FOR AGENDA

SM/84/71

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April 2, 1984

To: Members of the Executive Board

From: The Secretary

Subject: Somalia - Staff Report for the 1983 Article IV Consultation

Attached for consideration by the Executive Directors is the staff report for the 1983 Article IV consultation with Somalia. A draft decision appears on page 27.

This subject will be brought to the agenda for discussion on a date to be announced.

If Executive Directors have technical or factual questions relating to this paper prior to the Board discussion, they should contact Mr. Nsouli (ext. 74380) or Ms. Calika (ext. 72936).

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INTERNATIONAL MONETARY FUND

SOMALIA

Staff Report for the 1983 Article IV Consultation

Prepared by the African Department and the Exchange and Trade Relations Department

(In consultation with the Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by J.B. Zulu and W.A. Beveridge

April 2, 1984

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I. Introduction

The 1983 Article IV consultation discussions with Somalia were held in Mogadiscio during December 3-19, 1983 and concluded in Washington, D.C. during January 16-20, 1984. 1/ Further discussions were held during a staff visit during March 6-12, 1984 to Mogadiscio. The Somali representatives included Major General Mohamed Siad Barre, President of the Somali Democratic Republic; Mr. Abdullahi Ahmed Addou, Minister of Finance; Mr. Mohamud Jama Ahmed, Governor of the Central Bank; and other ministers and senior officials of ministries and agencies concerned with economic and financial matters. The staff missions to Somalia included Mr. S.M. Nsouli (head-AFR), Ms. N. Calika (AFR), Mr. R.K. Basanti (FAD), Ms. K.M. Meesook (ETR), Mr. M.R. Vaez-Zadeh (CBD), and Ms. N. Khattak (secretary-ETR).

Somalia had an 18-month stand-by arrangement with the Fund that expired on January 14, 1984 for an amount equivalent to SDR 60.0 million, all of which was purchased. At the end of February 29, 1984 Fund credit extended to Somalia amounted to SDR 106.5 million (241.0 percent of quota). 2/ Summaries of Somalia's relations with the Fund and the World Bank Group are provided in Appendices III and IV.

II. Background 3/

During the second half of the 1970s a series of internal and external developments, including a severe drought in 1974-75, the outbreak of regional hostilities in 1977-78, the ensuing inflow of refugees, and a sharp decline in foreign financial assistance, adversely affected the growth of the Somali economy and contributed to an exacerbation of domestic and external financial imbalances. By the end of the decade, widening budgetary deficits, financed primarily through the banking system, were exerting considerable pressure on the price level and the balance of payments.

In mid-1981 the Somali authorities adopted a major adjustment program, supported by a one-year stand-by arrangement from the Fund, to stimulate domestic production, slow down the rate of inflation, and

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1/ The last consultation discussions were held in November-December 1982. Somalia continues to avail itself of the transitional arrangements of Article XIV.

2/ Somalia did not make any purchases under the oil facility and has no outstanding purchases under the compensatory financing facility.

3/ This section covers briefly the performance of the Somali economy during 1981 and 1982. Detailed analyses are provided in EBS/83/15 and EBS/83/154.

attain a sustainable external sector position over the medium term. 1/ Major measures were taken on both the supply and demand sides. On the supply side, the key measures included the devaluation of the Somali shilling by 50 percent in foreign currency terms for most foreign exchange transactions with the exception of imports of specified essential goods, 2/ the discontinuation of issuance of licenses for own-foreign-exchange (franco valuta) imports, liberalization of private sector imports, increases in the producer prices of most agricultural products, closure of three public enterprises, the reassessment of the position of other public enterprises, and the strengthening of the development planning process. On the demand side, fiscal and monetary policies were significantly tightened, with the interest rate structure revised upward. As a result of a number of tax measures, improved tax collection procedures, strengthened expenditure control, the adoption of austerity measures, including the granting of only a minor cost-of-living adjustment, the overall government deficit was reduced to 28 percent of total expenditure from 39 percent in 1980 3/ (Table 1 and Chart 2). The growth of net credit to the Government from the banking system was limited to 18 percent, about one-third the 1980 rate. Consequently, even though credit to the nongovernment sector was allowed to expand faster than in the previous year, overall domestic credit expansion was reduced to almost half of that in 1980.

These measures, combined with favorable weather conditions, resulted in an acceleration in economic activity. 4/ During the second half of 1981, prices started to decline, with the result that, notwithstanding a high rate of inflation in the first half of the year, the annual rate of inflation for 1981 fell to 44 percent from 59 percent in 1980. The overall balance of payments deficit of US$13 million in 1981 was less than half that recorded in 1980. The Central Bank's gross official reserves

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1/ The one-year stand-by arrangement for an amount equivalent to SDR 43.13 million (125 percent of quota) was approved on July 15, 1981 (EBS/81/146).

2/ Imports of specified essential goods (basic foodstuffs, medicines, chemicals, manufacturing raw materials, spare parts, and agricultural inputs) and, until February 27, 1982, certain items for foreign embassies and foreign companies and transactions through nonresident accounts were transacted at the original rate of So. Sh. 6.295 = US$1, compared to the rate of So. Sh. 12.59 = US$1 established after the devaluation. Somalia's import-weighted effective exchange rate is shown in Chart 1.

3/ This comparator is used in the absence of a reliable series of national income data in Somalia.

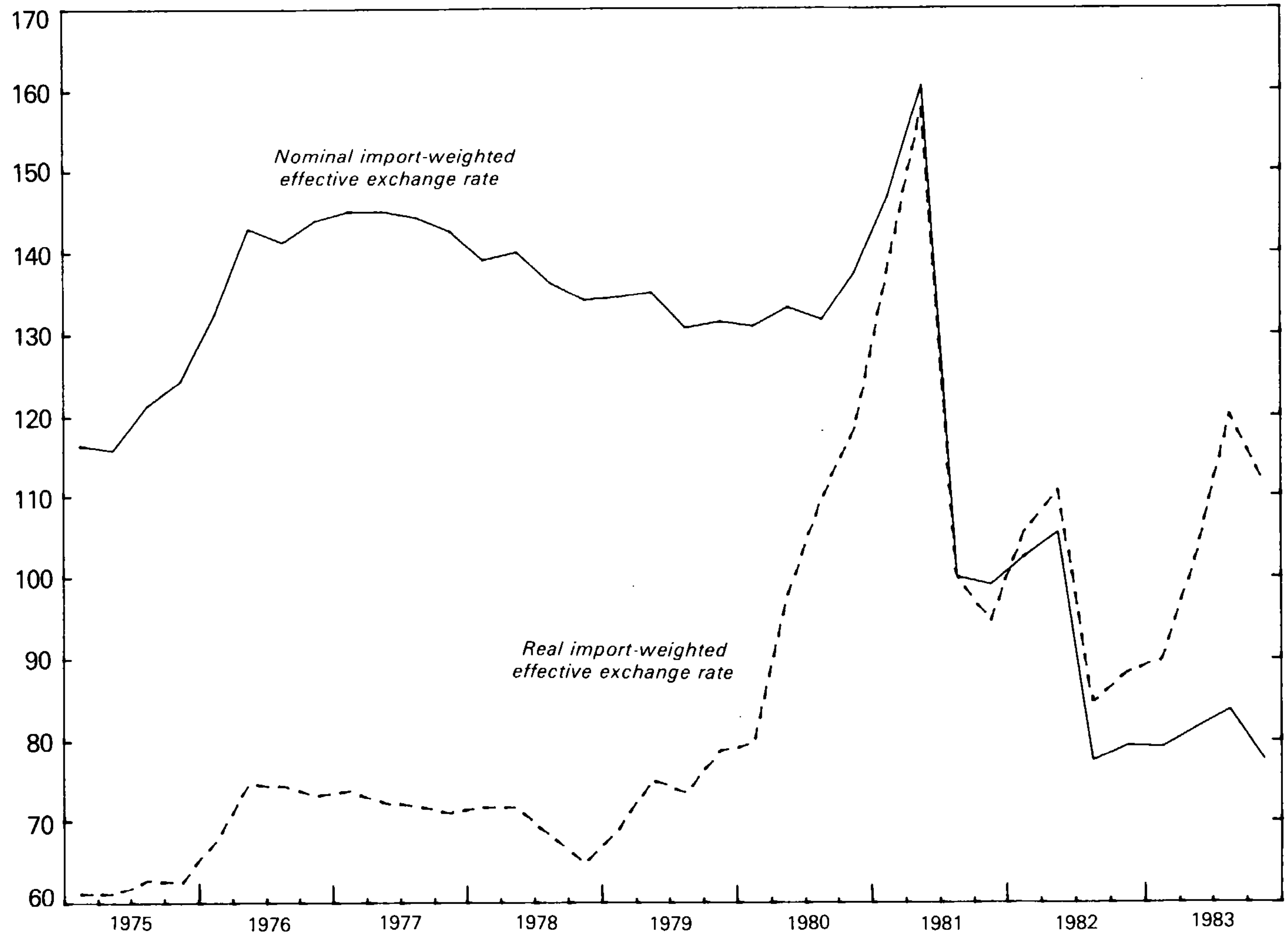
4/ Although Somalia has no official national income accounts, staff estimates indicate the rate of growth rising from about 2 percent in 1980 to 5 percent in 1981. For details, see SM/84/72 (4/4/84).

CHART 1

SOMALIA

MOVEMENTS IN EFFECTIVE EXCHANGE RATES, 1975-83[1]

(Index, third quarter 1981 = 100)



Source: Staff calculations.

