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INDUSTRIAL DEVELOPMENT REVIEW SERIES

SOMALIA

Industrial revitalization through privatization

Prepared by the
Regional and Country Studies Branch

V.88-29609

This document has not been edited.

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PREFACE

This Industrial Development Review is one of a series of country studies prepared by the Regional and Country Studies Branch of the United Nations Industrial Development Organization (UNIDO).

The Reviews present brief factual and analytical surveys of industrial development in developing countries. Such industry-specific Reviews are in demand for a variety of purposes: to provide an information service to relevant sections within UNIDO and other international organizations and aid agencies concerned with technical assistance to industry; to be used as a reference source for financial organizations, public and private industrial enterprises, and economic research institutes in developed and developing countries; and to serve as a handy, useful information source for policy-makers in developing countries. The Reviews do not represent in-depth industrial surveys. With an exclusive focus on industry they present information and analyses on the broad spectrum of the industrial development process in the countries concerned in a condensed form.

The Reviews draw primarily on information and material available at UNIDO headquarters from national and international sources as well as data contained in the UNIDO data base. Generally, specific field surveys are not undertaken. The presentation of up-to-date information on sub-sectoral manufacturing trends is usually constrained by incomplete national data on the industrial sector. To supplement efforts under way in UNIDO to improve the data base and to monitor industrial progress and changes on a regular basis, it is hoped that the relevant national authorities and institutions and other readers will provide comments and further information. Such response will greatly assist in updating the Reviews.

The present Review was prepared on the basis of information available at UNIDO headquarters by mid-1988. It is divided into two rather distinct parts. Chapters 1 and 2 are analytical in character, giving first a brief overview of the country's economy and its manufacturing sector and then a more detailed review of the structure and development of its manufacturing industries. Chapter 3 reports enterprise level performance, with a focus on future prospects. Chapter 4 reviews policy measures relevant to industrial development and presents information on the more important governmental and other institutions involved in industrial development. Chapter 5 contains information on Somalia's resource endowment for industrial development and identifies crucial areas requiring technical assistance.

It should be noted that the Reviews are not official statements of intention or policy by governments nor do the views and comments contained therein necessarily reflect those of the respective governments.

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EXPLANATORY NOTE

Regional classifications, industrial classifications, trade classifications, and symbols used in the statistical tables of this report, unless otherwise indicated, follow those adopted in the United Nations Statistical Yearbook.

Dates divided by a slash (1986/87) indicate a crop year or a financial year. Dates divided by a hyphen (1986-1987) indicate the full period, including the beginning and end years.

References to dollars ($) are to United States dollars, unless otherwise stated.

Totals may not add precisely due to rounding.

In Tables:

Three dots (...) indicate that data are not available or not separately reported;
Two dashes (--) indicate that the amount is nil or negligible;
A hyphen (-) indicates that the item is not applicable.

Basic indicators and graphical illustrations of manufacturing trends contained in this Review are based on data sourced from the UNIDO data base, international organizations, commercial and national sources.

The following abbreviations are used in this document:

ADB	African Development Bank
CIP	Commodity Import Programme
EC	European Community
GDP	Gross domestic product
GNP	Gross national product
ha	Hectare
HASA	Hides and Skins Agency
ICU	Industrial Consulting Unit
ISIC	International Standard Industrial Classification
IVTC	Industrial Vocational Training Centre
MVA	Manufacturing value added
PIP	Public Investment Programme
SDB	Somali Development Bank
SITC	Standard International Trade Classification
SIDAM	Somali Institute for Development Administration and Management
So.Sh.	Somali Shilling

BASIC INDICATORS 1

The economy

GDP (1986)	:	$2,320 million
Population (mid-1986)	:	5.5 million
Annual average growth rate of population (1980-1986)	:	2.9 per cent
Labour force (1983)	:	1.9 million
Area	:	638,000 square kilometer
Density of population (mid-1986)	:	9 persons per square kilometer
GNP per capita (1986)	:	$280

Growth of GDP (per cent) :

1965-1980	1981	1982	1983	1984	1985	1986
2.5	6.4	6.4	2.0	-1.5	7.6	6.0

Structure of GDP (percentage) :

	1977	1986
Agriculture	56.8	58.1
of which Livestock and livestock products	41.4	37.2
Mining	0.7	0.5
Manufacturing	5.8	4.9
Construction	6.6	4.9
Other	30.1	31.6

Rate of inflation (per cent) :

1965-1973	1973-1984	1985	1986	1987	1988
3.8	20.2	37.8	35.8	29	23

Exchange rate (Somali Shilling equivalents to US$1) :

1983	1984	1985	1986	1987	Sept.1988
15.79	20.02	39.49	160	160	180

BASIC INDICATORS 2

Resources

Livestock (1985[a/]) (million of heads)	:	Goats (18.5), sheep (11.1), camels (6.0), cattle (4.4)
Production of major agricultural crops (1986) ('000 tonnes)	:	Sugar cane (512), maize (294), sorghum (273), bananas (75), sesame (63), vegetables (30), pulses (15), rice (7), peanuts (5)
Annual resource potential for fish production (1987)[a/] (tonnes)	:	Small pelagic species (100,000), large demersals (40,000), shark and bay (30,000), tuna and mackerel (8,000), spiny lobster (2,000), shrimp (400)
Forestry production (1983) (cubic metre)	:	Fuelwood and charcoal (4.9 million), industrial roundwood (73,000 million), sawnwood and panels (16,000)
Mineral resources (1988)	:	Occurences of oil and natural gas and deposits of manganese, copper, lead, zinc, gold, zircon, coal, kyanite and uranium have been confirmed

a/ Estimates.

BASIC INDICATORS 3

Foreign trade and balance of payments

Exports (1986)[a]	:	$94 million
Principal exports (1985) (So.Sh. million)	:	Live animals (2,604), bananas (533), myrrh (173), fish products (169)
Main destinations (1986) (percentage)	:	Saudi Arabia (28.6), Yemen Arab Republic (8.6), Italy (17.5), Area of Hong Kong (6.7)
Imports (1988)[a]	:	$496 million
Principal imports (1988)[a] ($ million)	:	Imports for public investment programme (227), petroleum (55), food (50), machinery and equipment[b] (32), raw materials (26), agricultural inputs (19)
Origins of imports (1986) (percentage)	:	Italy (28.3), United States (15.1), Saudi Arabia (8.0), Federal Republic of Germany (7.1), Japan (6.5), Bahrain (6.0)
Balance of payments (1986) (current account deficit)	:	$88 million
Public debt (1986)	:	$1,415 million
Debt service ratio (1988) (as per cent of export earnings)	:	60 per cent

a/ Estimate.

b/ Excluding transport equipment.

BASIC INDICATORS 4

The manufacturing sector

MVA (1985)	:	$135 million
MVA per capita (1985)	:	$24.5

Composition of MVA (percentage)[a/] :

	1977	1986
Food	28.8	31.9
Beverages	17.2	15.3
Textiles	12.9	12.5
Paper and printing	14.6	12.1
Other	6.4	20.1

Growth of MVA (per cent) :

1981	1982	1983	1984	1985	1986
-16.6	24.5	-18.9	-7.2	6.9	11.9

Share of manufactured exports[b/] in total exports (1981)	:	0.36 per cent
Share of manufactured imports[b/] in total imports (1981)	:	68.9 per cent

a/ Percentage shares at constant 1977 prices.

b/ SITC 5-8 less 67 and 68.

BASIC INDICATORS 5

Inter-country comparison of selected indicators

	Unit	Central African Republic	Ethiopia	Somalia	Uganda	Zaire
I. Demographic indicators						
Population (mid-1986)	million	2.7	43.5	5.5	15.2	31.7
Population growth (1980-1986)	per cent per annum	2.5	2.4	2.9	3.1	3.1
Infant mortality (1985)	per thousand	138	172	153	110	103
Area	thousand sq km	623	1,222	638	236	2,345
Density (1986)	persons per sq km	5	36	9	64	14
II. Economic indicators						
GDP (1986)	US$ million	900	4,960	2,320	3,310	6.020
GNP per capita (1986)	US$	290	120	280	230	160
GDP growth rate (1980-1986)	per cent per annum	1.1	0.8	4.9	0.7	1.0
Agriculture (1986)	per cent of GDP	4.1	48	58	76	29
Industry (1986)	per cent of GDP	1.2	15	9	6	36
Manufacturing (1986)	per cent of GDP	4	10	6	5	...
Services (1986)	per cent of GDP	47	36	34	18	35
Exports of goods (1986)	per cent of GDP	20	13	7	12	33
Gross domestic investment (1986)	per cent of GDP	15	9	15	14	12
External public debt (disbursed) (1986)	per cent of GNP	41.6	35.7	54.4	26.8	...
III. Industrial indicators						
MVA (1985)	$ million	55	492	138	130	59
MVA growth (1980-1986)	per cent/annual	-0.6	3.9	-3.4	-0.3	-0.7
MVA share in world MVA (1981)	pe. cent	...	0.02	...	0.01	0.01
Share of manufactured exports[a/] in total exports	per cent	26.1[b/]	0.91[c/]	0.36[d/]	0.39[e/]	5.13[f/]

Note: Based on the World Bank data presented in the World Development Report 1988. It should be noted that the UNIDO data base, United Nations statistics, national statistics and World Bank data base do not always tally precisely and, therefore, discrepancies may be found between Basic Indicators 5, and the text Tables.

a/ SITC 5 to 8 less (67 and 68).
b/ 1980.
c/ 1985.
d/ 1981.
e/ 1976.
f/ 1978.

SUMMARY

The pace of economic recovery that commenced in 1985 with a 7.6 per cent increase in real GDP was sustained in 1986 with GDP growing at 6 per cent. The agricultural sector benefitted from good rains, price decontrol and the timely Agricultural Inputs Programme. The country's manufacturing sector grew by 6.9 per cent and 11.9 per cent in 1985 and 1986 respectively under an impetus stemming from relaxation of restrictions on foreign exchange and new initiatives favouring the private sector. The rate of inflation fell from 37.8 per cent in 1985 to 23 per cent in 1988.

Somalia leans heavily on international support for the effective implementation of its Five-Year Plan, 1987-1991, amounting to $625 million per year totalling $3,125 million during the Plan period. The government's decision in September 1987 to suspend the foreign exchange auctions strained Somalia's relationship with the IMF and the World Bank. This led to a largely undrawn $73.2 million IMF package and another undisbursed $10 million from the World Bank's agricultural sector adjustment credit. In the wake of at least 20 per cent decline in aid flows austerity has become the cornerstone of government's economic policy.

Major contribution to GDP stems from the country's livestock sector, accounting for 37.2 per cent of GDP and 73 per cent of export earnings. The manufacturing sector contributed around 5.3 per cent in 1987, which is projected to rise to 8 per cent by 1991. The manufacturing sector, which was originally based on the processing of agricultural products such as fruits, vegetables, sugar, cotton, meat and leather, underwent structural transformation in the early 1980s when some capital-intensive projects came on stream. Around 80 per cent of the manufacturing enterprises is State-owned, but a shift in priority towards privatization is currently under way.

The composition of MVA has changed significantly since 1970. In the early 1970s food processing accounted for 81 per cent of MVA. By 1986 its share of MVA had fallen to 31.9 per cent. A large increase in the contribution of tobacco to MVA in 1980 was largely due to the fact that the public sector cigarette factory boosted its turnover by selling imported cigarettes. A drastic fall in the share of textiles in MVA from 20 per cent in 1977 to 8.1 per cent in 1986 was due to the operating difficulties experienced by the country's main production unit Somaltex. Despite Somalia's abundant supply of hides and skins, the share of leather and footwear never exceeded 4.5 per cent of MVA during 1977-1986.

Capacity utilization varies from firm to firm, but on an average it fell from 39 per cent in 1982 to 26 per cent in 1986. The Urea Plant and Somali Marine Products that came on stream recently are operating at 2 per cent and 20 per cent of their installed capacities respectively. Capacity utilization rose significantly in Juba Sugar Complex from 35 per cent in 1982 to 55.9 per cent in 1985, while that of the SNAI Sugar Complex fell from almost 30 per cent in 1982 to 1.7 per cent in 1984. Twenty-five per cent of a sample survey of 27 Somali enterprises shows negative value added. With the exception of petroleum refinery, cigarette and match, wheat, flour and pasta, other manufactures reported low levels of labour productivity during 1985-1986. Because of heavy losses, most manufacturing enterprises in the public sector have been perennially short of funds both for working capital and replacement of fixed assets.

Despite Somalia's resource potential to promote exports of processed fruit, vegetables, meat, fish and leather products, the contribution of manufactured exports to total exports is of marginal significance. The main barriers to leather exports are smuggling of hides and skins to Kenya and the monopoly enjoyed by the Hides and Skins Agency. Over 70 per cent of available hides and skins is not commercialized due to the low price offered by the State Agency and poor collection system. On average the tanneries operate at around 20 per cent of their installed capacities. Shortage of skills prevails at the tanneries which are affected by lack of foreign exchange needed for importing spare parts and chemicals. A major recommendation suggested by many researchers and donors points to the policy of keeping the sector open to the private sector entrepreneurs, allowing them to collect, process and market leather products locally and abroad.

