640 |
| Nigeria | 860 |
| Ivory Coast | 950 |

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Source: IBRD, World Development Report, 1984. p. 218.

From 1960 through 1982, per capita income declined 0.1% annually. During the 1970's, inflation averaged 12.6% but has been much higher in the 1980's. Life expectancy of 39 years is nearly the lowest in the world. GDP growth increased to 3.8% annually in the 1970's from 1.0% in the 1960's but declined in 1984. About 13% of the land area is suitable for cultivation but less than 10% of this land is cultivated. Since 1970, the terms of trade have declined an average of 3.4% annually (Table 3).

## 3. TERMS OF TRADE

| Year | (1980=100) Index |
|---|---|
| 1970 | 154.0 |
| 1979 | 116.0 |
| 1981 | 105.0 |
| 1982 | 111.0 |
| Ave. Annual growth 1970-82 (%) | -3.4 |

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Source: IBRD, Toward Sustained Development in Sub-Saharan Africa, p. 67.

The primary economic activity is nomadic herding of livestock. Over 65% of the population depends on livestock for income but only 20% on crop farming. Livestock production constitutes 39% of GDP and 80% of export earnings but crop production constitutes only 9% of GDP. Commercial agriculture is mainly production of sugar for domestic consumption and bananas for export. Exploration for petroleum has not identified commercially viable reserves except for possible natural gas near Mogadishu which could be used instead of imported petroleum for generating electricity. The primary food crops are maize and sorghum, but production has not kept pace with consumption and food imports in recent years have averaged one third of total needs. About 100,000 Somali nationals are working outside the country in oil exporting countries but only a small part of earnings have been remitted back to Somalia through official channels.

Since the 1970's, imports have increased to four times export earnings. Exports remained more or less constant until 1983 and 1984 when drought and the ban on livestock exports seriously reduced production and exports. Public and publicly guaranteed debt tripled from $413 million in 1974 to $1.5 billion at the end of 1983. With reduced export earnings, debt service obligations were over 200% of export earnings in 1984, and over 100% of GNP. Prices increased 82%. Although growth of the budget deficit was reduced in collaboration with the IMF through 1983, GSDR recourse to borrowing from the banking system was a major contributor to renewed inflation in 1984. On January 1, 1985 the official value of the shilling was devalued 36% and free trading in foreign exchange was authorized, which established a temporary dual rate system (Table 4). The economy has deteriorated to a serious economic crisis during the last several years. Economic recovery will require many years of good management and wise macroeconomic policies.

## 4. FOREIGN EXCHANGE RATE

| Year | 1$=Sh | 1Sh=$ | Depreciation Index |
|---|---|---|---|
| 1977 | 6.295 | .159 | 100.0 |
| 1978 | 6.295 | .159 | 100.0 |
| 1979 | 6.295 | .159 | 100.0 |
| 1980 | 6.295 | .159 | 100.0 |
| 1981 | 6.295 1/ | .159 | 100.0 |
| 1982 | 15.206 | .066 | 41.5 |
| 1983 | 17.556 | .057 | 35.8 |
| 1984 | 26.000 | .038 | 23.9 |
| 1985 | 36.000 | .028 | 17.6 |

Note: End of period

1/ Rate devalued to $=Sh. 12.59 for most foreign exchange transactions.

Source: IMF, International Financial Statistics, November, 1984, p. 411 and Ministry of Finance.

## B. Key Sectors

### 1. Livestock

Livestock raising is the principal economic activity. Two-thirds of the population are engaged in the production of livestock, and livestock exports account for over three-quarters of total exports (Table 5). Livestock trading has been returned to the private sector. Government responsibilities include quarantine and vaccination, marketing facilities, and infrastructure including rangeland development and water supply improvements. Two major development projects in the northern and central rangelands provide comprehensive range development in these regions.

## 5. LIVESTOCK EXPORTS

(000 head)

| Year | Sheep | Goats | Cattle | Camels | Total | Sh. m. 1/ |
|---|---|---|---|---|---|---|
| 1977 | 465 | 462 | 55 | 33 | 1,014 | 299.5 |
| 1978 | 739 | 715 | 77 | 22 | 1,553 | 570.6 |
| 1979 | 717 | 705 | 68 | 73 | 1,503 | 474.1 |
| 1980 | 745 | 736 | 143 | 17 | 1,641 | 639.5 |
| 1981 | 685 | 680 | 114 | 14 | 1,493 | 1,001.9 |
| 1982 | 730 | 719 | 157 | 15 | 1,621 | 1,511.9 |
| 1983 | 559 | 557 | 44 | 8 | 1,168 | 1,129.3 |
| % change | | | | | | |
| 982/1983 | -24 | -23 | -72 | -47 | -28 | -26 |

1/ FOB

Source: Central Bank of Somalia, Annual Report 1983, p. 8.

From 1980 until early 1983, sheep and goats accounted for almost two thirds of total livestock export receipts and cattle for about one third. In May 1983, Saudi Arabia banned all cattle imports from Africa because some imported cattle were reported to have rinderpest. The GSDR enforced stringent shipping, quarantine and vaccination procedures and secured veterinary reports that there were no identified cases of rinderpest in the country, but the embargo remained in effect. The cattle ban also affected sheep, goats and camels which are often shipped together with cattle. Initial estimates indicate that 1983 cattle exports declined by 72%, camels by 47%, and sheep and goats by 24%. Despite some success in finding alternative markets, the ban depressed export revenues 26%.

### 2. Agriculture

About one-fifth of the working population is employed in the agricultural sector. Most of the agricultural sector consists of subsistence farmers cultivating cereals, oil seeds, and sugar cane for domestic consumption (Table 6). The commercial sector produces crops such as bananas, sugar cane, and cotton. Substantial quantities of bananas and myrrh are exported. Agricultural expansion has been constrained by skill and input shortages. Only one eighth of fertile river areas is cultivated. Growth of agricultural and food production was considerably lower during the 1970's than in the 1960's, resulting in a substantial reduction in production per capita (Table 7).

## 6. AGRICULTURAL PRODUCTION

(000 tons)

| Crop | 1977 | 1979 | 1980 | 1981 | 1982 | 1983 | 1983(%) |
|---|---|---|---|---|---|---|---|
| Banana | 65.2 | 72.2 | 60.4 | 59.0 | 78.7 | 98.9 | 9.2 |
| Maize | 111.3 | 108.2 | 110.5 | 157.3 | 150.0 | 120.0 | 11.2 |
| Sorghum | 145.1 | 140.1 | 140.5 | 206.9 | 235.0 | 235.0 | 21.9 |
| Rice | 8.4 | 13.4 | 16.7 | 7.7 | 20.0 | 2.8 | 0.3 |
| Sesame | 40.6 | 40.6 | 38.4 | 27.1 | 57.0 | 59.5 | 5.5 |
| Beans | 10.2 | 8.2 | 9.3 | 2.5 | 5.9 | 20.8 | 1.9 |
| Groundnuts | 2.8 | 2.8 | 2.9 | 0.8 | 3.2 | 2.6 | 0.2 |
| Vegetables | 16.9 | 26.6 | 27.2 | 20.3 | 102.3 | 82.0 | 7.6 |
| Cotton | 320.0 | 263.0 | 3.3 | 1.6 | 4.7 | 4.0 | 0.4 |
| Sugar cane | 320.0 | 265.0 | 419.5 | 378.2 | 483.2 | 449.7 | 41.8 |
| Total | 1,040.8 | 939.9 | 828.7 | 861.4 | 1,140.0 | 1,075.3 | 100.0 |

Source: Central Bank of Somalia, Annual Report 1983, p.9.

## 7. ANNUAL GROWTH RATE OF FOOD AND AGRICULTURAL PRODUCTION

(percent)

| Item | Production | Production Per Capita |
|---|---|---|
| Food | | |
| 1960-70 | 2.8 | 0.0 |
| 1970-82 | 1.0 | -1.8 |
| Agriculture | | |
| 1960-70 | 2.8 | 0.0 |
| 1970-82 | 1.0 | -1.8 |

Source: IBRD, Toward Sustained Development in Sub-Saharan Africa, August, 1984, p.77.

The Agricultural Development Corporation (ADC) markets maize, sorghum, ground nuts, sesame and sunflower. The ADC has given up its rights to buy all production of main staples and reverted to a role as price stabilization board, purchasing from farmers at minimum guaranteed prices and selling to reduce peak market prices. This has been accompanied by increases in producer prices and a considerable relaxation of price controls.

Shortage of fertilizers and pesticides, lack of technical and managerial expertise and an erosion of economic incentives led to a decline in banana production in the 1970s. Bananas are traditionally the second major export commodity and principal cash crop. The National Banana Board was responsible for marketing all banana exports until a private, Saudi-Italian, corporation, SOMALFRUIT, bought 60% of the Board in 1983. Since 1981, banana production has increased substantially because of higher producer prices, major investment, improved shipping arrangements and better marketing (Table 8). However, Italian customs duties and a decline of the lira against the dollar made exports to Italy, formerly a main market, less profitable. Since 1983, a large proportion of bananas have been sold to the Middle East at an appreciably higher price.

8. PRODUCTION AND EXPORT OF BANANAS

| Year | Production (000 MT) | MT/ha | Exports: Volume (000MT) | Exports: Value (Sh.m.) | Exports: Sh000/MT | Destination (%): Italy | Destination (%): M.E. |
|---|---|---|---|---|---|---|---|
| 1975 | 106.0 | 17.4 | 81.5 | 80.9 | 993 | 45 | 55 |
| 1976 | 96.6 | 18.2 | 72.5 | 85.1 | 1.174 | 62 | 38 |
| 1977 | 65.2 | 12.6 | 53.2 | 64.7 | 1.217 | 87 | 13 |
| 1978 | 69.7 | 13.7 | 57.5 | 70.2 | 1.221 | 88 | 12 |
| 1979 | 72.2 | 12.5 | 55.5 | 68.5 | 1.234 | 74 | 26 |
| 1980 | 60.4 | 23.2 | 35.4 | 46.6 | 1.316 | 90 | 10 |
| 1981 | 59.0 | 20.0 | 34.3 | 66.2 | 1.930 | 80 | 20 |
| 1982 | 78.7 | 27.8 | 50.7 | 153.6 | 3,030 | 88 | 12 |
| 1983 | 98.9 | 35.3 | 62.5 | 234.4 | 3.750 | 54 | 46 |

Source: Central Bank of Somalia, Annual Report 1983, p.12.

Until 1982, exports of myrrh were under the jurisdiction of the National Trading Agency. Collection of myrrh products is now carried out by local cooperatives and a new agency has been established to promote collection and export. In 1983, for the first time, myrrh replaced bananas as the second foreign exchange earner. However, improvements in this sector have been outweighed by difficulties in export of livestock and other agricultural products. Sugar cane production has suffered from adverse weather conditions, increasing salinity, transportation problems, a lack of fuel, fertiliser, skilled labour and spare parts, and, in 1983, the closing of one factory for repairs.

3. Manufacturing

Public sector manufacturing concerns have suffered from under-utilisation of capacity, low productivity, weak management, inadequate supply of inputs, and pricing problems. A special commission is reviewing the economic viability of many public sector undertakings. State-owned enterprises which are not viable will be phased out. Some enterprises already have been closed down. A unit has been set up in the Ministry of Finance to examine the problems of public enterprises and monitor their development.

The manufacturing sector is relatively small with structure which reflects GSDR policy of establishing import substitution industries and export industries based mainly on the production of livestock, fisheries and agricultural products (Table 9). Manufacturing provided 7.3% of GDP in 1983 (Table 13). While there is scope for expanding agro-based industries, this will depend on increased production of fish and agricultural commodities such as grain, sugarcane, fruit and vegetables, sesame, groundnuts, and cotton. Although most of the larger manufacturing concerns are state-owned, the role of the private sector has increased.

9. INDUSTRIAL PRODUCTION (1977-1983)

| Type | Unit | 1977 | 1978 | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|---|---|
| Sugar | MT (000) | 33.0 | 24.0 | 21.1 | 29.1 | 26.8 | 34.1 | 30.8 |
| Canned Meat | Tins (m) | 6.6 | - | 1.5 | 0.8 | - | 1.6 | 0.5 |
| Canned Fish | MT (000) | 2.3 | - | - | 0.2 | 0.8 | 0.6 | 0.02 |
| Milk | Litres (m) | 3.8 | 3.3 | 2.7 | 1.2 | 1.4 | 1.1 | 0.5 |
| Pasta & Flour | MT (000) | 8.4 | 8.1 | 5.8 | 7.5 | 5.9 | 3.1 | 10.6 |
| Canned Fruit,Veg | MT (000) | 1.2 | 0.9 | 1.0 | 0.4 | 0.7 | 1.1 | - |
| Textiles | Yds. (m) | 12.9 | 13.8 | 9.9 | 13.1 | 10.1 | 11.1 | 6.8 |
| Boxes and Bags | MT (000) | 5.0 | 4.7 | 5.2 | 3.2 | 3.3 | 3.5 | 6.8 |
| Cigarettes, Mat. | MT (000) | 0.3 | 0.3 | 0.3 | 0.6 | 0.5 | 0.5 | 0.35 |
| House Utensils | MT (000) | - | - | - | 16.0 | 29.3 | 50.3 | 36.0 |
| Petroleum Prod. | MT (000) | - | - | 223.2 | 248.4 | - | 179.3 | 226.7 |
| Electricity | Kwh (m) | 39.6 | 40.2 | 47.9 | 59.8 | 69.1 | 75.7 | 91.9 |

Source: Central Bank of Somalia, Annual Report 1983, p.17.

Somalia's only petroleum refinery is owned by the GSDR, previously a joint venture with Iraq. The refinery has had technical problems and supply difficulties because of hostilities in the Middle East. Some shipments of crude oil have been donated by Saudi Arabia, but the supply of refined petroleum products remains a persistent problem which has an extremely adverse effect on the balance of payments.

## C. Macroeconomic Indicators

### 1. Balance of Payments

During most of the 1970's, inflows of external assistance kept the overall balance of payments in, or nearly in surplus. In 1979, the overall balance was $99 million in deficit and the current account deficit increased to $206 million from $65 million in 1978 because of stagnation of exports and doubling of imports (Table 10). The deficits were more modest in 1980, partly from increased transfers for refugee assistance, but agricultural exports declined as a result of poor rainfall and inadequate producer incentives. The overall balance of payments improved in 1981 mainly because of a decline in imports. Livestock exports declined slightly because of shipping problems and interruption of exports to protest a new 25% export tax. Incentives to exports improved substantially with the 50% devaluation in June 1982. The previous rate continued to apply to specified essential commodities and service receipts. Exports recovered with favorable weather (Table 11). The overall deficit rose to $49 million, largely as a result of private capital outflows of $39 million financed by private transfers. Imports increased 13% even though franco valuta imports were discontinued, in part because of a Saudi oil grant (Table 12).

In 1983, adoption of a managed floating exchange rate was insufficient to offset the Saudi cattle export ban, reducing export earnings 23% (Table 11). Revised IMF estimates indicate that the overall deficit was $93 million, the current account deficit was $132 million, and private

## 10. BALANCE OF PAYMENTS, 1979-83

($ million)

| Item | 1979 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|
| Goods and services (net) | -300 | -336 | -309 | -338 | -331 |
| Exports, f.o.b. | 106 | 133 | 114 | 131 | 100 |
| Livestock | 75 | 102 | 98 | 106 | 72 |
| Bananas | 12 | 8 | 6 | 8 | 15 |
| Other | 19 | 24 | 10 | 17 | 13 |
| Imports, c.i.f. | -394 | -461 | -422 | -478 | -435 |
| Foreign exchange | -289 | -276 | -145 | -193 | -171 |
| Franco valuta | -34 | -55 | -60 | -- | -- |
| External accounts | -- | -- | -- | -5 | -20 |
| Oil grants and CIP 1/ | -- | -- | -- | -43 | -147 |
| Food aid 1/ ) | -71 | -130 | -217 | -100 | -- |
| PIP related goods 1/ ) | | | | 137 | 97 |
| Trade balance | -288 | -328 | -308 | -347 | 335 |
| Services (net) | -12 | -8 | -1 | 9 | 4 |
| Interest payments | -1 | -2 | -10 | -14 | -- |
| Transfers | 94 | 200 | 214 | 207 | 199 |
| Private | 36 | 57 | 64 | 50 | 51 |
| Official | 58 | 143 | 150 | 157 | 148 |
| Current account | -206 | -136 | -95 | -131 | 132 |
| (excl. off. transfers) | | -279 | -245 | -288 | -- |
| Capital account | 88 | 87 | 79 | 84 | 53 |
| Private | 4 | -- | -- | -39 | -32 |
| Official | 84 | 87 | 79 | 123 | 85 |
| Loan disbursements | 87 | 97 | 93 | 132 | 107 |
| Amort. payments | -3 | -10 | -14 | -8 | -81 |
| Capital subs. and others | -- | -- | -- | -1 | -1 |
| Errors and omissions | 19 | 21 | 3 | -2 | -14 |
| Overall balance | -99 | -28 | -13 | -49 | -93 |
| Financing | 99 | 28 | 13 | 49 | 93 |
| Central Bank (net) | 85 | 44 | 33 | 64 | 51 |
| Assets | 79 | 26 | -17 | 28 | 2 |
| Liabilities | 6 | 17 | 50 | 36 | 52 |
| Fund credit (net) | -- | 4 | 30 | 34 | 44 |
| Purchases | | 4 | 30 | 34 | 44 |
| Commercial bank (net) | 14 | -16 | -20 | -15 | 42 |
| Acc. of arrears | -- | -- | -- | -- | |
| Memorandum item: | | | | | |
| Gross official reserves | 51 | 23 | 42 | 14 | -- |
| (Weeks of cash imports) 2/ | 8.2 | 3.9 | 10.7 | 3.7 | -- |

1/ Loans or grants-in-kind. CIP refers to commodity import program and PIP to public investment program.