[1] Import weighted. Increase indicates appreciation, decrease indicates depreciation

Table 1. Somalia: Selected Economic and Financial Indicators, 1980-83

	1980 Actual	1981 Actual	1982 Actual	1983 Review proj.	1983 Prelim. estimates
	(Growth rate in percent unless otherwise specified)				
Consumer price index	59.4	44.3	23.7	12.0	35.0
Trends in central government finance					
Total revenue and grants	5.1	41.8	41.4	18.0	15.1
Total expenditure	-3.8	18.8	44.2	0.1	5.8
Overall deficit/Total expenditure	39.2	27.5	28.9	16.2	22.6
Deficit (excluding grants)/Total expenditure	54.6	39.2	48.6	40.2	42.1
Trends in monetary aggregates					
Money and quasi-money	20.2	30.8	15.9	-5.4	-13.0
Net domestic credit	31.2	17.2	10.5	5.4	5.4
Government (net)	54.5	18.3	-6.7	-13.1	-13.1
Private	14.6	16.1	27.3	18.6	18.6
Net domestic assets	29.7	32.7	33.4	5.8	7.6
Interest rates					
Commercial bank lending rate (public enterprises)	7.5	10.0	12.0	12.0	12.0
Commercial bank lending rate (private enterprises)	9.5	10.0	12.0	12.0	12.0
Commercial bank maximum deposit rate	7.0	9.0	11.0	11.0	11.0
Development bank maximum lending rate	7.5	14.0	14.0	14.0	14.0
Trends in external sector					
Exports, f.o.b.	25.5	-14.3	14.9	10.7	-22.9
Imports, c.i.f.	17.0	-8.5	13.3	-1.5	-14.9
Nominal effective exchange rate (depreciation -)	0.3	-5.0	-27.9	...	-11.8
Real effective exchange rate (depreciation -)	36.7	21.0	-20.7	...	8.9
	(In millions of U.S. dollars unless otherwise specified)				
Current account balance	-136.0	-95.0	-131.0	-87.0	-107.0
Current account, excluding grants	-279.0	-245.0	-288.0	-234.0	-255.0
Overall balance of payments	-28.0	-13.0	-49.0	-40.0	-57.0
Gross official reserves	25.0	42.0	14.0	30.0	29.0
(In weeks of cash imports)	(3.9)	(10.7)	(3.7)	(6.8)	(9.0)
External debt, including IMF	694.6	886.8	1,056.5	1,180.0	1,202.5
Debt service ratio	4.6	14.2	12.2	17.9	17.0
External payments arrears	44.6	15.5	--	--	--

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

increased from about one month of cash imports 1/ at end-1980 to over two months of cash imports at end-1981 and external payments arrears were reduced to about one third of their end-1980 level mainly through rescheduling.

To maintain the growth momentum of the economy, to reduce inflation further, and to move toward a sustainable external sector position, the Somali authorities continued with their adjustment efforts during 1982, supported by an 18-month stand-by arrangement that came into effect on July 15, 1982. 2/ Under the new program, a number of measures were taken to stimulate supply, notably the further devaluation of the Somali shilling (17 percent on the export side and 34 percent on the import side in foreign currency terms), the unification of the dual exchange rate system that had been in effect since mid-1981, the pegging of the Somali shilling to the SDR, the further easing of controls on private sector imports, and the liberalization of marketing and pricing policies. These supply-oriented policies were reinforced with tight fiscal and monetary policies, including a further increase in interest rates. Despite the recurrence of the border conflict with Ethiopia, the budgetary deficit was kept to about 29 percent of total expenditure, about the same ratio as in 1981. This reflected partly additional improvements in tax collection procedures, changes in customs valuation procedures, a further intensification of expenditure control procedures to eliminate unnecessary or deferrable expenditures, and a virtual freeze on government wages and salaries. 3/ With the almost tripling of the foreign financing of the deficit in domestic currency terms, the Government was able to reduce its net indebtedness to the banking system by 7 percent. Domestic credit expansion was therefore reduced to two thirds its rate in 1981, even though credit to the nongovernment sector was allowed to grow at almost double the 1981 rate in order to stimulate private sector economic activity. The expansion in domestic liquidity was reduced to half that of 1981.

Reflecting the policies implemented and continued favorable weather conditions, economic growth is estimated to have doubled in 1982, with GDP rising by about 10 percent in real terms. Agricultural production, in particular, benefited from the change in relative prices effected through the devaluation and the liberalization of pricing and marketing policies. The rate of inflation was nearly halved, falling to 24 percent. During 1982, exports increased by 15 percent, reflecting the favorable weather conditions and the policy measures taken. Nonetheless, the overall

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

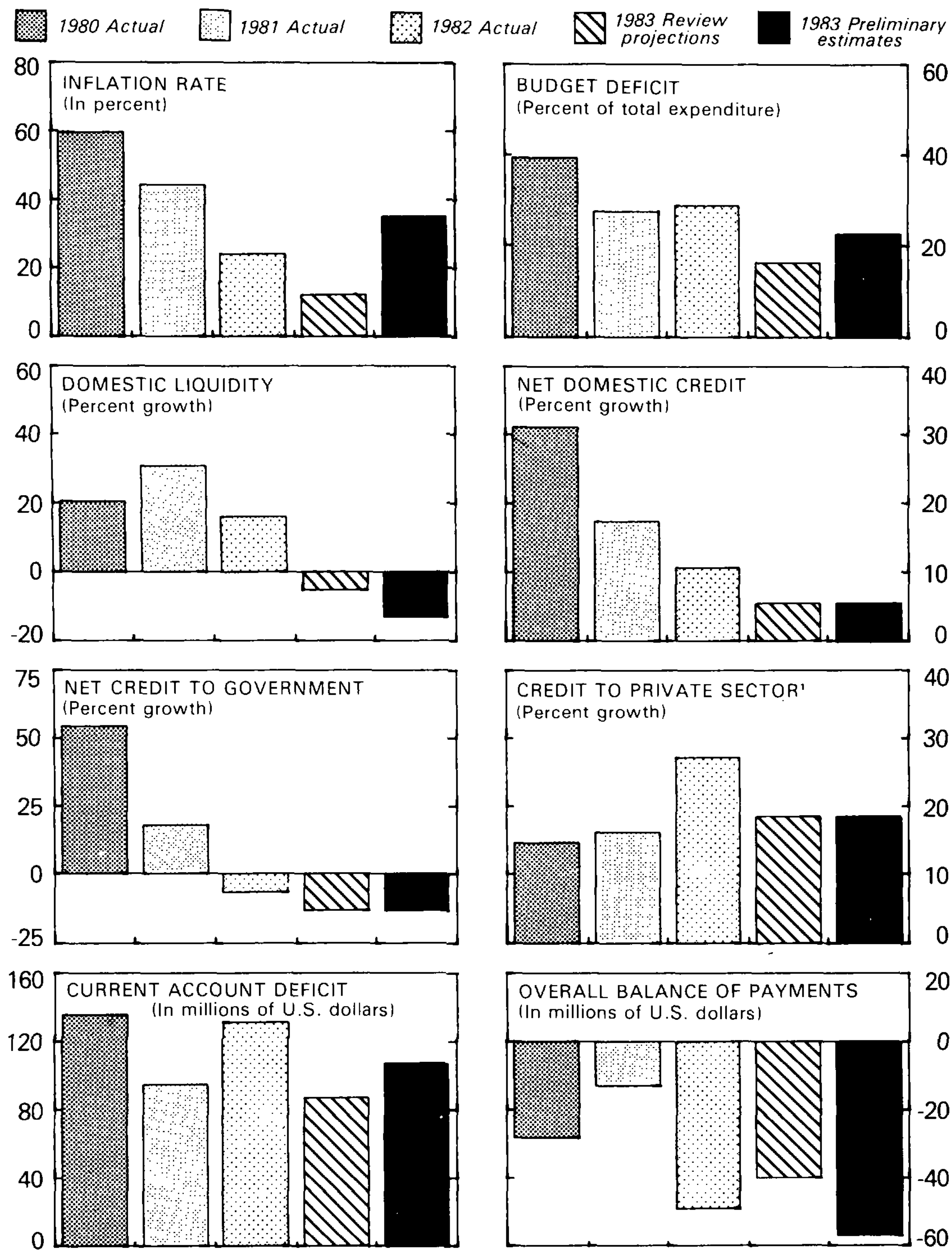
2/ The stand-by arrangement was for an amount equivalent to SDR 60.0 million (173.9 percent of quota); EBS/82/105.

3/ The development levy on government salaries was abolished in 1982, resulting in an effective average increase of 10 percent in wages of government employees.

CHART 2

SOMALIA

FINANCIAL INDICATORS, 1980-83



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

[1] Includes public enterprises.

balance of payments deficit of US$49 million exceeded somewhat the program projection of US$38 million due to a large extent to an unexpected private capital outflow partly in response to political uncertainties arising from the recurrence of the border conflict with Ethiopia. The capital outflow was financed by workers' remittances through the parallel market. During 1982 Somalia did not contract any new nonconcessional public or publicly guaranteed debt and, at the end of 1982, had eliminated all of its outstanding external payments arrears. Due to rescheduling of foreign debt, Somalia's debt service payments in 1982 were contained to 12.2 percent of goods and services, compared with 14.2 percent in 1981.

III. Discussions on Economic and Financial Developments Under the 1983 Financial Program 1/

During 1983, the Somali authorities intensified their adjustment efforts by taking several supply-oriented measures and tightening further their financial policies. The performance of the Somali economy in 1983, however, was affected by the ban imposed in May 1983 by Saudi Arabia on cattle imports from Africa and other countries, after the discovery of rinderpest in some imported cattle and, to a lesser extent, by a deterioration in weather conditions, particularly during the second half of 1983. The severity of the impact of these two factors on the economy was, however, mitigated somewhat by the policies pursued by the authorities since mid-1981 and the new measures implemented during 1983. Somalia was able to observe all the quantitative performance criteria under its stand-by arrangement through September 1983 (Table 2). This section focuses primarily on economic and financial developments in 1983, while key policy issues, such as those relating to the exchange system, external debt, reform of public enterprises, and restructuring of the banking system are discussed in the next section.

1. External sector policies and developments

During 1983, the Somali authorities took a number of measures designed to curb the capital outflow that had emerged in 1982, encourage the inflow of workers' remittances through official channels, and avoid the gradual overvaluation of the Somali shilling. To this end, on January 1, 1983, a bonus scheme was instituted, providing a So. Sh. 5 per U.S. dollar premium (33 percent in domestic currency terms at the time) above the official rate, for workers' remittances and capital inflows effected by Somali nationals. 2/ Simultaneously, priority in the

1/ The discussion is based on preliminary data for 1983.
2/ The multiple currency practice arising from the bonus scheme was approved by the Executive Board through June 30, 1984, or the completion of the 1983 Article IV consultation with Somalia, whichever is earlier (EBD/83/332).