There is a definite shift in government's strategy from a State-controlled economy to market-oriented economy and full realization of the flexibility of the private sector to the changing industrial realities. Policies are being pursued to attract foreign private investment in the exploitation of Somalia's resource endowment towards economic diversification and transformation.

Rehabilitation of ailing industries is the government's top-most priority. Investment funds are needed to replace outmoded equipment and reclaim deteriorated farmland which supplies raw materials to agro-industries. In a few cases, new product lines to meet local demand by making better use of local raw materials are to be identified. The Milk Factory at Mogadishu stands as a good example of how a run-down plant could be revitalized and transformed into a viable and profitable industrial unit through rehabilitation. SNAI Sugar Complex, Edible Oil Mill, Meat Factory Kismayo, Somaltex and Petroleum Refinery are promising candidates for industrial rehabilitation and modernization.

In the short run technical assistance is to be attuned towards optimal use of installed capacities of industrial units. The long-run objective of technical assistance is to improve the national institutional capabilities and infrastructural facilities in order to transform the economy through industrialization. The natural resources of Somalia are rich enough to provide the potential for resource-based pattern of industrialization. One of the reasons for industrial stagnation in Somalia is inefficient management of enterprises. Technical co-operation initiatives could be directed towards training managerial personnel as to make them helpful and supportive to the current revitalization and privatization initiatives in the sphere of industrialization.

1. THE ECONOMY OF SOMALIA

1.1 Recent economic trends

The economy of Somalia rebounded well in 1985 with real GDP growing at 7.6 per cent, compared with a sluggish growth rate of 2 per cent in 1983 and a negative growth rate of 1.5 per cent in 1984. Good weather, prudent government policies and donor assistance helped the economy sustain the pace of recovery at around 6 per cent in 1986. The agricultural sector, in particular, benefitted from good rains, price decontrol and liberalization on the part of the government and the timely Agricultural Inputs Programme. The manufacturing sector, although hindered by foreign exchange shortages, lack of spare parts, fuel and skilled manpower, registered improvement mainly because of good progress in a small number of key enterprises. It also benefitted from relaxation of restrictions on foreign exchange and other moves favouring the private sector.

The budgetary deficit narrowed as revenues in 1986 increased by 34 per cent in real terms whereas expenditures over the same period increased by only 10 per cent. This was largely due to a combination of the government's tax-reform programme and fiscal restraint. This factor, in combination with the greater availability of counterpart funds from the Food and Commodity Import Programmes, meant that borrowing from the banking system was nil in 1986. This helped to moderate inflationary pressures. The rate of inflation fell from 37.8 per cent in 1985 to 29.0 per cent in 1987 and to 23 per cent in 1988. The budgetary trends that prevailed in 1986 continued in 1987.

The budget for 1988 is very austere. Total expenditure fell from Somali Shilling (So.Sh.) 19.8 billion in 1987 to So.Sh. 17.8 billion in 1988. In the wake of at least 20 per cent decline in aid flows, austerity has been made the cornerstone of government's economic policy. Foreign exchange regulations are being tightened and heavy restrictions are imposed on bank lending. A vigorous campaign is being waged against the parallel economy where $1 fetches So.Sh. 250 against the officially pegged rate of $1 = So.Sh. 180. The rate realized at early auctions was $1 = So.Sh. 160 before the currency started falling to a final $1 = So.Sh. 180.[1/]

1/ The Somali Shilling was devalued to $1 = So.Sh. 180 on 21 June 1988. This is the first devaluation since September 1986 when the rate was pegged at $1 = So.Sh. 160. During 1986, a major innovation was the switch in emphasis from Commodity Import Programmes (CIP) in kind to foreign exchange auctions, with the IDA providing the bulk of the funding and the USA and Italy contributing to the foreign exchange pool. The intention was to unify the official and non-official rates of exchange. However, exchange rate unification was not achieved despite the policy induced depreciation of the official exchange rate of the Somali Shilling. The major reason was the very sharp depreciation of the free market rate in the first half of 1986, reflecting both seasonal factors and a combination of slow disbursement of foreign aid, higher than expected government expenditures and slower than expected revenue growth.

Some relief has been obtained on the debt front. Somalia's public foreign debt stood at $1.4 billion in 1986. A July 1987 Paris Club agreement rescheduled more than $170 million of payments due until the end of 1988 on generous terms which halved the debt service ratio to 60 per cent. In January 1988 the United States rescheduled $33.1 million of bilateral debt.

For effective implementation of the Five-Year Development Plan for 1987-1991, the country has to lean heavily on international support. The government is seeking assistance amounting to $300 million per year in capital assistance, $75 million per year in technical assistance and $250 million per year in the form of debt relief and balance of payments and budgetary support. This amounts to $625 million per year, totalling $3,125 million for the full five years of the Plan. At the Consultative Group meeting held in Paris, 1987, donors agreed on disbursements of $580 million for 1987, which practically met the requirements for the year. The trend was expected to continue, depending on the performance of the recipient. The government has strengthened the planning and implementation machinery to utilize effectively the resources through a systematic approach. However, a new course of initiatives regarding Somalia's relations with donors following the 18 September 1987 decision to suspend the foreign exchange auctions failed to create anticipated results.

One immediate casualty of the suspension of foreign exchange auctions was a largely undrawn $73.2 million IMF package agreed on the strength of the auction. Another was the undisbursed $10 million from the World Bank's agricultural sector adjustment credit. Further credits worth at least $50 million have been shelved. Foreign exchange reserves fell sharply from $5.1 million in September 1987 to $1.3 million in November 1987.

The government's endeavour to regulate the economy through price controls and a fixed exchange rate has not proved successful. Basic food, such as sugar, wheat, flour and rice, virtually disappeared from the market to command higher prices in the parallel economy. In response to fresh efforts by the government to comply with the IMF conditionality, the IMF is to begin negotiations on setting up a shadow programme which encompasses radical restructuring of the civil service and of the taxation system in order to create an efficient economic system in Somalia.

1.2 Economic structure

With a GNP per capita of $280 in 1986, Somalia is classified as a least developed country. The country's population was estimated at 5.5 million in mid-1986, growing at 2.9 per cent per annum. Heavy dependence on the livestock sector for employment, income and foreign exchange renders the country vulnerable to highly variable weather and export markets. Intermittent droughts reduce production and necessitate large expenditures on relief efforts thereby diverting resources from directly productive activities.

The economy of Somalia grew at an annual average rate of 2.5 per cent during 1965-1980. Growth of real GDP fluctuated considerably in the 1970s, leading to large budgetary and balance of payments deficits, high rates of inflation, near zero domestic savings and large external debt and debt service arrears. The government made a major shift in policy in the early 1980s and launched a stabilization programme to curtail demand expansion, provide incentives to the productive sectors by exchange rate adjustments, fiscal and monetary restraint, increased interest rates and substantial increases in producer prices. Real GDP recorded a 6.4 per cent increase between 1981 and

1982. In the wake of drought conditions adversely affecting the agricultural sector coupled with a Saudi ban on cattle imports from Somalia, growth of real GDP faltered to 2 per cent in 1983 and plunged to a negative growth rate of 1.5 per cent in 1984. As a result, the budgetary deficit widened, the external position deteriorated and rate of inflation rose from 36 per cent in 1983 to 91.1 per cent in 1984. Despite some improvements in terms of growth in recent years, the economy remains weak.

Major contribution to GDP stems from the country's livestock sector, accounting for 37.2 per cent of GDP in 1986. Approximately two-thirds of Somali population is engaged in livestock rearing and about 73 per cent of export earnings is derived from its exports.1/

The share of agriculture (including livestock) in GDP rose from 56.8 per cent in 1977 to 58.1 per cent in 1986, with a rise in the share of crop production from 11.7 per cent to 16.5 per cent during the same period. Crop production absorbs about 20 per cent of the working population. Crop yields are currently very low for both rainfed and irrigated agriculture, mainly due to the shortage of farm inputs.

Despite the country's potential to produce all the food it needed, Somalia has become increasingly dependent on food imports since 1975. Food aid flooded the market with rice and wheat at below market prices, leaving no incentives for farmers to produce the traditional food crops, such as maize and sorghum. Food imports grew at an annual average rate of 8.3 per cent during 1970-1984. Despite the drought in the early part of 1987, the 1987 harvest was above average. However, by the end of 1987 Somalia was looking for an additional 72,000 tonnes of food to feed the refugees from Ethiopia. It was estimated that around 90,000 nomads would need food relief during the first half of 1988. Although Somalia has a long coastline of 3,330 km with high concentration of fish resources on the North East coast, fishing accounted for less than 1 per cent of GDP in 1986.

The contribution of the manufacturing sector to GDP is relatively small, accounting for around 5 per cent in 1986. The share of manufacturing sector in GDP was expected to be 5.3 per cent in 1987 but is projected to rise to 8 per cent during the 1987-1991 plan period. This is due to the high priority being accorded to the rehabilitation of existing enterprises and due to two major factories having come into production in 1987, namely, Berbera Cement and a Pharmaceutical Industry. A Milk Factory, which was undergoing rehabilitation, is now operating with high degree of efficiency. Table 1.1 shows that the share of mining in GDP is of marginal significance in Somalia, accounting for 0.5 per cent of GDP in 1986, compared with 0.7 per cent in 1977.

Livestock exports fell to $31 million in 1984 from $72 million in 1983. In 1983, Saudi Arabia banned the import of livestock from Somalia due to incidence of rinderpest disease. This had a most serious effect and exports fell by 26 per cent in 1983 and by 39 per cent in 1984. Exports doubled in 1985 due to agreements with Yemen Arab Republic and Egypt. As of mid-1987, the ban remained in force for cattle (by far the largest individual item).

1/ Details of livestock population in Somalia during 1978-1985 are given in Annex Table A-2.

Table 1.1: Distribution of GDP by sector of origin, 1977-1986
(percentage in constant 1977 prices)

Sector	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986
Agriculture of which: livestock & livestock products	56.8	59.4	53.1	52.9	59.6	52.6	53.7	57.6	58.9	58.1
	41.4	44.2	36.4	37.1	42.5	40.5	33.9	38.4	39.3	37.2
Mining	0.7	0.4	0.5	0.3	0.4	0.3	0.3	0.3	0.3	0.5
Manufacturing	5.8	4.9	6.3	6.3	4.9	5.9	5.5	4.6	4.7	4.9
Construction	6.6	3.7	4.6	5.0	4.8	4.2	4.4	4.5	4.7	4.9
Other	30.1	31.6	35.5	35.5	30.3	37.0	36.1	33.0	31.4	31.3
TOTAL	100	100	100	100	100	100	100	100	100	100

Source: Ministry of National Planning.

Apart from livestock exports, bananas occupy a dominant position in export trade. More recently, myrrh and fish products have become useful additional exports. In the future, leather and fish products are expected to contribute more to exports. Banana exports have been placed in the hands of the private sector venture (Somalfruit) which augurs well for the increased exports of this commodity to Europe and the Middle East. Banana exports, which have been steady at between $13 million to $15 million per year during the period 1982-1985, are expected to grow at the rate of above 10 per cent during the second half of the 1980s.

Exports by the manufacturing sector have been very meagre. This is due to low production, poor quality of the products and lack of export market push. The manufacturing sector makes some contribution to banana export by supplying poly-bags and cardboard cartons.

The country depends heavily on imports due to limitations in food supplies, medicines and manufactured commodities. Import requirements of the public investment programme are mainly financed by donors. Food and petroleum accounted for 21 per cent of imports, while public investment programme absorbed 45 per cent of imports during 1986.

Economic development is tied up with the international aid climate. The country has to depend heavily on international financial support with 90 per cent of expenditure on development projects coming from the donors. In mid-1988, Japan envisaged spending more than $50 million in overseas development assistance at the rate of $10 million per year at concessional terms. Further, Japan has indicated that as part of the country's revised aid strategy, it would write off about $1 billion in interest payments.

A listing of the donors providing aid for the 3-year period 1987-1989 is given in Annex Table A-3. Amongst the donors, Italy has taken the lead, donating $446.9 million for the 3-years followed by the United States ($121.9 million), Federal Republic of Germany ($99.3 million), EC ($46.3 million), Finland ($21.4 million), Belgium ($7.5 million) and the United Nations (multilateral $42.7 million). Japan is expected to make some donations in the future.

Among the loan suppliers are: International Development Association ($131.5 million), France ($31.3 million), Saudi Fund ($25.7 million), People's Republic of China ($22.6 million), Kuwait Fund ($21.5 million), Arab Fund ($21.3 million) and Japan ($20.6 million) followed by others. Government has taken a policy decision to negotiate only soft loans on favourable terms. Projections of anticipated funding for core public investment programme over the 1987-1991 period are presented in Table 1.2.

