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04941



United Nations Industrial Development Organization

Distr.
LIMITED

FD/WG.165/3
30 September 1973

ORIGINAL: ENGLISH

Meeting on Industrial Development Strategies
and Policies in Small Countries

Geneva, 29 - 30 November 1973

INDUSTRIAL DEVELOPMENT STRATEGY AND POLICIES:
THE EXPERIENCE OF THE SOMALI DEMOCRATIC REPUBLIC, 1950-72 ^{1/}

by

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CONTENTS

<u>Chapter</u>		<u>Page</u>
	Introduction	1
I	Prescriptions for industrialization	2 - 7
II	Industrialization: progress and achievements	8 - 14
III	The strategy of industrialization	15 - 21
IV	Industrial policies and resources	22 - 27
V	Institutions and industrialization	28 - 34
	Bibliography: References	35

APPENDIX

Table 1	Major industries established since 1960	36
Table 2	Growth of manufacturing sector 1967-1971	37
Table 3	Number of persons employed in industry 1968 and 1971	38

SUMMARY AND CONCLUSIONS

The industrial base of Somalia is very small. This is by and large attributable to the absence of basic pre-conditions for industrialisation, shortage of qualified manpower and inadequacy of power and water supplies, transport, managerial talents and above all a vigorous and sustained government commitment to industrialisation. Under these circumstances, industrial development have lagged behind and the progress made in absolute terms since 1960 has been very small indeed.

Most of the large industrial establishments are public enterprises which have been increasing rapidly relative to the private industrial units. The private sector has been encouraged, but the liberal and generous concessions and privileges given to the sector has not paid off.

The recent nationalisation programme seems to erode whatever confidence there was in the private sector and despite the government attempts to dispel fear, it will take sometime before the private sector comes up with more active involvement in the field of industry. Increased state participation will have to counter-balance the timidity of the private. But in order to shorten the transitional period and to encourage the private sector to play an active role in the sector, the relative roles of private and public must be legally spelled out unequivocally and in clear terms. This is important not only to induce the private ^{sector} to start new industries but also to encourage it to make the maximum use of the units it now operates.

The large number of small scale industries should be grouped and consolidated into economic size units through co-operative programme which will facilitate state intervention and support.

Most of the large industries are resource based and export oriented. It is important that the processing of the agricultural, livestock and mineral wealth be processed locally. The dependence on export markets compels the industrial units to be operated on modern technology. It is urgent however, to increase the training institutions available and to restructure the content of the training they impart. Good working relations must exist between the training institutions and the organs responsible for manpower planning.

Decentralisation of industries have to be taken much more seriously and growth poles be established. The three regional concentration points envisaged in earlier development plans must be pursued with vigour. There are essential services such as product design and quality control that have to be established. A trading unit of industrial products must be formed. This organ will greatly facilitate the commercialisation of industrial products and will eliminate the duplication emanating from constitution of commercial organs in all industrial plants. Development unit which have to undertake studies on industrial opportunity must be permanently institutionalised. This unit will go a long way to advise the government on measures to improve existing industries and to establish new enterprises.

INTRODUCTION

The present Somali Democratic Republic was formed in 1960 out of the amalgamation of the UK-British Somaliland and the Italian Trusteeship territory of Somalia. The size of the area is 620,000 sq. km. and its population is estimated at 3.0 million inhabitants, 75 percent of which are nomads, 15 percent rural and a mere 10 percent urban. The two colonial regimes have left almost nothing for Somalia to develop its own potentialities. The British have held Somalia as a source of supply of cheap meat and tutton to its large and sophisticated military garrison. No development beyond a limited elitist education system have been attempted. The Italian purpose of colonizing Somalia was to get a foothold in Africa which will facilitate its Ethiopian conquest. After this scheme failed they were given just ten years to prepare the country for Independence under the supervision of the United Nations. Hence its stay was not at any moment of a permanent nature to warrant heavy investment on the part of the Italian Government or the Italian private firms.

After Independence Somalia had ten years of rather easy going life without much commitment to serious development. Only in 1969 after the Revolution has the country steered clear from its path and active involvement of the state emerged.

None of the basic statistics are available. The livestock wealth of the country is not enumerated. No population census is conducted and no agricultural census have been made. Industrial surveys have been taken since 1967 on regular basis, but they cover firms of five or more workers. They give no adequate picture of the magnitude of the sector, under the circumstance the figures in the report represent more of orders of magnitude than precise statistical information.

1. PRE-CONDITIONS FOR INDUSTRIALIZATION

One of the most important pre-conditions for industrialization is the availability of a market. In Indonesia, the demand for industrial goods was negligible in the 1950's and although a lot of structural changes have been made it is still too small to attract industrial complexes today. The size of the market is very small, the population was about 2.7 million in 1960 and about 3.0 million 1971. Much more important is the smallness of the purchasing power of this population. Almost 75 percent of the population were either nomadic or living on marginally productive agricultural land. Agriculture, except in the case of agricultural plantations owned by a handful Italians, was subsistence in nature. The livestock population was large and could form the basis of sophisticated commercialisation but the herds were largely owned as a symbol of wealth. The nomadic population have by and large adapted themselves to the harsh requirements of their lives and sought only the basic needs essential for their survival. Hence, their demand for industrial good was minimal at best. The demand for industrial goods was marginalized on both ends; in size and in effectiveness. Since 1960, the condition of the population have changed. Commercialization of live tock have greatly expanded, thanks to the shortage of food in the world and the proximity of the Arabian oil rich states. Urban requirements of meat has also grown and some industrial units based on livestock have also been established locally. In agriculture, price stabilisation of cereals and oil bearing crops have augmented the purchasing power of the farmer. Notwithstanding these efforts, the local demand for industrial goods is still too small to induce establishment of large industrial units. No wonder that the few large industries established are export oriented. In the case of small scale industries, their proliferation and severe competition stifled their development on a sound basis.