Table 2. Somalia: Quantitative Performance Criteria, June 1982-December 1983

(End of period)

	1982			1983			
	June	Sept.	Dec.	March	June	Sept.	Dec.
	(In millions of Somali shillings)						
Net domestic credit 1/							
Ceiling	--	5,086.0	5,054.0	5,118.0	5,168.0	5,223.0	5,293.0
Actual	5,088.0	5,070.4	5,023.8	5,107.7	5,144.0	5,196.3	...
Net credit to Government 2/							
Ceiling	--	2,285.0	2,115.0	2,065.0	1,990.0	1,910.0	1,825.0
Actual	2,390.9	2,270.3	2,100.0	2,058.2	1,981.5	1,904.7	...
	(In millions of U.S. dollars)						
External debt 3/							
Ceiling	--	25.0	25.0	25.0	25.0	25.0	25.0
Actual	--	--	--	--	--	--	...

Sources: EBS/83/154; and data provided by the Somali authorities.

1/ Credit to Government, public enterprises, and private sector less government deposits with the banking system.
2/ The banking system's claims on the Government, less government deposits, plus any budgetary use of local currency counterpart in respect of purchases from the Fund.
3/ New commitments on public and publicly guaranteed external debt with a maturity of between 1 and 12 years, excluding any refinancing loans obtained through negotiations.

granting of import licenses was accorded to participants in the bonus scheme, and the interest rate structure on external accounts denominated in U.S. dollars was set at internationally competitive rates. Furthermore, the scope of external accounts that could be used for import payments was widened. Early in 1983 all licensed import/export traders were allowed to open such accounts. 1/ These measures were reinforced at mid-year. On July 1, 1983 the Somali authorities implemented a more flexible exchange rate policy aimed at stabilizing the real effective exchange rate. Under the new arrangement the Somali shilling was pegged to the SDR adjusted by the relative rates of inflation between Somalia and the five countries in the SDR basket. The central Somali shilling/SDR rate for the base month of July 1983 was set at So. Sh. 16.5 = SDR 1, with margins of 7.5 percent. In line with this policy, the Somali shilling was depreciated by 13 percent in foreign currency terms during the second half of 1983.

Developments in the external sector reflected in part the cattle ban. During the year, the Somali authorities explained that they had an ongoing dialogue with Saudi Arabia with a view to securing the lifting of the ban. Both the United Nations Food and Agriculture Organization and the International Organization for Epizootics had certified that there had been no proven cases of rinderpest in Somalia. Furthermore, the Somali authorities stated that they took a number of measures to ensure that only healthy animals were exported; they explained that an emergency vaccination campaign had been organized, quarantine centers in key ports of the country were set up, and directives were issued that only cattle from those centers be exported. In the event, however, the ban had not been lifted by the end of 1983. Reflecting this development, cattle exports declined by more than 70 percent in 1983, causing total livestock export proceeds to decline by about 30 percent (Appendix I, Table I). The redirection of these cattle to other markets was constrained by the lack of competitiveness at the prevailing exchange rate. Moreover, receipts from banana exports stagnated despite a 38 percent increase in their volume due to a sharp decline in prices in the Italian market in U.S. dollar terms.

The decline in exports was more than offset by a contraction in imports, which fell by about 15 percent. A large part of this decline

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1/ External accounts denominated in U.S. dollars for import payments had been introduced early in 1982, but, due to restrictions in their use, they had failed to attract significant amounts of deposits. These accounts could be opened by livestock traders and credited with estimated amounts of underinvoicing. Underinvoicing existed in Somalia because livestock exporters were allowed to use in their letters of credit the government-set minimum export prices, which had not been adjusted in U.S. dollar terms since 1979, instead of the actual selling price.

was due to a lower level of imports associated with the public investment program, which declined by nearly 40 percent. Private sector imports, 1/ however, declined by only about 6 percent. This decline was contained by the favorable response of importers to the expanded scope of external accounts, which accounted for US$24 million of imports, and an expansion in the U.S. commodity import program. In this context, the Somali authorities indicated that, given the flexibility introduced by widening the scope of the external accounts, traders had preferred to import through those accounts rather than avail themselves of the bonus scheme. In the circumstances, the use of the bonus scheme had been negligible.

Although transfers declined marginally from the 1982 level, due to a decline of official transfers (Appendix I, Tables I and II), the improvement in the trade balance due to the aforementioned contraction in imports, resulted in an improvement in the overall current account position. The current account deficit declined from US$131 million in 1982 to US$107 million in 1983, but was higher than the latest revised projection of US$87 million. 2/

In view of the expansion in imports financed through external accounts, the capital outflow financed by private transfers through the parallel market was estimated to have declined from US$39 million in 1982 to US$28 million in 1983. Nonetheless, the surplus on the capital account declined sharply, totally due to a drop in loan disbursements associated with projects (Appendix I, Table II). As the improvement in the current account position was offset by a decline in the surplus on the capital account, the overall balance of payments deficit rose from US$49 million in 1982 to US$57 million, and exceeded the projection of US$40 million for 1983.

Somalia's disbursed public and publicly guaranteed external debt, including use of Fund credit, is estimated to have reached US$1.2 billion at end-1983 (Appendix I, Table III). Although most of the debt is on concessional terms, a concentration of maturities was to have resulted in a sharp increase in debt service obligations. 3/ Recognizing this

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1/ Defined as imports financed by cash foreign exchange, franco valuta, external accounts, oil grants, commodity import programs, and food aid.

2/ Projections refer to those made at the time of the stand-by review (EBS/83/154).

3/ At the end of 1982 about 60 percent of Somalia's external debt was owed to foreign governments and about 35 percent to international organizations. The remaining 5 percent was owed to a consortium of financial institutions on nonconcessional terms. Somalia's major creditor countries at end-1982 in order of importance were Saudi Arabia, the Soviet Union, the People's Republic of China, Abu Dhabi, the United States, and Italy.

problem, the authorities during 1983 secured further debt relief. Debt service payments due to Abu Dhabi, the People's Republic of China, and Saudi Arabia were frozen on the basis of verbal agreements with these governments. Agreements were reached with (i) Yugoslavia to reschedule payments due in 1983 to 1984; (ii) the Islamic Development Bank to reschedule further payments due in 1983-85; (iii) the Government of Iraq to cancel part of the debt owed and to reschedule the remainder to 1986-93; and (iv) the Government of Italy to convert supplier credits extended by Italian firms to long-term bilateral loans. As a result, service payments on external debt in 1983 were contained to about 17 percent of exports of goods and services. Although the performance criteria set a ceiling of US$25 million for the program period, the Somali authorities made no new commitments on public and publicly guaranteed nonconcessional debt of 1-12 years' maturities, excluding any refinancing obtained through debt renegotiations.

2. Production and prices

After the sharp increase in economic growth to an estimated 10 percent in 1982, a levelling off in the rate of economic growth to a more sustainable level had been expected in 1983. In the event, economic activity decelerated to about 4 percent. While the livestock sector continued to expand, weather conditions affected adversely agricultural production. The two rainy seasons were of relatively short duration and their geographical distribution uneven. Notwithstanding this factor, production of most crops remained about equal to or only marginally lower than the 1982 level, a year characterized by favorable weather conditions. Furthermore, production of bananas increased by about 50 percent. The authorities stated that the fact that overall agricultural production had not significantly declined below the 1982 level indicated that the agricultural sector had continued to respond favorably to the liberalized pricing and marketing policies and that a major expansion in the agricultural sector would have taken place in 1983 if weather conditions had not deteriorated. In the manufacturing sector, economic activity slowed down. Weather conditions had affected the output of sugarcane; this development, compounded with the closure of the Jowhar Sugar Factory for repairs, had led to a decline in overall sugar production. In addition, the oil refinery had experienced technical problems. In the service sector, the restrained fiscal policy pursued implied no expansion in real value added by the Government. Furthermore, the constraints in the external sector, resulting from the cattle ban, resulted in a levelling off in trade activity. The slowdown in economic activity also reflected the sharp drop in public sector investment from about US$177 million in 1982 to US$133 million in 1983. The authorities had deliberately reduced the level of investment, as they proceeded with the preparation of the three-year public investment program for 1984-86.

After decelerating for two consecutive years, the rate of inflation picked-up again in 1983 reaching about 35 percent compared with 24 percent in 1982 and a program target of 12 percent. In light of the growth in economic activity and the decline in domestic liquidity of about 13 percent during 1983, the authorities were of the view that inflationary pressures in Somalia as a whole had declined and that the recorded increase in the consumer price index was misleading. Since the index covered the Mogadiscio area only, it reflected factors pertaining to the capital only that were not as prevalent in the rest of the country. It was noted that the dynamics of the process of urbanization placed considerable pressure on the limited facilities of the city and generated bottlenecks that were reflected in prices. In addition, the consumption pattern in the city was such that it was more dependent on imports than the rest of the country; the ban on cattle had necessitated a cutback on imports that had been reflected in prices. The authorities also felt that in 1983 there was a general shift in the pattern of consumption that had aggravated inflationary pressures in the capital. In 1983, the Government of Somalia had banned the consumption of "kat," a stimulant herb. Although there was no data on the extent of "kat" consumption, the authorities were of the view that the income released for other consumption had placed a considerable pressure on prices. Furthermore, there were some transportation and distribution bottlenecks during the year that had affected prices in the Mogadiscio area. During the last half of the year, however, inflationary pressures had tapered off. A new consumer price index was under preparation with technical assistance from a Swedish team.

3. Financial policies and developments

During 1983 the Government of Somalia continued to pursue tight financial policies, reducing the overall budgetary deficit and contracting severely domestic liquidity. The objective was to reduce excess demand pressures and limit the monetary balances affecting the capital outflow.

On the fiscal front, the budgetary deficit was reduced from about 29 percent of expenditures in 1982 to 23 percent in 1983 (Appendix I, Table IV). It was higher, however, than the review projection of 16 percent due largely to a shortfall in budgetary grants from projected levels and the impact of the higher than projected level of inflation on expenditures. On the receipts side, recorded budgetary grants reached So. Sh. 1,106 million, instead of the projected So. Sh. 1,288 million, due primarily to delays in transfers from the oil refinery to the Central Government. Domestic revenues, however, were higher than projected and nearly 20 percent higher than in 1982. The authorities explained that this outcome had been due to a number of factors. These included the higher inflation rate recorded, the full year effect of the devaluation, and the impact of measures introduced during 1981-83. The key measures involved were the abolishment of exemptions on import duties that some public and private enterprises enjoyed, the conversion of specific to ad valorem import and export duties, the levying of ad valorem import duties on the basis of letters of credit rather than price lists, the introduction of surcharges of 20 percent on nonessential imports and 50 percent on imports through external accounts, and the conversion of major specific excises to an ad valorem basis. The authorities emphasized that there had also been a considerable strengthening in tax collection procedures; this was reflected in particular in the estimated increase in import duties even though there had been a lower level of imports. They recognized, however, that further efforts needed to be exerted to strengthen tax collections to ensure a greater responsiveness of tax revenues to price and income changes.