Table 1.2: Anticipated funding for core public investment programme, 1987-1991
($ million)

	1987	1988	1989	1990	1991	Total
Reasonably assured	374	8	248	227	167	1314
To be funded	69	83	102	92	82	428
Total	443	381	350	319	249	1742

Source: Ministry of National Planning.

The estimated cost of technical assistance projects averages about $78 million per annum over the 5-year Plan period. Funding for two thirds of annual assistance is reasonably assured while the remaining one third is to be funded. The government provides on average only 10 per cent of the cost of development projects for disbursement of the local costs. In order to have more flexibility in resource allocation, the government is requesting donors to reduce the quantum of project-designated assistance, and to increase cash donations.

Somalia aspires to raise the standard of living of the people by making use of its natural resources and external assistance. The positive features are a large area of arable land with only a small percentage currently cultivated and the promise of Bardhera Dam opening up new avenues in agriculture, hydro-electric and flood control, a coastline of 3,300 km offering great possibilities for development of fisheries, a well developed socio-economic system of nomadic pastoralism able to harness livestock resources, possibility of developing indigenous energy resources, untapped mineral wealth, proximity to potential markets and, above all, a dynamic private sector ready to take up the challenge of economic development in response to a fresh commitment for fostering growth in productive sectors.

1.3 An overview of the manufacturing sector

The industrialization process in Somalia started with a strong orientation towards the production of consumer goods and import-substituting food and beverage industries. This was followed by the establishment of cement, petroleum and fertilizer industries. The manufacturing sector, which was originally based on the processing of agricultural products, such as fruits, vegetables, sugar and cotton in addition to the processing of meat and leather, underwent a structural transformation in the early 1980s, when some capital-intensive projects came on stream. Around 80 per cent of the manufacturing enterprises in Somalia is State-owned, but the government gives priority to plans to attract private investment.

The basic policy of the government is that the private and public sectors could co-exist and mutually support each other for the overall development of the country. There is a definite switch-over from a State-controlled economy to a market-oriented economy. There is full realization, at all levels, of the flexibility of the private sector to changing economic needs and in increasing the supply of products and services. Policies are being pursued to attract private foreign investment in the exploitation of natural resources.

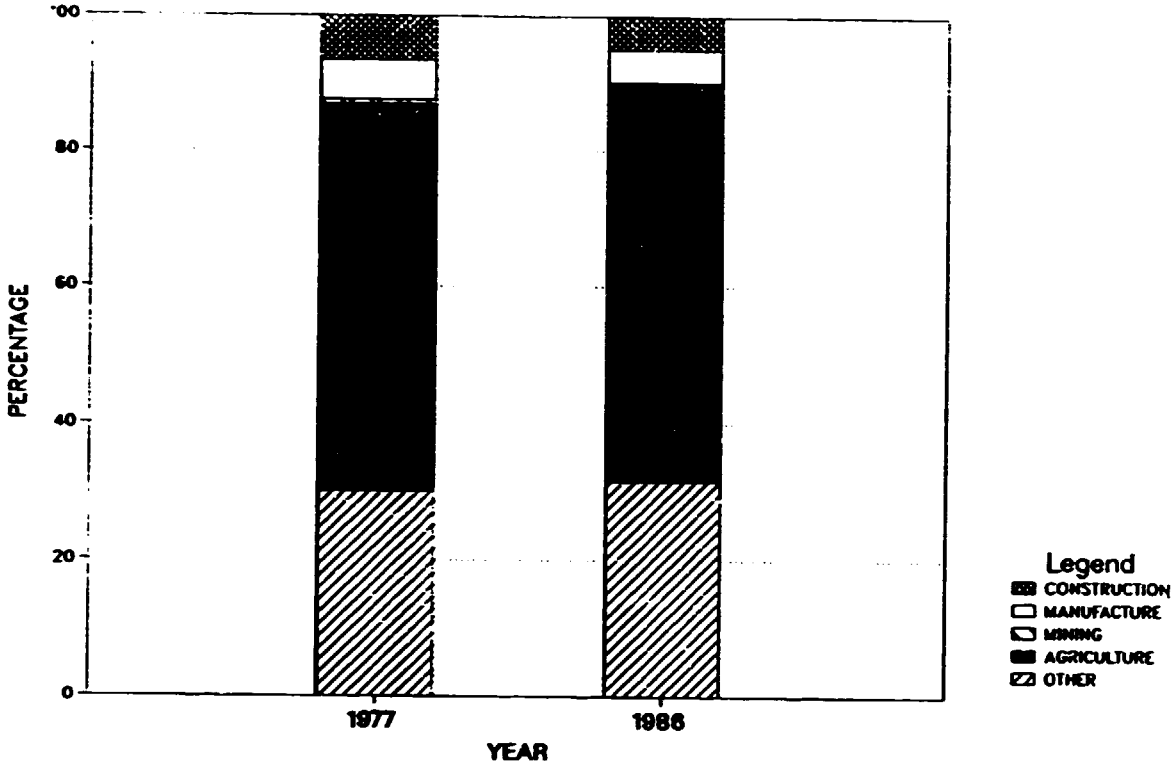
Industrial development has been inhibited by the foreign exchange shortage for the procurement of raw materials, equipment and spare parts. It is also constrained by the small size of the domestic market and limited export opportunities.

Rehabilitation of the existing industries is the government's highest priority. In order to increase capacity utilization, investment funds are needed to replace outmoded equipment, reclaim deteriorated farmland, which supplies inputs to agro-industries, and in a few instances add new product lines to meet identified local demand and make better use of indigeneous raw materials.

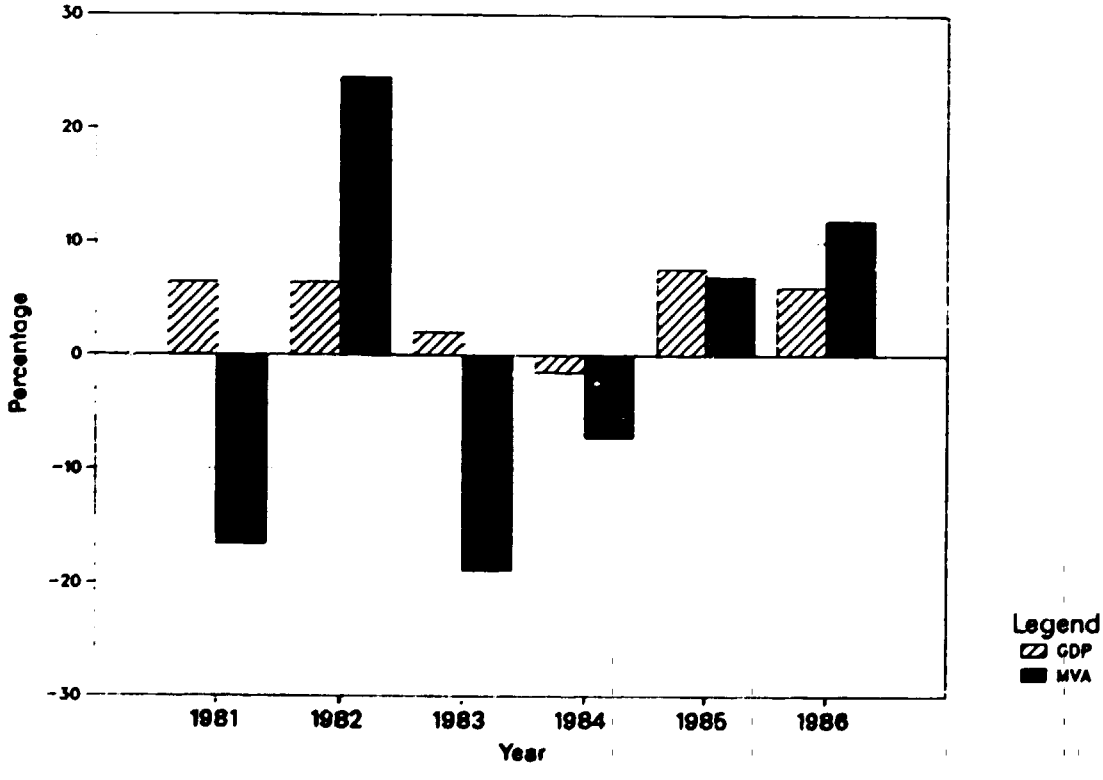
In a limited number of fields, the natural resources of Somalia are rich enough to provide potential for resource-based pattern of industrialization for the country. The existing good potential in livestock, crop production, fisheries and minerals are yet to be fully tapped for accelerating the pace of industrial expansion.

MANUFACTURING TRENDS

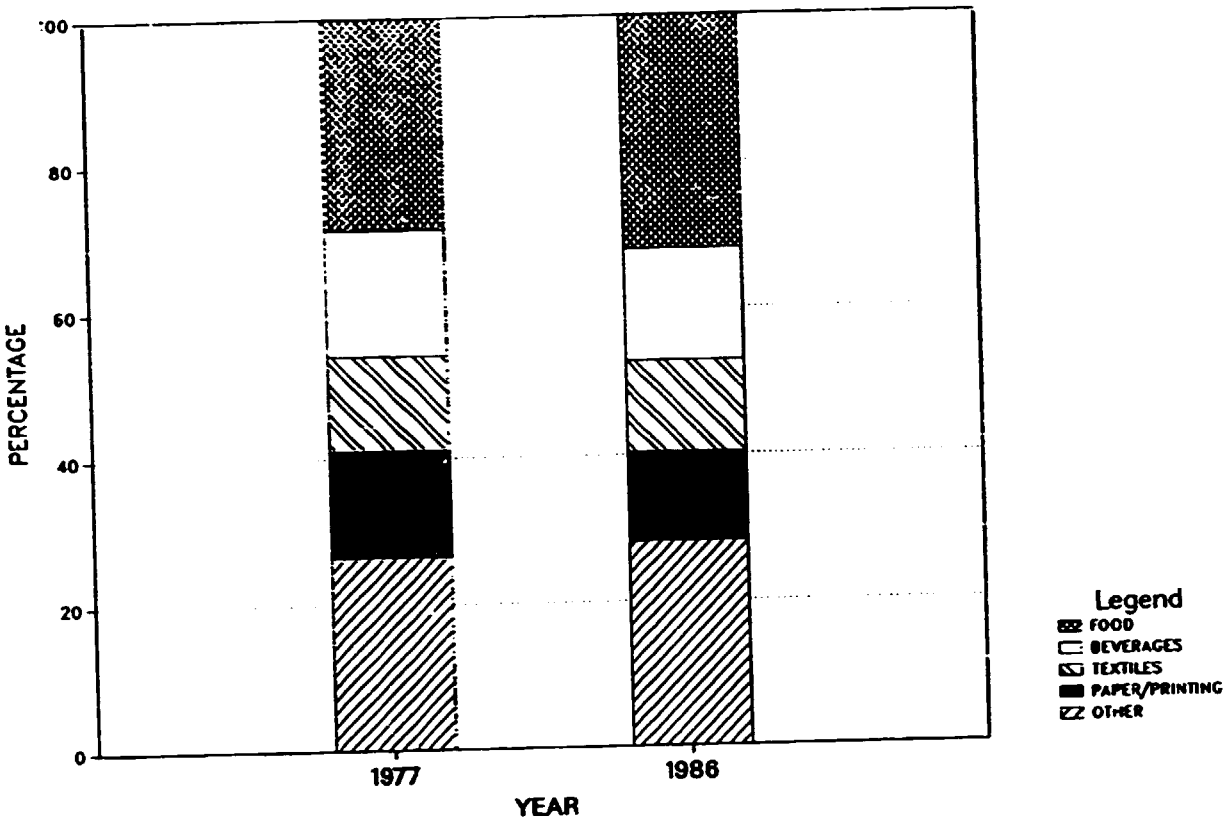
DISTRIBUTION OF GDP BY SECTOR OF ORIGIN, 1977 AND 1986 (PERCENTAGE IN CONSTANT 1977 PRICES)