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

Source: IMF, Staff Report, April 1984, p.28, and IMF estimates.

## 11. EXPORT EARNINGS BY COMMODITY, 1977-1983 1/

(Sh. Million)

| Item | 1979 | 1980 | 1981 | % | 1982 | % | 1983 | % | 1983 % Change |
|---|---|---|---|---|---|---|---|---|---|
| Livestock | 479.1 | 639.5 | 1,001.9 | 90.7 | 1,516.9 | 82.6 | 1,122.1 | 78.9 | - 26.0 |
| Banana | 73.2 | 51.2 | 39.6 | 3.6 | 113.7 | 6.2 | 103.3 | 7.2 | 9.1 |
| Meat | 7.3 | 6.5 | 2.6 | 0.2 | 0.3 | -- | 2.7 | 0.2 | 800.0 |
| Fish | 2.7 | 1.6 | 9.6 | 0.9 | 35.2 | 1.9 | 33.0 | 2.3 | - 6.3 |
| Hides/Skins | 56.4 | 41.8 | 18.5 | 1.7 | 56.2 | 3.1 | 20.9 | 1.5 | - 62.8 |
| Myrrh | 21.0 | 21.9 | 28.8 | 2.6 | 50.5 | 2.7 | 89.9 | 6.3 | 78.0 |
| Oil | -- | 61.0 | -- | -- | 58.8 | 3.2 | 42.7 | 3.0 | - 27.4 |
| Others | 32.7 | 15.4 | 2.9 | 0.3 | 4.7 | 0.3 | 8.4 | 0.6 | 78.7 |
| Total | 667.4 | 838.9 | 1,103.9 | 100.0 | 1,836.9 | 100.0 | 1,423.0 | 100.0 | - 22.5 |

1/ FOB.

Source: Central Bank of Somalia, Annual Report 1983, p.27.

## 12. IMPORTS BY COMMODITIES 1980-1983 1/

(Sh. million)

| Item | 1980 | % | 1981 | % | 1982 | % | 1983 | % |
|---|---|---|---|---|---|---|---|---|
| Foodstuffs | 274.9 | 15.8 | 224.0 | 18.7 | 557.6 | 23.0 | 453.7 | 16.0 |
| Beverages/Tobacco | 48.4 | 2.8 | 15.7 | 1.3 | 57.6 | 2.4 | 112.1 | 3.9 |
| Textiles/Household | 20.9 | 1.2 | 23.7 | 2.0 | 22.5 | 0.9 | 36.2 | 1.3 |
| Medicines/Chemicals | 143.7 | 8.3 | 49.4 | 4.1 | 70.0 | 2.8 | 126.1 | 4.4 |
| Manuf. Raw Mat. | 29.7 | 1.7 | 48.2 | 4.0 | 75.9 | 3.1 | 127.4 | 4.5 |
| Agricultural Inputs | 30.5 | 1.7 | 8.4 | 0.7 | 1.4 | 0.1 | 20.0 | 0.7 |
| Petroleum | 410.3 | 23.6 | 452.4 | 37.7 | 991.9 | 41.0 | 881.5 | 31.0 |
| Const. Materials | 32.4 | 1.9 | 58.7 | 4.9 | 203.2 | 8.4 | 336.8 | 11.8 |
| Machinery/Parts | 240.2 | 13.8 | 141.2 | 11.8 | 219.8 | 9.1 | 209.5 | 7.4 |
| Transport/Parts | 236.5 | 13.6 | 128.2 | 10.7 | 157.4 | 6.5 | 211.3 | 7.4 |
| Farm Machinery | 142.6 | 8.2 | 6.9 | 0.6 | 12.7 | 0.5 | 6.9 | 0.2 |
| Others | 129.3 | 7.4 | 41.9 | 3.5 | 54.0 | 2.2 | 322.9 | 11.4 |
| Total | 1,739.4 | 100.0 | 1,198.7 | 100.0 | 2,424.0 | 100.0 | 2,844.4 | 100.0 |

1/ Imports against payments in foreign currencies.

Source: Central Bank of Somalia, Annual Report 1983, p.30.

## 2. Gross Domestic Product

Recently revised GDP estimates indicate that GDP increased 3.1% annually from 1975 through 1983. Consumption rose 4.1%, mostly in the private sector. Fixed investment declined 2.0% annually although investment in equipment rose 5.2%. In 1983, the agriculture sector provided 53.9% of GDP at factor cost and livestock 39.3% (Table 14). The mining, manufacturing, electricity and water, and construction sectors combined contributed only 12.4%. Government services were only 7.7% of GDP which is a rather small proportion compared with other economies.

A disturbing feature of GDP data is the erosion of capital has eroded since 1975 as indicated by a 2% annual decline in fixed investment expenditure. This deterioration should be analyzed carefully and an effort made to rebuild capital and the productive capacity of the economy.

## 3. Prices

Control of inflation diminished in 1980 but improved significantly under standby stabilization programs in 1981 and 1982. However, prices increased nearly 50% in 1983 and even more rapidly in 1984 with large increases in the budget deficit and domestic credit (Tables 15 and 16) in the absence of an IMF stabilization program . Food prices constitute 60% of the Mogadishu consumer price index and increased more or less in proportion with the overall index. Fuel and lighting prices have increased more than twice as fast as average consumer prices since 1977. Clothes and footwear prices rose somewhat less than the overall index.

## 13. EXPENDITURE ON GROSS DOMESTIC PRODUCT

(Sh. m. in constant 1977 prices)

| Item | 1975 | 1980 | 1981 | 1982 | 1983 | Annual Growth 75-83(%) |
|---|---|---|---|---|---|---|
| Gross domestic expenditure | 6,335.6 | 7,243.9 | 6,953.8 | 7,785.2 | 8,061.4 | 3.1 |
| Consumption | 5,066.1 | 6,970.1 | 5,965.6 | 6,817.1 | 6,985.3 | 4.1 |
| Public | 1,144.8 | 1,386.9 | 1,044.4 | 1,142.0 | 1,269.3 | 1.3 |
| Private | 3,921.3 | 5,583.8 | 4,321.2 | 5,675.1 | 5,716.0 | 4.8 |
| Fixed investment | 1,289.5 | 273.1 | 938.2 | 968.1 | 1,076.1 | -2.0 |
| Gross fixed cap. | 861.5 | 531.6 | 410.7 | 538.7 | 959.7 | 1.4 |
| Buildgs./infra. | 438.3 | 181.9 | 140.6 | 184.4 | 327.2 | -3.6 |
| Equipment | 423.2 | 349.7 | 270.1 | 354.4 | 632.5 | 5.2 |
| Change in stock | 408.1 | 258.4 | 577.5 | 429.4 | 116.4 | -14.5 |
| Resource balance | -699.8 | -1,552.2 | -880.3 | -1,360.2 | -1,553.0 | 10.5 |
| Exports (goods) | 626.7 | 518.3 | 454.0 | 640.6 | 487.4 | -3.1 |
| Imports (goods) | -1,125.9 | -2,039.5 | -1,317.1 | -2,093.4 | -2,108.9 | -8.2 |
| Non factor Services (net) | -200.6 | -30.9 | -17.2 | 83.6 | 68.4 | NA |
| GDP at market prices | 5,635.8 | 5,691.7 | 6,073.5 | 6,416.0 | 6,508.4 | 1.8 |
| Net factor income | 2.1 | -4.0 | -20.9 | -22.0 | -23.5 | NA |
| GNP at market prices | 5,637.9 | 5,687.7 | 6,052.6 | 6,394.0 | 6,484.9 | 1.8 |

Source: Ministry of National Planning, 1984.

## 14. GROSS DOMESTIC PRODUCT BY SECTOR

(Sh. m. in constant 1977 prices)

| Item | 1975 | 1980 | 1981 | 1982 | 1983 | 1983(%) |
|---|---|---|---|---|---|---|
| Agriculture sector | 2,747.1 | 2,511.7 | 2,920.0 | 3,229.2 | 3,247.2 | 53.9 |
| Crop production | 522.6 | 579.3 | 599.7 | 611.0 | 546.8 | 9.1 |
| Livestock | 1,940.7 | 1,643.5 | 2,013.2 | 2,288.0 | 2,362.7 | 39.3 |
| Forestry | 258.5 | 263.8 | 279.5 | 305.0 | 309.6 | 4.8 |
| Fishing | 25.3 | 20.1 | 27.5 | 30.2 | 28.1 | 0.5 |
| Other commodity sectors | 634.3 | 694.5 | 705.2 | 716.0 | 745.6 | 12.4 |
| Mining & quarrying | 44.1 | 20.0 | 22.0 | 23.8 | 24.6 | 0.5 |
| Manufacturing | 285.2 | 428.6 | 425.0 | 422.0 | 438.9 | 7.3 |
| Small scale ind. | 111.0 | 168.2 | 161.8 | 159.5 | 165.8 | 2.8 |
| Electricity & water | 48.0 | 33.5 | 37.2 | 39.7 | 41.8 | 0.7 |
| Construction | 257.0 | 212.4 | 221.0 | 230.5 | 240.3 | 4.0 |
| Distribution services | 914.2 | 829.4 | 797.5 | 871.5 | 908.9 | 15.1 |
| Transport & Commun. | 401.1 | 355.9 | 315.4 | 365.2 | 379.0 | 6.3 |
| Trade, Hotels & Res. | 513.1 | 473.5 | 482.1 | 506.3 | 529.9 | 8.8 |
| Other services | 775.5 | 1,127.3 | 964.9 | 1,030.6 | 1,117.6 | 18.6 |
| Real estate/ insurance/banking | 287.4 | 308.8 | 377.1 | 441.0 | 457.3 | 7.6 |
| Government services | 352.7 | 652.2 | 440.9 | 441.2 | 463.8 | 7.7 |
| Other | 135.4 | 116.3 | 146.9 | 148.4 | 196.5 | 3.3 |
| GDP af factor cost | 5,071.1 | 5,162.9 | 5,387.6 | 5,847.3 | 6,019.3 | 100.0 |
| Indirect taxes | 564.7 | 528.8 | 685.9 | 568.7 | 489.1 | |
| GDP at market prices | 5,635.8 | 5,691.7 | 6,073.5 | 6,416.0 | 6,508.4 | |

Source: Ministry of National Planning, 1984.

## 15. MOGADISHU CONSUMER PRICE INDEX

(1977=100)

| Year[1/] | Food | Beverages Tobacco | Clothes Footwear | Rent Water | Fuel Light | Misc. | Total Index |
|---|---|---|---|---|---|---|---|
| Weight | 60 | 2 | 5 | 16 | 5 | 12 | 100 |
| 1978 | 112 | 104 | 113 | 100 | 117 | 108 | 109 |
| 1979 | 149 | 157 | 148 | 140 | 225 | 190 | 156 |
| 1980 | 312 | 185 | 180 | 154 | 281 | 207 | 264 |
| 1981 | 295 | 288 | 282 | 340 | 486 | 347 | 316 |
| 1982 | 392 | 309 | 376 | 394 | 913 | 461 | 423 |
| 1983 | 631 | 655 | 649 | 479 | 1,105 | 624 | 631 |
| 1984 | 1,113 | 1,622 | 902 | 745 | 2,685 | 1,255 | 1,148 |

1/ December.

Source: Central Bank of Somalia, Annual Report 1983.
1984 from Ministry of National Planning.

## 16. ANNUAL PERCENT CHANGE IN THE CPI

| Year | Index | Percent Change |
|---|---|---|
| 1977 | 100 | -- |
| 1978 | 109 | 9 |
| 1979 | 156 | 43 |
| 1980 | 246 | 69 |
| 1981 | 316 | 20 |
| 1982 | 423 | 34 |
| 1983 | 631 | 49 |
| 1984 | 1,148 | 82 |

1/ December.

Source: Ministry of National Planning, Central Statistical Department
January 5, 1985

## 17. PUBLIC AND PUBLICLY GUARANTEED DEBT

($ million)

| Item | 1974 | 1978 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|
| Outstanding inc. undisb. | 413 | 1,037.7 | 1,112.7 | 1,1408.2 | 1,442.4 | 1,503.9 |
| Outstanding disb. (DOD) | 176.9 | 525.4 | 714.1 | 972.1 | 1,078.5 | 1,149.1 |
| Commitments | 112.0 | 81.6 | 118.8 | 376.4 | 99.4 | 80.7 |
| Disbursements | 48.9 | 126.6 | 126.4 | 321.2 | 152.7 | 94.6 |
| Principal repayments | 2.4 | 3.5 | 7.0 | 43.4 | 19.9 | 12.6 |
| Net Flows | 46.5 | 123.2 | 119.4 | 277.8 | 142.7 | 82.1 |
| Interest payments (INT) | 1.1 | 1.3 | 1.9 | 3.8 | 10.3 | 9.5 |
| Net Transfers | 45.4 | 121.9 | 117.5 | 274.2 | 132.3 | 72.5 |
| Total Debt Service (TDS) | 3.5 | 4.7 | 8.9 | 47.0 | 20.4 | 22.1 |
| Official Creditors | 2.4 | 3.9 | 8.9 | 16.1 | 18.0 | 17.4 |
| Multilateral | 0.2 | 0.9 | 5.7 | 13.3 | 14.6 | 14.1 |
| IBRD | -- | -- | -- | -- | -- | -- |
| IDA | 0.1 | 0.5 | 0.6 | 0.7 | 0.9 | 1.3 |
| Bilateral | 2.2 | 3.0 | 3.2 | 2.8 | 3.4 | 3.3 |
| Private Creditors | 1.1 | 0.8 | -- | 30.9 | 2.4 | 4.7 |
| Suppliers | 0.6 | 0.4 | -- | 30.9 | 0.6 | 0.3 |
| Financial Markets | 0.3 | -- | -- | -- | 1.8 | 4.5 |

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1/New Commitments

Source: IBRD, World Debt Tables, Second Supplement, July 1984, p. 41.

## 18. TERMS OF PUBLIC DEBT, DEBT RATIOS, AND PROJECTED DEBT SERVICE

($ million)

| Item | 1974 | 1978 | 1980 | 1981 | 1982 | 1983 |
|---|---|---|---|---|---|---|
| All Creditors 1/ | | | | | | |
| Interest (%) | 2.1 | 0.5 | 2.0 | 5.8 | 1.8 | 2.7 |
| Maturity (Years) | 23.6 | 35.0 | 24.8 | 14.2 | 24.6 | 32.2 |
| Grace period (Years) | 8.5 | 9.6 | 6.3 | 3.2 | 5.9 | 5.1 |
| Grant Element | 56.0 | 78.3 | 52.3 | 23.1 | 55.5 | 55.2 |
| Economic Aggregates ($ m) | | | | | | |
| Gross Nat. Pro. (GNP) | 470 | 1,196 | 1,518 | 1,855 | 1,205 | 933 |
| Exports of G & S (XGS) | 85 | 152 | 262 | 263 | 276 | - |
| Imports of G & S (MGS) | 188 | 322 | 541 | 522 | 616 | - |
| Int. Reserves (RES) | 43 | 130 | 26 | 38 | 15 | - |
| Ratios (%) 2/ | | | | | | |
| DOD/XGS | 209.2 | 346 | 272.8 | 370.2 | 390.8 | - |
| DOD/GNP | 37.7 | 43.9 | 47.1 | 52.4 | 89.5 | 123.2 |
| TDS/XGS | 4.2 | 3.1 | 3.4 | 17.9 | 7.4 | - |
| TDS/GNP | 0.8 | 0.4 | 0.6 | 2.5 | 1.7 | 2.4 |
| INT/XGS | 1.3 | 0.8 | 0.7 | 1.4 | 3.7 | - |
| INT/GNP | 0.2 | 0.1 | 0.1 | 0.2 | 0.9 | 1.0 |
| RES/DOD | 24.2 | 24.7 | 3.6 | 3.9 | 1.4 | - |
| RES/MGS (months) | 2.7 | 4.8 | 0.6 | 0.9 | 0.3 | - |
| Memoranda | | | | | | |
| Proportion of Disb. Debt | | | | | | |
| Concessional Loans (%) | 94.3 | 98.5 | 97.9 | 80.4 | 78.6 | 76.6 |
| Var. Int. Rate Loans (%) | - | - | - | - | - | - |
| Use of IMF Credit ($ m) | - | 0.2 | 4.4 | 34.1 | 57.9 | 111.5 |

| Projected Debt Service | 1984 | 1985 | 1986 | 1987 | 1988 | 1989 |
|---|---|---|---|---|---|---|
| Total | 122.2 | 118.8 | 122.5 | 127.0 | 94.6 | 93.6 |
| Principal | 97.5 | 95.5 | 97.9 | 107.6 | 78.0 | 78.4 |
| Interest | 24.8 | 23.3 | 24.6 | 19.5 | 16.6 | 15.2 |
| Official Creditors | 85.7 | 93.7 | 99.5 | 119.4 | 87.3 | 86.7 |
| Principal | 68.2 | 75.5 | 78.5 | 102.3 | 72.7 | 73.1 |
| Interest | 17.4 | 18.2 | 21.0 | 17.1 | 14.7 | 13.6 |
| Private Creditors | 36.6 | 25.1 | 23.0 | 7.6 | 7.2 | 6.8 |
| Principal | 29.2 | 20.0 | 19.4 | 5.3 | 5.3 | 5.3 |
| Interest | 7.3 | 5.2 | 3.6 | 2.4 | 1.9 | 1.5 |

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1/ New Commitments
2/ See Table 17 for DOD, INT, and TDS.