On the expenditure side, ordinary expenditures increased by 24 percent instead of the 20 percent projected. The authorities explained that, even though the level of expenditures was higher than originally projected, it represented in effect a larger compression in real expenditures than had originally been envisaged as the recorded rate of inflation reached 35 percent rather than the projected 12 percent. Although the program had provided for a 5-10 percent cost-of-living adjustment in wages, the Government had decided not to grant any cost-of-living increase during 1983. Furthermore, the policy of automatic government employment of high school graduates had not been implemented and strict limits on new government employment had been observed. The low level of salaries had, in fact, also encouraged some civil servants to submit their resignations, which were generally accepted. During the year, the Minister of Finance had issued directives urging all Ministers to effect economies in expenditures by cutting back on discretionary expenditures and deferring those that were not pressing. Efforts to strengthen expenditure control were also emphasized; for this purpose, representatives of the Ministry of Finance were assigned to other ministries and placed in charge of authorizing expenditures. In addition, there was a cutback in investment expenditures, which were 15 percent lower than in 1982 in nominal terms. The authorities recognized, nonetheless, that, because of the effects of the exchange rate, investment expenditures in domestic currency had turned out to be higher than originally projected.

Although the budgetary deficit was estimated to be higher than projected, the authorities expected the contraction in net indebtedness of the Government to the banking system to be in accordance with program targets, resulting in a decline of So. Sh. 275 million, compared with a contraction of So. Sh. 150 million in 1982. The balance of the deficit was covered by a higher than projected level of net foreign financing, reflecting in part the depreciation of the Somali shilling and debt rescheduling.

Monetary developments were more contractionary than had been envisaged. Based on preliminary estimates, domestic liquidity declined by 13 percent, instead of the 5 percent originally projected, as compared with a growth of 16 percent in 1982 (Appendix I, Table V). This was mainly due to a higher than projected decline in net foreign assets. Net domestic credit expanded, as programmed, at a rate of 5 percent, compared with 11 percent in 1982. Net credit to the Government sector decreased by 13 percent, compared with a decline of 7 percent in 1982. Credit to the nongovernment sector expanded as programmed, by 19 percent, registering a slowdown from the level of 27 percent increase recorded in 1982. The authorities recognized that, although originally this rate of expansion had been expected to result in a real increase in credit to the nongovernment sector, the acceleration in the recorded rate of inflation meant that there had been a severe real reduction. While the tight credit policies were essential to containing excess demand pressures, the authorities stressed that the continued expansion in economic activity in future years required a considerable real expansion in credit to the nongovernment sector. They also recognized that the unexpected acceleration in inflation had resulted in highly negative real interest rates, although they did not view the Mogadiscio consumer price index as a reliable indicator of inflation in the country as a whole.

IV. Summary of Discussions on Economic and Financial Policy Issues and Prospects

1. Overview

While Somalia has implemented effectively during the last three years two successive stand-by arrangements and made considerable progress in reestablishing domestic and external financial stability, the discussions focussed on the requisite measures to tackle the underlying structural and institutional problems that were constraining further improvements in economic conditions. In the external sector, exchange and trade restrictions continued to limit the expansion in economic activity. Though a managed exchange rate policy was adopted to stabilize the real effective exchange rate, it was not sufficiently market-oriented to ensure movements fully in line with changes in underlying economic conditions. The concentration in both the structure and direction of exports imposed a high degree of vulnerability to the economy, as evidenced by the impact of the Saudi Arabian ban on cattle imported from Africa. Workers' remittances continued to flow through the parallel market, financing in part capital outflows. In addition, although the Government had eased on the implementation of price controls, these continued to be de jure in effect, generating uncertainty as to whether or not their enforcement would be resumed. With regard to public enterprises, although a number of measures had contributed to improvements in their conditions, unviable enterprises continued to operate, while pricing and management policies continued to hamper the operations of others. On employment and wage policy, the automatic employment of high school graduates in the government sector had led to a rapid expansion of the civil service, while the attempt to contain the wage bill had led to a sharp drop in real terms in salaries, making the employment of qualified civil servants difficult. Notwithstanding the austere fiscal policy, the current budget continued to imply government dissaving. In the area of monetary policy, the existence of only one commercial bank, which is state-owned, hampered the process of financial intermediation. Furthermore, the expansion in economic activity required a significant improvement in the efficiency of the operations of the bank. In addition, the public investment effort needed to be set on a sound and solid basis, involving rigorous project selection, a level of investment consonant with resource availability and the absorptive capacity of the economy, and a consistent macroeconomic framework. There was, thus, a need to launch early in 1984 a major structural adjustment program that built upon the foundation established during the last three years and that maintained the momentum of the adjustment process.

In early 1984, agreement was reached with the authorities on appropriate measures to tackle the structural problems. However, the authorities decided to defer the implementation of the key measures. The discussions that were held in March focussed on the need to implement, in a timely manner, major adjustment measures that would avert a rapid deterioration of the economic conditions in the country. The Government decided that the timing for the implementation of the program was not appropriate. The authorities indicated that the Government did not reject the program and was in general agreement with its provisions. They, however, decided that under the present circumstances, characterized by emerging drought conditions, the cattle ban, and speculation in the foreign exchange market, the best policy would be to take a more gradual approach in view of social and political considerations. Nonetheless, they emphasized that they would take other measures when necessary and consult the Fund on the timing of putting into effect such measures.

In the circumstances, the fragility of the economy was reflected in a number of developments in the first quarter of 1984. Given the shortage of foreign exchange, imports were severely curtailed, while unfavorable weather conditions affected adversely domestic supply. Consequently, there were indications that inflation accelerated sharply, economic activity stagnated, and external sector pressures were exacerbated.

2. External sector policies

With regard to external sector policies, there was a recognition of the need to introduce an exchange and trade reform that would aim at improving the allocation of resources by relying on the market mechanism; enhancing the competitiveness of exports with a view to promoting as well as diversifying the structure and direction of exports; preventing shortages of imported goods stemming from insufficient flexibility in the exchange rate; enhancing the profitablity of existing and potential import substituting industries; encouraging the inflow of workers' remittances; and reducing the potential capital outflow by improving the profitability of alternative uses of foreign exchange. 1/ However, the authorities were of the view that the time was not propitious for carrying out the reform particularly in view of the drought situation, the ban on cattle imports, and other uncertainties.

Without the adoption of the requisite external sector policies, the staff was of the view that the balance of payments position was likely to deteriorate rapidly. Exports would decline in 1984. Although the authorities continued to discuss the possibility of the lifting of the cattle embargo in 1984, the staff was of the opinion that the price in U.S. dollar terms would have to be lowered significantly in order to penetrate markets other than Saudi Arabia. The price of Somali livestock in Saudi Arabia was reported considerably higher than livestock from other sources, primarily because of the preference of consumers for the quality of Somali livestock. The authorities agreed that such a preference did not exist in other potential markets and that price competiviveness was critical. They had accordingly reduced in January the surrender requirement by lowering the minimum export price. 2/ In their opinion, this improved somewhat the position of livestock exporters and increased the competitiveness of Somalia's livestock exports. In the absence of a comprehensive reform of the exchange system, the reduction in the minimum export prices, however, is likely to result in lower receipts through the banking system and increase the potential resources financing capital outflows. Banana exports were projected to grow in 1984, continuing the recent upward trend in production. The authorities recognized, however, that this trend reflected increased incentives due to recent changes in the exchange rate and that it was important to maintain them. With the expiration of the oil grant from Saudi Arabia, 3/

1/ Somalia maintains a bonus scheme under which a premium of So. Sh. 5 per US$1 above the official exchange rate is provided for inward remittances by emigrant workers and capital inflows by Somali nationals abroad. This gives rise to a multiple currency practice subject to the Fund's approval under Article VIII. Somalia's exchange system also involves limitations on availability of foreign exchange for repatriation of profit, travel abroad, and transfer of income abroad by foreign nationals. The trade system has also been restrictive; with the constrained availability of foreign exchange, the system of import licensing and allocation by category has been used to restrict imports generally.

2/ On January 8, 1984 minimum export prices from Berbera to Jeddah for sheep and goats were lowered from US$53 per head to US$42 per head, for cattle from US$280 per head to US$252 per head, and camels from US$450 per head to US$420 per head.

3/ The oil grant from Saudi Arabia started in 1982 and continued through 1983. It amounted to the equivalent of US$43 million in 1982 and of US$39 million in 1983.

the export of certain oil products from the refinery was projected to decline. This could not be compensated for by an expansion in nontraditional export items, such as fruits and vegetables, jewelry, handicrafts, forest products, and other potential export products, although an increase in export incentives would help in part.

With the constraint on foreign exchange imposed by the export performance, the authorities recognized the difficulty in expanding imports under the present system of licensing and allocation. Accordingly, the authorities had at the beginning of 1984 authorized imports of essential commodities by own-foreign exchange. The response, however, had been rather limited. The authorities were hopeful that an expansion in foreign assistance would enable them to increase the flow of imports in 1984.

The need to introduce a comprehensive reform was also evident by developments regarding private transfers. Such transfers through the banking system had been limited to the flows through external accounts. The balance continued to flow through the parallel market, with the counterpart foreign exchange being kept outside the country and representing a capital outflow. The widening differential between the official and the parallel market rate, which reached a ratio of one to three, continued to contribute to this development, although limitations in the banking system discussed below also contributed to this outcome. As the bonus scheme set up in 1983 has had a very limited impact in attracting remittances through the banking system, the authorities concurred that its continuation needed to be reassessed. They, nonetheless, requested an extension until end-1984 of the approval of the Executive Board for the resulting multiple currency practice pending a completion of a review of their exchange policy.