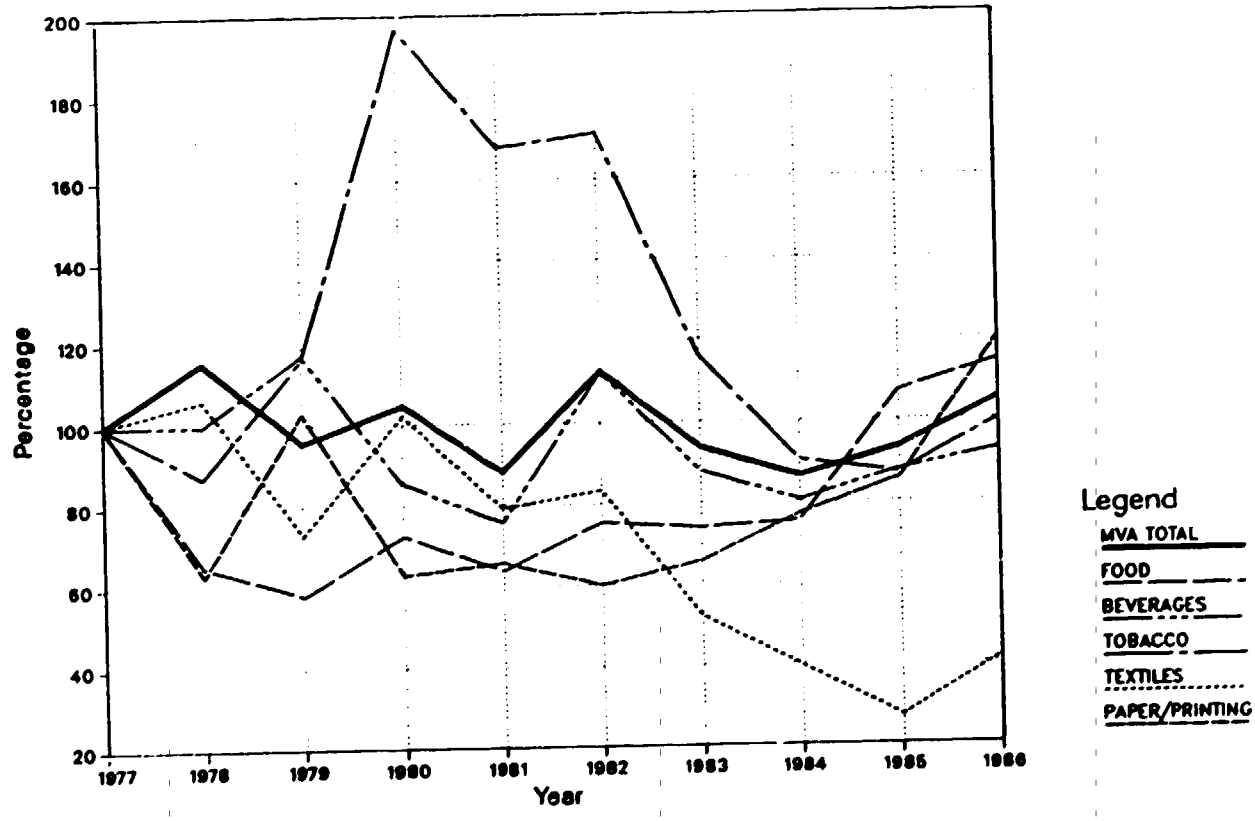
REAL GROWTH RATES OF GDP AND MVA, 1981-1986



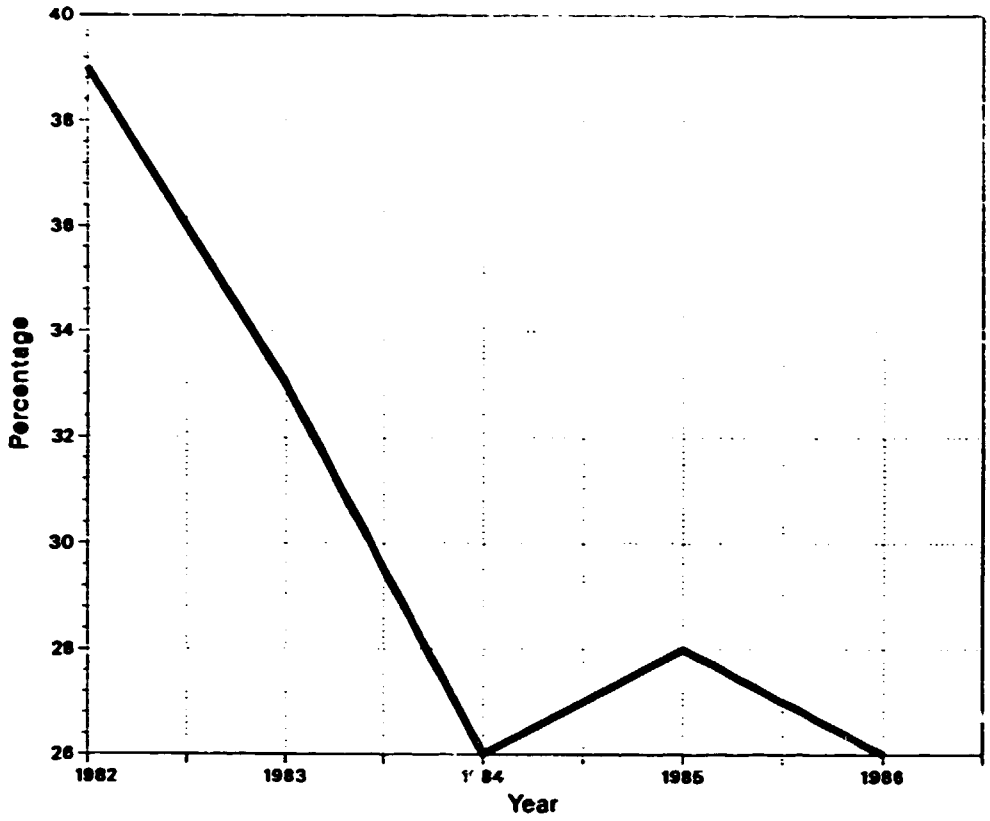
COMPOSITION OF MANUFACTURING VALUE ADDED, 1977 AND 1986



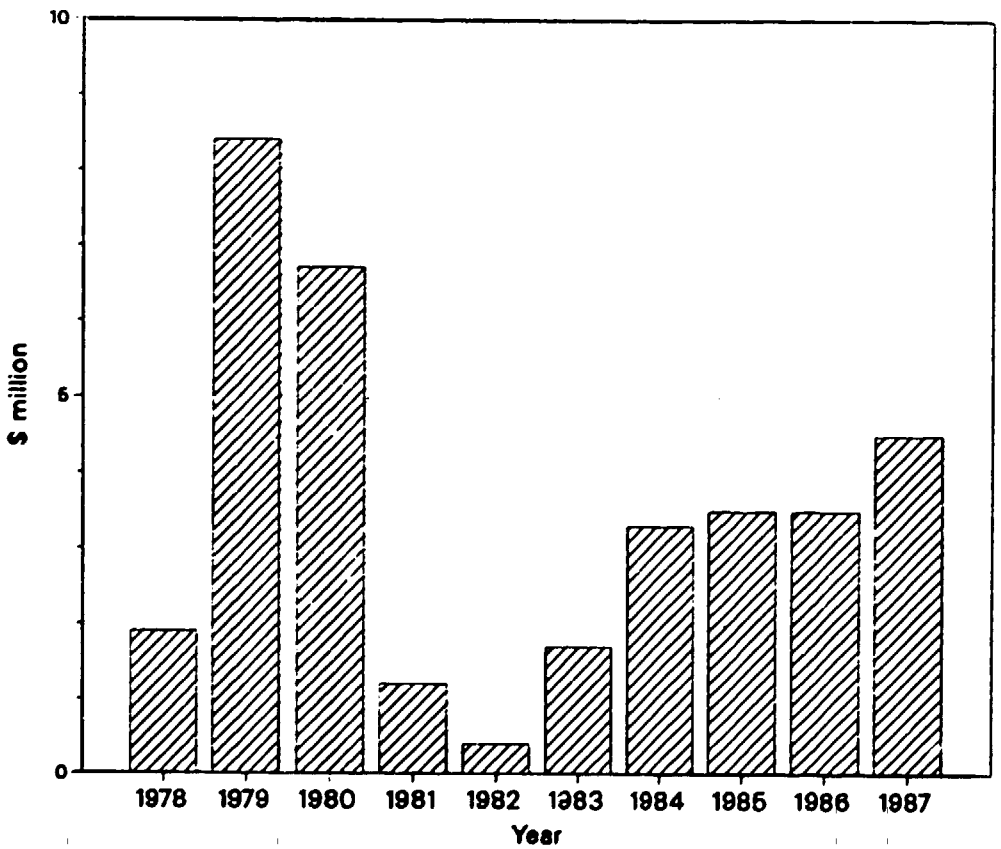
INDEX OF MANUFACTURING VALUE ADDED FOR SELECTED SUB-SECTORS 1977-1986 (1977=100)



CAPACITY UTILIZATION IN MANUFACTURING, 1982-1986 (WEIGHTED AVERAGE)

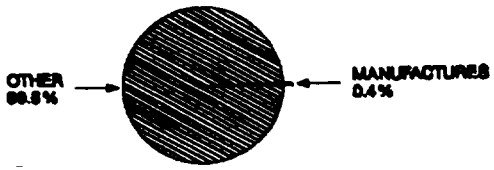


EXPORTS OF HIDES AND SKINS, 1978-1987

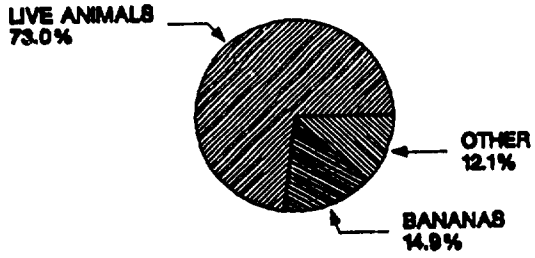


EXPORTS AND IMPORTS

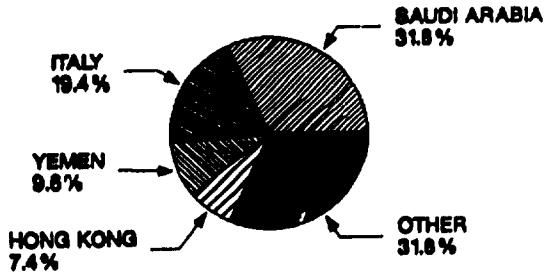
SHARE OF MANUFACTURES IN TOTAL EXPORTS, 1981



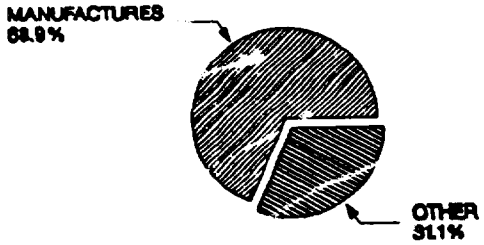
COMPOSITION OF EXPORTS, 1985



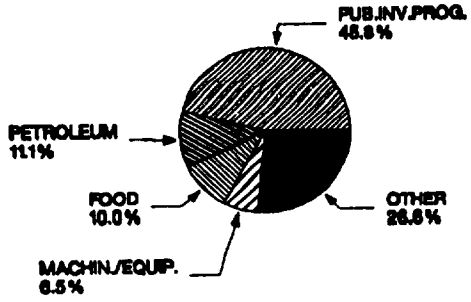
DESTINATION OF EXPORTS, 1986



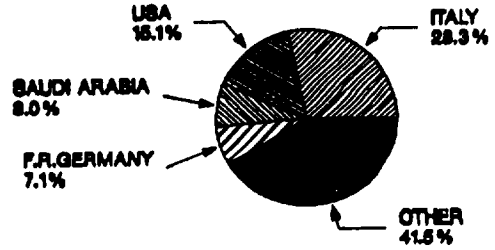
SHARE OF MANUFACTURES IN TOTAL IMPORTS, 1981



COMPOSITION OF IMPORTS, 1988



ORIGIN OF IMPORTS, 1986



2. GROWTH AND PERFORMANCE OF THE MANUFACTURING SECTOR

2.1 Growth and structural change

The manufacturing sector was at its embryonic stage when Somalia attained independence in 1960. The only large industrial establishment was the sugar mill at Jowhar. There were also a few medium-sized plants - three fish processing factories, a printing and publishing house, a furniture making unit, a tannery and shoe factory and an edible oil mill.

During 1963-1967 the government sought to expand the industrial base by favouring the progressive expansion of State-owned enterprises. Three waves of nationalization followed between 1970 and 1972, and by 1978 the public sector accounted for 80 per cent of MVA and manufacturing employment, and 95 per cent of gross capital formation in industry. The 1970s witnessed the government's direct involvement in simple technologies exploiting local agricultural and other resources, while in the early 1980s the government opted for more capital-intensive projects.

Table 2.1 shows that growth of MVA since 1977 has been more erratic from year to year. While GDP grew at an annual average rate of 4.9 per cent during 1980-1986, the manufacturing sector suffered a negative annual average rate of 3.4 per cent during the same period.[1/] Over the 10-year period ending in 1986 the textile industry suffered marked decline, particularly during the first half of the 1980s. The industry's contribution to total MVA represented in 1986 41.6 per cent of its value added in 1977. Growth of food and beverages has been more or less stagnant, with the exceptions of a few years during 1980-1986 when these products experienced erratic growth trends in value added. Emerging industries in the late 1970s were metal fittings, aluminium utensils and petroleum. However, the industries that came on stream in the late 1970s seem to have lost the initial impetus to growth by mid-1980s.