Source: IBRD, World Debt Tables, Second Supplement, July 1984, p. 41.

19. EXTERNAL PUBLIC DEBT OUTSTANDING BY CREDITOR DECEMBER 31, 1983

($ 000)

| Creditor | Debt Outstanding | | | In Arrears | |
|---|---|---|---|---|---|
| | Disbursed | Undisbursed | Total | Principal | Interest |
| Financial Inst. | 59,500 | -- | 59,500 | 11,900 | -- |
| Suppliers Credits | | | | | |
| Italy | 103,306 | -- | 103,306 | 50,590 | 8,286 |
| Multilateral Loans | | | | | |
| African Bank | 1,949 | 5,235 | 7,184 | -- | -- |
| African Fund | 17,106 | 31,235 | 48,341 | -- | -- |
| Arab Fund for Econ. and Social Dev | 78,240 | 43,981 | 122,221 | -- | -- |
| Arab Monetary Fund | 43,155 | -- | 43,155 | -- | -- |
| EEC | 355 | 1,145 | 1,500 | -- | -- |
| European Dev. Fund | 5,400 | 6,000 | 11,400 | -- | -- |
| IDA | 124,096 | 66,846 | 190,942 | -- | -- |
| IMF Trust Fund | 11,195 | -- | 11,195 | -- | -- |
| IFAD | 5,293 | 8,580 | 13,873 | -- | -- |
| Islamic Dev. Bank | 22,847 | 22,727 | 45,574 | -- | -- |
| Opec Special Fund | 35,704 | -- | 35,704 | -- | -- |
| Subtotal | 345,340 | 185,749 | 531,089 | -- | -- |
| Bilateral Loans | | | | | |
| Algeria | 900 | -- | 900 | -- | -- |
| Bulgaria | 4,876 | -- | 4,876 | 2,154 | 247 |
| China | 96,623 | 43,571 | 140,194 | 11,012 | -- |
| Denmark | 2,030 | 2,527 | 4,557 | -- | -- |
| France | 15,115 | 4,291 | 19,406 | -- | -- |
| German Dem. Rep. | 500 | -- | 500 | 500 | 31 |
| Iraq | 16,416 | -- | 16,416 | -- | -- |
| Italy | 18,705 | 5,389 | 24,094 | -- | -- |
| Japan | 444 | 22,224 | 22,668 | -- | -- |
| Kuwait | 54,840 | 48,394 | 103,234 | -- | -- |
| Libya | 3,000 | -- | 3,000 | 3,000 | 360 |
| Romania | 400 | 15,600 | 16,000 | -- | -- |
| Saudi Arabia | 130,281 | 7,025 | 137,306 | 19,975 | -- |
| U. Arab Emirates | 101,857 | 17,451 | 119,308 | -- | -- |
| United States | 87,684 | 2,556 | 90,240 | -- | -- |
| USSR | 103,532 | -- | 103,532 | 33,446 | 15,489 |
| Yugoslavia | 3,797 | -- | 3,797 | 2,116 | 798 |
| Subtotal | 641,000 | 169,028 | 810,028 | 72,203 | 16,925 |
| Total | 1,149,146 | 354,777 | 1,503,923 | 134,693 | 25,211 |

Source: IBRD, Debt Reporting System. October 11, 1984.

D. Performance

During the late 1970's, internal and external developments, including a severe drought in 1974-75, hostilities with Ethiopia in 1977-78, the inflow of refugees, and a sharp decline in foreign financial assistance, reduced economic growth and increased domestic and external deficits. By 1980, large budget deficits, financed primarily through the banking system, increased prices rapidly.

1. 1981-1982

In July 1981, GSDR adopted a one-year stabilization program for SDR 43.13 million to stimulate domestic production, reduce inflation, and decrease external deficits. Major steps were agreed, including a 50% devaluation for most foreign exchange transactions, elimination of licenses for own-foreign-exchange (franco valuta) imports, liberalization of private sector imports, increases in producer prices of most agricultural products, closing of three public enterprises, reassessment of other public enterprises, and strengthening development planning. Fiscal and monetary policies tightened, and interest rates were raised. The budget deficit was reduced from 39 percent of total expenditure in 1980 to 28 percent. Growth of net credit to GSDR from the banking system was reduced to one-third of the 1980 level. Consequently, although nongovernment credit expanded more than in 1980, growth of domestic credit was reduced substantially.

Growth of GDP rose from 2 percent in 1980 to 5 percent in 1981. Prices increased 20 percent compared with 69 percent in 1980. The overall balance of payments deficit was reduced to less than half the level in 1980. Gross official reserves increased from about one month of cash imports at the end of 1980 to over two months at the end of 1981 and external payments arrears were reduced by two thirds through rescheduling.

A new 18-month stand-by arrangement for SDR 60.0 million was adopted in July 1982. Under the new program a number of measures were agreed, including further devaluation of the shilling, unification of the dual exchange rate, pegging the shilling to the SDR, further easing controls on private sector imports, and the liberalization of marketing and pricing policies. These policies were reinforced by tight fiscal and monetary policies, including another increase in interest rates. Despite recurrence of the border conflict with Ethiopia, the budget deficit was held about the same as in 1981, through improvements in tax collection, changes in customs valuation, expenditure control, and a virtual freeze on government wages and salaries. By tripling foreign financing of the deficit, the GSDR reduced net indebtedness to the banking system. Domestic credit expansion was reduced one third, even though growth of nongovernment credit was double the rate in 1981.

Real economic growth doubled in 1982 to 10 percent. Agricultural production responded to changes in prices through devaluation and liberalization of pricing and marketing. Inflation rose to 34 percent, and exports increased 15 percent. Nevertheless, the overall balance of payments deficit of $49 million exceeded the IMF target because of an unexpected capital outflow resulting from the border conflict with

Ethiopia which was financed by worker's remittances through the parallel market. During 1982, Somalia did not contract new nonconcessional public or publicly guaranteed debt and, at the end of 1982, had eliminated all outstanding external payments arrears. Debt service payments were limited to 12 percent of goods and services by rescheduling foreign debt service.

The 1982/83 stand-by arrangement, all of which was purchased, expired in January 1984. Somalia did not make purchases under the oil facility and had no outstanding purchases under the compensatory financing facility.

2. 1983

Drought and the Saudi Arabian ban on cattle imports in May 1983 reduced cattle exports during the second half of 1983. However, the GSDR observed all the quantitative targets under the stand-by arrangement through September 1983, and took steps to curb the capital outflow that emerged in 1982, encourage worker's remittances through official channels, and avoid further overvaluation of the shilling. In January, a bonus of Sh. 5 per dollar above the official rate was introduced to encourage worker's remittances and capital inflows. The multiple currency practice arising from the bonus scheme was approved by the IMF and later was extended through December 1984. Simultaneously, priority in the granting of import licenses was granted to participants in the bonus scheme, and interest rates on external accounts in dollars were raised to an internationally competitive level. The scope of external accounts that could be used for import payments was widened and all licensed import/export traders were allowed to open such accounts early in 1983.

External accounts in dollars for import payments were authorized early in 1982, but did not attract significant deposits. These accounts could be opened by livestock traders. Underinvoicing existed because livestock exporters were allowed to use official minimum export prices, which had not been corrected in dollars since 1979, instead of the actual selling price. In July, GSDR introduced a more flexible exchange rate which pegged the shilling to the SDR, adjusted by relative rates of inflation between Somalia and five countries in the SDR basket. The new shilling/SDR rate for the base month of July 1983 was SDR=Sh. 16.5. Under this policy, the shilling depreciated 13 percent during the second half of 1983.

During the year, the GSDR urged Saudi Arabia to lift the cattle ban. Both FAO and the International Organization for Epizooticks certified that there had been no proven cases of rinderpest in Somalia. GSDR organized an emergency vaccination campaign, set up quarantine centers in key ports, and issued directives that only cattle from those centers were to be exported. However, the ban had not been lifted through the end of 1984. Cattle export volume declined more than 70 percent in 1983. The sale of cattle to other markets was limited by uncompetitiveness at the existing exchange rate. Receipts from banana exports also stagnated, despite a 23 percent increase in volume, because of a decline in dollar prices of bananas in the Italian market.

The decline of export earnings in 1983 was more than offset by a 15% decline in imports, mainly because of a large reduction in imports for the public investment program. Private sector imports, however, declined only 6 percent because of increased use of external accounts and an increase in CIP financing.

Although transfers declined slightly, the trade balance and current account improved because of a reduction of imports. The current account deficit remained $132 million in 1983, considerably above the revised IMF target (Table 10).

Capital outflow financed by private transfers through the parallel market declined from $39 million in 1982 to $32 million in 1983. Nevertheless, the surplus on capital account declined because of a drop in disbursements associated with projects. The overall balance of payments deficit rose from $49 million in 1982 to $93 million, exceeding the IMF target of $40 million.

Disbursed public and publicly guaranteed external debt, including use of IMF credit, reached $1.2 billion at the end of 1983 (Table 17). Although most of the debt is concessional, a concentration of maturities resulted in a large increase in debt service obligations. At the end of 1983, 54 percent of external debt was owed to foreign governments and 35 percent to international organizations. The remaining 11 percent was owed to a consortium of financial institutions on nonconcessional terms and to Italian supplier creditors. Major creditor countries were: Saudi Arabia, the Soviet Union, the People's Republic of China, the United States, and Italy. By arranging further debt relief, service payments on external debt in 1983 were held to 13 percent of exports of goods and services. No new commitments on public and publicly guaranteed nonconcessional debt of 1 to 12 year maturities, were made, excluding refinancing through debt negotiations. Debt service on existing debt during 1985 to 1989 is projected at about $125 million annually (Table 18), declining somewhat thereafter.

After a 10 percent increase in 1982, the economy grew only 3.5% in 1983. The two rainy seasons were relatively short and distribution was uneven. Production of most crops remained equal to or lower than in 1982, a year of favorable weather. Production of bananas increased 26 percent. Overall agricultural production did not decline significantly below the 1982 level, indicating that the agricultural sector was responding to liberalized pricing and marketing policies and that a major expansion in agricultural output would have taken place if weather conditions had permitted. Manufacturing activity slowed down. Poor rains reduced the output of sugarcane, which, along with the closing of the Jowhar Sugar Factory for repairs, resulted in a decline in sugar production. The cattle ban reduced trade. The economic slowdown also reflected a drop in public sector investment.

After declining in 1981 and increasing to 34% in 1982, inflation increased again in 1983 to 49 percent, four times the IMF target of 12 percent. With positive economic growth and a decline in domestic liquidity, the GSDR argued that inflationary pressures had declined and that the consumer price index was misleading, since it covered the Mogadishu area only, and reflected factors that did not represent the rest of the country. A new consumer price index subsequently has been prepared with technical assistance from a Swedish team. During 1983, GSDR continued tight financial policies, reducing the overall budgetary deficit and domestic liquidity to reduce excess demand and capital outflow. The budget deficit declined to 20 percent of expenditures in 1983, somewhat above the IMF target of 16 percent.Monetary policy was tighter than had been planned. Domestic liquidity declined more than projected. Net domestic credit increased less than in 1982 and net credit to GSDR decreased. Credit to the nongovernment sector increased, although the high rate of inflation prevented a real increase, and negative real interest rates rose.

In March 1983, the GSDR requested the IBRD to organize a consultative group and agreed to prepare a medium term recovery program to be presented at the first consultative group meeting in October, with policy reforms and a public investment program for 1984-86 1/. The strategy included postponing new projects, revising implementation of ongoing projects, and introducing new, high priority projects such as rehabilitation of irrigation in the Shebelli region. Members of the consultative group acknowledged that rescheduling of debt was necessary. Following the consultative group meeting, GSDR held discussions with IMF regarding use of the Extended Fund Facility (EFF) for balance of payments support but was not willing to accept major policy reforms. Consequently, agreement was not reached on either the EFF or a new standby arrangement.

3. <u>1984</u>

The economic and financial situation deteriorated rapidly in 1984, largely a result of the ban on the export of cattle and the late arrival of the rains. There was a slowdown in economic activity, a sharp rise in the rate of inflation, and a worsening of the balance of payments deficit. As the international reserves of the Central Bank declined, GSDR was unable to service external debt obligations fully. Inflation rose to an annual rate of 82% in 1984. The overall budget deficit quadrupled to about Sh. 5.0 billion. After two years of actually reducing borrowing from the banking system, GSDR resorted to increased overall net borrowing from the banking system, and domestic liquidity expanded rapidly (Tables 23 and 24).

E. <u>Public Investment Program (PIP), 1984-86</u>

The public investment program presented at the Consultative Group meetin in October 1983 consisted of: (1) a core program of $1.2 billion of projects considered essential for development; (2) a supplementary investment program of $217 million, including projects from the FYDP that are lower in priority and may need to be postponed; and (3) $51 million of technical assistance projects. By postponing some new projects pending results of studies and reappraisals, rephasing the implementation of certain on-going projects, and introducing new, high-priority projects, the core investment program was reduced to $875 million (Table 20). The most important adjustment was deferral of projects in the Juba

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1/ GSDR, <u>Development Strategy and Public Investment Programme for 1984-86</u>, September 1983.

Valley, mainly the Bardhera Dam project, requiring investment of $61 million during 1984-86, and the Bardhera Cement Plant, requiring $80 million investment. The Consultative Group agreed that, because of this serious risk of water shortage in the short and medium-term in the Juba Valley, it is important to identify a scheme for interim water storage and to construct the engineering works for it. The Berbera Dam was recognized as an important element of the long-term development of the region with a total cost of $630 million. An advisory committee was set up to determine the most cost-effective sequence of develoment of water, energy, and agricultural resources of the region. Agreement also was reached that investment in the Juba Valley would be postponed until these studies were completed. The core investment program, and the technical assistance projects were endorsed by the donors.

1. Objectives

The objectives of the 1984-86 public investment program are to direct resources to development activities with the greatest promise of increasing domestic production, increasing exports, and replacing imports. A major trust of the program is to rehabilitate and improve utilization of existing capacities. On-going projects compromise over 60 percent of the core investment program, which is expected to help attain a 4.6 percent average annual real growth in GDP at market prices. About 75 percent of the investment is quick yielding and is expected to have a positive impact on production during 1984-86. The program also includes rehabilitation and production projects, the benefits of which will not begin until after 1986, and infrastructure projects to provide long-term economic and social needs. Planned investment in infrastructure accounts for 41.0 percent, agriculture 27.5 percent, social sectors 19.2 percent, manufacturing and mineral resources 9.3 percent, and regional and rural development 2.9 percent. Policy issues are summarized in Table 22.

Among infrastructure projects, energy is allocated 17.5 percent, water resources 31.5 percent, and transport and communication 51.0 percent. Energy sector objectives are to explore new sources of energy and enhance the capacity of existing diesel power generation schemes. Projects for water resources development are to provide adequate, reliable, and safe water for domestic consumption and increase the availability of water resources for agriculture and livestock. Major projects are the Mogadishu Water Supply Project and the Urban Water Supplies Project, which would provide or extend water suuplies in other urban centers. Projects are included to extend all-weather roads in southern Somalia, improve port facilities at Berbera, Kismayo, and Mogadishu, and expand and improve telecommunication and civil aviation facilities.
The agricultural sector receives less emphasis than in the TDYP, or initially in the FYDP, in which it was allocated 35 percent and 52 percent, respectively. Crop production including irrigation, is allocated 14.2 percent of total investment, livestock 8.0 percent, fisheries 3.8 percent, and forestry 1.5 percent (Table 21). The objectives in crop production are to increase agricultural production by expanding the area under irrigation as rapidly as possible and develop agricultural practices that optimize use of land and water resources. Over 60 percent of the investment in crop production is for irrigated output. The Balad, Mogambo, Fanole, and Genale-Bulo Marerta irrigation

projects are designed to bring additional areas under irrigated agriculture. The Bay Region Agricultural Project is to bring additional areas under rainfed farming, and the Agricultural Extension and Farm Management Training Project is focused on extension activities. Livestock projects are geared to reducing waste from disease through livestock disease control, improving utilization of rangelands by provision of additional water supplies and controlled management, and initiating studies and research programs to identify more precisely techniques that may arrest degradation and increase productivity of various range types. The provision of collection and storage facilities on the east coast, development of fisheries along the northeast coast, and extension of Somali development and training project are the main projects in the fishing sector. In forestry, the projects concentrate on combating desertification and inducing forestry development.

Mining projects are to continue the survey and evaluation of metallic and nonmetallic resources. Manufacturing projects are mainly to rehabilitate existing industries. The Juba sugar estate development project aims at expanding the sugar estate from 3,500 hectares to 8,900 hectares. The SNAI sugar factory project will attempt to improve the irrigation and drainage system to reduce salinity and introduce new machinery. Investment at the Berbera cement plant is to reconstruct the plant to produce cement by dry process and double annual capacity from 100,000 tons to 200,000 tons.

## 2. Financing

The core investment program of $875 million must be funded entirely by external sources. Foreign financing is assured for about $543 million. The local currency financing of the program will be through counterpart funds from grants of commodity imports. During 1984-86, grants amounting to $309 million for the financing of commodity imports, including petroleum, are expected. Part of the counterpart funds generated by these grants is to be used to finance investment expenditures. The GSDR has contacted bilateral donors for assistance in line with the understanding reached at the Consultative Group meeting in October 1983.