For 1984-86, debt service payments, particularly principal repayments, are expected to accelerate due to a concentration of maturities and past rescheduling. The debt service ratio is projected to increase from 17 percent in 1983 to about 55 percent in 1986. A considerable part of the increase will result from repurchases to the Fund. In addition, a substantial portion of the obligations are payments to the Arab Monetary Fund and the Islamic Development Bank. These ratios take into account the freezing since 1983 of the debts owed to Abu Dhabi, China, and Saudi Arabia on the basis of verbal agreements. The authorities are making efforts to convert most of these debts into grants and are seeking to expedite the process through bilateral discussions with a view to reaching formal agreements. While the scope for further debt rescheduling is limited, since most of the remaining debt is to multinational institutions, the authorities plan to initiate bilateral discussions with other donors to seek additional debt relief. As for future commitments, the authorities have been negotiating with donor countries in order to obtain as much assistance as possible in the form of grants.

In order to strengthen external debt management, in 1984 a system is expected to be set up, with technical assistance from the Fund, within the External Debt Unit at the Ministry of Finance, to monitor all developments on public and publicly guaranteed debt as well as to institute a mechanism to ensure timely debt service payments.

3. Pricing and marketing policies

During the last three years, Somalia has eased considerably the implementation of price controls. However, there remained uncertainties associated with a possible resumption of enforcement of price controls. Accordingly, with a view to stimulating private sector economic activity and improving resource allocation, the authorities were giving consideration to officially abolishing all price controls.

The Government of Somalia had abolished in the context of the 1982-83 Fund supported program the monopsony role of the Agricultural Development Corporation. Producers were, therefore, free to sell their produce directly in the market place. However, the ADC remained operating, offering to buy produce at a set producer price. In the view of the authorities, given the shifts in weather conditions in Somalia from year to year, the ADC could play a useful role as a stabilization board. It could act as a purchaser of last resort at a guaranteed minimum price in periods of exceptionally good weather conditions, and sell its stocks in a regulated manner in periods of unfavorable weather conditions to avoid sharp price fluctuations. The Government recognizes, however, that particular attention will have to be paid to the mechanism whereby the ADC will act as a stabilization board, in order to ensure that it is compatible with the Government's objectives of stimulating private sector economic activity and not interfering detrimentally with the workings of the market. Accordingly, the Government is planning to undertake a detailed study on the role that ADC could play as a stabilization board. The recommendations of the study, along with those of the World Bank study on the agricultural sector relating to the restructuring of the Agricultural Development Corporation, will be reviewed by the authorities to determine the actions required.

4. Public enterprises

The policy of the Government of Somalia is to close down public enterprises that are deemed not to be financially viable and to rehabilitate the remaining enterprises, although the social services of some had to be taken into account. In line with this policy, it has closed down in recent years a number of enterprises and converted a major one--the National Banana Board--into a semipublic enterprise, with a 60 percent participation by the private sector. The problems of public enterprises include inadequate management, labor performance, lack of spare parts, rigid pricing policies, and excessive taxation. In order to deal with these problems in a comprehensive and thorough manner, an Inter-Ministerial Commission was established in the second half of 1982 to study the position of public enterprises, make recommendations on measures to improve their operations, and determine which of the public enterprises are viable. The report was recently completed and decisions regarding the closure of public enterprises determined to be not viable were expected in 1984. Nonetheless, the Government has already taken measures to deal with some of the key problems facing public enterprises.

During 1983, the Government had instructed all public enterprises to set prices to cover costs. However, in some instances, this policy resulted in prices that were below market levels. Furthermore, a number of enterprises continued to attempt to purchase inputs at government-set prices, which in certain instances were below the market price and made it difficult for public enterprises to secure the needed inputs. To improve management, the Government has taken a decision to institute a Board of Directors for each industrial enterprise, with autonomy in decision making. Two such Boards were instituted in 1983. In addition, management and accounting courses are being offered by various ministries to enhance the skills of the staff of the enterprises that fall under their jurisdiction. However, the problem of input shortages and the availability of spare parts is likely to persist until action on pricing policies of public enterprises and on the exchange and trade system are taken. With regard to labor productivity, the Government has instituted a system of production incentives for laborers in several enterprises and intends to extend the system whenever feasible. Under the system, workers receive bonuses for producing beyond a certain average benchmark. Foreign competition, which has been a problem for several industries (especially textiles), has eased somewhat following the Government's exchange rate actions during 1981-83, which have improved price-cost competitiveness. The authorities recognize that the tax system, under which enterprises are required to pay the turnover and the depreciation taxes regardless of whether they make a profit or not, has led some public enterprises to be perennially short of funds for both working capital and replacement of fixed assets and thus to accumulate arrears to the Government or to rely heavily on financing from the banking system. A revision of the tax system of public enterprises was expected to be adopted in the second half of 1983; however, the authorities decided to await the conclusion of the study on public enterprises before taking action in this regard.

The report of the Inter-Ministerial Commission on public enterprises was submitted to the President on November 20, 1983. The Commission's report covered 59 public enterprises in the country, all of which were audited. The Commission's report made a number of recommendations, namely that all public enterprises (a) be profit-oriented and economically viable; (b) be autonomous in decision making; (c) take measures to reduce their expenditures; (d) adopt standard accounting procedures and unified accounting procedures; (e) reduce their staff and the high level of absenteeism; and (f) eliminate their arrears to each other and to the Government on the basis of a time-schedule agreed upon with the Ministry of Finance. In light of the information contained in the report, a subcommittee set up to review the report was to make the final decision on the viability of public enterprises, taking into account the social services of certain of those enterprises. The subcommittee was expected to recommend the abolition of some public enterprises, the merger of others, and the restructuring of the remaining ones.

5. Fiscal policy

The authorities explained that the general aim of fiscal policy was to contain the growth in aggregate demand and direct resources to rehabilitate the public sector infrastructure and implement the public investment program. The consolidated budgetary deficit implied by the approved government budget, however, was expected to rise sharply in 1984. Domestic revenues were projected at So. Sh. 3,775 million, implying a 22 percent increase over 1983. In the absence of the Saudi oil grant, total grants were estimated at So. Sh. 600 million for 1984, bringing total receipts to So. Sh. 4,375 million. Total expenditures, by contrast, were projected to reach So. Sh. 6,491 million, a 14 percent increase over 1983. This indicated a deficit of So. Sh. 2,116 million, compared with So. Sh. 1,283 million in 1983.

On the revenue side, the introduction of a general sales tax at the rate of 5 percent expected in 1984 and the abolition of all exemptions on import duties introduced in October 1983 are expected to generate additional revenues. Somalia has over the last three years taken key revenue generating measures based on recommendations of the 1980 IMF Tax Survey with a view to enhancing the elasticity of the tax system. To reinforce these measures, the Government is undertaking structural and administrative reforms designed to improve tax collection. With technical assistance from the Fund, structural reforms in collection, assessment, and audit procedures of the income tax system are expected to be introduced during 1984. Furthermore, in view of the importance of customs duties, the Government has asked the USAID to prepare a study on the simplification of the tariff structure and on means of improving collection procedures. Nonetheless, the staff considered the budgetary projection for revenue to be achieveable only if major improvements in tax collection could be made. The probable outturn of domestic revenue, though higher than 1983, could not be expected to offset the fall in receipts from the Saudi Arabian oil grant, with the result that overall receipts could turn out to be substantially lower in 1984 than in 1983.

On the expenditure side, the authorities intend to contain the expansion in current expenditures by limiting the growth in the wage bill, through economies brought about by limited allocations, and through a strengthening of expenditure controls. However, additional provisions for increasing recurrent expenditures were being included in order to ensure the adequate maintenance of the existing and future infrastructure. In this connection, starting in 1984, the authorities are planning to start forward budgeting of recurrent expenditures to ensure an adequate provision of outlays to maintain existing and future infrastructural facilities. The Government intends to keep investment expenditures at a level consistent with the availability of external financing.

Civil service salaries had declined by 71 percent in real terms during 1980-83. The projected increase in the wage bill, however, would not allow for a full compensation in cost-of-living increases. Furthermore, the 1984 budget has no provisions for new civil service positions. During the next three years, the Government intends to contain the size of the civil service and take measures to improve its quality. The decision of the Government, taken last August, to officially discontinue the policy of guaranteed employment of high school graduates would have its main effect during 1984. Under this decision, recruitment in the Government sector was to be on a competitive basis depending on the availability of vacancies. Moreover, in order to improve the salary scale in the civil service in favor of more productive civil servants and restructure the positions and size of the civil service, a comprehensive study of civil service salary structure is being undertaken by the USAID.

The Government plans to further streamline the financial operations and management of the budget in the coming years. A Fund mission visited Somalia in the first quarter of 1984 to conduct a comprehensive study with a view to modernizing and reforming the budget system (its formulation, accounting, and execution). The preliminary recommendations of the study were discussed with the authorities and a more detailed report is being submitted for their consideration.

6. Monetary and credit policies

The Government expects to continue to emphasize the importance of providing credit for an expansion in private sector economic activity; however, the budgetary situation is likely to result in a sharp expansion in credit to the government sector. In the circumstances, the overall rate of credit expansion could reach a level incompatible with financial stability.

The authorities expect to continue with a flexible interest rate policy designed to improve financial intermediation, encourage domestic savings, increase migrant remittances, and stem the tide of capital flight. This policy has led to major readjustments of the interest rate structure since end-1979. However, in view of the high rate of inflation prevailing in Somalia, interest rates remained negative in real terms. The authorities were keeping the interest rate structure under review and planned to adjust it further whenever inflationary trends or international interest rates departed markedly from their present levels.

The monitoring of inflationary trends was expected to be greatly assisted by the introduction of a new consumer price index covering the whole country, which is expected to be available in 1985.

An effort is being made to improve the process of financial intermediation through the reform and expansion of the banking system. As part of this effort, a contract has been signed with the Midland Bank under which overall advice on the reform of the banking system is being provided and a study on the managerial and accounting practices of both the Commercial and Savings Bank and the Development Bank is being undertaken. Another aspect of this effort consists of introducing an element of competition into the banking industry, which is currently wholly owned by the Government and consists of a commercial bank, a development bank and a central bank. To this end, the authorities have abolished the monopoly position of the state-owned commercial bank and intend to attract foreign banks into the country by providing tax and investment incentives and devising appropriate schemes for repatriation of profits and dividends. The authorities plan to establish a committee composed of representatives from the Central Bank and the Ministry of Finance to contact foreign banks and actively encourage their entry into Somalia. In discussions with these banks, the committee will explore the conditions under which they would be willing to open branches in Somalia.