The structure of manufacturing output and value added changed significantly since 1970. In the early 1970s food processing accounted for 81 per cent of MVA. This share dropped to 55 per cent in 1974. By 1986 the share of food products in MVA fell to 31.9 per cent. Beverages and tobacco recorded large increases in their respective shares of MVA in 1979 because of a 17.1 per cent growth of beverages and a 33.3 per cent growth of tobacco (Table 2.1). Table 2.1 shows that tobacco recorded a 69 per cent increase in value added in 1980. This was largely due to the fact that the public sector cigarette factory boosted its turnover by selling imported cigarettes. Because of large fluctuations in the real value of manufacturing output and value added, it is difficult to discern any clear pattern of structural change in MVA.

The share of textiles in MVA fell from 20.0 per cent in 1977 to 8.1 per cent in 1986 (Table 2.1). Such a drastic fall was due to the operating difficulties experienced by the main production unit Somaltex. It is surprising to note from Table 2.1 that the share of leather and footwear never exceeded 4.5 per cent of MVA, despite the country's large supply of hides and skins. When a public sector petroleum refinery came on stream in 1980, the share of chemical industry in MVA rose significantly. The contribution of metal fittings and aluminium utensils to MVA has been of marginal significance, accounting for 2.4 per cent and 4.4 per cent of MVA respectively in 1986.

1/ World Bank, World Development Report, 1987.

Table 2.1: Value added by sub-sector of manufacturing, 1977-1986
(So.Sh. million at 1977 prices)

Sub-sector of manufacturing	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986 a/
Food	69	45	40	50	44	52	51	52	74	79
Beverages	41	41	48	35	31	46	36	33	36	38
Tobacco	31	27	36	61	52	53	36	28	27	31
Textiles	48	51	35	49	38	40	25	19	13	20
Clothing	6	6	5	4	4	3	3	3	3	4
Leather and footwear	7	7	9	5	8	7	7	9	9	10
Furniture	2	3	3	1	1	2	1	1	1	2
Paper and printing	35	22	36	22	23	21	23	27	30	42
Metal fittings	--	--	6	10	12	20	13	11	8	6
Aluminium utensils	--	--	4	6	7	14	7	10	5	2
Petroleum	--	--	20	21	0	16	20	13	15	11
Total	239	292	242	264	220	274	222	206	221	247
Growth of MVA		15.4	19.8	9.1	-16.6	24.5	-18.9	-7.2	6.9	11.9

Source: Ministry of National Planning.

a/ Estimate.

While new industrial capacity was created in the late 1970s and early 1980s, a few sick industrial units were phased out. A typical example is the SNAI sugar industry at Jowhar. The firm produced 47,500 tonnes of sugar in 1970/71. Production declined consecutively and came to a standstill in 1984. In the meantime Juba Sugar went into production in 1980 and partly compensated for the loss in sugar production, with the net result of no real increase to MVA.

Following two consecutive years of rapid decline during 1983 and 1984 (Table 2.1), MVA grew at 6.9 per cent in 1985 and the pace of recovery was sustained and accelerated at 11.9 per cent in 1986. This was largely due to the improved availability of industrial inputs.

2.2 Performance and efficiency

The production capacity of Somali manufacturing sector has been consistently underutilized. Capacity utilization varies from one industry to another (see Annex Table A-4), but the overall figures for the entire industry in the country are disappointingly low, falling from 39 per cent in 1982 to 26 per cent in 1986 (Table 2.2).

Of the 18 firms reported in Table 2.2 production ceased to exist in two firms in 1984, namely Edible Oil Mill and Milk Factory at Mogadishu. The Milk Factory underwent the rehabilitation process in 1985. Capacity utilization in ten firms was far below the average 26 per cent in 1986. Two firms, Urea

Plant and Somali Marine Products that came on stream recently were utilizing 2 per cent and 20 per cent respectively of their installed capacities. Table 2.2 strikingly reveals the opposite trends experienced by the two sugar factories in capacity utilization. Capacity utilization rose significantly from 35 per cent in 1982 to 55.9 per cent in 1985 in the Juba Sugar Complex, while that of the SNAI Sugar Complex at Jowhar fell from almost 30 per cent in 1982 to 1.7 per cent in 1984.

Table 2.2: Utilization of installed capacity in selected industrial enterprises, 1982-1986
(percentage)

Enterprise	1982	1983	1984	1985	1986
Juba Sugar Complex	35	40.1	38.4	55.9	38.6
SNAI Sugar Complex, Jowhar	29.8	6.9	1.7	6.8	8.3
Edible Oil Mill, Mogadishu	1.7	1.1	0	0	0
Wheat, Flour and Pasta Factory, Mogadishu	12.9	54.1	77.4	56.5	61.4
Meat Factory, Kismayo	6.2	0	0	0	19.5
ITOP Agfoi (Fruit Canning)	3.0	4.3	2.1	9.1	12.5
Milk Factory, Mogadishu	18.3	6.7	0	0	0
National Bottling Co. (private)	66.0	55.0	45.0	16.0	7.8
Cigarette and Match Factory	51.1	35.2	27.0	25.9	31.0
Somaltex, Balad	47.6	30.2	23.1	15.6	27.5
Tannery Km 7 Mogadishu (hides only)	0	8.5	45.0	48.0	63.0
Incas Packing	16.7	18.3	21.1	24.0	33.0
Somali Chemical Industry (private)	21.2	12.9	15.3	4.8	4.6
Urea Plant, Mogadishu				4.2	2.0
Petroleum Refinery, Mogadishu	47.8	43.9	31.1	36.5	27.0
Foundry and Mechanical Workshop	33.3	21.8	17.2	14.0	14.0
Aluminium Utensils	45.0	24.8	34.2	15.0	12.5
Somali Marine Products			15.0	2.0	20.0
Weighted average for the manufacturing sector	39.0	33.0	26.0	28.0	26.0

Source: Ministry of National Planning.

Out of the 21 representative industrial units included in Table 2.3 only 5 units made any sizeable profits during 1984-1986. These were Cigarette and Match Factory, Somaltex, Somali Marine Products, Tannery and Incas Packing. The other ventures incurred losses or broke even. The overall financial performance of the manufacturing sector reveals low profitability.

A significant increase in the profit earned by the Cigarette and Match Factory from So.Sh. 26.5 million in 1984 to So.Sh. 50 million in 1986 does not necessarily reflect a high degree of industrial efficiency as an unprecedented increase in sales stemmed from the sale of imported products.

A study of 27 Somali enterprises carried out by the World Bank[1] revealed that 25 per cent of them show negative value added at world market prices, without taking depreciation into account. What this amounts to is that these enterprises consume more foreign exchange in their current operation than they save by substituting for imports. When depreciation is included in value added, another 7 enterprises report negative value added, representing 12 out of 27 Somali enterprises, or about 40 per cent of the sample.

According to recent estimates, some 15,000 persons are employed by about 300 establishments. The public sector employs 80 per cent of the work force, the reminder being engaged by the private sector. While private sector has been able to adjust wages to rising prices, the public sector has lagged behind. There appears to be a need to review wages both for managerial and work forces, keeping in view the rising cost of living.

Some indication of labour productivity could be gauged from data pertaining to sales per employee as presented in Table 2.3. In 1986 the highest labour productivity ratio (sales per employee) was found in Petroleum Refinery followed by cigarette and match, wheat, flour and pasta production. Other industries reported very low levels of labour productivity. Even some capital-intensive industries, e.g., Urea Plant, experienced one of the lowest sales per employee during 1985 and 1986. This was largely due to a very low level of capacity utilization.

The prime factors which had the greatest effect in pushing down industrial output during the past was the unavailability of spare parts for regular and special maintenance as well as shortage of imported raw materials. Some examples of the latter are aluminium, plastic, liquor additives, chemicals for matches, tanning materials, shoe parts, starch for pasta, tobacco, filters and paper for cigarettes, and soft wood for matches, etc. These industries should have at least a 6-month inventory of raw materials. It will be difficult of course, to meet this requirement for all industries. Rather than importing finished articles, it would be preferable to harness the available capacity in the country to the fullest by importing raw materials. This item has a priority second only to spare parts. Somaltex, the Petroleum Refinery and the Cigarette and Match Factory have reported low production levels, mainly due to lack of raw materials. The shortage of fuel has brought down the production of industrial units. This low production affected the rate of growth of the manufacturing sector and its contribution to GDP. An estimate has been made of the import requirements for spare parts and raw materials for the manufacturing sector (excluding refinery and power generation). An average sum of $70 million per year would need to be allocated for these two items, i.e., $20 million for spare parts and $50 million for raw materials.

However, this did not fully materialize in the past due to foreign exchange shortage. The industries were not allowed to bid in the auctions of foreign exchange in the earlier stages of the auctioning programme. Value added by industry, through import substitution, could compensate the import bill. There is a need to carry out an in-depth plant to plant study to determine the foreign exchange requirements of industry. This would assist the government and donors to allocate resources for enhancing industrial efficiency.

1/ World Bank, Somalia: Industrial Policies and Public Enterprise Reform, Report No. 6639-50, December 1987.

Table 2.3: Selected indicators of industrial performance, 1984, 1985 and 1986

Enterprise	Sales (So.Sh. million)			Profit/Loss (So.Sh. million)			Number of employees			Sales per employee (So.Sh. thousand)		
	1984	1985	1986	1984	1985	1986	1984	1985	1986	1984	1985	1986
1. Juba Sugar Complex	324	838	690	-52	148	-12	1834	2045	2000	177	410	345
2. SNAI Sugar Factory	11	85	152.3	-93	-23	41.3	1379	1300	1300	8	65	117
3. Oil Mill, Mogadishu	--	--	--	--	--	--	80	23	20	--	--	--
4. Wheat, Flour and Pasta Factory	150	263	374	6.6	0.5	0.2	310	320	298	483	822	1255
5. Meat Factory, Kismayo	13	1.1	84	-3.7	-8.5	0.86	228	185	252	59	6	333
6. Milk Factory, Mogadishu	0	0	35.1	-1.7		-9.5	24	42	85	--	--	412
7. National Bottling Company	43	46	43.6	3	3.6	0.51	160	160	138	263	287	315
8. Urea Plant	14	52	32.4	-11.7	-113	-81	189	183	205	74	284	86
9. Cigarette and Match Factory	460	750	1252	26.5	36	50	543	595	530	847	1260	2362
10. Somaltex, Balad	113	169	243	-6.6	1.5	2.4	854	635	650	132	266	374
11. Foundry and Mechanical Workshop	8	10	13.4	3.1	...	0.71	85	96	96	90	104	139
12. Aluminium Utensils	12	4.1	2973	-0.75	-6.4	-7721	90	81	54	133	50	55
13. Tannery Km 7, Mogadishu	28	51.8	54		4	1.22	250	225	220	110	230	240
14. Petroleum Refinery	588	1522	1180		-7	...	179	200	220	1832	7610	5363
15. Somali Chemical Industry (BAYL)	25	31.9	41.3		-4.3	-5.6	121	125	90	141	255	455
16. Pharmaceutical Industry	-	-	36.4				76	92	109	--	--	334
17. ITOP Agfoi	2.7	8.5	28.5	-2.5			70	120	150	38	71	190
18. Tannery, Hargeisa			2.3	--	--	--		36	70	--	--	33
19. Tannery, Kismayo	...	4.4	18.0				70	70	80	...	57	230
20. Tannery, Burao			2.0					27	37			54
21. Somali Marine Products	17	25	40	0.7	13	4	121	120	120	141	208	333

Source: Ministry of National Planning.

Agriculture has not kept pace with the raw material needs of the factories. Somaltex is unable to obtain locally produced cotton. Sugar-cane inputs to SNAI Sugar Factory and Juba Sugar Factory have not been adequate. Milk supplies to the Milk Factory are limited. Tomato and fruit supplies to ITOP put a ceiling on its output.

Attracted by better financial returns, trained manpower finds employment in the Gulf countries. Better salaries and improved amenities could attract trained and experienced labour force. Training courses and programmes would need to be organized for labour. There is also a need to retain productive labour and to create additional jobs for surplus labour. According to the new policies, factory managers have been allowed to dispense with redundant labour.

Normal maintenance of machines is required to achieve productivity gains. Production planning is also needed in most industrial units. Participation in appropriate seminars and workshops by senior and middle managerial personnel could improve overall management efficiency. Introduction of production incentives could induce labour to produce more if wages could be linked to industrial production. Public sector industrial plant managers have recently been given more autonomy and additional powers with regard to management, pricing, recruitment, pay scales, financing and general improvement of productivity. They have been advised to operate the factories on the pattern of private enterprise.