### 20. FINANCING OF THE PUBLIC INVESTMENT PROGRAM, 1984-86

($ million)

| Item | 1984 | 1985 | 1986 | 1984-86 |
|---|---|---|---|---|
| Project grants | 118.3 | 104.1 | 92.1 | 314.5 |
| Project loans | 87.3 | 71.4 | 70.2 | 228.9 |
| Subtotal | 205.6 | 175.5 | 162.3 | 543.4 |
| Commodity import program, oil grant | 24.8 | 51.5 | 76.3 | 152.6 |
| Financing gap | 59.8 | 55.1 | 63.9 | 178.8 |
| Total | 290.2 | 282.1 | 302.5 | 874.8 |

Source: GSDR, Development Strategy and Public Investment Programme, 1984-86, September 1983, and IMF, Somalia: Recent Economic Developments, April 1984, p.37.

## 21. PUBLIC INVESTMENT PROGRAM BY SECTOR, 1984-86

($ million)

| Sector | 1984 | 1985 | 1986 | 1984-86 Total | 1984-86 Percent |
|---|---|---|---|---|---|
| Agriculture | 74.3 | 76.1 | 90.5 | 240.9 | 27.5 |
| Livestock | 21.9 | 21.8 | 26.7 | 70.4 | 8.0 |
| Crop Production | 30.9 | 39.9 | 53.5 | 124.3 | 14.2 |
| Forestry | 7.8 | 4.0 | 0.9 | 12.7 | 1.5 |
| Fisheries | 13.7 | 10.4 | 9.4 | 33.5 | 3.8 |
| Mineral resources and manufacturing | 28.5 | 26.1 | 27.0 | 81.6 | 9.3 |
| Mineral resources | 0.9 | 2.7 | 3.9 | 7.5 | 0.9 |
| Manufacturing | 27.6 | 23.4 | 32.1 | 74.1 | 8.5 |
| Econ. Infrastructure | 128.9 | 113.4 | 116.1 | 358.4 | 41.0 |
| Energy | 28.1 | 17.6 | 17.0 | 62.7 | 7.2 |
| Water resources | 36.1 | 37.3 | 39.6 | 113.0 | 12.9 |
| Trans. & Communic. | 64.7 | 58.5 | 59.5 | 182.7 | 20.9 |
| Social sectors | 50.7 | 57.9 | 59.6 | 168.2 | 19.2 |
| Education | 29.3 | 34.8 | 34.1 | 98.2 | 11.2 |
| Health | 16.6 | 18.9 | 21.2 | 56.7 | 6.5 |
| Manpower & employ. | 3.7 | 4.0 | 4.1 | 11.8 | 1.3 |
| Statistics | 0.8 | 0.2 | 0.2 | 1.2 | 0.1 |
| Information | 0.3 | --- | --- | 0.3 | 0.0 |
| Regional and rural development | 7.8 | 8.6 | 9.3 | 25.7 | 2.9 |
| Total | 290.2 | 282.1 | 302.5 | 874.8 | 100.0 |

Source: GSDR, Development Strategy and Public Investment Programme, 1984-86 and Revisions: IMF, Recent Economic Developments, April 1984, p.35.

## 22. SUMMARY OF POLICY ACTIONS 1984-86

| Policy Issues | Action Taken | Action to be Taken | Date of action |
|---|---|---|---|
| 1. Economic Management | The FYDP 1982-1986 has been elaborated in the context of a macroeconomic framework for the first time. | Action: Ministry of National Planning will be further strengthened to enable it to formulate investment programmes to link development with national budgets, to prepare macroeconomic framework, to formulate policy measures, and to analyse and appraise economic and financial viability of development projects.<br><br>Preparation of forward budgeting and annually updated public investment programme (PIP). | 1984 |
| | Annual planning has been introduced. | Action: Adaptation of credit, monetary, foreign exchange and fiscal policies to macroeconomic management based on national development planning. These policies will be consistent with the criteria under the planned Extended Fund Facility of the IMF. | 1984 |
| | The Development Planning Institute and the National Monitoring and Evaluation Facility are established at the Ministry of National Planning | | |
| | Steps have been taken to improve financial planning assistance and relevant international instititions. | Action: Ministry of Finance will be further strengthened to enable it to analyse fiscal issues, to coordinate ordinary and development budgets, and to integrate budgeting of domestic and foreign resources. Set up a Resource Committee with off- | 1984 |

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| | | icials from the main macro' ministries/agencies to guide and monitor his work, with special emphasis on financial analysis of development projects; carry out a study of recurrent expenditure with IMF technical assistance. | |
| | Need for improvement of the operation of debt management unit in the Ministry of Finance has been identified. | Action: Improvement of capability of the debt management unit in the Ministry of Finance. Strengthen the external debt unit with the addition of high-level and experienced staff; set up a system to monitor all developments on public and publicly guaranteed debts in respect to commitments, disbursements, debt servicing and debt rescheduling; set up a mechanism to ensure timely debt service payments. | 1983 |
| | A Public Investment Evaluation Unit has been set up to examine the problems of public enterprises. | Action: The Public Investment Evaluation Unit will make recommendations for the solution of public enterprises' problems. Strengthen the Public Investment Evaluation Unit by the addition of senior level staff; seek technical assistance from international institutions to prepare terms of reference and procedures for this aspect of the unit's work. | 1984 |
| 2. Reform of public enterprises | An intra-government commision has been set up to examine prospects for economic viability of public enterprises. | Action: The intra-government commission will submit its report to the Government as to which enterprises should be phased out of operation. Implement the jointly agreed recommendations for the Inter-Ministerial Commission; undertake additional studies of | 1984 |

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| | | public enterprises to improve their operative efficiency; introduce unified accounting procedures for all public enterprises. | |
| | Four public enterprises which were not financially viable were closed. | <u>Action</u>: Only economically viable enterprises will be kept in operation. Manufacturing public enterprises which show no promise of profitability will be offered for sale to private sector. | 1984 |
| | <u>De Facto</u> elimination of the ADC's monopoly position in grain marketing. | <u>Action</u>: Elimination of the ADC's monopoly over grain purchases and allowing farmers to sell their products in the open market. Take legal action to this effect by the end of 1983. | 1983 |
| | The functions and structure of ADC will be revised to increase its effectiveness. | <u>Study</u>: of ADC's role as a mechanism for price stabilization and a buyer of last resort. | |
| | | <u>Action</u>: Improvement of operational efficiency of the state farms through management contracts. | |
| 3. <u>Promotion of private sector activities</u> | Private initiative to invest and share in joint ventures is encouraged. | <u>Action</u>: Industrial and investment policy will be oriented to assist and promote private sector enterprise. | 1984-86 |
| | Agreements on exploration and drilling rights have been signed with five international oil companies | | |
| | An investment promotion unit has been set up | <u>Action</u>: Technical assistance from bilateral and multilateral sources will be sought to | 1984 |

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| | in the Ministry of National Planning to formulate an incentive framework to mobilize the initiative and resources of private investors. | help the unit in preparing the incentive framework. The framework includes pricing policy, investment laws, procedures for import control and allocation of foreign exchange. Another unit is being established in the Ministry of Industry to promote private investment in the manufacturing sector. | |
| 4. <u>Credit, monetary policies</u> | Since the Government has increased interest rates on loans and deposits by five percentage points. | <u>Action</u>: Continuation of effort to maintain positive interset rates for deposits as well as for external accounts. | 1984 |
| | | Government will continue to review its interest rate policy with IMF and make appropriate adjustments according to movements in domestic inflation and international interest rates. | 1984-86 |
| | Provision will be made to ensure that increased credit is made available to meet the needs of agriculture and industrial sectors. | <u>Action</u>: Allocation of more credit to productive sectors i.e. agriculture, livestock and industry. | 1984 |
| | | Specify quarterly goals for credit to private sector; prepare guidelines for credit allocation to non-government sector in line with priorities delineated in medium-term recovery programme. | |
| | A bonus of 33 per cent above the official exchange rate for the Somali migrants' | <u>Action</u>: The bonus shceme involving a 33 per cent premium over the official exchange rate will be maintained for Somali migrant | |

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| | remittances has been introduced. | workers' savings. | |
| | The private remittances of Somalis working abroad will be encouraged. | <u>Study</u>: A study will be undertaken on means of increasing the inflow of Somali workers' remittances. Improve and expand banking services and attract reputable international banks to Somalia; expand housing scheme for immigrants; implement agreed recommendations of the proposed study of workers' remittances. | 1984 |
| | | <u>Action</u>: Changes in the methods of operation and the accounting system of the Somali Development Bank and of Commercial and Savings Bank will be introduced so as to increase their capacity to mobilize financial resources. | |
| 5. <u>Fiscal Policy</u>: | | | |
| a. <u>Tax System and administration</u> | A study of the reform of taxes on domestic production and consumption has been undertaken. | <u>Action</u>: Introduction of a general sales tax of five per cent on all domestic transactions except trade in essential commodities. | |
| | Taxation of properties and incomes will be improved. | <u>Action</u>: Revision of direct taxes, especially of income tax and property tax. Undertake with IMF assistance the reform of the income tax system. | 1984 |
| | A new 25 per-cent ad valorem tax on livestock exports was introduced. | <u>Action</u>: Extension of specific exercises to ad valorem basis. | 1984 |
| | Tariff exemptions on imports have been revised. | <u>Action</u>: Revision of the remaining tariff exemptions on imports. | |

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| | | <u>Study</u>: Undertake with IMF assistance a study on import tariff structure. | |
| | New tax regulations are being formulated to apply a 33 per cent profit to public enterprises. | <u>Action</u>: Elimination of existing turnover tax and the depreciation charge on public enterprises. Instead, 35 per cent profit tax will apply to domestic enterprises. | 1984 |
| | Steps to improve tax administration have been taken. | <u>Action</u>: Improvement of tax administration and the imposition of penalties for tax evasion and discretionary assessment of the liability. | 1984 |
| b. <u>Expenditures</u> | Relative share of expenditure on general services will be reduced. | <u>Action</u>: Limitation of average growth rate of expenditure on general administration and administrative services to 1 per cent per annum.<br><u>Study</u>: of the structure and magnitude of Government budget expenditures. Determine a realistic level of recurrent budget alloctions for ongoing and prospective projects. | 1984 |
| 6. <u>Price policies</u> | Price policy has been re-oriented taking into account the cost of production and changes in international prices of the various commodities. | <u>Action</u>: Further liberalization of price policies so as to bring prices into closer relationship with market trends. | |
| | Prices paid to farmers were revised upwards and minimum guaranteed prices for agricultural products were introduced as an | <u>Action</u>: Establishment of a proper mechanism to review and adjust agricultural prices on a continual basis. | |

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| | incentive for farmers to increase production. Farmers were also allowed to sell their products at market-determined prices. | | |
| | Pricing policies in public enterprises will be reviewed. | <u>Action</u>: State manufacturing enterprises will be allowed to cover adequate prices for the inputs they purchase, and sell at market prices. | 1984 |
| | | <u>Study</u>: of the operation of National Banana Board with a view to reducing export costs. Banana producers shall get adequate price incentives. | 1984 |
| | | <u>Study</u>: of crop-related water charges, to be carried out by the Ministry of Agriculture | 1985 |
| 7. Wage and employment policy | The development levy on Government salaries was abolished. It resulted in an average increase of 10 per cent in salaries of Government employees. | Action: Granting of cost-of-living increase of 10 per cent to Government employees on an annual basis. | 1984 |
| | | Study: of the structure of salaries and wages as well as other incentives in the public and private sectors. | |
| | The policy of guaranteed employment in the public sector has been discontinued. | Action: Discontinuation of the policy of guaranteeing jobs to school leavers in the Government administration and public enterprises. | 1983 |
| 8. Trade and foreign exchange allocations | High priority will be given to imports of essential commodities and to those promoting economic developemt. | Action: High priority for the import of current production inputs, spare parts, raw materials and equipment. | 1984 |

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| The concept of livestock marketing study has been approved. | Study: of livestock export marketing by the ministry of Livestock. Also the magnitude of underinvoicing shall be examined. | 1984 |
| | Action: High priority in foreign exchange allocation will be given to productive sectors for import of inessential inputs. | 1984 |
| | Action: Establishment of a committee which will prepare the annual foreign exchange budget. | 1984 |
| Part of the function of the National Trading Agency has been modified and its monopoly power curtailed. Franco Valuta system of imports was abolished. | Action: Curtailment of the NTA's monopoly over the importation of certain basic items. The issuance of letters of credit to private importers will be allowed. | 1984 |

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Source: IBRD, Consultative Group for Somalia: Chairman's Report of Procedings, February, 1984, pp. 76-82.

F. Prospects for Economic Recovery

On January 1, 1985, GSDR announced new stabilization measures in preparation for a new standby arrangement.

1. Objectives

Although the new standby arrangement has not yet been signed, GSDR reached agreement with IMF and has adopted a major adjustment program for 1985. The key objectives are to: (1) increase the rate of economic growth to 4% compared with 2 to 3% in 1984. (2) reduce inflation to 20% in 1985; and, (3) to reduce the overall balance of payments deficit to about $35 million. To achieve these objectives, a comprehensive policy reform package has been adopted to: (1) liberalize foreign exchange marketing; (2) dismantle all price controls; (3) eliminate trading restrictions; and (4) control credit and monetary expansion.

The recovery program is expected to increase economic activity and improve export performance. The livestock sector will continue to be the main determinant of foreign exchange earnings. Assuming the cattle ban is lifted in the near future, and new markets are found, livestock exports are expected to reach $78 million in 1985 and $91 million in 1986, expanding 5% to 6% per annum after 1988.

Banana production has increased substantially in recent years because of higher producer prices, major investment, improved shipping arrangements, and better marketing. A combination of trading and poor rainfall led to a fall in exports to $11 million in 1984, but banana exports are expected to recover to $14 million in 1985 and to grow about $2 million each year thereafter. Other exports, including myrrh, also are expected to rise steadily from 1985 onwards, with better marketing, trade, and exchange arrangements. Despite improvements in export performance, the current account will remain in deficit throughout the decade. The continuing need to import foodstuffs and fuel and large imports under the Public Investment Program, means that the trade deficit is likely to reach $461 million and the current account deficit $162 million in 1985 (Table 27). This deficit cannot be financed from official reserves. On the contrary, reserves should be increased. Net official capital inflows must remain high if the overall balance of payments deficit is to be kept reasonable. Substantial amounts of assistance have been pledged by the international community in food aid, commodity imports, and project aid. While the adjustment program is being implemented, further support is required.

2. Foreign exchange

On January 1, 1985, The offical exchange rate of Sh. 26 per dollar was increased to Sh. 36 for external transactions of the central government and the surrendered portion of exports of goods and services. Other transactions are at the market rate. During the first six months, the official rate will be adjusted under the present system of pegging to the real SDR. The official rate will depreciate Sh. 0.5 per dollar a month until the end of June. After an IMF review in April the official rate will be unified with the market rate by the end of 1985.

Licensing of imports and exports was abolished and private individuals and institutions are permitted to export and import freely with the exception of commodities which are either prohibited or subject to prior approval. The franco valuta system was abolished, and foreign exchange can be bought and sold freely by residents or non-residents. Export-promoting accounts in dollars may be opened at the commercial bank. Exporters may deposit 65% of export proceeds in these accounts which can be used to import merchandise for invisible payments, or be deposited in an import account. External accounts in dollars may also be opened by residents or non-residents. Deposits may be made in these accounts only if they are transferred from outside Somalia and may be debited for any purpose, including transfers to another external account or sale of foreign exchange to the commercial bank.

The exchange rate for transactions through foreign currency accounts is the market rate recorded by the Commercial Bank. The Commercial Bank posts, at the beginning of each business day, the exchange rate which is the weighted average of transactions through foreign currency accounts during the previous business day. The prevailing exchange rate applies to all purchases and sales of foreign exchange by the Commercial Bank. The foreign exchange acquired by the Commercial Bank is kept in a separate account and may be sold to private entities or the Central Bank at the prevailing rate. Export proceeds from commodities and invisibles are subject to repatriation and declaration.

Minimum export prices for livestock have been abolished and livestock exporters are required to repatriate all foreign exchange proceeds at actual selling prices. To avoid under invoicing, guideline prices are set and will be reviewed frequently in light of market developments. The surrender requirement has been reduced to 35 percent for all exporters, including public enterprises. The balance of proceeds are retained in export-promoting accounts.

Private importers are allowed to open letters of credit for imports at the Commercial Bank with foreign exchange available to the bank through a foreign currency account. Payments for current invisibles through export promotion and import accounts are allowed within specified limits.

In addition to the surrender requirement, the Central Bank receives foreign exchange receipts from official transactions, including official loans, grants, investment income, and foreign exchange receipts of embassies and and international organizations. The Central Bank uses these receipts along with the surrender requirement, to provide foreign exchange for official payments, primarily external public debt service, import payments by GSDR, operational costs of the Central Bank, official travel, expenses of embassies abroad, and imports of crude petroleum and petroleum products. Offical transactions are at the official rate which is used to convert the transfer value of loans and grants passed on the public enterprises. The Central Bank also may buy from or sell foreign exchange to the nongovernment sector through the Commercial Bank at a market-determined rate.

### 3. Fiscal Policy

A major reduction is planned in the overall budget deficit from Sh. 5 billion in 1984 to Sh. 2 billion in 1985 (Table 23). Foreign financing associated with the Public Investment Program in 1985 will be sufficient to finance this reduction, releasing resources to the private sector. With external financing of the Public Investment Program, and exchange rate changes, the budget will be more dependent than previously on external grants, which will provide 45% of total receipts. Therefore, the budget deficit, excluding grants, will increase. However, the deficit between domestic revenue and ordinary expenditure will be eliminated in 1985.

Revenue is projected to increase 93% from changes in the exchange arrangement and liberalization of imports, which will boost receipts from customs duties. Tax measures during 1981-83 have expanded the tax base and enhanced the elasticity of the tax system.