7. Investment program

Although there are ongoing discussions between the World Bank and the Somali authorities, the authorities had indicated their intention to implement a public investment program that will contribute directly to economic activity during 1984-86 and establish the foundation for further growth beyond 1986. The Somali authorities had prepared, in consultation with the World Bank and the Fund, in 1983 a medium-term recovery program for 1984-86 for the rehabilitation and consolidation of the economy. The program, which was presented at a Consultative Group Meeting organized by the World Bank in Paris on October 26-28, 1983, included a phased program of measures (policy action program) to improve resource mobilization, allocation, and utilization; a macroeconomic framework (a financial plan); and a core public investment program. 1/

Discussions concerning the size and composition of Somalia's 1984-86 public investment program took place during the course of the meeting that concluded with an agreement that several new high-priority projects would be added to the program (the principal one being for irrigation rehabilitation in the Shebelli Valley), while additional allocations were made for the development of the Afgoi gas field and for the rehabilitation of the Juba Sugar Estate. At the same time, it was decided

1/ Ministry of National Planning, Development Strategy and Public Investment Programme, 1984-86, September, 1983.

to postpone some new projects pending the results of further studies and reappraisals and to rephase the implementation of certain ongoing projects. The net result of these revisions was to set the estimated costs of the core program at $875 million (Appendix I, Table VI). The revised program was endorsed by the donors' representatives and by the World Bank staff; indications of support by donors at the Consultative Group Meeting led the World Bank staff to conclude at the meeting that the revised core program was financeable.

Some important adjustments in the program concerned proposed projects in the Juba Valley, including the Bardhera Dam. It was recognized that the serious risk of water shortages in the short- and medium-term made it important to identify a scheme for interim storage and to construct the required engineering works for it. It was also recognized that the Bardhera Dam should be included in the long-term development plan for this key region. During the Consultative Group Meeting, understandings were reached on the need for a program of studies for the Juba Valley, and an Advisory Committee, chaired by the Minister of Juba Valley Development and comprising potential donors, was established. The studies were expected to lead to proposals for the most cost-effective sequence of development of water, energy, and agricultural resources of the region. There was a consensus in the Consultative Group that new investment in the Valley should await the results of these studies.

The investment program was designed to direct available resources to development activities with the greatest promise of augmenting domestic commodity production, increasing exports, and replacing imports. A major thrust of the investment program was to rehabilitate and improve the utilization of existing capacities. The bulk of investment would be for economic infrastructure and agriculture. During 1984-86 ongoing projects would comprise over 60 percent of the public investment program. About 75 percent of the planned total investment would be quick yielding, expected to have a positive impact on productive economic activity during 1984-86. The program also included some rehabilitation and production-oriented projects, the benefits of which would not begin to be realized until after 1986, as well as a limited number of infrastructural projects geared to providing for Somalia's longer-term economic and social needs. The 1984-86 investment program is expected to be completely funded from abroad. According to the Somali authorities, foreign financing already committed or assured by donors, in the form of project grants and loans, amounts to about US$543 million (US$314 million in grants and US$229 million in loans). In consultation with the World Bank, the authorities plan to contact participants in the 1983 Consultative Group Meeting to firm up the indications of possible assistance made at the time of the meeting and to secure the additional financing.

Although the Somali authorities are aiming at full implementation of the public investment program for 1984-86, they recognize that the implementation rate may turn out to be less owing to physical, technical, financial, managerial, and administrative constraints. In the course of implementing the public investment program, if a shortfall in available financing or other constraints emerge, the Somali authorities plan to scale down the level of their public investment. The World Bank has proposed criteria for a system of project screening and decision making in this regard. 1/

In the view of the World Bank staff, the agreed-upon public investment program must be seen as an integral part of Somalia's overall medium-term recovery program. Thus, the Bank staff's assessment of the public investment program is based not only on the understandings arrived at in the Consultative Group Meeting concerning that program per se, as noted above, but also on an assumption that the Government will pursue the policy measures set out in its medium-term recovery program and execute its public investment program in an evolving policy environment of increasing liberalization of the Somali economy. The Bank staff considers the Government's preparation of its medium-term recovery program to represent a major accomplishment on the part of the Somalia authorities. The authorities and Bank staff both recognize, however, that preparation of the public investment program is a dynamic process, and the Bank staff expect that the Government will annually update its program on a rolling basis and progressively improve the program's data and analytic foundations, in consultation with Bank staff.

In February 1984, the Minister of Juba Valley Development informed donors that the Government of Somalia had decided to proceed with the implementation of the Bardhera Dam. As this is inconsistent with the agreement reached in Paris on the role of the Advisory Committee and affects the content of the public investment program, the World Bank is seeking a clarification from the authorities and has informed the Fund staff that it is reassessing its endorsement of the public investment program.

1/ These criteria are (a) the completion of viable ongoing projects with substantial sunk cost before undertaking new projects; (b) priority to be given to projects aimed at rehabilitation and better utilization of existing capacities; (c) emphasis on projects aimed at directly augmenting commodity production, particularly in livestock, bananas, other export crops, and in foodgrain and industrial products for import substitution; (d) projects with a quick pay-off; (e) infrastructure facilities directly aimed at supporting production for export and for import replacement; (f) projects aimed at mobilizing the initiative and resources of the private sector; (g) deferring projects with long gestation periods, while ensuring the necessary studies required for making decisions on medium- and long-term investments; (h) selection only of those projects which have an acceptable economic and financial rate of return, and, in the case of education and other social sector projects where rates of return cannot be calculated, undertaking of such projects only where there is assurance that their future recurrent expenditures can be fully accommodated in the budget.

V. Staff Appraisal

Reflecting mounting domestic and external financial imbalances, economic activity in Somalia in 1980 came to a virtual stand-still, the rate of inflation accelerated sharply, and pressures on the external sector position intensified. Against this background, Somalia launched in mid-1981 major adjustment efforts that have been supported by two successive stand-by arrangements with the Fund. Numerous supply and demand oriented measures have been implemented effectively. On the supply side, the Somali shilling was devalued several times, a managed exchange rate system was adopted, import restrictions were eased, price controls ceased to be enforced, several public enterprises were phased out of operation and the position of others started to be re-evaluated, and public sector investment was limited to on-going projects while a new three-year public investment program was formulated. On the demand side, financial policies were tightened significantly. Tax measures were introduced with a view to expanding the revenue base and enhancing the elasticity of the tax system, while tax collection procedures were strengthened. These receipts also benefitted from the impact of the devaluations on the domestic counterpart of grants. The expansion in expenditures was contained through a reduced rate of recruitment, virtually no cost-of-living salary adjustments, directives to ministries to effect economies, reduced capital outlays, and improved expenditure controls. The amelioration in the budgetary position allowed the Government to contract its net indebtedness to the banking system, giving the monetary authorities greater flexibility in the pursuit of their credit policy to the private sector. In the event, real monetary balances declined sharply in the three-year period 1981-83. Furthermore, the interest rate structure was revised upward twice during this period in order to improve resource allocation, mobilize savings, and enhance the process of financial intermediation. These policies contributed to a sharp curtailment in the growth in demand and a reduction in distortions in the economy. During 1981 and 1982, economic growth picked up significantly, the rate of inflation dropped sharply, and the overall external sector position improved.

The strengthened position of the Somali economy, together with the determined efforts of the authorities to pursue appropriate adjustment policies, mitigated the severe impact of the ban imposed by Saudi Arabia on cattle imports in 1983. In effect, tight financial policies were maintained, with the result that domestic liquidity declined in nominal terms and all performance criteria through end-September under the stand-by arrangement that expired in January 1984 were observed. Nonetheless, the shortfall in foreign exchange receipts, together with less favorable weather conditions than in previous years, affected supply conditions adversely contributing to a slowdown in economic activity and a pick-up in inflationary pressures. While the current account position of the balance of payments improved, this reflected a cutback in imports in line with foreign exchange availability.

The progress made in the last three years laid the foundation for tackling, in a more fundamental manner, the structural problems facing the Somali economy. In order to achieve a sustainable rate of economic growth, a gradual reduction in inflation, and the attainment of a viable balance of payments position over the medium term, the staff is of the view that policies contributing to the emergence of an economic and financial environment that would stimulate private sector economic activity with a concomitant improvement in resource allocation need to continue to be pursued. To this end, the policies should involve a liberalization of domestic and external pricing and marketing policies, while the public investment program should aim at complementing the envisaged gradual resurgence of private sector economic activity.

In the external sector, a reform of the exchange and trade system, designed to reflect market conditions and involving a significant reduction in trade restrictions, is essential to ensure increased export incentives and improved supply conditions. Early action is particularly important in the light of the present difficulties with cattle exports and of the need to liberalize the import system to reduce price pressures caused by the drought. More fundamentally, the reform would reduce the widening gap between the parallel and official market rates, which is continuing to hamper the flow of private remittances while the associated uncertainties stimulate a capital outflow. In the absence of appropriate reforms to stimulate exports and to allocate efficiently foreign exchange for imports, there may be problems in handling the debt service burden. In general, the medium-term outlook for sustainable rate of economic growth combined with external viability would be unfavorable in the absence of progressive structural reforms, including those in the external sector. On a technical matter, the staff would have preferred the termination of the multiple currency practice arising from the bonus scheme for remittances, which has had a limited effect, but in accordance with the request of the Somali authorities, the staff recommends extension of the Board's approval of this practice until the end of 1984 to give the authorities time to complete a review of their exchange rate policy.

The reform on the external sector could be reinforced by reducing the uncertainties of existing price controls, which are currently not being enforced. In this regard, pricing policies of public enterprises need to be reviewed in order to ensure that sales of their products are effected at market-determined prices. This, together with the institution of Boards of Directors on a wider scale and the introduction of an incentives scheme system for workers, would enhance the profitability of public enterprises. The staff welcomes the determination of the authorities to phase out of operation those enterprises deemed not to be viable, in light of the comprehensive study undertaken by an Inter-Ministerial Commission, and their intention to take additional measures as may be warranted to improve the operations of others. The conversion of the National Banana Board into a semi-public enterprise during 1983, with a majority holding by the private sector, is indicative of the manner in which the Somali authorities plan to proceed.