One of the strategies envisaged by the Five-Year Development Programme (1987-1991) is the rehabilitation of industrial public enterprises. Since the public sector industrial plant capacity far exceeds that of the private sector, better performance of public enterprises could constitute a source of growth in manufacturing output in the medium-term. Because of operating losses, most of the manufacturing enterprises in the public sector have been perennially short of funds, both for working capital and replacement of fixed assets. SNAI Sugar Jowhar, Edible Oil Mills, Meat Factory Kismayo, Somaltex and Petroleum Refinery are important candidates for rehabilitation and modernization. Industrial rehabilitation in Somalia is to be directed towards regenerating resource-based agro-industries with a view to achieving import substitution and accelerating the country's export-drive towards a diversified export profile.

2.3 Exports and imports of manufactures

Despite the potential for promoting exports of local resource-based products like processed fruit, vegetables, meat, fish and leather products, Somali manufacturing sector hardly exports anything in processed form. Exports of wet blue hides and skins and finished leather have been discouraged by the monopsonist buyer, the Hides and Skins Agency (HASA). The main barriers to export promotion of leather products are smuggling of hides and skins to Kenya, which creates a shortage for processing, and the monopoly enjoyed by HASA in the exports of hides and skins. Table 2.4 presents the trends in hides and skins exports during 1978 and 1987. Around 90 per cent of hides and skins are destined to Italy and the remainder 10 per cent to Spain.

Following a significant increase in 1979 export earnings of hides and skins stagnated in 1980 and fell sharply to a meagre $0.4 million in 1981. The situation improved in 1984 with export earnings of hides and skins reaching $3.2 million, and stagnated at $3.5 million during 1985-1986. The planned export earnings from hides and skins stood at $4.5 million in 1987.

Table 2.4: Exports of hides and skins, 1978-1987
($ million)

Year	Export
1978	1.9
1979	8.4
1980	6.7
1981	1.2
1982	0.4
1983	1.7
1984	3.3
1985	3.5
1986	3.5
1987	4.5[a]

Source: Ministry of National Planning.

a/ Planned.

Livestock is the main resource of the country. The leather sector offers potential for development and export on a long-range basis. Tanning capacity available in the country has been utilized to the extent of only 20 per cent. Tanned or processed leather has not been exported, presumably due to low quality, non-competitive prices and lack of foreign marketing skills. It is estimated that the total sales revenues obtainable could be $23 million annually, of which $13 million would be total added value in terms of foreign exchange. In future, the long range strategy could aim at improving the value added by further processing leather in the local tanneries and operating the tanneries at highest possible capacity.

Export potential exists in processed tomatoes, grapefruit juice and packaged bananas. Export of meat is possible in the future, albeit, only if the private sector is involved. There are some reservations in making any further heavy capital investments in the sector, in view of the low economic returns. It is recommended that further studies on the technical and economic prospects be conducted to plan a realistic course of action. Export possibilities are attainable provided a positive drive is carried out and the impediments and constraints are minimized.

Somalia depends heavily on imports due to the scarcity of food products, medicines and manufactured goods. Table A-6 indicates the commodities imported during 1985 and 1986 with projections for the Five-Year Plan Period covering 1987-1991. Food and petroleum accounted for 26.6 per cent of imports in 1986, while public investment programme absorbed 45.3 per cent of total imports in 1986. Thus, the bulk of Somalia's imports constitute resources for implementing the public investment programme.

Table 2.5: Composition of imports, 1985-1988
(percentage)

Imports	1985	1986	1987[a/]	1988[a/]
Food	17.3	15.0	10.1	10.1
Petroleum	20.2	11.6	9.3	11.1
Agricultural inputs	2.0	3.3	3.9	3.8
Raw materials	2.5	4.4	5.2	5.2
Chemicals and pharmaceuticals	1.5	2.5	2.9	2.8
Construction materials	4.3	1.7	2.1	2.2
Farm machinery	1.2	2.2	2.5	2.6
Transport equipment	3.8	3.3	3.9	3.8
Other machinery and equipment	3.5	5.5	6.4	6.4
Consumer goods	3.0	5.2	5.4	6.0
Public investment programme	40.7	45.3	48.3	46.0
Total	100	100	100	100

Source: Five-Year Development Plan, 1987-1991.

a/ Projection.

Food imports, which accounted for 15 per cent of total imports in 1986, are needed to fill the gap in food supply. Importation of food products, mostly in the form of food aid, continued to rise even during periods of rising domestic production. This paradoxical situation is partly explained by the changing pattern of consumption in Somalia, particularly in the urban areas. Quite a large part of the food imports is also used for feeding the refugees and nomads.

2.4 Ownership and investment patterns

Almost 80 per cent of the large industrial enterprises is State-owned. The picture is somewhat different when the ownership pattern of all manufacturing enterprises (including enterprises employing more than 5 workers) is taken into account. Table 2.6 shows that although the public sector enterprises accounted for only 21 per cent of all 193 enterprises in 1985, they accounted for 84.6 per cent of manufacturing employment and 89.4 per cent of MVA. The public sector enterprises also accounted for 86.5 per cent of industrial output and represented 88.3 per cent of new fixed assets in 1985. These facts seemingly demonstrate the preponderance of the public sector in Somalia. It will be observed that even in 1985, when the private sector was being especially encouraged, the share of private sector in new fixed investments was only 11.7 per cent.

Industrial revitalization through privatization has become the hope for future development of industry. Somalia has a tradition of commerce, and a reasonable stock of experienced traders who have the potential to form a viable entrepreneurial class in industry.

Table 2.6: Data on public and private industrial ventures, 1985

Industrial ventures employing more than 5 workers		Public	Private	Total
1.	Number of employees	11,194	2,041	13,235
	per cent	84.6	15.4	100
2.	Number of establishments	41	152	193
	per cent	21	79	100
3.	Wages (So.Sh. million)	252.9	39.6	292.5
	per cent	96.5	13.5	100
4.	Value of output (So.Sh. million)	4,756	567	5,323
	per cent	89.4	10.6	100
5.	New fixed assets (So.Sh. million)	250	33	282
	per cent	88.3	11.7	100

Source: Ministry of National Planning, Directorate of Statistics.

In spite of the difficulties, a sizeable number of entrepreneurs did take the initiative over the years to set up first-stage manufacturing activities. Some learned to prosper within the regulatory system but substantial numbers have been driven out of business. During 1974-1982 the private sector lost 60 per cent of its establishments, while the public sector lost only 20 per cent. The private sector was able to adjust to adverse circumstances better than the public sector. By so doing, the private sector was able to maintain real wages and productivity relatively more than public enterprises, as these carried more unproductive labour and could continue incurring losses because they were subsidized and had other privileges.

Suggestions have been made to privatize industrial public enterprises to improve performance and to reduce direct government involvement in industry. At the moment, the capability of private business to take over existing public enterprises is limited. They do not have the management experience, technical expertise or finance to buy and operate the larger and more complex operations, except perhaps in one or two cases. Nor would they like to take over ventures which have been making losses and have in-built liabilities. However, as some entrepreneurs accumulate capital, expand their operations and acquire know how, they may be able to purchase some public enterprises and operate them efficiently. The Union of Somali Co-operatives has recently acquired ITOP fruit canning factory. Some of the small cottage level ventures are also owned by the Co-operatives.

So far, private foreign direct investment is very limited. Somalia has not been considered a very attractive country to invest in; however, whatever potential exists has not been properly exploited. Private foreign investment could fulfil a very useful function in providing a package of capital, technology, management and marketing. The situation is expected to improve with the new foreign investment law. There are a few successful joint

ventures between foreign investors and the government, i.e., Somalfruit, Incas and GRP Products. National Bottling Co. has minority shareholding by the government with majority shares held by Somali nationals.

In the immediate future, major new investments are expected to take place in the private industrial sector. Public sector investments will be limited to the rehabilitation of the existing units.

2.5 Geographic distribution of manufacturing enterprises

The government policy is to disperse industry all over the country to maintain equity in the distribution of economic benefits. However, the main concentration of industry is in Banadir (Mogadishu) region which has almost 68 per cent of the total (having 131 units out of the total of 193 units employing more than 5 workers). The reason for this is the availability of basic infrastructure and proximity to government facilities. The remainder of the industrial units are scattered in the north and south according to the available resources (Table 2.7). The government is inviting the regions to make proposals for setting up industries in order to achieve regional balance in industrial development.

Table 2.7: Location of industrial units[a/] in Somalia, 1985

Location	Public		Private		Total	
	Number	Per cent	Number	Per cent	Number	Per cent
Banadir (Mogadishu)	13	32	128	94	131	68
Rest of country	28	68	24	16	62	32
Total	31	100	152	100	193	100

Source: Ministry of National Planning, Directorate of Statistics.

a/ Employing more than five persons.

Table 2.7 shows that in the public sector 32 per cent of the units (13 out of 41) are located in Banadir in proximity of Mogadishu. However, in the private sector, a higher percentage, namely 84 per cent (128 out of 152) are located in Banadir (Mogadishu).

2.6 Problems and prospects of selected sub-sectors of manufacturing: Food, beverages, tobacco, textiles, leather, chemicals, pharmaceuticals, plastics, petroleum, cement and clay products, metal products, and paper products

Food

Food is one of the most important branches of manufacturing activities in Somalia. The larger units, in terms of output value, include Juba Sugar Complex, SNAI Sugar Factory and Wheat, Flour and Pasta Factory. While the production level of SNAI Sugar Complex started declining in 1982, the Juba

Sugar Complex came on stream and made up partially for the deficiency. The smaller units include Milk Factory, Mogadishu, ITOP Afgoi and a number of installations in the private sector manufacturing sweets, bakery products and ice cream. The government is actively promoting the development of "Khandsari Sugar" units by private farmers. For this purpose, 20 units of basic machinery have been imported for sale to the farmers. The Meat Factory Kismayo is practically closed down.

The factories in this sector are some of the oldest and are in need of rehabilitation. The Milk Factory at Mogadishu has been fully rehabilitated and modernized in 1985 and, in future, could contribute significantly to the output of the sub-sector.

In addition to the one edible oil mill in the public sector, which never commenced operations, there are almost 100 small-scale cottage level oil mills in the country, each employing 35 to 50 horse power motor for expelling and filtering oil. A majority of these (80 per cent) are located in Mogadishu.

Each produces about 15 tonnes of oil per month. Thus, there is sub-sectional cottage level productions of edible oil in the country. The estimated production in 1986 was over 20,000 tonnes against the demand of over 45,000 tonnes per year. The gap is partially met through commercial and aid imports.

Beverages

This sub-sector has 5 major privately owned bottling units. The sector has contributed about 10 per cent of MVA from 1977 to 1984. In 1985 and 1986 there was a drop in contributions due to their renovations and the Coca-Cola factory running well below its optimal level. Private sector is very active in the field of beverages and production is expected to more than double in the Five-Year Plan period 1987-1991.

Tobacco

There is only one factory manufacturing cigarettes, the Cigarette and Match Factory at Mogadishu. The capacity utilization of the factory has been good, although constrained by problems of raw material supplies. There is definite scope for developing indigenous sources of tobacco rather than importing it. There are no possibilities of exporting tobacco products in view of the stiff international competition.

Textiles

The contribution of this sub-sector has been falling steadily. The major contribution is by Somaltex, a government-owned textile mill located at Balad. This mill meets 25 per cent of the country's demand, mainly to the rural areas and to government institutions. The consumers in urban areas demand quality, design and fashion which is not available from resources within the country. There is great scope for the private sector to develop textiles, knitwear and hosiery, a major portion of which is imported at present. In the private sector, there are small ready-made garment manufacturing groups.

Leather

The contribution of leather to the manufacturing sector has been rising steadily and in 1986 it stood at 8.5 per cent. At present, Somalia has 7 mechanized tanneries (currently functioning), of which four are in the public sector as part of the State-controlled Leather Agency. Three belong to the private sector. In addition, there are 25 small cottage industries in Brava area.

The potential for leather output is great, both for home consumption and for export. However, the factories do not get the required amount of hides and skins. The export possibilities are not fully availed of due to the following reasons:

a) over 70 per cent of available hides and skins are not commercialized due to the low price offered by the State agency, and poor collection system;

b) low level (20 per cent average) of capacity utilization of tanneries;

c) shortage of skills at all levels in the tanneries and shoe manufacture;

d) defective flaying and curing of hides and skins;

e) lack of foreign exchange for spare parts and for import of chemicals for tannery operations (except salt, lime and some local vegetable tanning materials); and

f) the State-controlled Leather Agency has virtual monopoly of the leather sector, giving limited scope for the private sector.

The major measure for improvement of leather sector operations, suggested by many researchers and donors, is to keep the sector open to the private sector entrepreneurs; allowing them to collect leather, process it and market it locally and abroad. The public sector could be allowed to co-exist in competition with the private sector.

In view of the high importance of the leather sub-sector, there is urgent need for a detailed study of the entire sector and the industries encompassed therein. To accomplish this, a sectoral study of hides and skins, leather and leather products has been envisaged under the aegis of the World Bank and UNIDO. The study will review the legislation governing domestic and export trade, and make recommendations to modify such legislation with a view to liberalizing trade and providing incentives for increased value added in the sector. It will suggest measures for rehabilitation of industry and for locating joint venture management/partners.