Reforms to strengthen tax collection will be introduced. Growth in ordinary expenditures will be limited, implying a major reduction in real terms. A reduction is planned in non-wage expenditures, the growth of the wage bill will be held below inflation, and strict expenditure control will be maintained. Total expenditure is projected to grow at one third the rate of receipts and the wage bill will grow no more than 15%. The major areas of expenditure reduction are in transportation, communications, office equipment, and other goods and nonessential services. Allocations under the contingency fund at the Ministry of Finance, which increased in 1984, have been reduced.

In line with recommendations of an AID-financed study of the civil service, GSDR employment will be reduced significantly over the next few years. About 1,000 civil service positions, currently occupied, will be abolished in 1985. Attempts will be made to relocate some of the employees in agricultural programs and to retrain others for employment in the private sector.

### 4. Banking

An examination of the banking system is underway with the assistance of Samuel Montagu & Co. Limited to mobilise domestic savings, improving resource allocation and create a flexible and responsive financial system. GSDR is considering the licensing of new banking institutions with foreign participation. The Commercial and Savings Bank is being modernised with assistance from consultants financed by EEC. Guidelines have been established giving credit preference to productive and export activities. Expansion of domestic credit is to be reduced from 77% in 1984 to about 3% in 1985, with the private sector receiving all of the increase in credit (Table 24). In addition, the interest rate structure was revised upwards on January 1, the commercial bank lending rate increasing from 12% to 15% (Table 25).

## 23. CENTRAL GOVERNMENT OPERATIONS, 1983-85

(Sh. million)

| Item | 1982 | 1983 | 1984 | 1985 Prog. |
|---|---|---|---|---|
| Total revenue and grants | 3,816 | 5,359 | 6,562 | 14,540 |
| Revenue | 2,588 | 4,075 | 3,925 | 7,574 |
| Tax | 2,275 | 3,921 | 3,340 | 6,870 |
| Nontax | 313 | 354 | 585 | 704 |
| Grants | 1,056 | 1,106 | 2,440 | 6,760 |
| Transfers from local authorities | 172 | 178 | 196 | 215 |
| Total expenditure | 5,366 | 6,562 | 1,530 | 16,524 |
| Ordinary expenditure | 2,750 | 4,470 | 7,940 | 7,700 |
| Investment expenditure | 2,461 | 1,920 | 3,370 | 8,560 |
| Development budget | 348 | 498 | 850 | 1,200 |
| Transfers to local authorities | 155 | 177 | 220 | 264 |
| Discrepancy | -- | 69 | -- | -- |
| Current account balance | | | | |
| Excluding grants | -145 | -394 | -4,039 | -175 |
| Including grants | 911 | 712 | -1,599 | 6,585 |
| Overall balance | | | | |
| Excluding grants | -2,606 | -2,314 | -7,408 | -8,735 |
| Including grants | -1,550 | -1,277 | -4,968 | -1,975 |
| Changes in domestic counterparts external arrears | | -- | 540 | -1,080 |
| Financing (cash) | 1,550 | 1,277 | 4,428 | 3,055 |
| External (net) | 1,724 | 1,572 | 2,100 | 3,360 |
| Domestic | -174 | -295 | 2,328 | -305 |
| Banking system | -150 | -295 | 2,328 | -305 |
| Cash balance | -24 | -- | -- | -- |

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Source: IMF, Somalia: Staff Report, April 1984, p.31 and IMF estimates.

## 5. Investment

Despite economic difficulties, opportunities exist for entrepreneurs. Policies reflect official desire to see the private sector actively involved in the national economy. GSDR is reviewing new initiatives to improve the investment climate for foreign domestic investment. Some public enterprises will be closed and others rehabilitated. Others will be privatised or converted to joint ventures.

## 6. External Debt and Debt Service

The GSDR recognises the need to strengthen external debt management, including compilation of comprehensive and timely data by improving reporting procedures. External debt outstanding and disbursed reached nearly $1.4 billion at the end of 1984. The bulk of this debt is on concessional terms, but a concentration of maturities resulted in a large increase in debt services obligations. This, combined with the exceptionally severe external economic constraints in 1984, has resulted in the accumulation of an estimated total of $214 million in arrears before debt relief at the end of 1984 (Table 26). Additional debt service obligations due in 1985 before debt relief are estimated to be $80 million in principal and $43 million in interest, of which about half is due to bilateral creditors and slightly less than half to multilateral and bilateral agencies.

Debt to the multilateral agencies cannot be rescheduled. GSDR plans to pay debt service owed to bilateral agencies with the understanding that these payments will be more than matched by contributions from these agencies to financing the 1985 gap. Debts to the special bilateral country creditors have been frozen. The GSDR has proposed rescheduling of all other bilateral debt payments in 1985 and has requested that no moratorium interest be charged in 1985.

Rescheduling of commercial arrears and debt service is proposed on the same terms as bilateral creditors. The GSDR has agreed not to contract or guarantee nonconcessional external loans with a 1-12 year maturity, with the exception of credits from agencies, during 1985 and will not accumulate new short-term debt other than normal, trade-related credits. The GSDR plans to reschedule $106 million of arrears and $71 million of debt service due in 1985 (Table 27).

After debt relief, the 1985 balance of payments has an overall financing gap of $100 million, assuming all commitments of grants and loans for 1985 are met. Actual disbursement tends to fall short of provisional commitments. In 1984, the shortfall was $44 million for commodity grants and $13 million for fuel grants.

Balance of payments support of $100 million therefore was requested from donors in January to support the 1985 adjustment program. The most urgent categories include foodstuffs, agricultural inputs, fuel and machinery and parts (Table 29). Raw material imports also are needed to increase capacity utilization of import substitution industries. The GSDR is working closely with the IBRD within the the Consultative Group process, and plans for a second Consultative Group meeting later in 1985.

## 25. INTEREST RATE STRUCTURE 1979-83

(Percent)

| Type | 11/30/79 | 12/1/79 | 6/30/81 | 6/30/82 | 1/1/85 |
|---|---|---|---|---|---|
| **Loans** | | | | | |
| Central Bank | | | | | |
| Official discount rate | 3.5 | 4.0 | 6.0 | 8.0 | 12.0 |
| Government credits | 2.5 | 4.0 | 6.0 | 8.0 | 12.0 |
| Commercial Bank | | | | | |
| Cooperatives, small-scale farmers | 5.5 | 6.0 ) | ) | | |
| Public enterprises | 7.0 | 7.5 ) | ) | | |
| Export | 7.0 | 7.0 ) | 10.0 | 12.0 | 15.0 |
| National | | ) | ) | | |
| Private enterprises | 9.0 | 9.5 ) | ) | | |
| Foreign enterprises | 12.0 | 12.5 | 12.5 | 14.5 | 20.0 |
| Other | | | | | 19.0 |
| Development Bank | | | | | |
| Medium-term (2-6 yrs) | | | | | |
| Agriculture, handicraft | 5.5 | 5.5 | 10.0 | 10.0 | 14.0 |
| Industry and mining | 6.0 | 6.0 | 11.0 | 11.0 | 15.0 |
| Others | 6.5 | 6.5 | 12.0 | 12.0 | 16.0 |
| Long-term (7-20 years) | | | | | |
| Agriculture, handicraft | 6.0 | 6.0 | 11.0 | 11.0 | 15.0 |
| Industry and Mining | 6.5 | 6.5 | 12.0 | 12.0 | 16.0 |
| Others | 7.5 | 7.5 | 14.0 | 14.0 | 17.0 |
| **Deposits** | | | | | |
| Private sector 1/ | | | | | |
| Ordinary savings | 2.0 | 4.0 | 6.0 | 8.0 | 12.0 |
| Time, 3 months | 4.0 | 4.5 | 6.5 | 8.5 | 14.0 |
| Time, 6 months | 4.5 | 5.0 | 7.0 | 9.0 | 15.0 |
| Time, 12 months | 5.0 | 5.5 | 7.5 | 9.5 | 16.0 |
| Time, 24 months | 6.0 | 6.5 | 8.5 | 10.5 | 17.0 |
| Time, over 23 months | 6.5 | 7.0 | 9.0 | 11.0 | 18.0 |
| Public Sector 1/ | | | | | |
| Ordinary savings | 1.0 | | | | |
| Time, 3 months | 2.5 | | | | |
| Time, 6 months | 3.0 | | | | |
| Time, 12 months | 4.0 | | | | |
| Time, 24 months | 4.5 | | | | |
| Time, over 24 months | 5.0 | | | | |
| External accounts | | | | | 1/1/83 |
| Ordinary savings | | | | | 7.0 |
| Time, 3 months | | | | | 8.0 |
| Time, 6 months | | | | | 8.5 |
| Time, 12 months | | | | | 9.0 |
| Time, over 24 months | | | | | 10.5 |

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1/ Rates on deposits from the private and public sectors were made equal on December, 1979.

Source: IMF, Somalia: Recent Economic Developments, April 1984, p.115. Revisions announced December 31, 1984.

## 26. ARREARS ON DECEMBER 31, 1984 AND DEBT SERVICE IN 1985

($000)

| Source | Arrears 1/ | Debt Service Due in 1985 Principal | Interest | Total |
|---|---|---|---|---|
| Agencies | 40,118 | 37,454 | 15,624 | 53,078 |
| Multilateral | 24,711 | 31,309 | 12,662 | 43,971 |
| African Dev. Bank | 452 | 147 | 110 | 257 |
| African Dev. Fund | 194 | 38 | 151 | 189 |
| Arab Fund | 4,411 | 3,539 | 3,066 | 6,605 |
| Arab Mon. Fund | 4,491 | 1,480 | 2,430 | 3,910 |
| EDF/EIB | -- | -- | 4 | 4 |
| IDA | -- | 541 | 1,089 | 1,630 |
| IFAD | -- | -- | 60 | 60 |
| IMF | -- | 16,000 | 5,383 | 21,383 |
| IMF Trust Fund | -- | 958 | 52 | 1,010 |
| Islamic Dev. Bank | 12,778 | 6,383 | 155 | 6,538 |
| OPEC Fund | 2,385 | 2,223 | 162 | 2,385 |
| Bilateral | 15,407 | 6,145 | 2,962 | 9,107 |
| Kuwait Fund | 1,965 | 1,334 | 1,083 | 2,417 |
| Saudi Fund | 13,442 | 4,811 | 1,879 | 6,690 |
| Countries | 168,684 | 39,554 | 23,094 | 62,648 |
| OECD Countries | 54,836 | 17,414 | 17,594 | 35,008 |
| France (CCCE) | -- | 788 | 1,622 | 2,410 |
| Italy | 54,836 | 14,661 | 7,220 | 21,881 |
| USA | -- | 1,965 | 8,677 | 10,642 |
| Japan | -- | -- | 75 | 75 |
| Other | 55,743 | 12,583 | 5,500 | 18,083 |
| Abu Dhabi | 37,619 | 9,961 | 3,573 | 13,534 |
| Algeria | -- | 100 | 16 | 116 |
| China | 13,333 | 2,222 | 1,111 | 3,333 |
| Iraq | -- | -- | 75 | 75 |
| Romania | 635 | -- | 635 | 635 |
| Yugoslavia | 4,156 | 300 | 90 | 390 |
| Special Bilateral | 58,105 | 9,557 | -- | 9,557 |
| Bulgaria | 3,450 | 557 | -- | 557 |
| USSR | 54,655 | 9,000 | -- | 9,000 |
| Commercial | 5,583 | 3,495 | 4,462 | 7,957 |
| Credit Lyonnais | 5,583 | 3,495 | 4,462 | 7,957 |
| Total | 214,385 | 80,503 | 43,180 | 123,683 |

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1/ Principal and interest.

Source: GSDR, Somalia: 1985 Adjustment Programme, January 1985, Table 1.

7. Medium-term Prospects

Medium-term, preliminary projections by IMF highlight critical assumptions which have been made. Exports are expected to double to nearly $200 million by 1989 from $98 million in 1984, which presumes a lifting of the Saudi ban on Somalia cattle exports and at least an average rainfall for production of bananas and other crops (Table 27). A second major assumption is that reform of the foreign exchange system will be successful in attracting a 100% increase in the amount of private remittances through official channels. Nearly one-third of foreign exchange available by 1989 is expected to come from private remittances. A third assumption is that large amounts of annual debt relief will be continued through 1989. Even with IMF's relatively optimistic export projections, debt service before debt relief is expected to equal or exceed exports of goods and services, excluding private remittances, through 1986 (Table 29). These important, potentially unfavorable, factors in the macroeconomic scenario need to be favorable for significant, medium-term progress toward economic recovery.

Medium-term preliminary balance of payments projections indicate that the trade gap will widen through 1989 to nearly $500 million, and exports will increase by only $44 million, with only 25% of imports remaining. Grants in kind are expected to finance nearly half of all imports and official transfers to equal two thirds of the trade deficit (Table 28). Thus, planners of economic reform do not anticipate that annual imports in the range of $550 to $650 million can be achieved without most of the financing being provided from external, non-commercial sources.

G. Conclusion

With export earnings only 13% of imports in 1984, and an overall deficit after debt relief of nearly $100 million in 1985, the case for balance of payments support is overwhelmingly convincing. Even with a doubling of livestock exports in 1985, which is by no means assured, and a major increase in private remittances to $80 million, the current account deficit excluding official transfers will be four times export earnings. Planned imports (Table 30) are considerably higher than in recent years, but nearly half is for machinery, spare parts, and development projects under the PIP program. Consumer goods, except for foodstuffs, are a small portion of the total. Since the capacity of the economy to earn foreign exchange, even with rapid recovery of livestock exports, is a small fraction of the desired level of imports, careful assessment is needed of the impact of planned CIP imports on the capacity of the economy to earn foreign exchange. To the extent possible, priority should be given in the CIP program to import commodities which have a high net foreign exchange impact, in support of foreign exchange and producer price policies which make production of exportable crops and other commodities profitable. Local currency can be utilized through development credit institutions to help assure adequate financing of producers. Agricultural inputs, in support of export production and efficient import substitution have high priority along with spare parts and new equipment for associated industries and infrastructures.

## 27. ESTIMATED BALANCE OF PAYMENTS, 1984-1985

($million)

| Item | 1984 | 1985 |
|---|---|---|
| Goods & services | -443 | -491 |
| Exports, fob | 60 | 109 |
| Livestock | 38 | 78 |
| Bananas | 11 | 14 |
| Other | 11 | 17 |
| Imports, cif | -452 | -570 |
| Trade balance | -392 | -461 |
| Services, net | -51 | -30 |
| Interest | -63 | -43 |
| Transfers | 267 | 329 |
| Private | 70 | 80 |
| Official | 197 | 249 |
| Current account | -176 | -162 |
| Excl. off. transfers | -373 | -412 |
| Capital Account | -21 | 56 |
| Private | -20 | -0 |
| Official | -1 | 56 |
| Disbursements | 106 | 121 |
| Amortization | -106 | -65 |
| Capital subs. & other | -1 | -- |
| Overall balance before debt relief | -197 | -106 |
| Debt relief 1/ | 106 | 71 |
| Overall balance after debt relief | 91 | -35 |
| Financing | 91 | 35 |
| Central Bank, net | 21 | -15 |
| Assets | 9 | -16 |
| Liabilities | 12 | 1 |
| Fund credit | -4 | 1 |
| Purchases | -- | 17 |
| Repurchases | -4 | -16 |
| Commercial Bank, net | 20 | -- |
| Acc. of arrears 2/ | 50 | -50 |
| Financing gap | -- | 100 |

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1/ Arrears for 1984 and debt service for 1985.
2/ Includes $ 10 million in commercial payments arrears.

Source: GSDR, Somalia: 1985 Adjustment Programme, January 1985, Table 2.