The country is long and forms the shape of a triangle the top of the triangle being about 1,000 km. in length, and the tail or base of 1,200 km. long. It averages 300 to 400 km. in width. There are approximately 1,000 km. of shore line. Somalia had only a total of 613 km. of tarred roads in the 1950's. These were mainly constructed to facilitate the Fascist conquest of Ethiopia. The rest of the roads were earth and gravel roads mostly unpassable during the rainy seasons. The road conditions have not improved until 1960's when the total mileage of motorised roads have been boosted to 1352 km. There is no possibility of inland water transport. The Shebelle River is not at all suitable for it and only for a short stretches is usable. No rail-road exists. Air transport is expensive and have yet to cater for a large portion of the country.

There is also structural imbalance in the transport system. Almost all the investment on the sector is geared to the promotion of foreign trade and no road has so far been constructed for the promotion of internal trade. This might be due to the non-complementary of regional products and the large sparsity of population settlement, that made investment in roads prohibitive. The absence of roads and other means of communication have created pockets of small markets. Each pocket has developed its trade link with the rest of the world. Under these circumstances, transport has not at all facilitated the development of raw materials. Construction materials available in the north of the country could not be exploited because they are far away from consumer centre in the south and no means of transport is yet available. Exploitation of other mineral deposits await transport development.

Somalia has yet to strike adequate raw material for energy production. Geological surveys and exploratory drillings are being carried out on land and off-shore to reveal economically exploitable deposits of natural gas, coal, oil and other energy raw materials. In the absence of such materials,

The country depends on thermal energy and on imported material. In 1960, major towns had electricity supplies and these were mainly for lighting purposes. Neither their tariffs, nor their reliability induced industrial establishments. This situation has improved the situation only a little. A survey conducted in 1968 on electricity reveals that out of 20 towns equipped with electricity supply, the system of 10 were out of operation. The average capacity of the power stations operating was 240 kw. Only 7 out of 20 had reserve capacities sufficiently high to guarantee uninterrupted power supply after breakdown and only four towns had around-the-clock supply. Since 1968, some improvements have been made but these were more of rural electrification than industrial oriented. Hence, electricity supplies are still costly and their reliability inadequate to attract industrial establishments. While no data on industries having their supplies from the public utilities is made in Mogadiscio, almost all of them have their own reserves. All industrial establishments outside Mogadiscio not only have their own sources of supply of electricity but some of them provide electricity for lighting purposes to the townships they are located. No town had the facilities of industrial water in 1960. Today three major cities have these facilities.

No industrial estates have been established. Mogadiscio has an area reserved for industrial establishments but no common services have so far been developed.

1/ Present situation and future development of the Energy Sector in the Somali Republic - Ministry of Planning and Co-ordination, Mogadiscio 1969.

The major industrial establishments in the country are based on the available and known raw materials of livestock, fisheries or agriculture proper. While raw materials were available, they have proved to be difficult to secure for lack of organizational structures. The nomad is on the move and cannot be relied for continuity of supply and the farmer has his own problems, one of which is the unreliability of rains and the fisherman could not be relocated in the most important areas or fisheries potential and are thinly spread and do not form a source for meaningful industrial production. The most successful industrial establishments are the integrated projects, where the industry and the supply of raw materials are simultaneously undertaken the same management or where elaborate network of supply is established. The Government provides adequate legal provisions for the industries to import the raw material not available within the country freely and without import restrictions.

The most intractable problem in development is the availability of skilled personnel. Because of lack of industrial base, the new industrial establishment serves more as a training ground for future industrial workers than an investment which will make immediate returns. There are only two institutes that have been effectively developed to train middle level technical personnel. Taking account of the normal gestation periods of such institutions and the smallness of their output, there was and still is severe shortage of skilled manpower. Two major studies dealing with this problem have been undertaken in 1965 and 1971. It is pertinent to note below the categories where shortages were foreseen:

1/ The Manpower Situation in Somalia, Ministry of Health and Labour, Mogadiscio, 1965.

2/ Development Programme 1971-73, Ministry of Planning and Co-ordination, Mogadiscio, 1971.

SOMALI DEPARTMENT OF PLANNED ECONOMY

SOMALI DEPARTMENT OF PLANNED ECONOMY

	Employment Category	Development Programme
Professionals	2,50	924
Executive	150	7
Clerical	1,250	Surplus
Para-Technician	600	31
Craftsmen	1,000	2,684

It seems that the Development Programme under-estimates the shortages in the "executives" and the clerical categories. It should, however, be noted that the figures are projections upto 1975, a time when a large number of Somalis being trained abroad are expected to be back. The quality of training needed is not reflected in these studies which makes most of the posts occupied covered with persons having less than the requirements called for. The rather large shortages projected for the craftsmen is indicative of the severe constraint in middle level technicians and skilled workers and this category should be interpreted in a general terms.

The Somali Credit Bank was established in 1959 to provide medium and long term loans to industrial enterprises. This institution failed and in 1968 the Somali Development Bank was created to take its place. These institutions were not formed for industrial financing alone. They have to participate in the development of all productive sectors and as such all the industrial requirements for finance have not been met by these institutions. More of the policies changes of the Somali Development Bank and the role of Commercial Banks is dealt with other parts of this paper.

No restrictions are placed on the importation of machinery and equipment of industrial establishments. Every facility is extended to them by way of exemptions of import duties.

Entrepreneurial talents are not available in the field of industrial development. The few nationals who ventured into industry have done so under joint venture with private firms and this was very small in magnitude and in importance. Understandably, these were merchants who accumulated financial resources and had the backing of the banking institutions. With the nationalisation of commerce and trade, much of the private sector in these activities is expected to be released for productive sectors, including industry.

III. INDUSTRIAL ACHIEVEMENT

In 1960, there was virtually one large industry (a sugar plant) and a few small and cottage industries. In the preceding section of the paper it would be noted that while potentialities were there no much effort have been made to encourage the process of industrialisation by developing its basic pre-requisites. But industrial surveys conducted regularly since 1967 indicate an encouraging growth rate in terms of total employment, value added or gross output. Of course the growth rates are magnified by the price changes, improvement in the statistical coverage and the smallness of the industrial base.

The major 21 new industrial establishments set-up since 1960 are given in Table 1. Of these new units 13 are in food manufacturing, 2 in leverage, 4 in printing, 2 in footwear and 3 in cosmetics industries.