If the liberalization of the external sector and pricing policies were put in effect, they would complement the public investment program which is designed to direct available resources to the development activities with the greatest promise of augmenting domestic commodity production, increasing exports, and replacing imports. In consultation with the World Bank, the Government is contacting donors on a bilateral basis to firm up their indications of possible commitments made at the Consultative Group Meeting held in October 1983. However, if there should be a shortfall in available financing or if physical constraints should manifest themselves in the process of implementing the public investment program, the authorities will need to scale down the investment effort on the basis of criteria proposed by the World Bank. The staff urges the authorities to remain committed to the modalities of pursuing the investment program agreed upon in the Consultative Group Meeting, particularly with regard to the most economical manner of developing the Juba Valley. In the absence of an endorsement by the World Bank of the public investment program, it would be difficult to make further progress toward a structural adjustment program.

Financial policies have to be tailored to containing the growth in demand in accordance with the expected availability of domestic and external resources. However, the budget for 1984 involves a sharp increase in the deficit and will necessitate considerable credit from the banking system. Although Somalia has taken substantial revenue measures, efforts to improve the administration of the tax system will need to be redoubled in 1984 if the revenue target is to be attained. An important element relates to the effect of the exchange system on grants and customs duties. The reform of the exchange system would improve the budgetary position by increasing the budgetary receipts from these two sources. On the expenditure side, the growth in expenditures needs to be tailored to expected receipts. In the absence of measures to increase receipts significantly, expenditures need to be reduced in real terms, in the main through appropriate employment policies, the introduction of austerity measures, and a strengthening of expenditure controls. The staff welcomes the decisive action taken by the Government to discontinue the policy of automatic public sector employment of high school graduates and to undertake a study on the restructuring the civil service to improve its quality.

In order to dampen the persistent excess demand pressures in the economy, it is of paramount importance to ensure a contraction in domestic liquidity in real terms. To sustain the expansion in economic activity, credit to the nongovernment sector will have to be programmed to expand rapidly; however, unless fiscal policy is tightened significantly beyond the present budgetary provisions, the rate of overall credit creation would be incompatible with financial stability. In addition, an adjustment in the interest rate structure is essential to enhance resource allocation and mobilize domestic savings. To improve the process of financial intermediation, the staff welcomes the abolition of the monopoly position of the state-owned commercial bank and the attempts the authorities intend to make to attract reputable foreign banks into the country.

The authorities have taken in the last three years courageous and decisive measures that have improved the economic conditions in the country. While agreement had been reached on a structural adjustment program that was expected to be launched in early 1984, the authorities subsequently decided that the introduction of new reforms, particularly on the external side, needed to be delayed in view of the cattle ban and the potential effect of the drought. The staff is of the view that these factors increase the urgency for the introduction of the requisite measures. Without the continued pursuit of the adjustment effort, economic conditions could deteriorate rapidly, reversing the progress made in recent years.

VI. Proposed Decision

The following draft decision is recommended for adoption by the Executive Board:

1. The Fund takes this decision relating to Somalia's exchange measures subject to Article VIII, Section 2 (a) and 3, in concluding the 1983 Article IV Consultation with Somalia, and in the light of the 1983 Article IV Consultation with Somalia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance over Exchange Rate Policy).

2. The approval by Decision No. 7331-(83/84), adopted February 22, 1983, of Somalia's multiple currency practice arising from a bonus scheme described in EBS/83/15, which was extended by Decision No. 7594-(83/185) adopted December 29, 1983, is further extended until December 31, 1984.

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

(In millions of U.S. dollars)

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

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

1/ In the form of either loans or grants-in-kind. CIP refers to commodity import program and PIP to public investment program.
2/ Cash imports include foreign exchange, franco valuta, and external account imports.

Table II. Somalia: Foreign Financing, 1980-83

(In millions of U.S. dollars)

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

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

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

Table III. Somalia: External Debt and Debt Service, 1982-88 1/

(In millions of U.S. dollars, unless otherwise specified)

	1982	1983	1984	1985	1986	1987	1988
			Projections				
Outstanding external debt at year end	1,056	1,202	1,235	1,244	1,227	1,225	1,231
Concessional loans 2/	988 3/	1,091	1,128	1,153	1,164	1,187	1,213
Use of Fund credit 4/	68	111	107	91	63	38	18
Debt service (before relief) 5/	63.4	93.7	121.8	129.1	148.0	166.8	125.9
Amortization	42.8	66.9	94.6	103.3	123.9	145.0	106.2
Interest payments	20.6	26.8	27.2	25.8	24.1	21.8	19.7
Debt relief 6/	39.6	64.2	62.1	52.1	32.8	50.4	47.6
Amortization	32.8	58.0	57.5	48.1	29.8	47.7	45.5
Interest payments	6.8	6.2	4.6	4.0	3.0	2.7	2.1
Debt service (after relief, excluding Fund credit)	20.5	24.9	51.2	57.0	84.8	89.6	58.0
Amortization	10.0	8.9	33.2	39.2	66.3	71.8	41.4
Interest payments	10.5	16.0	18.0	17.8	18.5	17.8	16.6
IMF	3.3	4.6	8.5	20.0	30.4	26.8	20.3
Repurchases	--	--	3.9	16.0	27.8	25.5	19.3
Fund charges	3.3	4.6	4.6	4.0	2.6	1.3	1.0
Total debt service (after relief)	23.8	29.5	59.7	77.0	115.2	116.4	78.3
Amortization	10.0	8.9	37.1	55.2	94.1	97.3	60.7
Interest payments	13.8	20.6	22.6	21.8	21.1	19.1	17.6
Debt service ratio (percent)							
Before debt relief	32.5	54.2	71.2	67.6	70.5	72.5	50.0
After debt relief	12.2	17.0	34.9	40.3	54.9	50.6	31.1
Memorandum item							
Exports of goods and services 7/	195	173	171	191	210	230	252

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

1/ Public or publicly guaranteed debts on concessional terms. No purchases from the Fund are assumed during the period 1984-88. In the case of creditors other than the Fund, disbursements for 1984-86 are based on 85 percent of loan commitments made by the donors for the public investment program. For 1987-88 about the same level of disbursements as in 1986 are assumed. Portions of disbursements in 1983-1988 which differ from IBRD information are assumed to have an average interest rate of 2 percent, a grace period of 5 years, and a maturity of 15 years.

2/ Including Trust Fund.

3/ 1980 is used as the base year for computing outstanding debt. The level for 1980 is based on IBRD September 1983 figures, adjusted for IMF debt, and excludes debts to OAPEC Special Account and Qatar.

4/ Excluding Trust Fund.

5/ Incorporating a rollover of all debts to the Arab Monetary Fund.

6/ Debt relief includes debts to Abu Dhabi, China, Saudi Arabia, and U.S.S.R. which have been frozen; and debts to Iraq, Yugoslavia and Islamic Development Bank which have been rescheduled. Estimates incorporate obligations due to rescheduled debts.

7/ Cattle import ban by Saudi Arabia is assumed to remain in effect, along with the discontinuation of the Saudi oil grant to Somalia. Exports of nonfactor services during 1984-88 are assumed to rise at an annual rate of 10 percent.

Table IV. Somalia: Central Government Operations, 1980-83

(In millions of Somali shillings)

	1980	1981	1982	1983 Review proj.	1983 Prel. est.
Total revenue and grants	1,903	2,698	3,816	4,502	4,393
Revenue	1,421	2,251	2,588	3,084	3,102
Tax	(1,192)	(2,002)	(2,275)	(2,482)	(2,566)
Nontax	(229)	(249)	(313)	(602)	(536)
Grants 1/	482	435	1,056	1,288	1,106
Oil grant and commodity import program	(--)	(--)	(600)	(995)	(901)
Transfers from local authorities 2/	--	12	172	130	185
Total expenditure	3,132	3,720	5,366	5,371	5,676
Ordinary expenditure 3/	1,670	2,295	2,750	3,291	3,412
Investment expenditure 4/	1,330	1,425	2,461	1,957	2,097
Development budget	(162)	(286)	(348)	(330)	(501)
Transfers to local authorities 2/	132	--	155	123	167
Overall deficit (-)	-1,229	-1,022	-1,550	-869	-1,283
Financing	1,229	1,022	1,550	869	1,283
Foreign (net) 5/	545	681	1,724	1,144	1,564
Domestic	684	341	-174	-275	-281
Banking system	(671)	(347)	(-150)	(-275)	(-275)
Cash balances	(13)	(-6)	(-24)	(--)	(-6)
Memorandum items: 6/					
Overall deficit/Total expenditure	39.2	27.5	28.9	16.2	22.6
Overall deficit/Total revenue and grants	64.6	37.9	40.6	19.3	29.2
Foreign financing/Overall deficit	44.3	66.6	111.2	131.6	121.9
Bank financing/Overall deficit	54.6	34.0	-9.7	-31.6	-21.4
Deficit (excluding grants) 7/	1,711	1,457	2,606	2,157	2,389
Deficit (excluding grants)/Total expenditure	54.6	39.2	48.6	40.2	42.1

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

1/ Includes cash grants as well as grants in kind including project grants, Saudi oil grant, commodity import program, and budgetary support in the form of food aid.
2/ Complete accounts for local authorities are not available prior to 1982.
3/ Data for 1980-81 are according to the ordinary budget accounts of the Ministry of Finance; 1981 figures were adjusted to exclude estimates of the contingency fund for project expenditures. Ordinary expenditure data for 1982-83 are estimates derived from financing data.
4/ Includes all expenditures under the development budget and expenditures financed by project loans and grants in kind (which are partly administered under the contingency fund for development projects). Data for 1982-83 are actuals as reflected in the balance of payments. Data for 1980-81 are derived from financing data.
5/ From balance of payments data.
6/ All ratios expressed in percent.
7/ In millions of Somali shillings.