## 28. BALANCE OF PAYMENTS, 1986-89

($ million)

| Item | 1986 | 1987 | 1988 | 1989 |
|---|---|---|---|---|
| Goods and services | -446 | -453 | -478 | -507 |
| Exports, f.o.b. | 125 | 150 | 160 | 169 |
| Livestock | 91 | 113 | 120 | 126 |
| Bananas | 16 | 18 | 20 | 22 |
| Other | 18 | 19 | 20 | 21 |
| Imports, c.i.f. | -561 | -593 | -626 | -664 |
| Foreign exchange | | | | |
| Foreign curr. acct. | -195 | -208 | -223 | -240 |
| Grants in kind | -243 | -259 | -275 | -293 |
| Loans in kind | -123 | -126 | -128 | -131 |
| Trade balance | -436 | -443 | -466 | -495 |
| Services, net | -10 | -10 | -12 | -12 |
| Transfers | 357 | 377 | 398 | 420 |
| Private | 84 | 68 | 93 | 97 |
| Official | 273 | 269 | 305 | 323 |
| Current account | -89 | -76 | -80 | -87 |
| Capital account | 97 | 101 | 105 | 111 |
| Private | 5 | 10 | 12 | 15 |
| Disbursements | 123 | 126 | 128 | 131 |
| Amortization | -31 | -35 | -35 | -35 |
| Capital subscript and other | -- | -- | -- | -- |
| Errors and omissions | -- | -- | -- | -- |
| Overall balance | 8 | 25 | 25 | 24 |
| Financing | -8 | 25 | -25 | -24 |
| Central Bank, net | -21 | -25 | -25 | -20 |
| Assets | -- | -- | -- | -- |
| Liabilities | -21 | -25 | -25 | -25 |
| Use of Fund credit | -21 | -25 | -25 | -20 |
| Purchases | 5 | -- | -- | -- |
| Repurchases | -26 | -25 | -25 | -20 |
| Commercial Bank, net | -- | -- | -- | -- |
| Accumulation of arrears | -- | -- | -- | -- |

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Source: IMF, Preliminary estimates proposed for a Standby Arrangement, December 1984

## 29. EXTERNAL DEBT SERVICE, 1973-88

(SDR Million)

| Item | 1983 | 1984 | 1985 | 1986 | 1987 | 1988 |
|---|---|---|---|---|---|---|
| Debt service (before relief) | -- | 130.7 | 139.3 | 153.0 | 155.8 | 128.5 |
| Amortization | -- | 101.3 | 111.2 | 123.8 | 131.4 | 102.6 |
| Interest | -- | 89.4 | 28.1 | 29.2 | 24.4 | 25.9 |
| Debt relief 1/ | -- | 81.3 | 65.2 | 59.1 | 49.3 | 46.9 |
| Amortization | -- | 72.1 | 58.0 | 53.4 | 46.2 | 43.4 |
| Interest | -- | 9.2 | 7.2 | 5.7 | 4.1 | 3.5 |
| Debt services after relief | 29.5 | 49.4 | 74.1 | 93.9 | 106.5 | 81.6 |
| Amortization | 8.9 | 29.2 | 53.2 | 70.4 | 86.2 | 59.2 |
| Interest | 20.6 | 20.2 | 20.9 | 23.5 | 20.3 | 22.4 |
| Debt services (after relief, excludes IMF and AMF) | 20.9 | 35.7 | 50.9 | 48.1 | 51.6 | 53.9 |
| Amortization | 5.5 | 22.3 | 37.5 | 31.2 | 35.2 | 34.5 |
| Interest | 15.4 | 13.4 | 13.4 | 16.9 | 16.4 | 19.4 |
| Debt services ratio after relief | | | | | | |
| Excl. priv. remittances | 24.4 | 50.4 | 53.3 | 59.8 | 57.9 | 41.6 |
| Incl. priv. remittances | 17.2 | 29.4 | 33.8 | 39.3 | 39.2 | 28.2 |
| Debt services ratio before relief | | | | | | |
| Excl. priv. remittances | -- | 133.4 | 100.2 | 97.5 | 84.3 | 65.6 |
| Incl. priv. remittances | -- | 77.3 | 63.5 | 64.0 | 57.1 | 44.5 |
| Memorandum items | | | | | | |
| Exports of goods and services | | | | | | |
| Excl. priv. remittances | 121 | 98 | 139 | 157 | 184 | 196 |
| Incl. priv. remittances | 172 | 168 | 219 | 239 | 272 | 289 |
| Private remittances | 51 | 70 | 80 | 82 | 88 | 93 |

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1/ Frozen debt, under verbal agreement, owed to Abu Dhabi, Saudi Arabia, and China; frozen debt to Bulgaria and USSR; and rescheduling with concessional terms and no service payments until the end of 1987 of debt to Italy in relation to suppliers' credits.

Source: IMF, preliminary estimates, December 1984.

## 30. IMPORTS BY END USE, 1985

| Type | ($ million) |
|---|---|
| Foodstuffs | 133 |
| Beverages & tobacco | 8 |
| Textiles & household goods | 6 |
| Medicines & chemicals | 12 |
| Manufacturing & raw material | 16 |
| Construction materials | 26 |
| Agricultural inputs | 20 |
| Petroleum & by-products | 73 |
| Machinery & spare parts | 33 |
| Transportation & spare parts | 17 |
| Farm machinery | 15 |
| Others | 27 |
| Total | 586 |
| PIP imports | 184 |
| Total | 570 |
| Foreign exchange | 220 |
| Grants and loans | 550 |

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Source: GSDR, Somalia: 1985 Adjustment Programme, January 1985, Table 3.

## V. PAST PERFORMANCE OF THE FY83 CIP

### A. Overview of the FY83 Program

On August 28, 1983 the GSDR and USAID signed a CIP grant agreement for US $16 million. The objectives of the program were:

to provide support to the GSDR for continued and sustained policy reform critical to the restructuring and rehabilitation of the economy;

to pro' 'de essential balance of payments support during the stabilization period; and

to provide additional support for an enhanced role for the private sector.

The constraints addressed directly or indirectly by the covenants of the program were most of the macro-economic constraints outlined in the FY84 CDSS as factors delaying economic stability in the medium term. These were:

(a) an excessive wage bill resulting from a large government which, despite low salaries, places an extreme burden on the domestic budget;

(b) excessive government participation in manufacturing, agriculture, and service sectors;

(c) weak government fiscal management with inadequate budgets and controls over ministerial obligations;

(d) weak foreign exchange control with imports administratively allocated but not directed towards the most productive sectors; and,

(e) low level of remittances moving into Somalia through official channels from the workers in the Arab states.

B. GSDR Performance on Covenants

Six covenants were negotiated and included in the Agreement in order to address the constraints outlined in the FY84 CDSS. The GSDR's performance towards satisfying each of these covenants is reviewed below.

1. IMF Stabilization

Grantee covenants to adhere to the IMF stabilization program and any subsequent IMF program, such as the forthcoming extended fund faculty.

Discussion: The GSDR's performance on implementing the policy reforms contained in the IMF Stand-by Arrangement ending in January 1984 was very good. In April 1984 an IMF report commends the GSDR for adhering to the agreement, stating that the government has taken "courageous and decisive measures that have improved economic conditions in the country." The report also stated that these measures mitigated the severe impact of the ban imposed by Saudi Arabia on cattle imports in 1983. Among the more significant reforms and adjustments were:

(a) devaluing the Somali shilling (17 percent on the export side and 34 percent on the import side in foreign currency terms);

(b) unifying the dual exchange rate system;

(c) easing of controls on private sector imports;

(d) liberalizing agricultural marketing and pricing policies (especially the Presidential-decreed elimination of the Agricultural Development Coorporation's monopoly on grain marketing and allowing farmers to sell their grain at market-determined prices);

(e) reducing the budget deficit from about 29 percent of expenditures in 1982 to 23 percent in 1983;

(f) increasing domestic revenues by nearly 20 percent from 1982 to 1983 largely through revision of tax measures and improvements in tax collections;

(g) reducing government indebtedness to the banking system by 7 percent;

(h) reducing domestic credit expansion to two-thirds its rate in 1981;

(i) selling a 60 percent interest in the state-owned National Banana Board to a private firm; and,

(j) introducing various measures to improve the efficiency of state enterprises (e.g. establishing economic pricing policies for public utilities).

The governemnt's financial performance was particularly good, and the IMF report concluded that Somalia was able to observe all of the quantitative performance criteria through September 1983.

After the expiration of Somalia's stand-by arrangement with the IMF in January 1984, however, the GSDR did not agree to the terms of an IMF extended fund facility. No longer under an IMF agreement, GSDR financial performance noticeably worsened. With less restraint on growth of government expenditures, the overall budget deficit more than doubled to about So.Sh. 5.0 billion in 1984. GSDR indebtedness to the banking system increased following a reduction the previous year.

In late 1984, Somalia negotiated a new stand-by arrangement with the IMF and in January 1985 began implementing dramatic policy reforms. These changes, which are discussed in more detail in section IV-F (Prospects for Economic Recovery), include legal acceptance of a market-determined exchange rate for non-government transactions and abolishing licenses for imports and exports.

The GSDR's striking policy changes in accordance with the new IMF stand-by arrangement is further evidence that the GSDR is serious in its implementation of IMF agreements. USAID/Somalia is satisfied that the GSDR has addressed the intent of this covenant.

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.

Discussion: Through a USAID/Somalia financed study, the GSDR undertook a major evaluation of the Civil Service System. Among the major recommendations was that the GSDR should increase the salary structure of civil servants in order to retain qualified employees. In order to accomplish this goal and hold down inflationary pressures, the report recommended that approximately twenty percent of all government workers be relieved of their jobs.

The GSDR publicly stated support of the above recommendation. To ease the employee's transition into the private sector, the Government initiated a plan whereby released government employees would be given either land (five hectares) or assistance in acquiring boats to become fishermen. So far 3,514 civil servants (about eight percent of the government work force) registered for the program. They are not yet released from their jobs as the GSDR is still organizing procedures for distributing land and assisting fishermen. The GSDR did abolish the law guaranteeing employment for secondary school leavers.

USAID/Somalia is encouraged by the steps taken by the government to implement the covenant. When the recommendation of the Civil Service study is fully implemented, it will by far surpass the intent of this covenant.

3. Economic Incentive 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.

As discussed in covenant two above, the GSDR undertake a major evaluation of the Civil Service System. T' · recommended average wage increase was 500 percent, which would restore real wages for government employees to what they were in 1976. The wage increase would be implemented in steps but it would not begin until the GSDR began to lay off redundant workers.

USAID/Somalia is very satisfied that the study was supported by the GSDR. In addition, the Mission is gratified that the GSDR has taken the initiative and lead in following up on the study and has begun to implement the recommendations contained in the study.

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 to: (i) initiate a study of the Foreign Investment Code; (ii) initiate a study of the feasibility of an auction system for foreign exchange transactions, and (iii) liberalize the granting of domestic light-industry licenses.

Discussion:

(i) An internal GSDR review of the Foreign Investment Code was undertaken in 1984. As a result, the Ministry of Industry has almost completed a draft legislation regarding a new Foreign Investment Law. It is scheduled for review in February. The only details released so far are that foreign investors would be granted duty free entry of machinery and equipment and a ten year exemption on all taxes. USAID/Somalia is pleased that the GSDR is serious about opening the economy to foreign investors.

(ii) A USAID/Somalia financed study was undertaken on the foreign exchange system. It was part of a descriptive study of the administrative procedures that importers and exporters must follow in acquiring or turning in foreign exchange. The study pointed out many of the administrative obstacles which prevented the foreign exchange system from operating efficiently.

In the new stand-by agreement with the IMF, Somalia implemented a new foreign exchange system in which the exchange rate for private transactions is determined by the market. USAID/Somalia is gratified that Somalia has gone beyond the study stage and implemented a market-determined exchange rate system.

(iii) Although the GSDR has not announced any policy measures to liberalize the granting of domestic light-industry licenses, USAID/Somalia is confident that, in light of many other major policy changes, the government is intent on promoting greater private sector participation in the economy.

5. Efficient Import Procedures

Grantee covenants to review the USAID established special system for import licensing and report on the feasibility of applying this appro[illegible] or an alternative to all imports.

Discussion: As of January 1, 1985, the GSDR has abolished licensing of imports and exports, subject to certain exceptions. The few prohibited items are related to national security, morals, and drugs. There are also a few items that are subject to prior approval (e.g. alcohol, tobacco, medical and pharmaceutical products). In all, USAID/Somalia is gratified that Somalia took such a major step to eliminate foreign trade licensing.

6. Parastatals/State Enterprises

The grantee covenants to initiate a detailed study of a selected parastatal or state enterprise, agreed to by AID, to identify the preferred sequence of events to increase private participation in that entity.

Discussion: An inter-ministerial commission was established to undertake a study of public enterprises and make recommendations for their operations. Although the study was kept confidential, many of the recommendations contained in the study were implemented and made public. Among them are:

(a) Parastatals must set prices to cover costs and be profitable within three years.

(b) A Board of Directors was formed for each enterprise with autonomy in decision-making.

(c) Parastatals are free to hire and fire workers.

(d) Parastatals no longer receive preferential treatment in opening letters of credit or in acquiring loans from banks.

Three parastatals (Kismayo Meat Factory, the Afgoi Brick Plant and the Mogadishu Slaughterhouse) were selected for study to determine the cost and the potential for their rehabilitation. The GSDR will encourage the private sector to form a joint venture with those parastatals. USAID/Somalia is satisfied that the GSDR met the intent of this covenant.

7. Conclusions

On balance USAID/Somalia is gratified that the GSDR has made such significant progress in achieving policy reform. In many cases the GSDR's performance has exceeded what was expected under the covenants. In only one case, liberalizing the granting of domestic light-industry licenses, was no progress obtained. However, the Mission is convinced that the lack of progress is not due to the reluctance of the GSDR to undertake the reform but is rather due to the Government's attemntion being focused on many other more difficult issues.

C. Review of Applications for CIP Funds. When the CIP began, $15.5 million was allocated to the public sector and $3 million to the private sector. Agriculture, agroindustries and small-scale light industry were to receive priority in that order. However, when the implementation process began, it became apparent that public sector agencies lacked the local currency required as deposits equal to 100 percent of the CIF Mogadishu commodity cost. Consequently, shares were reallocated so that the private sector ended up with $12.7 million and the public sector with $5.7 million.

Since the program was new, the private sector was slow at first to take part. The reluctance was conditioned by previous policies followed by the GSDR. Starting in 1970, all import trade was nationalized and placed under a state monopoly. The private sector was no longer permitted to import any products. The results were disastrous. The balance of payments shifted from a surplus to a deficit by 1973, and it became progressively worse. Recognizing that shortages of goods were occurring, the authorities instituted the _franco valuta_ system. Under the system, starting in 1976, traders were permitted to import goods using their own foreign exchange. A contradiction ocurred since it was illegal for Somali residents to hold foreign exchange abroad. Nevertheless, the authorities overlooked the law and traders acquired foreign exchange from migrant workers in the Gulf States and from livestock exporters who had underinvoiced their livestock exports.

Initially, private traders could only import selected commodities but the list was gradually extended until just about any type of commodity could be imported. However, if the imported commodity was subject to government price control, it had to be sold to the state monopoly agency dealing in that product.

The _franco valuta_ system was abolished in 1981. It is not clear if it was abolished due to pressure from the IMF or for other reasons. However, the system allowed traders to regain experience in international markets. In the peak year of 1978, _franco valuta_ imports accounted for 30 percent of foreign exchange imports.

With the start of the CIP I in late 1982, private traders were at first slow to make applications. They feared that any goods imported by them might be confiscated by the government. Due to that reluctance, applications were accepted for categories of goods (e.g. tires and batteries) which could be sold quickly and did not fall within the priority sectors established by AID and the GSDR. All applications were approved by a Special Committee made up of representatives from various Ministries. The AID representative was a non-voting member but he reserved veto authority for any proposed transaction which did not comply with AID regulations and CIP agreement.

Over 133 applications, at a dollar value exceeding $41 million, were presented by the private sector for CIP-financing under CIP II. Out of the 133 applications, which did not include applications for construction materials ($21 million), 71 applications were approved by the CIP Special Committee. With more financial applications being received from the private sector for long-term development, the Committee will give higher priority to applications which have more to do with long-term economic development than short-term impact.

D. Review of Disbursement Under the Program. As stated under the CIP evaluation conducted in April 1984, "The range of commodities selected appears excellent." Items were varied and directed to both the agricultural and industrial sectors and most imports have had an immediate impact on the economy. For example, high yield vegetable seeds imported from California produced excellent results and are in high demand by farmers. Tires, batteries and vehicle spare parts were sold directly to farmers enabling them to continue construction of irrigation canals, and tractor spares put many farm tractors back into operation. Other examples of high impact commodities imported under CIP I and II include yarn, spare parts, water pumps, chemicals, veterinary drugs, tractors, construction equipment, and pipes.

The allocation of funds for CIP II, FY 1983, was $16 million. Out of the $16 million, $6 million was earmarked by AID/W for payment of PL 480 Title I ocean freight. The remaining $10 million was divided between the private sector (85%) and the public sector (15%).

The CIP implementation was delayed by approximately ten months because the GSDR had ordered an investigation to determine if the CIP program should be used to assist the private sector. The investigation concluded that: (a) the CIP should be allowed to assist the private sector, and (b) the number of members on the CIP Special Committee should be increased. The two recommendations were implemented by the Ministry of Finance. However, due to the increased number of members, the Committee could not agree on which application to finance. This problem was resolved when a new Minister of Finance was appointed. The Minister immediately reduced the number of Committee members, and within one week (including long working sessions) the $10 million was earmarked as shown in Table 31.

Presently, approximately $2 million of the $6 million for ocean freight remain in the account. Once the final amount for ocean freight is determined, the remaining funds will be used to finance raw materials for existing private industries.

31. Allocation of FY 1983 CIP Funds (as of October 15, 1984)

PUBLIC SECTOR

| TERMS | $ VALUE (MILLION) |
|---|---|
| Ocean Freight for PL Title I | 4.00 |
| Raw Materials | 0.35 |
| Spare Parts for Industry and Heavy Equipment | 0.90 |
| Spare parts for Post Office Telecommunication System | 0.50 |
| Total | 5.75 |

PRIVATE SECTOR

| | |
|---|---|
| Agriculture Tractors and Implements | 1.00 |
| Heavy Equipment | 1.70 |
| New Machinery for Small Industry | 1.03 |
| Water Pumps | 0.80 |
| Vegetable Seeds | 0.22 |
| Livestock Boat | 0.31 |
| Shrimp Trawler | 0.22 |
| Livestock truck | 0.10 |
| Yarn Bulk | 0.15 |
| Thread and Sewing Machines | 0.16 |
| Raw Materials | 4.27 |
| Agriculture Hand Tools | 0.22 |
| Bicycles | 0.07 |
| Pipe, Steel and PVC | 0.39 |
| Vehicle Spare Parts | 0.03 |
| Walk-in Freezer | 0.03 |
| Total | 10.25 |

## E. Examples of Impact on the Economy

An outstanding example of immediate economic impact was the importation of 10,000 kg of acrilic yarn by a private village cooperative, Jileb Marka "alendi". The village is located north of the town of Marka and approximately 90 kilometres south of Mogadishu. The village, composed mainly of mud huts and a few small masonry buildings, is over 550 years old. It is situated on a knoll overlooking the Indian Ocean and is accessible only by four-wheel drive vehicles. There is no road to the village, only foot and animal paths. Approximately 2,000 people inhabit the village. There is a central water well but there are no modern coveniences of any kind except for a (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 traditional tools (which appear to be of a type used hundreds of years ago). Their finished products are very professionally crafted and in colorful designs which appeal to the local markets.