The short period for which statistical information are available, indicate that most of the industrial establishment are consumer goods industries. Of 122 establishments enumerated for 1967, 89 were consumer goods industries and the rest intermediate goods industries. The major capital good industry was established. Consumer goods industries accounted for 25 percent of the total value added generated in the manufacturing sector. The percentage has, however, increased to 37.4 in 1971 because of the sharp growth in food manufacturing which has more than doubled in the period under consideration. Total output of capital goods aimed at satisfying the simple agricultural and domestic requirements i.e. agricultural implements and the production units are scattered over the country as cottage industries. Because of the limitation of the statistical surveys, a large portion of these are not covered. In the initial stage of industrial development, consumer goods units will usually be established and the concentration of such industries in Somalia in relation to capital and intermediary goods is not altogether surprising.

The productive sector of the country is based on the traditional surplus of the country such as livestock, agriculture and fisheries. 20 percent of the total industrial value added was responsible by industries based on the national resources in 1967. This percentage increased in 1971 to 24 which is attributable to large food manufacturing units established. Building material industry is not developed to any appreciable degree. This is not in any way due to shortage of suitable materials, on the contrary a large deposit of gypsum was discovered before independence and the availability of raw materials for cement production and large clay deposits is not in doubt. The main problem was that the deposits were far away from the consumption centres and the almost total absence of reliable means of transport stood in the way of making use of them. At present there are only 33 units, all over the country, producing structural clay products and tiles. It accounts for a negligible amount of the total value added of the manufacturing sector. But because, the surveys were of establishments of 10 or more employees, a large number of units engaged in building construction remains uncovered. Another study recently undertaken, throws some light on the size of labour force engaged in the subsector^{1/} and the increase in construction activities now scheduled and the very important, which is steadily increasing, there are a number of projects in this field which are now under construction which includes a cement factory, a brick factory and tile plant.

The major industrial establishments in Somalia have by and large relied on export markets and the medium and small scale industries on domestic markets. This is a rather sound policy in a country whose market lacks homogeneity because of absence of infrastructural facilities to support them. The most successful projects which aim for export markets

^{1/} The Manpower Implications of Current Development Strategies.
Ministry of Labour, Mogadiscio, August 1972.

are the meat tanning plants and fish canneries. Other commodities such as leather products and hides are also exported. Export industries have to compete with the rest of the world for markets and as such have to operate on modern technology and call on the best brains in the country. The success of agricultural based industries is greatly enhanced by the shortage of food in the world and the relative endowment of these resources in Somalia. The relative size of the industrial export is only 5.7% of the total export. It is small but increasing at a rapid rate, a fact that encouraged the country to put up other projects and complex network of service, to support these industries. In these efforts Somalia has a large resources of livestock to divert from export as live animals to be processed. The livestock export is shown below :

Figure 11. Livestock Export

	1969	1971
Sheep/Goat	720,000	1,617,255
Cattle	27,000	77,089
Camels	24,050	21,125

Source: Ministry of Planning and Co-ordination.

The proportion of the manufacturing output exported roughly stands at 5 percent. Somalia has no plants which are specifically designed to meet regional requirements at present. But as it is now awaiting the response of the East African Economic Community to its application for membership, there are possibilities to harmonize industrial units to take account of the enlarged market.

The absence of basic estimates of national accounts have been referred to earlier. Table 2 shows the growth of manufacturing sector from 1967 to 1971. It might be noted that the total gross output of the manufacturing unit employing five or more workers increased from So.Sh. 4 million in 1967 to 10.07 million in 1971. Data relating to non-factory type small scale units and cottage and handi-craft units is incomplete. But, on the basis of a reasonable assumption that output in this sector normally increases at a rate of 2 to 3% a year, in line with population growth, and using available data on number of persons engaged in the sector, it seems that the output of the entire industrial sector increased during 1967-71 at a cumulative rate of 17 to 18 percent a year^{1/}. Taking account of the rough estimate of GDP at So.Sh. 1,646 million, the shares of agriculture, industry and services are estimated as under:

Figure 171. GDP Estimates

Sector	So.Shs. (million)	Share
Agriculture	670	40.7%
Industry	153	9.3%
Services	823	50.0%
	<u>1646</u>	<u>100.0%</u>

The value added of the manufacturing industry increased from 44.4 in 1967 to 144.1 in 1971 at 25% annual growth rate. This is a rough estimate because it is not complete in coverage, and does not take into account price changes.

Table 3 of the report indicates the distribution of the industries on their relative sizes. In 1968, 1 establishments were employing more than 100 persons, 40 between 10 to 99 workers and 50 less than 10.

^{1/} Draft: 1974-78 Industrial Programme (unpublished)

In 1971, there were 11 Establishments employing more than 100 persons, 71 between 10 to 99 and 13 less than 10 workers. The increase of small scale industries is not completely attributable to increase in actual establishments alone but improvement in the statistical coverage has also been effected. The large increase in the large units is by and large accountable to the state participation in the field of industry. The large manufacturing establishments in 1971 accounts for about 65 percent of the total industrial output. While no figures are available for the earlier years of 1960's for comparison purposes, it might be noted that in 1960, there was only one major industry in the whole country.

The large industrial establishments are mostly public enterprises, while the medium and small scale industries are private. The predominance of the public owned establishments is indicated by the relative contribution to the value of gross output which is indicated below:

Figure IV. Private and Public Ownership of Industries

Industrial Group	Public	Private	Total
Food Manufacturing	80.4	19.6	100.0
Furniture and Fixtures	100.0	0.0	100.00
Others	65.3	34.7	100.0
	80.0	20.0	100.0

Source: Industrial Production 1971, Mogadiscio, 1972

In absolute terms the public sector accounts for So.Sh.158.6 million out of the total national gross output of industry of So.Sh.195.7 million. In other words the public sector generates 81 percent of the gross output. The private sector is more pronounced in small scale and cottage industries which have not been covered on any of the industrial surveys. The share of the private sector has been greatly narrowed by the recent nationalisation of all printing industry and the nationalisation of the only large textile plant jointly owned by the state with foreign company.