The study will also look into the agriculture/livestock sector and meat processing sub-sector. Further the study will look at the benefits of privatization of existing industries and the future development in the private sector. One of the reasons for low availability of hides and skins has been the closure of the meat industries.

Chemicals

Two new public sector factories have been added to this sub-sector; Urea Plant came into trial production in 1984 but has not been able to overcome the start-up problems; Pharmaceutical Industry commenced trial production in late 1986.

The main contribution in this sub-sector, in the past, has been:

Somali Chemical Industry (BAYL) and

Benadir Soap Co. Mogadishu, manufacturers of paint, cosmetics, perfumes and laundry soap.

Future growth in this sub-sector will have to stem from private entrepreneurs. Insecticides and pesticides manufactures are possibilities for the immediate future. A small plant manufacturing soda caustic and chlorine from salt is a viable project. Somalia has a long coastline and sunshine; thus, sea-salt is a natural resource for the chemical sub-sector.

Pharmaceuticals

This is a newly emerging field with Pharmaceutical Industry, Mogadishu having gone into production in 1986. So far, the pharmaceutical needs were met through imports and through medical supplies from donor countries. Imports have been to the tune of $10 million per year. ASPIMA, a State agency, operates a pharmaceutical laboratory to produce 50 million tablets and 25 million injectables per year. The private sector has been reluctant to embark on the pharmaceutical industry because of the free aid assistance from donors, wherein some of the supplies were given free of cost to the National Trading Agency, ASPIMA. ASPIMA did import some of the products through national resources and sold them in the market at subsidized rates.

After the Pharmaceutical Industry Mogadishu (PIM) went into production, the government fixed the prices of the products in 1987 at a level between the old subsidized rates and the commercial rates. These prices might be attractive to the private sector who are likely to manufacture some of the simpler items, like insecticides and pesticides. The distribution of pharmaceutical products is through a well established chain of privately owned pharmacies scattered in the capital city and in the urban towns.

Plastics

Plastics industry units have been set up mainly in the private sector to manufacture foam mattresses, plastic bags, pipes, hoses, and sandals. SNAI BIASA, the government-owned unit, also makes plastic utensils and sandals. The major limitation is that all raw materials need to be imported, constituting a drain on foreign exchange. SNAI BIASA did have some activity through manufacture of plastic products.

Petroleum

Petroleum Refinery at Mogadishu is the largest venture operating in the country contributing almost 20 per cent to the production of the manufacturing sector. The unit has to depend on imported inputs which has limited the capacity utilization rate. There is a shortage of petroleum products. The marketing of petroleum products is carried out by the Co-operatives.

Investigations have been carried out to ɔle the output, but these have been shelved for the time being due to shortage of finance. Oil exploration is being actively carried out by six foreign oil companies. They will share the profits with the government if oil is located. Search for natural gas also continues. Drilling of a new well was carried out in Afgoi in 1985, close to the site where a stabilized flow rate of gas was obtained in 1966 explorations. However, this well did not yield gas.

Cement and clay products

The sub-sector includes cement and cement products, gypsum, asbestos, cement tiles and bricks, lime products and ceramics. Berbera Cement Plant started production in 1987 and will give impetus to industries based on cement, namely cement pipes, grills and construction materials. Construction sector is very active in Somalia and much growth is expected. Asbestos Cement Plant and Gypsum Plant in Berbera have had technical, financial and managerial problems, hence production has been minimal. The private sector produces terrazzo tiles and enough capacity has been generated to meet the current construction demands.

There are well over 150 primitive lime kiln plants, operated by private parties. Quality of lime is acceptable for local construction projects. Afgoi Brick Factory, in the public sector, has capacity to produce 51 million units of bricks and roofing slabs annually (60 t/day). The factory was constructed at a cost of $2 million, but has been running at a loss and at present almost closed down. Cement concrete blocks are used in building construction, instead of bricks and hence, demand for bricks is low.

Ceramic industries for pottery, sanitary ware, ceramic tiles and glass are possibilities for the future. However, the market is not fully confirmed yet. Raw materials like kaolin, quartz and feldspar have been located and pilot tests are being carried out.

The overall contribution of the sub-sector has been rather insignificant, but is expected to improve with the advent of Berbera Cement Plant.

Metal products

The metal products sub-sector has contributed between 7 per cent to 14 per cent to manufacturing output. In the public sector, there are two factories, Foundry and Mechanical Workshop Mogadishu and Aluminium Utensils, Mogadishu. The profitability of these units has been low and, generally, they have operated at 20 per cent to 25 per cent of their rated capacity.

In the private sector, there are small units manufacturing wire netting, nuts, bolts and nails. These units have made reasonable profits in the past. Foundry and Mechanical Workshop at Mogadishu, in spite of low capacity utilization and minimal profits, has made an important contribution in the form of training skilled workers who have been utilized in the private sector and other machine shops in the country. Trained workers have found employment in sugar mills, textile mills, refinery, urea plant, pasta factory and other ventures.

The importance of the metal products sub-sector as nucleus for creation of industrial skills is fully recognized. This sub-sector plays an important role in technological and human resource development, resulting in spill-overs to other sectors of the economy.

Foundry and Mechanical Workshop qualified for additional technical assistance and even additional subsidy to be able to support the overall technological development in the country. This sub-sector should be assessed and appraised based on its overall direct and indirect prime benefits.

Paper products

Incas Packing Jamame (joint venture) is the major successful operating unit in this sub-sector. It manufactures corrugated cardboard cartons for home industry and for export of bananas by Somalfruit. Although the factory does not export cartons, it is making a positive contribution in the export performance of the country. Paper printing is carried out by the State Printing Agency; in addition, small printing units have emerged in the private sector during the mid-1980s. There is good demand for copy books, stationary and ruled paper. Private firms have good scope for expansion in this field.

Establishment of a pulp and paper mill with a capacity to produce 15,000 tonnes of paper per annum had been planned. However, the project is not viable because of the uneconomic size; present day economic size of a paper plant is 50,000 tonnes per year for which there is not enough demand in the country. In addition, raw materials like coniferous trees, river grass or wheat straw are not available in sufficient quantity in the country.

The only viable project is a 3,000 to 5,000 tonnes per year paper recycling plant to manufacture fluting and liner board for the requirements of Incas. However, this would require a thorough study to establish continued availability of waste paper.

3. PERFORMANCE AND PROSPECTS OF INDUSTRIAL ENTERPRISES[1/]

3.1 Public sector enterprises

Sugar industries

SNAI Sugar Factory, Jowhar

A small sugar factory was established at Jowhar in the year 1927. The production of cane and sugar remained stagnant until SNAI sugar plant came on stream in 1963. A rising water table and an increase in salinity combined with technical and mangerial problems in transport and factory operations have resulted in a decrease in the productive area of the estate, causing a decline in cane production and sugar output. The fixed capital stock had been obsolete, with no extensive replacements or modernization due to unavailability of replacement capital and foreign exchange.

Sugar production in 1985 and 1986 was minimal, being 2,700 tonnes and 3,300 tonnes, respectively, against the installed capacity of 40,000 tonnes per year. Thus, there was a 6.8 per cent capacity utilization in 1985 and 8.3 per cent in 1986. The factory came to a standstill in 1987 with only 7 tonnes of sugar produced from January to June 1987.

The plan of action recommended by a consulting firm from the Federal Republic of Germany includes the rehabilitation of the estate irrigation and drainage system over 5,300 ha, rehabilitation of the sugar mill, improvement in cane transport system, complete re-organization of the enterprise management and the provision of intensive technical training, with assistance from a large international management team.

The Italian government has taken over the financing of the rehabilitation programme for the SNAI/Jowhar sugar estate, along the general lines of the recommendat .1 described above. The solution requires a complete rehabilitation programme, which is approved and underway. Through the Italian Aid Programme (FAI), the rehabilitation project is a long-term solution aiming at achieving economic viability of SNAI. For the 1987-1989 period, the Italian government has earmarked $34.3 million for the rehabilitation programme.

In the short run the existing plant and machinery requires effective overhaul and maintenance. The Italian programme has focussed attention on improvement of the agricultural farm to ensure cane supply. Encouragement of private farmers to supply cane to the mill at mutually agreeable prices is a proposition worthwhile looking into. Training of managerial and technical staff has to be continued with greater vigor.

SNAI BIASA Factory

This is a small highly profitable unit attached to the SNAI Sugar Mill. It is under the management of the sugar mill and the accounts are compiled together; thus it contributes to the profits of the sugar mill. Sales in 1986 reached So.Sh. 59.6 million compared with So.Sh. 28.6 million in 1985.

1/ A broad spectrum of public and private sector enterprises discussed in this chapter includes all industries under the Ministry of Industry and Commerce and 90 per cent of private sector industrial units.

The factory manufactures liquors, perfumes and pharmaceutical alcohol based on alcohol produced by the sugar mill. It also has equipment for manufacturing detergents, plastic objects like bottles, jerry cans and sandals from imported granules. However, the machinery has depreciated considerably and is in need of modernization and rehabilitation. The plant has mixing vats, evaporators and mixing machines.

The company can function like a shop handling a number of consumer items, depending on the market demand. It is ideally suited for operation by the private sector and, therefore, it would be worthwhile considering the involvement of the private sector entrepreneurs to buy shares in the company and promote the products. While there is demand in the local market, some of the exotic products like lemon oils and African liqueurs have export potential.

Juba Sugar Complex

Juba Sugar Complex was established by the government of Somalia as an autonomous agency in 1977. An irrigated sugar-cane estate was planned to have, ultimately, an area of 8,195 ha. It would support a cane factory crushing 2,300 tonnes of cane per day, producing 70,000 tonnes of sugar per year. Commercial production began in July 1980. Originally, the factory was expected to reach full production in 1984, but due to a number of impediments, it produced only 26,950 tonnes, i.e., 38.5 per cent of the rated capacity. This is a matter of concern and needs serious consideration, especially when the country is importing large quantities of sugar to meet domestic demand. With production at Jowhar Sugar having come to a standstill, this is the only unit supplying a most important consumer commodity. It is providing jobs to over 5,000 persons and merits full support.

The factory produced 27,000 tonnes of sugar in 1986 against the rated capacity of 67,000 tonnes per year, representing 38.6 per cent of the rated capacity. Sales amounted So.Sh. 690 million in 1986, showing a loss of So.Sh. 12 million. In 1985, sales stood at So.Sh. 838 million giving a profit of So.Sh. 148 million. The poor performance in 1986 was due to shortage of diesel fuel and diminished water supply for irrigation.

The factory and the estate were planned to be expanded to produce 100,000 tonnes of sugar per year. National demand for sugar is projected at 124,000 tonnes by the year 1990 (Table 3.1). Scarcity of water is the major constraint in achieving this objective. The initial cost estimates for the first phase of the project were $188 million which has already been exceeded.

Since Juba Sugar production is sold to the National Trading Agency and other government-owned organizations, the upward revision in price has to be approved by the government under the pretext that sugar is an item of popular consumption and a sensitive commodity. The ex-factory price set by the government stood at So.Sh. 28,000 per tonne in January 1986, compared with So.Sh. 12,000 and So.Sh. 20,000 in August 1984 and January 1985 respectively. In early 1987 the company requested a price revision to So.Sh. 35,000 per tonne. The company feels that further upward revision in price will be warranted in the immediate future. Ideally speaking, the price of sugar should be determined by the factory, keeping in view of competition from imported sugar.

Table 3.1: Sugar production and estimates of national demand, 1971-1990
('000 tonnes)

	1971	1971	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1990
Juba Sugar										7.9	14.8	24.6	28.1	26.9	39.1	27			
SNAI Sugar	45.7	41.3	37.0	32.9	30.6	33.2	30.0	24.0	21.4	21.8	11.8	11.9	2.8	0.7	2.7	3.3			
Total	45.7	41.3	37.0	32.9	30.6	33.2	30.0	24.0	21.4	29.7	26.6	36.5	30.9	27.6	41.8	30.3			
National demand										72,000					94,000				124,000

Source: Ministry of National Planning.

Juba Sugar project has been able to tackle the constraints and problems. Positive and decisive liberalization measures need to be applied to this industry so that they can adjust the price structure in line with the cost of raw materials and foreign exchange inputs needed. At present, foreign exchange can be obtained in the free market. The enterprise is capable of paying normal taxes and dividends to the government, and in fact, can contribute to the amortization of the loans.

Juba Sugar Estate and Mill are managed with the assistance of a specialized consultancy firm, Booker Agriculture International Ltd. It is important that the association of this group is continued until the Somali managerial and technical staff are well trained, and it is ensured that they will be able to handle the project successfully. The training programmes initiated by management for training technicians and skilled workers need to be further intensified.