Upon receiving a CIP allocation of $43,215, the cooperative purchased 20,000 kg of acrilic 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, purchase a small diesel electric generator for the village. In absence of the CIP allocation, the cooperative could have waited up to two years to obtain an import license.

Another example would be the use of seeds imported under the CIP which resulted in the development of a new export commodity. Watermelons were grown and exported to the Gulf area and earned badly needed foreign exchange (estimated unofficially at $9.0 million).

The importation of tires and batteries, before the inception of the CIP, was monopolized by WAGAD, a parastatal agency. Through CIP I the monopoly for the importation of tires was dissolved. The previous CIP has also assisted in lowering market prices for selected commodities. Before and after prices are given in Table 32 for a few commodities. As can be seen, the reduction was substantial, especially for tractor tires and seeds.

32. Representative Pre and Post CIP Prices

| Commodity | Pre CIP Price | Post CIP Price |
|---|---|---|
| Car Tire (175 sr 14) | 2,900 Shs. ea. | 1,500 Shs. ea. |
| Car Tire (145 sr 13) | 1,500 " | 1,000 " |
| Tractor Tire (9.5/9-214) | 15,000 " | 5,000 " |
| Battery (N50 12 V AH) | 2.300 " | 1,500 " |
| Seeds (Kg) | 3,000 " | 1,000 " |

F. Review of Programming CIP-Generated Local Currency

USAID and the GOS have developed a local currency programming and monitoring system which is working effectively to insure accountability in the allocation and use of counterpart funds. The CIP-generated local currency proceeds are deposited by the importer into the CIP Special

Account with the Commercial and Savings Bank of Somalia. According to the Memorandum of Understanding (MOU) between the Minstry of Finance and USAID, dated July 10, 1983, the proceeds are to be used for development projects which are mutually agreed upon by the GSDR and USAID. These allocations, mainly for USAID and other donor development projects, are then reflected in the GSDR's development budget. In addition, 5 percent of the local currency generated through the CIP is allocated to USAID to defray operating expenses.

The Generated Shilling Proceeds (GSP) Committee, serves as the reviewing authority for the use of CIP and PL 480 Title I generated proceeds. The GSP Committee is composed of two officials from the Ministry of Finance and two officials from USAID. The Committee meets at the beginning of the calendar year to review the Annual Program Budget Plan and to ensure that the projects and activities included in the plan qualify for financing from CIP proceeds, as specified in the GSDR-USAID agreement. It meets again at mid-year to review and to adjust the budget schedule. The Committee also meets on an ad hoc basis as required. The CIPL Unit, which is part of the Minstry of Finance, insures that proper accountability is maintained and that releases are made on a timely basis.

Of the approximately 280 million So. Shs. generated by CIP I, 75 million So. Shs. were transferred from the CIP Special Account to the Kismayo Port Project in July, 1983. 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 agroindustrial sectors.

The Annual Program Budget Plan for 1984 shows that 324 million So. Shs. in proceeds generated by CIP I and CIP II have been programmed and approved by the Ministry of Finance and USAID.

A summary of the programmed funds for 1984 is provided in Table 33.

33. CIP Local Currency Funds, Programmed by Sector for 1984

| Sector | Millions So. Shs. | Percent |
|---|---|---|
| Agricultural Roads and Supporting Infrastructure | 114.0 | 35.2 |
| Water | 51.6 | 15.9 |
| Rural Development | 42.0 | 12.9 |
| Education | 40.9 | 12.7 |
| Livestock and Range | 27.0 | 8.3 |
| Other | 48.8 | 15.0 |
| Total | 324.3 | 100.0 |

G. Conclusion and Recommendations

The FY83 CIP proceeded mainly along the lines envisaged by the Mission with one exception. The exception was the use of CIP funds to pay the freight charges on PL 480 food shipments. That use took $4 million away from importing needed raw materials, spare parts and capital equipment.

The Mission is particularly pleased with the exceptional progress the GSDR has made in implementing policy reform. Agricultural prices are now determined by market forces, the foreign exchange rate is determined in the market, import and export licensing are abolished, parastatals are placed on a profit-making basis with the freedom to hire or fire workers. and interest rates were raised substantially. Many major obstacles to economic efficiency were removed and the government is committed toward increasing the role of the private sector. Both the Ministry of Industry and the Ministry of National planning have established investment promotion units. In short, the GSDR has made tremendous progress in redirecting the economy away from controls and toward a freer market environment.

However, the economy still needs assistance during this critical transition period. The private sector remains skeptical of the reforms and it takes time for new enterprises to be formed and to operate efficiently. Some further policy reforms are still needed. Based on USAID/Somalia's experience and analysis, a new FY85 CIP is needed and justified.

VI. THE PROPOSED FY85 GRANT

A. The Proposed Grant and Rationale

In consideration of the Somali economy's continuing difficulties; the substantial progress made to date by the GSDR in addressing those difficulties; the GSDR's admirable performance in implementing the FY83 Commodity Import Program; and the objectives of the U.S. economic assistance program to Somalia, as demonstrated in the various sections above, USAID/Somalia proposes that a third grant be made to the Government of the Somalia Democratic Republic for U.S. $30,000,000 from the Economic Support Fund in U.S. Fiscal Year 1985.

B. Objectives

The proposed grant's objectives are:

to provide support to the GSDR for continued and sustained policy reform critical to the restructuring and rehabilitation of the economy;

to provide essential balance of payments support during the stabilization period; and

to provide additional support for an enhanced role for the private sector.

This grant will, again, be utilized through a Commodity Import Program (CIP). It will provide short-term balance of payments relief through the financing of essential imports to increase the output and productivity of the economy. The local currency generated by this grant will be directed toward supporting GSDR efforts to implement AID bilateral and other GSDR and donor community development projects.

C. Problems Addressed

The problems addressed directly or indirectly by this program are most of the macroeconomic constraints outlined in the CDSS as factors delaying economic stability and growth. These are:

1. A severe shortage of foreign exchange needed to import needed raw materials, spare parts and capital equipment.

2. A severe budget deficit necessitating recourse to the banking system for financing expenditures.

3. Excessive monetary growth because of the need to finance budget deficits.

Foreign currency made available through the CIP will help alleviate many of the shortages of essential imported inputs. The local currency generated by the sale of foreign exchange will be channeled to the GSDR's development budget and help alleviate the demands of that budget on government revenue. Such funding will reduce the need for the GSDR to resort to the banking system for creating the credit needed to fund government spending. Hence the CIP contributes directly towards restoring the productive capacity of the economy by providing essential inputs and indirectly by reducing the government budget deficit and the consequent inflationary financing.

Several microeconomic constraints to an efficient and productive economy will also be addressed by attaching conditions precedent to the Agreement.

D. Conditions Precedent

For purposes of allotting funds through the CIP, three tranches will be used, each covering a period of four months. Dollar allocations for each of the tranches will be for $10 million each. Before funds will be made available for a tranche, the representative condition precedent must be satisfied.

1. First Tranche Conditions Precedent

The GSDR will issue a public decree stating that the private sector is encouraged to participate in establishing financial institutions, including banks, savings and loan, insurance companies and credit unions, for the purpose of promoting savings and investment in the country.

Discussion: The establishment of private financial institutions will increase competition in the financial sector and, thereby, promote the efficient provision of services. Many private sector businessmen want alternative sources for loans and for banking services. New and competitive financial institutions will help to mobilize savings in the country and increase the level of investment. It will also help to encourage the repatriation of earnings and profits held abroad.

GSDR compliance with this condition will be satisfied by the issuance of the public decree.

2. Second Tranche Condition Precedent

The GSDR will issue a public decree stating that no agency, cooperative or firm has a monopoly in exporting bananas, hides and skins, or frankincense and myrrh from Somalia and that private firms are allowed to export those products free from Government export licensing.

Discussion: A primary objective of the CIP is to provide temporary balance of payments support. To ensure that the support provided is temporary, Somalia must maximize its export opportunities. To do that, private firms must be allowed to take full advantage of any foreign market opportunity that they are aware of. Monopoly positions restrain the country's export capability and contribute to continuous balance of payments problems.

GSDR compliance with this condition will be satisfied by the issuance of the public decree.

3. Third Tranche Condition Precedent

The GSDR will issue a public decree stating that individuals, private sector companies and businessmen may organize independent, private trade organizations for the purpose of promoting economic, commercial, industrial and civic progress in Somalia.

Discussion: Non-governmental organizations are an important national asset in achieving increased economic, commercial, industrial and civic progress. They can provide the GSDR with the thinking of the business community on national problems and issues affecting the economy, provide a mechanism for identifying policies which would increase domestic private investment and stimulate foreign investment and exports. Private businessmen often have legitimate concerns which are at odds with government bureaucrats. The businessmen need a forum for promoting their interests.

GSDR compliance with this condition will be satisfied by the issuance of the public decree.

E. Foreign Exchange

The primary emphasis in use of foreign exchange funds under the CIP is to support the revitalization of the private sector in Somalia. However, a portion of the funds (15 percent) will be reserved for use by the GSDR. This will allow the GSDR to import spare parts, raw materials and capital equipment needed by parastatals. The GSDR has indicated that some of the parastatals are looking for joint venture partners or are being considered for total privatization. The Mission wants to encourage privatization and needs parastatals to operate as effectively as possible in order to make them attractive to potential private sector partners. In the new exchange rate system, 35 percent of all export earnings and all aid flows must be turned over to the government at the official exchange rate. Since the GSDR has control of all these foreign exchange flows, the Mission considers those flows adequate for supporting government agencies. In addition all local currency generated by the CIP is programmed by the GSDR. In sum the GSDR receives benefits from using 15 percent of the foreign exchange and 100 percent of the generated local currency.

The remaining 85 percent of the funds will be reserved for the private sector. Annex II lists the sectors that will have priority treatment in receiving funds. The Ministry of Finance and USAID/Somalia will approve acceptable private sector application on a first-come first-served basis within the priority areas. Now that procedures are firmly established, it is likely that the FY 1985 CIP foreign exchange funds can be committed within 12 months after signing.

All dollar funds provided through the CIP will be sold at the market rate of exchange to both parastatals and private firms. Parastatals will be required to pay in full for all foreign exchange purchased with local currency at the time of opening the Letter of Credit. Private firms can either pay in full or deposit 40% of the value of dollars in local currency at the time of opening the Letter of Credit and the remaining 60% at the time of delivery of the goods at the then prevailing market rate of exchange.

## F. Local Currency

As noted earlier, the local currency will be used to assist in the implementation of policy reforms, AID bilateral, GSDR, and other donor activities requiring local currency support.

Policy reform initiatives take many forms in the use of local currency. In some cases, the use of local currency for certain purposes may be subject to conditions which can leverage a policy change. For example, the Mission might agree to permit the use of funds for competancy bonuses for key ministry staff if the GSDR undertakes significant civil service and employment reforms. Increased lending to the private sector via financial institutions can affect the allocation of investments and thus accomplish policy change. Studies to review the excessive government participation in production and services, financial procedures, etc. can serve to help establish the information base for further policy changes. The majority of the local currency funds, however, will be granted to project support, particularly those impacting on the agricultural sector. Some of this support may be to AID and other donor projects (Kismayo Port, possibly some EEC road programs) and some to GSDR projects as defined in the consultative group meetings. Also, under analysis by the CIPL Unit is the feasibility of using the local currency to pay private sector entrepreneurs to undertake activities normally left to government, such as road maintenance, port administration, rural health delivery, etc. The CIPL Unit will have the responsibility for assuring that the local currency is used as effectively as possible.

## G. Expected Impact of the FY85 CIP

The Mission has no illusions that this program alone will enable Somalia to achieve self-sustained growth. However, this program, and subsequent programs will help give the GSDR the resolve to continue the difficult task of restructuring and rehabilitating the economy. AID support will contribute directly to maintaining the GSDR's private sector emphasis. The program's conditions precedent will also require the government to take firmer action towards redressing the excessive role the government has in Somalia. The success of this program may also provide impetus for other donors to grant similar commodity support. Both the Italians and the Germans have indicated that they will do so.

As can be seen from the above, this program also is supportive of IMF and other donor efforts in Somalia. Together with other donor efforts, this program will measurably help Somalia achieve economic stability in the medium term.

## VII. GRANT ADMINISTRATION AND IMPLEMENTATION

### A. Administrative Entities

#### 1. GSDR

The overall administrative responsibility for the grant, which will include preparation of all reports as well as assuring compliance with A.I.D. reqirements, will rest with the Ministry of Finance. The Ministry of Finance in cooperation with the Central Bank will control the disbursement of funds through the issuance of a Financing Request to A.I.D.

#### 2. A.I.D.

The administration of the program by A.I.D. will be through a Supply Management Officer under the direction of the USAID Director, with the support from REDSO/ESA and AID/Washington. The Supply Management Officer will be the responsible agent for all matters pertaining to policy, procedures and implementation of the Commodity Import Program. In addition all guidance and advising of host government officials and private businessmen on AID regulations and proper use of Commodity Import Program funds will be the responsibility of the Supply Management Officer.

### B. A.I.D. Import Procedures

#### 1. Procurement and Financing Procedures

A.I.D.'s Standard Procurement and Financing procedures, as set forth in A.I.D. Regulation I, will be followed by this CIP grant. GSDR purchasing practices indicate that public sector procurement will include a mixture of formal competitive bidding, negotiated solicitations, and proprietary procurement. For private sector procurement, normal commercial trade practices will be used similar to the negotiated procurement provisions of A.I.D. Regulation I. Financing of all goods and related services will be carried out through a single bank Letter of Commitment (L/COM). The selected U.S. bank will be authorized by the approved applicant (Commercial and Savings Bank of Somalia) to issue Letters of Credits on their behalf.

#### 2. Commodities to be Financed

Commodities eligible under the A.I.D. Commodity Eligibility Listing (1983 as revised) will be eligible for A.I.D. financing and will be included in all Commodity procurement Instructions. However, utilization of the resources made available under this grant will be more restricted. Public sector purchasing will be limited to spare parts, for on-hand machinery and vehicles, and raw materials. The GSDR will give priority to private sector applications for commodities which relate to the development of agriculture, agro-industry and private manufacturing activities, particularly those which will increase the forward and backward linkage with the agricultural sector. For example, the private sector will purchase machinery and raw materials for small light industry, such as plastics. paints, bakery equipment, spare parts for on-hand machinery and vehicles, etc. It is anticipated that the majority of the grant funds will be used to develop the economy through increased private sector involvement.

3. Procurement Restrictions/Limitations

This grant will be restricted to Code 941 source and origin for commodities and related services. Waiver of source/origin is not anticipated at this time. However, if in the future asource/origin waiver is required, the action will be handled on a case-by-case basis. Local agents are not required by Somali regulations. Thus there is no conflict with A.I.D. Regulation I requirements that U.S. suppliers may sell directly to importers. All provisions of A.I.D. Regulation I regarding commodity eligibility review, price eligibility, and both prior review and post audit will apply to all transactions.

C. Disbursement Period

The proceeds of the grant are expected to be disbursed within a 24 months period after the grant is signed. The terminal disbursement date, threfore, will be set 24 months from the grant agreement date and the terminal date for requesting disbursement authorizations will be set at 18 months from the grant agreement date.

The method of disbursement will be through A.I.D.'s standard Letter of Commitment/Letter of Credit procedures, and the approved applicant for the Letter of Commitment will be the Commercial and Savings Bank of Somalia, which is wholly owned by the GSDR.

D. Port Clearance and Inland Transportation

The ports of Mogadishu and Berbera have periods of congestion when vessels arrive back-to-back to deliver refugee commodities. In addition, the limited availability of diesel and petrol for the port's equipment as well as limited port support equipment exacerbates the congestion problem. Presently, the majority of the vessels obtain berthing space for off-loading within a week to 10 days after arrival, off-load their goods within the laytime allowed, and the off-loaded goods clear the port areas within a few weeks. The standard A.I.D. 90 days port clearance and the 12 months utilization period requirements will apply. There will be continuous follow-up by USAID and the host government with the buyers to assure compliance with these requirements.

E. Arrival Accounting and End-Use Monitoring

Since 1974, the Somalia Shipping Agency has been appointed by the GSDR to handle the monitoring and accounting of all imported goods. It is the agency's responsibility to notify the public and private importers when their goods arrive, as well as provide notifications as to quantities and types of goods. After the importers have been notified, it is their responsibility to arrange for clearances and movements of goods out of the port. Public sector importers normally have their own vehicles and manpower to expedite their goods. The private importers use either their own resources or hire a freight forwarder to clear and move the goods.

There has not been a need under the previous CIP grant to establish additional GSDR capability. The importers under FY83 CIP have been receiving and clearing their goods with no significant difficulties.

F. Commodity Import Procedures

As stated in previous sections, import licensing was abolished on January 1, 1985. Some businessmen are confused, however, since the Minister of Commerce has stated that licensing is still required. The Minister of Finance has assured the Mission that licensing is in fact abolished. In order to account for the possibility that the IMF Standby Agreement is not implemented, the next two sections describe the system required by the Minister of Commerce and which was used under CIP II.

1. Licensing System

All private and publicly owned industries in Somalia are subject to import license control whereas Government Ministries are not. Applications by public corporations and government agencies are reviewed for technical (price and quantity) adequacy by the national Purchasing Agency. Import Licenses can be obtained by any private corporation or individual if they can meet GSDR requirements. To obtain an import/export license, private importers must have total assets valued at So. Shs. 500,000.00 (U.S.$ 6,333) or more, of which at least So. Shs. 300,000 (U.S.$ 4,000) must be in real property and So. Shs. 200,000 (U.S.$ 2,333) must be in cash. They submit documentation to the Inland Revue and Financial Investigators. After receipt of approval as an importer/exporter, the private or public importer can only apply to the Director of Licensing and Hard Currency control, Ministry of Commerce, for approval of the requested imports. This application is reviewed for technical (price and quantity) accuracy. If everything is in order, the application is approved.