The relative importance of the private sector in the economy has been marginalized by the Government's policy of nationalization. The establishment of a number of nationalized enterprises, including the oil industry, indicating an irreversible trend in this direction.

It must not be overlooked, however, that the major apprehension of the private sector is the Government's intervention in the economy. On May 7, 1970, the Somali Revolutionary Council enacted its first nationalization law, whereby a number of foreign banks and companies operating in the territory were nationalized. Isma'il Mohamed Isma'il, the President of the Supreme Revolutionary Council, in announcing to the Somali people the decision taken by the Council, stressed that the purpose of the nationalization was to bring the country's economic structure in line with the changed political conditions by taking the national economy away from foreign control. By such measures he continued "We have no intention of creating public enterprises subject to the whims and inefficiency of a bureaucracy in place of private enterprises, but we do intend to have in our own hands the effective management of the decisive sector of our economy in order to channel our available resources towards the realization of objectives capable of meeting the most pressing needs of the population. The nationalization measures that have been undertaken have the following immediate objectives: the formation and enhancement of capital savings in order to generate more capital for investments; the expansion of the demand for domestic goods; the growth of a national industry; the reduction of imports and the expansion of exports. In concluding his address, the President of the Supreme Revolutionary Council, expressly stated that the Government intends to safeguard foreign investments on condition that such investment are geared to the nation's development plans. Nationalization has, however, given rise to certain allegations in the minds of the businessmen and the Government's policy towards the relative roles of the private and public sectors has not yet been fully clarified, to the satisfaction of the private sector, despite various efforts to dispel doubts.

The share of total employment of the manufacturing sector is small. It accounts for roughly 2 percent of the total labour force employed. Table 2 shows the distribution of the labour force in the sector. It might be found that food industries absorbed 56 percent of the total labour force engaged in industry and textile 12 percent in 1971, 65 percent of the people engaged in the sector are in the public sector and the rest in the private. 75 percent of the total wage bill was for the public sector. No comparable figures for early 1960's is available, but all indications show that the labour force engaged in the sector has been growing rapidly.

Consolidated a first time. This is the first time that the development Programme, 1958-1960 and the current development programme (1961-1973). The place of industrial development in the development has been clearly articulated in these documents. The role of the government in industrialization have changed since the independence was established. The emphasis on active state involvement in industrial process was spelt out in the Five Year Plan, but since the publication of the document, the role of the government gradually receded into the background, giving way to the private sector. After the Revolution in 1960, the commitment of the state to the public sector emerges once again with much more forceful impetus and with an ideological commitment. The Five Year Plan recognized the basic limitations facing industrial development. Smallness of market, shortage of qualified industrial workers and management cadres and the inadequacy of social over-heads in terms of cheap fuel and power and transport and communication. The absence of such of these pre-requisites compelled investors to set them up in conjunction with their investment, making the establishment of industrial units expensive and prohibitively uneconomical. Under these circumstances, the Plan have not set up any qualitative targets for the development of the manufacturing sector. This has made all the more difficult in paucity of statistical data on the economy. The project approach was followed by incorporating specific projects such as the establishment of the following projects: a meat, fish, milk and textile factories and a host of small scale industries. The role of the private sector for obvious reasons was also encouraged and supported. For one thing the magnitude of investment called for big industrial development was difficult for the government to accommodate alone.

The ~~Industrial Development Programme 1968-1970~~ made no new proposals for industrial establishments, except for a cement factory, which has not, for technical reasons, been implemented. By its objectives, the ~~Programme~~ was of a consolidatory nature and has concentrated on improving the efficiency of the existing units and completion of on-going projects to lay the way for more ambitious industrial programmes in the future. One of the most important aims of the ~~Programme~~ was to rectify the situation or shortage of enough basic resources studies that could attract investments of the public and private sectors. Consequently, the ~~Development Programme 1971-1973~~ has come up with more industrial projects. The most critical area of industrial development has been in respect of small scale industries which have not received the attention they deserved and the planned targets in connection with small scale and cottage industries have not been fully implemented. Otherwise in the ~~1971-1973 Programme~~, industrial projects have well advanced in the implementation and the rate of fulfillment of plan targets is 96.4 percent.

The industrial programmes in development plans were drawn out in the form of projects and policy directions relating to the improvement of existing industries and the establishment of new capacities. Institutional arrangements to further the development of the sector and specific measures to encourage the private sector to play a more active role in the process of industrialisation were also dealt with in full. To make maximum use of industrial establishments, to ensure constant and reliable source of supply of raw materials and to effect the maximum linkage effect, industries have been tailored to the available known resources of the country. Most of the projects outlined in plan documents were therefore, resource-based projects which aim either at import substitution or export promotion.

Implementation of industrial projects is not easy in a developing country that lacks all the necessary equipments and pre conditions. The industrial unit proposals in plan documents were not more than project ideas. They have to be first examined more fully and their social and economic importance studied. Because of the shortage of well documented projects, actual investments had to await the finalisation of the studies. The whole process took long time and execution of development projects got, consequently, delayed. The establishment of two consultancy services in the Ministry of Planning was aimed at rectifying this shortcoming. By and large the priorities and projects outlined in development plans have been followed.

The plans have given all out support and encouragement for the private sector to venture into the field of industry. In line with this policy the private sector have identified and implemented some industrial projects outside the plan projects. The level of investment of one private sector has not been satisfactory and the reasons for these are examined in more details in other sections of this paper. The private investments were in general in conformity with the general objectives and directives of the plans.

The Ministry of Planning and Co-ordination in collaboration with the Ministry of Industry undertake the basic studies of projects and their evaluation. The projects are then scrutinized and approved by the Planning Commission. The same organs are also responsible to evaluate the commercial availability of the projects. The tariff concessions required by industries are examined by the Ministry of Finance in close collaboration with Ministry of Planning. There is a foreign investment law which provides specific concessions to industrial investors in a variety of ways, including tariff concessions.

As stated earlier, development plans cover public sector programmes. Private investments both domestic and foreign investments, save in cases where such investments are of a joint venture between the government and the foreign investors, are not covered by the plans.