Table V. Somalia: Monetary Survey, 1980-83

(In millions of Somali shillings and in percent; end of period)

	1980 Dec.	1981 Dec.	1982 Dec.	1983 Dec. Preliminary estimate
	(In millions of Somali shillings)			
Net foreign assets 1/	144.8	126.4	-605.8	-1,703.7
Central Bank	-194.6	-804.0	-1,964.5	...
Commercial bank	339.4	930.4	1,358.7	...
Domestic credit	3,879.5	4,545.7	5,023.8	5,293.0
Government (net)	1,902.4	2,249.6	2,100.0	1,825.0
Other	1,977.2	2,296.1	2,923.8	3,468.0
Public enterprises	1,551.1	1,721.5	1,300.0	...
Private sector	426.1	574.6	1,623.8	...
Broad money	3,381.1	4,421.2	5,122.6	4,457.5
Money	2,783.2	3,674.1	4,108.4	...
Quasi-money	597.9	747.1	1,014.2	...
Other items (net) 1/	643.2	250.9	-704.6	-868.2
	(Percentage change from end of previous year)			
Domestic credit	31.2	17.2	10.5	5.4
Government (net)	54.5	18.3	-6.7	-13.1
Other	14.6	16.1	27.3	18.6
Broad money	20.2	30.8	15.9	-13.0

Sources: IMF, International Financial Statistics; data provided by the Central Bank of Somalia; and staff estimates.

1/ Includes valuation adjustments from December 1981 onward.

Table VI. Somalia: Financing of the Public Investment Program, 1984-86

(In millions of U.S. dollars)

	1984	1985	1986	1984-86
Public investment program	290.2	282.1	302.5	874.8
Project grants	178.1	159.2	156.0	493.3
Committed	(118.3)	(104.1)	(92.1)	(314.5)
Uncommitted	(59.8)	(55.1)	(63.9)	(178.8)
Project loans	87.3	71.4	70.2	228.9
Commodity import grants	24.8	51.5	76.3	152.6

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

SOMALIA - Basic Data

Area and population

Area	637,700 square kilometers
Population: Total (mid-1982 estimate)	5.1 million
Growth rate	3.1 per cent

	1980	1981	1982	1983 Prel. est.
	(Annual percentage changes)			
Selected economic indicators				
Exports, f.o.b.	25.5	-14.3	14.9	-22.9
Imports, c.i.f.	17.0	-8.5	13.3	-14.9
Government revenue and grants	5.1	41.8	41.4	15.1
Government expenditure	-3.8	18.8	44.2	5.8
Domestic credit	31.2	17.2	10.5	5.4
Domestic liquidity	20.2	30.8	15.9	-13.0
Import-weighted effective exchange rate (depreciation -)				
In nominal terms	0.3	-5.0	-27.9	-11.8
In real terms	36.7	21.0	-20.7	8.9
	(In millions of Somali shillings)			
Government finance				
Total revenue	1,421	2,251	2,588	3,102
Transfers from local authorities	--	12	172	185
Grants (excluding direct food aid for refugees)	482	435	1,056	1,106
Ordinary expenditure	-1,670	-2,295	-2,750	-3,412
Transfers to local authorities	-132	--	-155	-167
Investment expenditure	-1,330	-1,425	-2,461	-2,097
Overall deficit (-)	-1,229	-1,022	-1,550	-1,283
Financing	1,229	1,022	1,550	1,283
Foreign (net) 1/	545	681	1,724	1,564
Domestic	684	341	-174	-281
Banking system	(671)	(347)	(-150)	(-275)
Cash balances	(13)	(-6)	(-24)	(-6)
Overall deficit as percent of total expenditure	39.2	27.5	28.9	22.6

1/ Includes loans in kind.

SOMALIA - Basic Data (concluded)

	1980	1981	1982	1983 Prel. est.
Money and credit (end-year)	(In millions of Somali shillings)			
Foreign assets (net)	145	126	-606	-1,704
Domestic credit	3,879	4,546	5,024	5,293
Government (net)	1,902	2,250	2,100	1,825
Other	1,977	2,296	2,924	3,468
Money and quasi-money	3,381	4,421	5,123	4,457
Other items (net)	643	251	-705	-868
	(In millions of U.S. dollars)			
Balance of payments				
Exports, f.o.b.	133	114	131	101
Livestock	102	98	106	75
Bananas	8	6	8	8
Other	24	10	17	18
Imports, c.i.f. 1/	-461	-422	-478	-407
Foreign exchange	-276	-145	-193	-144
Franco valuta	-55	-60	--	--
External accounts	--	--	-5	-24
Other	-130	-217	-280	-239
Trade balance	-328	-308	-347	-306
Services (net)	-8	-1	9	-1
Transfers (net)	200	214	207	200
Private	57	64	50	52
Official 2/	143	150	157	148
Current account	-136	-95	-131	-107
Capital account	87	79	84	60
Private (net)	--	--	-39	-28
Official (net) 3/	87	79	123	88
Disbursement	(97)	(93)	(132)	(107)
Amortization	(-10)	(-14)	(-8)	(-8)
Other	(--)	(--)	(-1)	(-11)
Errors and omissions	21	3	-2	-10
Overall balance	-28	-13	-49	-57
Outstanding external debt (end-year)	694.6	886.8	1,056.5	1,202.5
Gross international reserves of Central Bank (end-year)	25	42	14	29
In number of months of cash imports, c.i.f.	0.9	2.5	0.8	2.1
	(1977 = 100)			
Mogadiscio consumer price index (annual averages)	217.1	313.4	387.6	523.3

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

SOMALIA - Fund Relations
(As of February 29, 1984)

I. Membership status

(a) Date of membership:	August 31, 1962
(b) Status:	Article XIV

A. Financial Relations

(Amounts in millions of SDRs, unless otherwise indicated)

II. General Department

(a) Quota:	44.2
(b) Total Fund holdings of Somali shillings:	150.7 (341.0 percent of quota)
(c) Fund credit:	106.5 (241.0 percent of quota)
Of which: credit tranches	34.5 (78.1 percent of quota)
enlarged access	72.0 (163.0 percent of quota)
(d) Reserve tranche position:	--
(e) Current operational budget (maximum use of currency):	--

	Limits	Outstanding	Uncalled
(f) Lending to the Fund:	--	--	--
GAB)	--	--	--
SFF)	--	--	--
Enlarged access)	--	--	--
Total)	--	--	--

III. Current Stand-by or Extended Arrangement and Special Facilities

(a) Current stand-by or extended arrangement: None

(b) Previous stand-by arrangements during the last 10 years

(i) Duration from July 15, 1982 to January 14, 1984	
(ii) Amount:	60.0
(iii) Utilization:	60.0
(iv) Undrawn balance:	--
(i) Duration from July 15, 1981 to July 14, 1982	
(ii) Amount:	43.1
(iii) Utilization:	43.1
(iv) Undrawn balance:	--
(i) Duration from February 27, 1980 to February 26, 1981	
(ii) Amount:	11.5
(iii) Utilization:	6.0
(iv) Undrawn balance:	5.5

(c) Special facilities (current year and past two years): None

SOMALIA - Fund Relations (continued)

IV. SDR Department

(a) Net cumulative allocation:	13.7
(b) Holdings:	0.7 (4.9 percent of net cumulative allocations)
(c) Current Designation Plan (amount of maximum designation):	None

V. Administered Accounts

(a) Trust Fund loans	
(i) Disbursed:	10.7
(ii) Outstanding:	10.7
(b) SFF Subsidy Account	
(i) Donations to Fund:	None
(ii) Loans to Fund:	None
(iii) Payments by Fund:	None

VI. Overdue Obligations to the Fund

(a) General Department:	Repurchases	None
	Charges	None
(b) SDR Department:	Charges	None
(c) Trust Fund:	Repayments	None
	Interest	None

VII. Somalia has used Fund resources since 1964

B. Nonfinancial Relations

VIII. Exchange rate arrangement:

Since July 1, 1983, the Somali shilling has been pegged to the SDR adjusted for relative price developments vis-à-vis the five countries included in the SDR basket. The daily exchange rate is maintained within margins of 7.5 percent around the fixed real-term relationship to the SDR with indicative bands of 2.25 percent. Since the adoption of the system, the Somali shilling has been devalued 13 percent against the U.S. dollar. On February 29, 1984, the mid-point between buying and selling rates for the U.S. dollar was So. Sh. 17.5556 per US$1.

IX. Last Article IV consultation:

Held in Mogadiscio November 23-December 9, 1982; Executive Board discussed the staff report (EBS/83/15 and SM/83/27) on February 22, 1983.

SOMALIA - Fund Relations (concluded)

The Executive Board's decision (Decision No. 7331-(83/34)), adopted February 22, 1983, was as follows:

1. The Fund takes this decision relating to Somalia's exchange measures subject to Article VIII, Sections 2 and 3, and in concluding the 1982 Article XIV consultation with Somalia, in the light of the 1982 Article IV consultation with Somalia conducted under Decision No. 5392-(77/63), adopted April 29, 1977 (Surveillance Over Exchange Rate Policies).

2. On January 1, 1983, Somalia introduced a bonus scheme, described in EBS/83/15, which gives rise to a multiple currency practice. In view of the comprehensive policies for balance of payments adjustment adopted by Somalia and, in particular, the intention of the authorities to eliminate that practice, the Fund grants approval for the retention of the multiple currency practice until December 31, 1983.

X. Technical assistance:

(a) CBD:	Since August 1982, an advisor, under the CBD technical assistance program has been serving at the Central Bank as an advisor on overall economic policies and on monitoring Somalia's economic program.
(b) FAD:	Beginning in December 1983 an advisor from the FAD panel has begun assisting the Ministry of Finance as a revenue advisor.
(c) Other:	None

XI. Resident Representative/Advisor: None

Financial Relations of the World Bank Group with Somalia

Date of membership, IBRD:		August 31, 1962
Capital subscription, IBRD:		SDR 18.9 million

IDA credits 1/	Committed	Disbursed
	(In millions of U.S. dollars)	
Agriculture, livestock, and rural development	57.7	36.1
Education	22.2	19.4
Energy	6.0	4.6
Industry	5.0	4.5
Transportation	50.7	47.9
Utilities	6.0	6.0
Total	147.6	118.5
Repayments	1.4	...
Debt outstanding (including undisbursed)	146.1	...
IFC operations	0.4	0.4

Promotion missions (mainly for banana rehabilitation, gypsum development, fishing project) in November 1980, April 1981, and March 1982; appraisal mission in July 1980 for Somali Molasses Company.

Source: World Bank.

1/ Through December 31, 1983.