2. Import Controls

Once the application is approved, the importer requests a Letter of Credit from the Commercial and Savings Bank of Somalia. Depending upon the amount of foreign exchange made available by the Central Bank and the priority of the imports requested, the Commercial Bank either opens a Letter of Credit, or places the application higher or lower in the Letter of Credit pending queue. At present, a high priority is given to petroleum, pharmaceuticals and foodstuffs in the utilization of Somalia's own foreign exchange. Other critical needs are largely going unmet due to the scarcity of foreign exchange.

G. GSDR Allocation and Control of CIP Funds

The Ministry of Finance will specify a single dollar amount (equivalent to 15% of the grant) for public sector use to import raw materials and replacement machinery for existing industries. The Central Bank of Somalia will control A.I.D. foreign exchange accounts. Goods financed under the CIP will be licensed in accordance with GSDR procedures and requirements.

The actual disbursement of any funds will be dependent upon the suppliers providing a full set of payments documents. This will include both Form II (Commodity Eligibility Approval) approved by A.I.D. (SER/COM) and A.I.D. Form 282 (Supplier's Certificate and Agreement) which attest to compliance with A.I.D. Regulation I, and provide evidence of shipment. Follow-up (including end-use check) by USAID and the Ministry of Finance will assure that goods are received and being utilized.

## H. Implementation Schedule and Pipeline Analysis

### 1. Implementation Schedule

March 85: Agreement signed
April 85: Conditions precedent met
May 85 : Letter of Commitment issued
Dec. 85 : First shipment made (Port of exit)
Dec. 85 : Grant fully committed
May 86 : Probable final shipment
July 86 : Probable final disbursement

### 2. Pipeline Analysis

Presented below is a tentative cumulative Commitment/Disbursement Schedule.

| | May 85 | Aug 85 | Dec 85 | Mar 86 | June 86 | Oct 86 |
|---|---|---|---|---|---|---|
| Commitments | 10 | 18 | 27 | 0 | 0 | 0 |
| Disbursements | 0 | 1 | 4 | 10 | 19 | 27 |

# VIII. OTHER CONSIDERATIONS

## A. Impact on U.S. Balance of Payments

The short-term impact of this grant on the U.S. balance of payments position will be minimal. In the midium to long term, the CIP may assist U.S. exporters to re-establish their former markets in Somalia and permit other developing countries (e.g. Korea) to establish new market positions. The majority of goods to be imported will be from Code 941 countries except for spare parts for on-hand equipment which will be from Code 899 countries such as Italy, U.K., and West Germany.

## B. Counterpart Generation

The Somalia Shilling counterpart funds generated by private and public importers will accrue to the GSDR for allocation to development activities - such as improvement and expansion of the present irrigation systems; loan to the Somalia Development Bank, improvement of agricultural research, improvement of livestock breeding, and human resource development.

The loans to the Somalia Development Bank will be used to stimulate the private sector in the development of agriculture, small, light industry and distribution of agricultural inputs.

The U.S. is now engaged in an effort to repair the Kismayo port facility, initially constructed under A.I.D. financing in the mid-1960's. Local currency cost for the rehabilitation of the Kismayo port will be from local currency counterpart generated from the CIP. Some of the counterpart funds may also be programmed for A.I.D. use.

The GSDR will have all local currency counterpart funds generated under the CIP deposited into the CIP Special Account in the Commercial and Savings Bank of Somalia. Deposit in full of the local currency equivalent of each procurement will be made prior to the issuance of a Letter of Credit (L/C) for the public sector, and a deposit of 40% prior to the issuance of a L/C for the private sector. The remaining 60% will be deposited by the private sector upon the arrival of the goods at a Somali port.

C. Internal Financial Effects

The counterpart expenditures should not have a significant inflationary impact upon the economy as they will largely be spent for items already in the GSDR development budget. Indeed, the impact could be deflationary to the degree that they finance expenditures which would otherwise have been deficit financed.

D. Use of U.S. Government Excess Property

A.I.D. will review the possibility of financing of excess property under the grant. However, it is unlikely that such property will be appropriate given the nature of the commodities to be purchased.

E. Relationship to Overseas Private Investment Corporation (OPIC) and U.S. Export-Import Bank Activities

Neither institution currently supports any activities in Somalia. To the extent that it contributes to a revitalization of the Somali economy, the CIP will be supportive of their future involvement.

Use of Procurement Consultant

The grant agreement provides that grant proceeds may be used to finance the services and support of a U.S. individual or firm to assist the GSDR in the preparation and issuance of IFBs, the analysis of awards, the preparation and execution of supply contracts, etc. Although the GSDR has no current plans for utilization of a procurement consultant, A.I.D. will encourage the GSDR to do so if appropriate.

*Ministry of Foreign Affairs*
of the Somali Demogratic Republic

Ref:BLA/82/734/85 10 FEB 1985

Mr. Louis A. Cohen
USAID Director
Mogadishu, Somalia

Dear Mr. Cohen

As you are aware, the past Commodity Import Programs made a valuable contribution to development in Somalia and to the revitalization of our private sector. The program has enabled us to obtain essential imported spare parts, raw materials and capital equipment.

The unavailability of foreign exchange is still a hindrance to our recovery program. Mounting debt repayments, a continuing Saudi ban on our cattle exports and a continuing need to use scarce foreign exchange holdings for importing petroleum have all development purposes.

The Government of the Somali Demogratic Republic would be highly appreciative if you would convey our request to your Government for US$30 million in assistance under the CIP. The assistance is needed for our development program in agriculture and industry.

Yours Sincerely,

Ahmed Mohamed Adan
Permanent Secretary

SOMALI DEM REPUBLIC - MINISTRY OF FOREIGN AFFAIRS

# ANNEX II

## PRIORITY SECTORS FOR CIP

### PRIVATE SECTOR

The following Sectors and Subsectors are listed in priority order for consideration by the CIP Special Committee.

1. Agriculture:

   (a) Equipment and supplies related to production.
   (b) Spare parts for existing equipment.
   (c) Equipment and supplies for rehabilitation of irrigation.
   (d) Equipment and supplies for new irrigation.

2. Industry:

   (a) Spare parts for existing agribusiness
   (b) Machinery for agribusiness.
   (c) Raw materials to complement local resources for agribusiness.
   (d) Spare parts for existing small industry.
   (e) Machinery for new small industry.
   (f) Raw materials for small industry.
   (g) Spare parts and raw materials for large industry.

3. Transport:

   (a) Spare parts.
   (b) New equipment.

4. Finished Products (non-agricultural):

   (a) Construction materials.
   (b) Others.

ANNEX III

ILLUSTRATIVE LIST OF COMMODITIES TO BE FINANCED UNDER THE CIP

| PUBLIC SECTOR PROCUREMENT | VALUE $ MILLION |
|---|---|
| AGRICULTURE SECTOR | |
| Spare parts for fishing boats | 0.5 |
| Spare parts for on-hand equipment | 0.5 |
| Agro-Industrial Sector | |
| Replacement machinery | 1.0 |
| Industrial sector | |
| Raw material | 1.5 |
| Mogadishu Water Agency | |
| Spare parts for water systems | 0.6 |
| PRIVATE SECTOR PROCUREMENT | |
| Ag tractors, implements & spares | 2.0 |
| Heavy equipment & spares | 3.5 |
| Water pumps & spares | 1.0 |
| Water pipes, GI | 0.75 |
| Wood cargo vessels | 0.75 |
| Fishing trawler, and related equipment | 1.0 |
| Ag hand tools | 0.5 |
| Cold storage units | 0.5 |
| Machy for bottling line | 2.0 |
| Oil expellers | 0.5 |
| Machy for salt processing | 0.2 |
| Yarns, threads, sewing machy | 0.5 |
| Raw materials for soap | 3.0 |
| Raw materials for tannery | 0.5 |
| Raw materials for sandals | 0.2 |
| Steel bars, angle irons, sheets | 6.0 |

ANNEX IV

## INITIAL ENVIRONMENTAL EXAMINATION

| | |
|---|---|
| Project Country: | Somalia |
| Project Titale: | Commodity Import Grant |
| Funding: | 30 Million Dollars |
| Period of Funding: | FY 85 |
| IEE Prepared by: | Fred Witthans, PROG |
| Environmental Action Recommended | Categorical Exclusion under Regulation 216.2 (c) (2) (IX). |

Concurrence:

Date:

Bureau Environmental Officer's Decision:

Approved:
Disapproved:
Date:

Clearance: GC/AFR

## Examination of Nature, Scope & Magnitude of Environmental Impact

### I. Description of the Project

The project proposes to provide a commodity import grant of US$ 30 million to the Government of the Somali Democratic Republic (GSDR) from Economic Support Funds on standard A.I.D. terms. The primary purpose of the grant is to provide balance of payments assistance by financing raw materials, spare parts, fertilizer, and capital equipment required by the agriculture/livestock sector.

Commodities will be selected from the list of eligible commodities (Handbook 15, App. B). No pesticides will be imported under the proposed project and the Mission will inform the GSDR of any potentially hazardous materials or uses once these become known.

### II. Recommended Environment Action

In accordance with A.I.D. Regulation 16 Section 216.2 (c) (IX) assistance under a Commodity Import Program is eligible for categorical exclusion from environmental procedures when, "prior to approval, A.I.D. does not have knowledge of the specific commodities to be financed and when the objective in furnishing such assistance required neither knowledge, at the time the assistance is authorized, nor control, during implementation, of the commoditites or their use in host country."

As the subject assistance fulfills both the qualifications cited above it should be granted a categorical exclusion and be exempt from any further environmental prcedures.

ANNEX V

STATUATORY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the comprehensive Drugs Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully? — No

2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government? — No

3. FAA Sec. 620 (e) (1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities? — No

4. FAA Sec. 532(c), 620(a), 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver? — No

5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs 727 and 730 of the ISDCA of 1981. — N/A

6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property? — No

7. FAA Sec. 620(l). Has the country failed to enter into an agreement with OPIC? — No

8. FAA Sec. 620(O); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized or imposed any penalty or sanction against, any U.S. fishing activities in international waters? — No

(b) If so, has any deduction required by the Fishermen's Protective Act been made?

9. FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds? — (a) No (b) No

10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur).

Yes

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?

No

12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration Memo.)

Current

13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed a war crime?

No

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA?

No

15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.)

NO

16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

Taken into account by the administration on Jan. 6, 1984 at time of approval of FY CYB.

17. ISDCA of 1981 Sec. 721. See Special requirements for assistance to Haiti.

N/A

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

No

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of

No

gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

b. ISPCA of 1981, Sec. 725(b). If ESF is to be furnished to Argentina, has the President certificated that (1) the Govt. of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interests of the U.S.? N/A

c. ISDCA of 1981, Sec. 726(b). If ESF assistance is to be furnished to Chile, has the President certified that (1) the Govt. of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Govt. of Chile is not aiding international terrorism and has taken steps to bring to justice those indicted in connection with the murder of Orlando Letelier? N/A

## 5C(2) NON-PROJECT ASSISTANCE CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded with Development Assistance Funds, B.2. applies to projects funded with Development Assistance loans, and B.3 applies to projects funded from ESF.

CROSS REFERENCES; IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

### A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

| | | |
|---|---|---|
| | (a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project; | This program is included in FY85 CP |
| | (b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than $1 million over that amount)? | Yes |
| 2. | <u>FAA Sec. 611 (a) (1).</u> Prior to obligation in excess of $100,000, will there be (a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance? | No |
| 3. | <u>FAA Sec. 611(a)(2).</u> If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? | No legislation is required. |
| 4. | <u>FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501.</u> If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973? (See AID Handbook 3 for new guidelines.) | N/A |
| 5. | <u>FAA Sec. 611(e).</u> If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed $1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project? | N/A |

| | | |
|---|---|---|
| 6. | FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs. | No |
| 7. | FAA Sec. 601 (a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions. | Yes to all sections |
| 8. | FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs including use of private trade channels and the services of U.S. private enterprise). | The commodities financed will contribute to a revitalization of the Somali economy. This plus the purchase of U.S. commodities as a requirement of the program should lead to further trade with the U.S. |
| 9. | FAA Sec. 612(b), 636(b); FY 1982 Appropriation Act Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars. | Local currency generated by this program will be used to finance development activities in Somalia. |
| 10. | FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release? | |

11. FAA Sec. 601(e). Will the project utilize competitive selection of any procedures for the awarding of contracts, except where applicable procurement rules allow otherwise? — Yes

12. FY 1982 Appropriation Act Sec. 521. If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity? — No

13. FAA 118(c) and (d). Does the project comply with the environmental procedures set forth in AID Regulation 16? Does the project or project or program take into consideration the problem of the destruction of tropical forests? — Pursuant to AID Reg 16 the program was determined to be categorically excluded from detailed environmental analysis. This determination was approved by the Bureau of Environmental Offices.

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)? — N/A

3. Economic Support Fund Project Criteria

a. FAA Sec. 531(a). Will this assistance promote economic or political stability? To the extent possible, does it reflect the policy direction of FAA Section 102? — Yes / Yes

b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? — No

c. FAA Sec. 534. Will ESP funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives? — No

d. FAA Sec. 509. If commodities are to be granted so that sale proceeds will accrue to the recipient country. have Special Account (counterpart) arrangements been made? — Yes

## 5C(3) - STANDARD ITEM CHECKLIST

Listed below are the statutory items which normally will be covered routinely in those provisions of an assistance agreement dealing with its implementation, or covered in the agreement by imposing limits on certain uses of the funds.

These items are arranged under the general headings of (A) Procurement, (B) Construction, and (C) Other Restrictions.

A. Procurement

1. FAA Sec. 602. Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed? — Yes

2. FAA Sec 604(a). Will all procurement be from the U.S. except as otherwise determined by the President or under delegation from him? — Yes

3. FAA Sec. 604(d). If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? — Yes

4. FAA Sec. 604(e); ISDCA of 1980 Sec 705(a). If offshore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) — N/A

5. FAA Sec. 604(g). Will construction or engineering services be procured from firms of countries otherwise eligible under Code 941, but which have attained a competitive capability in international markets in one or these areas? — No

6. <u>FAA Sec. 603</u>. Is the shipping excluded from compliance with requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates? — No

7. <u>FAA Sec. 621</u>. If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? If the facilities of other Federal agencies will be utilized, are they particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs? — This project will not finance technical assistance.

8. <u>International Air Transport. Fair Competitive Practices Act, 1974</u>. If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available? — Yes

9. <u>FY 1982 Appropriation Act Sec. 504</u>. If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States? — N/A

C. <u>Other Restrictions</u>

1. <u>FAA Sec. 122(b)</u>. If development loan, is interest rate at last 2% per annum during grace period and at least 3% per annum thereafter? — N/A

2. <u>FAA Sec. 301(d)</u>. If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights? — N/A

3. FAA Sec. 620(b). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries? — Yes

4. Will arrangements preclude use of financing:

a. FAA Sec. 104(f); FY 1982 Appropriation Act Sec. 525: (1) To pay for performance of abortions as a method of family planning or to motivate or coerce persons to practice abortions; (2) to pay for performance of involuntary sterilization as method of family planning, or to coerce or provide financial incentive to any person to undergo sterilization; (3) to pay for any biomedical research which relates, in whole or part, to methods or the performance of abortions or involuntary sterilizations as a means of family planning; (4) to lobby for abortion? — N/A to all parts.

b. FAA Sec. 620(g). To compensate owners for expropriated nationalized property? — N/A

c. FAA Sec. 660. To provide training or advice or provide any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? — N/A

d. FAA Sec. 662. For CIA activities? — N/A

e. FAA Sec. 636(i). For purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? — N/A

f. FY 1982 Appropriation Act, Sec. 503. To pay pensions, annuities, retirement pay, or adjusted service compensation for military personnel? — N/A

g. FY 1982 Appropriation Act, Sec. 505. To pay U.N. assessments, arrearages or dues? — N/A

h. FY 1982 Appropriation Act, Sec. 506. To carry out provisions of FAA section 209(d) (Transfer of FAA funds to multilateral organizations for lending)? — N/A

i. FY 1982 Appropriation Act, Sec. 510. To finance the export of nuclear equipment, fuel, or technology or to train foreign nationals in nuclear fields? — N/A

j. FY 1982 Appropriation Act, Sec. 511. Will assistance be provided for the purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights? — No

k. FY 1982 Appropriation Act, Sec. 515. To be used for publicity or propaganda purposes within U.S. not authorized by Congress? — No

FY 1984 Addendum to Statutory Checklist

1. Country Checklist, Part A - General Criteria for Country Eligibility

"1. FAA Sec.481, FY 1984 Continuing Resolution. Has it been determined or certified to the Congress by the President that the government of the recipient country has failed to take adequate measures or steps to prevent narcotic and psychotropic drugs or other controlled substances (as listed in the schedules in section 202 of the Comprehensive Drug Abuse and Prevention Control Act of 1971) which are cultivated, produced or processed illicitly in whole or in part, in such country or transported through such country to United States Government personnel or their dependents or from entering the United States unlawfully?" No

2. Country Checklist, Part B - General Criteria for Country Eligibility

Add the new following provision:

"18. FY 1984 Continuing Resolution. Has the recipient country been determined by the President to have engaged in a consistent pattern of opposition to the foreign policy of the United States?" No

ANNEX VI

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