Government industrial policies and strategy are clear in their objectives and intentions. Since the Revolution in October, 1969, the need for public statements was felt necessary to win the confidence of the private sector which was cautious and timid in the face of new situation, and to dispel doubts about the government intentions after a wide range of nationalisation measures were undertaken. The members of the Supreme Revolutionary Council have time and again stressed the government's desire to encourage the private sector venture into the field of industry. The state intervention in commerce and trade have been construed as an important measure not only to give more resources to government for socio-economic development but also to divert the private sector from the speculative enterprises to more riskier ventures such as industry. No industrial plant except the sugar plant which were 50% state-owned and for which the state had an option of taking up the rest of the shares, was nationalised. Electricity plants have been taken up on the grounds of being strategic industries. Hence while the government is fully committed to the enlargement of the state sector in the whole economy, it feels that there is scope for the private initiative in the fields such as industry.

In 1960, Somalia inherited a chronic budgetary and trade deficits. The government had to rely on friendly countries to make the ordinary budget balance. There was no ready source to finance development expenditure. The deficit in the ordinary budget persisted until after the Revolution when Somalia for the first time obtained a surplus in 1971. The role of the State in development was minimal before then and financing of development projects had to be relegated to foreign aid. The main thrust of

Industrialisation case. From this it is clear that the State has to take the State role to direct investment at the level of the economy and to guide into direct investment at the national level. The State will continue to dominate the sector in the future. It is not clear whether national or foreign will have a role to play in the drafting of industrial development plans and programmes.

A number of measures to make export of manufactured goods profitable and attractive in comparison to domestic sales have been made by the government by conducting market studies for a number of commodities and effect changes in the production mix by making extensive technological alterations to make the products in line with the tastes and the designs attractive enough to foreign consumers. On the political side, government have in its bilateral negotiations, strived hard to make its products penetrate into new markets. Establishment of extensive auxiliary facilities have been undertaken to ensure the acceptability of products in high income markets and to guarantee reliability of supply of raw materials. Export taxes are not levied on export of manufactured goods at all. To what extent these measures are successful is difficult to say. There are fair indications of the success of the efforts the government is putting up to make enterprises profitable. It might be safely assumed that severe shortage of food manufacturing goods have greatly enhanced the effectiveness of the internal measures to promote their export. Otherwise, the keen competition facing manufactured goods in the world and the tariff barriers put-up by industrialised countries on imported goods from the developing countries would have stifled these efforts. The tapping of market potentials in Africa and the Socialist countries have also contributed to the success of the government efforts.

In a developing country which suffers from lack of qualified technical personnel, shortage of the training institutions and shallness of market

It is clear that with a rapidly growing population, the presence of large unskilled and uneducated population, the industrial production can only be developed through a highly sophisticated and well-orientated export orientation. This is the present main priority of industrial development. The labour force is concentrated in the small and cottage industries. Large industrial establishments are generally capital intensive. The government has taken up measures to encourage the sector to employ as many workers as possible through various schemes of the private sector. But because of the shortage of unemployed labour force in the country, the emphasis is now in the development of various training institutions and upgrading the existing staff. Unless capital intensive technique of production is favoured for economic reasons and this might be the case for a large number of export-oriented projects, labour intensive technique is encouraged. This is because until such a time that the training institutions in the country are streamlined and permanent source of skilled technicians are found, industrial sector should form the training ground for the future skilled workers.

The development plans have privileged the establishment of three major industrial poles^{1/} namely: Mogadiscio, Harardira and Kisumu. Little has, however, been done^{2/} by the way of the decentralisation of industrial establishments. In 1971, Benadir Region accounted for about 15 percent of the total establishments and over 30 percent of the total industrial output, showing almost total centralisation of industries in a single region. The government is breaking this monopoly and industrial establishments are being spread throughout the country, but such measure will take some time to make a dent in centralisation. The small scale industries are now being

1/ See The Development Programme 1971-1973 and also the Short Term Development Programme 1958-1970.

2/ See Industrial Production 1971, Mogadiscio, 1972.

grouped on co-operative basis to upgrade them to economic sizes. The establishment of emporia and collection centres at the regions, aims at strengthening rural industries, but no concerted effort or articulate and operational measures have yet been formulated in this sub-sector.

The Ministry of Planning and Co-ordination frequently engages consulting services to examine industrial projects. Technical units in the Ministry supported by friendly countries are also engaged in rendering technical assistance and advisory services on industrial projects, including the question of technology. UNIDO, has been of tremendous assistance since its establishment to reputable advisers on a variety of missions. All these services together with the increased national capability, ensured by a large number of graduates now back from their studies, abroad, advise the government on the best technology suitable under the Somali conditions. There were costly mistakes which have sharpened the experience of the country and enhanced the vigilance of the responsible organs regarding this question.

One of the major problems of the Government of Somalia is the confrontation between its needs for revenue to finance its activities in government and its limited resources. The revenue from the Government of Somalia will be more than compensated for by the increased income generated by these industrial establishments in the future. This is a sound long term policy. But the government have to generate new ways to finance its administrative apparatus and to pay some for development work. This confrontation is more critical in Somalia which depends heavily on customs duties for revenue. Somalia depends on indirect taxes which accounts for 96.2 percent of the total revenue and 40 percent of this revenue is derived from import and export duties. This structural imbalance of the revenue makes any incentives to industries rather costly. This is more so when Somalia has been suffering a chronic deficit since 1960 and has just, in 1971, succeeded to balance its ordinary budget at a great national sacrifice by introducing a rather steeply graduated development levy on all income earners.

In spite of all these problems, certain structural change in tariffs were made in the past to facilitate industrial investments, construction of new industrial projects and for operational purposes. Machinery and equipments for setting up industrial units were normally exempted from payment of customs duty. The customs duties concessions are made on an ad hoc basis under the discretion of the Ministry of Finance which is too mindful of the revenue it might lose in granting the concession. A more liberal policy in this respect is needed. The indigenous products were protected from unfair competition from low priced imported products by raising the import duties on the latter category.

of goods. The duty on raw materials or unworked materials did not have to be paid in the case of new industries. The new industries were allowed a special concession for a specified period to avoid any operational losses due to the initial inefficiency group. Exemptions from import duties and other port charges for import of raw material and other things are granted in the early phase of the operation of the industrial units. It is granted to let the units stand on their own feet. To provide relief, first rate at 35% of income tax. Temporary income tax exemption in favour of industrial or agricultural enterprises are granted. According to the income tax law :-

- i- The Ministry of Finance may grant for a period not exceeding 10 years whole or partial exemption to new industries or agricultural enterprises.
- ii- This grant will be given where the enterprise proves that it will run extraordinary risks and that it will use more advanced techniques.
- iii- This grant will be given where the enterprise proves that it will run extraordinary risks and that the economic value of the goods will be increased.
- iv- This exemption shall only be granted in respect of income not exceeding 40% of the investment and only for the period which in the opinion of the Ministry of Finance, will be required for the amortisation of the invested capital.
- v- 40% of the undistributed profit of industrial enterprises is partially exempted from payment of income tax.

The depreciation rate is specified in the income tax law and is normally allowed on a reasonable proportion to the duration of life of the property concerned.

Income tax is jointly shared from the income from buildings and other permanent structures used for purposes of a tyical industrial activity, and upon income derived from such industrial activity, provided that such industrial activity is directly carried out by the owner of the building.

A foreign investment law was enacted as early as 1960. This was amended and modified in 1968 and is still effective in the country. According to this law, any foreign juridicals or Somali nationals residing abroad who intend to transfer foreign capital to Somalia or to re-invest out of funds resulting from previously realized investments in Somalia must give advance notice of their intention. This must give information needed to determine whether the proposed investments will be used to create new productive enterprises or enlarge, renew, reactivate or transform existing ones. Productive enterprises are considered those established to produce goods and services and which are of benefit to the economic development of Somalia. This law encourages foreign investors as it gives more concessions to them. The profits, income, interest, installment payments and revenues accruing from fixed assets or loan investments can be freely transferred abroad upto 15 percent of the capital invested. Where it is considered necessary and in the national interest, total or partial exemption might be granted to any enterprise from the levy of import and municipal tax for a period not exceeding five years.

The foreign investor can re-invest profits but this must be notified to the Committee on foreign investments. The profit re-investments do not require any previous authorization unless they reach an aggregate amount which is greater than that of the initial registered capital for the firm in question.

If an investor who has acquired a part of his assets in Somalia, in accordance with the provisions of the present law, dies within (1) years of the date of his death, his property, after this date, the transfer of real estate and movable property granted by the law. Encouragement of local participation in the investment, including economic activities, in Somalia, shall be given preference to local citizens residing in Somalia. Property of enterprises registered in Somalia is accorded in accordance with the provisions of this law in the case of expropriation, or measures of nationalization, or any other administrative forms of compulsory transfer of property. In case of such an expropriation or nationalization, suitable compensation is paid.

Any dispute between the investor and enterprise or of an investment registered in accordance with this law and the government of Somalia will be settled as far as possible through discussions and agreements between the parties concerned and the Committee on foreign investment. If no settlement is reached within 90 days, the law provided for arbitration. The law also permits facilities for hiring foreign personnel needed for the enterprises. The personnel is authorized to transfer to their country up to 70 percent of the salaries, wages, gratuities, and allowances paid to them in Somalia.

The transfer of assets, capital and income under the terms of the present law, shall take place through the National Bank. The Committee on foreign investment shall advise the bank to effect this. This transfer is conditional upon payment of income tax and other relevant taxes.

The private investment in Somalia is quite sizeable in the establishment of small scale industries which are spread over the length

and breadth of the industrial sector. The industrial sector would need to be encouraged to expand its activities to the overall industrial sector. The Government has taken steps to encourage given to the private sector. The Government has also taken steps to improve upon for more as as. The Government has also taken steps to improve upon from shortages in the industrial sector. The Government has also taken steps to improve upon from shortages in the industrial sector. While the intensive measures taken to improve upon from shortages in the industrial sector, large infrastructural projects of roads, harbours and communication links are being undertaken to link the various parts of the country to make it a homogenous market. In order to produce the kind of trained manpower needed by industrial sector, a liberal policy of training small nationals abroad in the technical fields have been encouraged since independence. The training institutions in the country, however, are few and measures have been taken to upgrade their levels and to improve the content of training they impart to make them more in line with the manpower requirements of the industrial sector for middle level technicians. Intensive exploratory measures to tap the potentialities of the economy have also been undertaken through surveys and resources studies. The findings of such studies are propagated and publicised to arouse the interest of investors throughout the country.

V. INSTITUTIONS AND INDUSTRIALISATION

The overall industrial strategy and objectives are formulated by the Ministry of Industry under the general policies and directives for economic development formulated by the Ministry of Planning and Co-ordination and approved by the Planning Commission. The commission which is composed of the economic and social Secretaries of State and chaired by the Chairman of the Supreme Revolutionary Council is the Supreme technical organ responsible for the overall development strategy of the national economy.

The Ministry of Industry initiates the draft of the sectoral objectives and strategy. The draft is not mandatory unless approved by the Commission. Hence its approval is essential. On the basis of approved strategy, the Ministry of Industry in close collaboration with the organs of the government having any bearing on industrial development prepares the sectoral projects and programmes. The collaboration is generally achieved through high level technical committee composed of such Ministries as Industry, Planning, Agriculture and Somali Development Bank. Representatives of public utilities are also called upon. The main function of the unit is to hammer out sectoral balances. It is the responsibility of the Ministry of Industry to appraise projects in the sector before their approval from the Planning Commission are sought. In order to carry out this enormous responsibility, the development plans^{1/} have called for the establishment of planning units in Ministry. This unit has not yet been established to carry out the work. The appraisal of projects are done by the few hands available in the Ministry who are

^{1/} See Development Programme 1971-1973: Pp. 22-23

being responsible for the assignment. The government having fully realized these difficulties have recently set up the Ministry of Industry from what was formerly the Ministry of Industry and Commerce. This measure will give more attention to industrial development.

The Ministry of Industry has the full responsibility of ensuring that economic policies facilitate rapid industrial development. It reports on problems that hamper industrial growth and proposes measures to forestall or remove obstacles in the way of industrialization. Responsibility to monitor the development of the sector is one thing and actually living up to the responsibility is another. The Ministry is ill-staffed and the few graduates recently recruited have yet to gain adequate experience to carry out the responsibility. At present the effects of government policies on industrial development are brought to the attention of government by such organs as the Somali Development Bank and the Ministry of Planning besides the Ministry of Industry. This is, however, only a convenient measure to counter-balance the weakness of the Ministry of Industry. The establishment of an ambitious programme for strengthening of the Ministry with the assistance of the UNICE has the objective to come up with a permanent solution by giving top level expertise to train the Somali nationals.

There are a number of organs responsible for the implementation of public sector industrial projects. Once industrial project is approved, the Ministry of Industry has to work out the schedule of its implementation. Negotiations on machinery and other formalities with foreign companies are carried out by the Ministry of Industry. The construction and erection works are done by the Ministry of Public Works either directly

or through its supervision. After the approval of the Board, the Ministry of Industry is responsible for the execution of the project. Normally the project is given financial backing and is carried out under the direct supervision of the Ministry of Industry. The Ministry reports to the Ministry of Planning on the performance of the project and put up suggestions for improvement. The Ministry is also expected to take more initiative in the implementation of industrial projects not only as financier but also as an investor. In productive public sector projects. More on this aspect of the task is given in the later sections of the paper. Ministry of Finance plays the vital role of disbursement of funds or stands by the project for guarantee.

There is a law which governs foreign investments and all applications for the concession and privileges of the law are processed by the Foreign Investment Committee. The implementation of the law is carried out by the Ministry of Finance. The same Ministry implements the concession granted to the national private investors. Hence after the concession are given all investors negotiate with one focal point in the government. Ministries of Planning and Industry step in when the concessions are not satisfactorily implemented and press for their execution.

In 1959 the need to establish an institution which will cater for the needs of investors in the productive sectors of the economy for loans was fully realised. Hence the Central Credit Bank was set up. The Bank has discharged its obligation on a rather unorthodox system. It was lending out on the basis of political pay-off and consequently has failed to live up to its responsibilities. No wonder that the few loans dispensed have not actually been recovered. The lack of managerial experienced and technical units to prepare and evaluate properly projects for financing,

coupled with a preference for the private sector, the bank's success and its effectiveness and contribution to the development of the Somali Development Bank was based on its clear objectives, clear objectives and with the experience of the staff and the management. The objectives of the bank were to finance projects in the fields of industry, livestock, agriculture and fisheries. It was the sole financial institution providing credit and long term loans for development. Commercial banks were, to date, not well engaged in financing short term loans for commerce and trade transactions. With the nationalisation of the commercial banks the division has been largely blurred. Since 1970, the commercial banks have also devoted large portions of their loans to development projects which have much shorter gestation periods. The interest rate charged by the commercial banks is prohibitive and much of the responsibility to finance industrial projects rests with the Somali Development Bank.

The bank has lowered its interest rate structure to fit the economic requirements and to give more of its resources to priority areas. The Somali Development Bank has since 1970 changed its role from a mere financing institution and has become a pioneering organ and a vehicle for industrial promotion with the responsibility of not only assisting but actively and directly participating in the process of industrialisation. This has been prompted by the following factors:

- a) After the nationalisation programme of the government, the participation of the private sector in development has been greatly reduced. A vacuum has emerged and the resources, experience and leadership of the bank was called upon to fill the gap.
- b) The State has been fully committed to speed up the industrialisation process to make up for the long years of neglect.

to ensure that the government is able to translate the government policy into action.

As a result of the study, the government is required to meet needs successfully in order to be able to provide adequate work for the development of a national industrial capability.

Under the industrial law, the state has established a number of projects some of which, after a period of operation, have been given autonomous status. The former are basically small and medium scale industries.

There are three technical institutions in the country of which two are supplying the industrial sector with middle level technicians. The annual output of these institutions is limited. It does not exceed 60 and only one of them is of secondary school level. The demand for technical workers is high in relation to supply. According to the Manpower Report in 1971 of the 5,053 additional technical workers required for the period 1972-1976, 2,974 need secondary education plus training and 2,109 need primary education plus training. While the output is small and the levels of training remain low even more difficult to combat, the industrial sector has to compete for this limited supply. These requirements excludes the question of upgrading the capabilities of the manpower already absorbed in the technical categories. To a substantial degree, the present stock of manpower in the technical categories has acquired its skills without formal technical training. Sumner says, "virtually the entire stock of skilled and semi-skilled have no formal technical training". Training on the job is extensive, undertaken, but without concerted effort and

1. Pre-requisites for Man Education, ILO, Paris, 1961.

the institution has been established for protection of the export of the manufactured goods. It is the only body which has been established in the Ministry of Foreign Trade to assist the exporters of manufactured goods. The National Institute for Research and Development of Manufactured Goods locally. There is no local authority for the collection of information on selection of a manufacturer, design, material, design, materials and equipments suitable for local conditions. Investigations are however, undertaken by the Ministry of Planning and the Ministry of Industry through consultancy services. There is, however, a clear need to establish specialized units for these services. The feasibility studies are prepared either by the donor countries or by bilateral technical assistance programmes in the Ministry of Planning.

As institution advice on adaptation of product design, on standardization of products and on control of quality of products manufactured. These functions are done through the consultancy services.

It can be concluded that there is no single government institution which has the overall responsibility to effectively promote and manage the process of industrialization. The Ministry of Industry, the Social Development and the Ministry of Planning and Coordination are responsible for the industrialization of the country. Each organ must fulfill its obligations and responsibilities in implementing policies and programmes for industrial development. Close co-ordination is ensured at inter-ministerial Council meetings and at the level of the Planning Commission.

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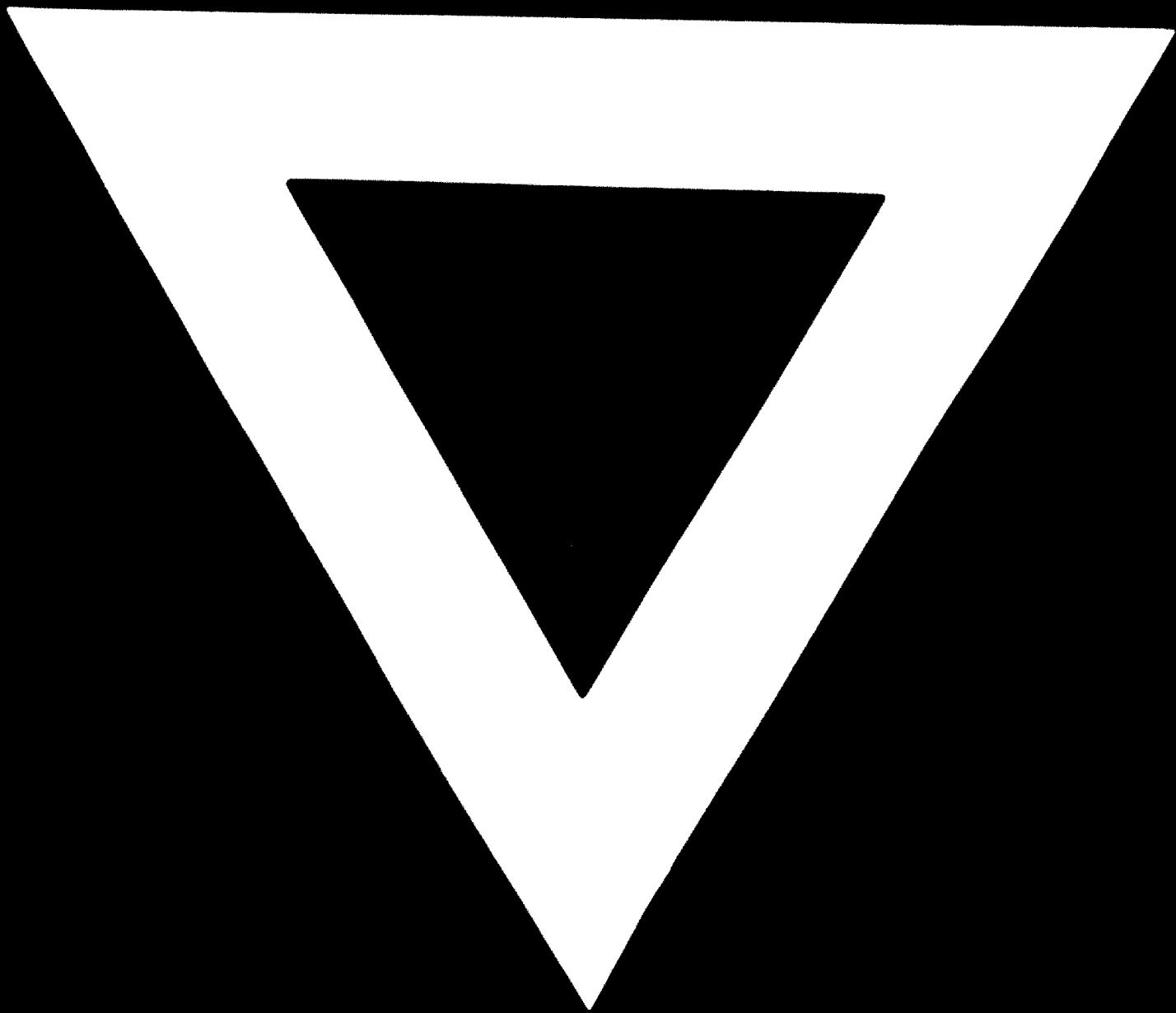
Table 1. Major Industries Established since 1950
(in million Rupees)

Name of industry	Products	Capital invested	Annual sales	Cost of imported equipment
1. Sopral IPA	10.5	n.a.	1.1	1.1
2. Bismayo Peat Factory	7.7	N.A.	0.0	0.0
3. Smaltex IPI	5.3	0.7	0.2	0.1
4. National Fertilizer Company	4.6	0.0	0.5	0.3
5. State Printing Agency	2.6	0.1	0.0	0.1
6. Mill Factory	2.2	N.A.	1.4	N.A.
7. Conceria Siderurificio Semala	1.9	N.A.	1.9	0.0
8. Paper Mill Factory	1.4	0.4	0.4	0.0
9. Tipografia Nazionale	1.0	N.A.	1.0	0.4
10. I.P.A. I.P.A.	0.7	0.6	1.3	1.9
11. Artificio Missioni	0.6	N.A.	0.0	N.A.
12. Kemala Fish Factory	0.7	1.4	-	0.2
13. Societe Industriale Saponificali Indramila	0.6	N.A.	0.2	N.A.
14. Air Liman Soap Factory	0.6	N.A.	0.0	0.0
15. Saponificali Semala	0.6	N.A.	N.A.	N.A.
16. Albu	0.5	0.1	0.2	0.5
17. Furno Nuova Semala "Gloria"	0.5	N.A.	N.A.	1.1
18. Furno Lava Diesel "Alfeyre"	0.5	N.A.	N.A.	N.A.
19. Furno Suez "Megadische"	0.5	N.A.	0.5	N.A.
20. Sheikh Ahmed "Butcher" Megadishu	0.4	N.A.	0.4	N.A.
21. Furno Asam "Megadishu"	0.5	N.A.	N.A.	N.A.
22. SAFODS	0.4	N.A.	0.4	N.A.
23. Saponificali Benadir	0.4	N.A.	0.3	N.A.
24. Onar Benafunsi (Megadishu)	0.5	N.A.	0.5	N.A.

Table 3. Number of Persons Employed in Industry

Size of Establishment	1966		1971	
	No. of Establishments	No. of persons engaged	No. of Establishments	No. of persons engaged
less than 10 persons	20	328	10	1
10-50 persons	40	1126	71	1100
50 or more persons	5	1891	13	837





9 . 8 . 74