Edible Oil Mills, Mogadishu

The mill was established in 1974 for the purpose of producing edible oil from cotton, maize and sesame seed. The plant and equipment was bought second hand from oil mills in Jowhar and Mogadishu at a cost of So.Sh. 500,000. The age of the machinery and the original poor condition were the principal causes of low production and ultimate closure of the mill. The main boiler, installed in 1979, became incrustated. This was because the feed water was not effectively demineralized. Heat transfer efficiency dropped and the boiler became inefficient. Shortage of oil seed due to the low price offered to the seed producers, was the additional cause for very low production during the life span of the project.

The mill ceased production in 1984. A number of studies were made in the meantime to revive the operation, but it seems the machinery is too run down to operate profitably without major financial inputs. In 1983 it produced 25.6 tonnes of oil against the installed capacity of 42,000 tonnes per year, which represented 0.7 per cent capacity utilization.

The future of this mill is uncertain. There are plans to rehabilitate the mill, depending on the availability of finance. However, the government is planning to establish a new oil mill financed and owned by the private sector. The capacity of the plant will be 100 to 200 tonnes of oil seed per day. The intention is that by 1990 the total demand of the country, amounting to 65,000 tonnes per year, will be met through local manufacture. After the establishment of this mill, no refined oil will need to be imported; instead, intermediate products like unrefined oil or oil seeds will be imported. In addition, growing of local oil seeds will be encouraged.

Wheat, Flour and Pasta Factory

The factory was built in 1976 on the initiative of the Somali government. The Somali Development Bank (SDB) was made responsible for the project. Initial fixed investment costs were So.Sh. 23 million provided totally by SDB in the form of So.Sh. 7.5 million equity capital and a fixed capital loan of So.Sh. 15.5 million.

The factory produced 9,200 tonnes of products in 1985 and 10,000 tonnes in 1986. Installed technical capacity of the mill is 16,280 tonnes per year. The factory was operating at a capacity utilization of 56.5 per cent in 1985 and 61.4 per cent in 1986. In fact, ever since its inception in 1976 the

factory has performed at a high level of capacity utilization and won good evaluation report. In 1986 sales amounted to So.Sh. 374 million with no profit or loss. However, in earlier periods the company made a profit of around 10 per cent.

One reason for the project's success has been the relatively easy accessibility to finances; the project being a responsibility of the sponsoring bank itself. For tax purposes it is considered as part of the Somali Development Bank, i.e., making it exempt from taxes on corporate profits.

Raw materials are normally supplied from grants by donor countries and is made available at below cost price. The sales price of the products is determined by the government on presentation of performance data by the company. The sale price of the company is competitive, being So.Sh. 40 per kilo of pasta, against the imported price of So.Sh. 100 per kilo (1987). Protection is provided through a levy of 50 per cent import duty on imported pasta.

There is an effective managerial force which is constantly under training with foreign technicians. Machinery suppliers also provide training to the staff in Italy and in the Federal Republic of Germany. Management has been able to handle the problems with respect to finances and foreign exchange. Shortages of electric power and fuel have persisted.

In 1985, a programme was formulated for expansion of the factory at a cost of $4 million. The plan was to establish a parallel line of production. However, on subsequent consideration, it was decided to utilize $2.5 million provided by IDB for the rehabilitation of existing machinery instead of the expansion programme. This would improve the efficiency of existing machinery and would stabilize the future production programme. In addition, a 1,000 kilowatt generator will be installed to maintain continuity of power supply.

Kismayo Meat Factory

The factory was established in 1964 and went into production in 1969 with the aid of financial assistance from the USSR. Originally, the factory was designed to produce frozen and canned meat of the stewed steak type.

In 1974, the Star Company of Milan, Italy, introduced another production line, corned beef. From 1979 to 1983, only frozen meat was produced and this was entirely absorbed by the Somali Army. Subsequently, the factory remained more or less dormant. It commenced producing canned meat in 1985 and 1986 when it obtained contracts with international aid agencies for supply of meat to Mozambique. The plant operated under Russian technical guidance up to 1977. From 1969 to 1976, the plant produced at almost full installed capacity of 22 tonnes per day, slaughtering 200 head of cattle per day. The entire production was exported to USSR. After the loss of the Russian market, the company was unable to locate alternate foreign markets because of the high quality requirements by the European and Middle Eastern markets.

Against the installed capacity of 5,000 tonnes per year, the factory produced 146 tonnes of canned meat in 1985 and 350 tonnes in 1986. This gave capacity utilization rates of 3 per cent and 7 per cent respectively. Sales in 1986 amounted to So.Sh. 84 million, giving a token profit of So.Sh. 1 million.

Since livestock and meat are the most important resource of the country, a number of studies have been carried out in order to reactivate the plant. An evaluation was carried out in 1986 by the International Science and Technology Institute, Inc., USA, to assess whether the existing plant could be re-started and operated as a private sector enterprise.

Their recommendations were as follows:

1) Thermally cooked meat products can no longer be marketed profitably, therefore, thermal processing lines need to be closed down.

2) World trade has a market for frozen meat as carcasses or as prime cuts. Thus, there is a need to develop and maintain the frozen meat lines only. This would require fattened and finished meat animals. The enterprise which will run the plant in the future, will have to develop means and techniques to rear or obtain high grade meat raw material. A major investment will be needed for streamlining the frozen meat lines.

3) Since there will be difficulty in obtaining spare parts from the original Russian manufacturers, the present plant should be abandoned and an entirely new plant built.

It would be useful to continue studies and negotiations with European or other foreign meat packers. While it might be difficult to market products under a Somali brand name, it is quite possible to market the products under a European or other foreign brand name, by establishing a joint venture with an appropriate packing group.

ITOP, Afgoi Fruit and Vegetable Processing

The factory was established in 1972 by the Somali Development Bank to process tomatoes and fruit for manufacture of tomato paste and fruit juices. The factory has incurred losses since its inception; losses now aggregate to over So.Sh. 23 million up to 1986. Performance dropped from an all time high of 30 per cent capacity utilization in 1976 to almost 2 per cent in 1983 leading to a standstill. Due to a shortage of raw materials and technical problems, the plant had almost stopped production for the period 1982 to 1984. The capacity utilization for 1985 was 9.1 per cent and for 1986 12.5 per cent. Sales in 1986 were So.Sh. 28.5 million with a marginal profit. The Bank was not satisfied with the performance and sold the factory to the Union of Somali Co-operative Movements in September 1983. The Co-operatives installed a team of young and dynamic managers in order to recommence production and generate profits. Their important task was to induce farmers to grow more tomatoes. Recovery started in 1985. Capacity utilization has improved in recent years from 20 per cent in 1986/87 to 30 per cent in 1987/88. Capacity utilization rate is projected at 40 per cent for 1988/89.

Tomato paste is the major product of the factory. Capacity for finished tomato paste is 2,800 tonnes per year. Estimated demand in Somalia is only 1,200 tonnes per year, with an exportable surplus of 1,600 tonnes per year. Full capacity utilization is unlikely at present due to unavailability of tomatoes from the adjacent private farms. It has the potential to produce canned juice, but the juice line is idle and unutilized.

There is scope for transforming this factory into a profit generating unit. The machinery is modern and in good working condition.

Steps needed for the transformation are:

1) Raw materials supplies. Lack of raw materials is the basic bottleneck. Supply of tomatoes and fruit needs to be improved. The factory is located in fertile farmland and the farmers have to be induced to grow tomatoes and the fruits needed by the factory. Better prices for their products is one single factor which will encourage them to produce more. Factory management has to take measures to ensure that tomato supplies will be forthcoming in the future.

2) Extension services. Factory management will have to play an aggressive role in providing extension services, fertilizers, pesticides, seeds and fuel to the farmers. Farmers will have to pay for these services.

3) Financial support. The factory is in need of working capital and foreign exchange to buy packing materials, basically cans for tomato paste and for juice. Under the liberalized economy, it will be the job of management and the Co-operatives to raise loans from commercial banks and to obtain foreign exchange through the Commodity Import Programme (CIP).

Involvement of the private sector in this venture will be positively beneficial, and perhaps, the only way to make the business profitable. The private sector, normally, does not rush to take over or invest in non-profitable ventures. However, this factory has such good potential that private parties will become interested, provided equitable terms for participation are offered to them.

Terms will have to be negotiated but examples of the concessions offered are: write off of the past accrued debt liabilities; deferred payment of a part of their equity share capital against future profits. Foreign joint venture participation is being investigated. To this end, a group from the U.S.A. Volunteers Overseas Co-operative Assistance (VOCA) of Washington, D.C. was invited in 1984. A study is being carried out for establishing a joint venture (technical/managerial) with the Food Development Corporation (FDC) of U.S.A. FDC will develop farm potential through employment of modern farming technology, management techniques and will train Somali personnel for subsequent transition to co-operative management control. Simultaneously, the plant will be modified to suit prevailing conditions.

Milk Factory, Mogadishu

The original plant built in the mid-1970s was entirely scrapped and a more modern plant was built with funds provided by the European Community. The factory underwent a process of rehabilitation during 1984 and 1985. The capacity of the plant is 20,000 litres per day on a one shift basis. The EC also provided technical assistance amounting to $0.86 million for the 3-year period 1985-1987.

The plant worked at break-even point in 1986 with sales of So.Sh. 36 million. Sales were expected to rise steeply during 1987 and 1988. The plant is selling milk and yoghurt in bottles through private vendors. The rehabilitation programme is a good example of how a run-down plant can be revitalized and transformed into a viable and profitable venture.

Cigarette and Match Factory, Mogadishu

The plant was completed in late 1974 with a grant from the People's Republic of China, which provided financial assistance amounting to about $2.5 million. The factory commenced production in 1975. In 1980 a new line of cigarette manufacture was established with new machines.

In 1982 So.Sh. 32 million was invested for modernization and overhaul of the cigarette machinery. The company also imports international brands for resale in the local market. It does run into competition with products imported illegally into the country.

Although capacity utilization has been falling since 1982, the enterprise has shown a rising trend in sales. The factory processed 259 tonnes of products in 1985 and 300 tonnes in 1986, thus giving a capacity utilization of 25.9 per cent and 30 per cent, respectively. Installed capacity of the factory is 1,000 tonnes of cigarettes and 480 tonnes of matches per year.

Sales in 1985 stood at So.Sh. 750 million, giving a profit of So.Sh. 36 million. In 1986 sales reached So.Sh. 1,252 million, with a profit of So.Sh. 50 million. Maximum production achieved by the plant was 511 tonnes of cigarettes in 1982, representing 51 per cent capacity utilization.

In spite of low utilization of the productive capacity, the enterprise has been making steady profits ever since its inception. There has been a good cash flow and the factory contributes to the finances of the government through turnover and production tax.

1) Machinery is in a run-down condition and needs major overhaul and renewal. In fact, for a profitable company like this, a constant modernization programme has to be implemented to keep pace with the changes in the market and technology.

2) Higher production cannot be achieved for lack of foreign exchange to buy tobacco, cigarette paper, cartons and spare parts. Since all sales are within the country, no foreign exchange is earned. Means have to be devised to obtain foreign exchange in the open market or lately, through public auctions of foreign exchange.

3) There is a constant shortage of cigarettes in the country and the plant can meet only 25 per cent to 30 per cent of the local demand. Smuggled imports and the thriving black market loom as a potential threat to the factory.

4) Tobacco, which can be grown in the country, is not available in any appreciable quantity. An experimental farm on 40 ha of land has been established but it has not yet begun operations. Tobacco is currently being imported.

An annual foreign exchange budget has to be planned and provided for repair and replacement of old machinery. Management of the factory has to be exposed to training, both locally and abroad. Since it is a highly profitable company, the government may not wish to privatize it totally but some of the shares could be sold to the private sector.

Somaltex

The project was initiated as a joint venture between private shareholders from the Federal Republic of Germany and the Somali government in April 1966. It went into production in 1970. The initial share capital was So.Sh. 10 million with the government having the controlling share of So.Sh. 7.4 million and the shareholders from the Federal Republic of Germany having So.Sh. 2.6 million. Originally the plant was projected to produce 11 million yards of cloth per year. Also, the factory was to have its own spinning, weaving, bleaching and dying capability. The original machinery purchased through shareholders from the Federal Republic of Germany was a reconditioned outdated unit. As a result, the production results were far below the rated capacity and the enterprise suffered a loss of So.Sh. 26 million between the period 1969 to 1973. The company was nationalized in 1973. Between the period 1974 and 1978, the old machinery was replaced with modern machinery having a capacity of 20 million yards of cotton fabrics. The present unit is equipped with modern textile machinery comprising ginning, spinning, winding, warping, sizing, weaving (154 Sulzer looms), finishing, bleaching, dying, printing and knitting.

The mill produced 3.5 million yards of cloth in 1985 and 5.5 million yards in 1986 against the rated capacity of 22.5 million yards per year. This gives a capacity utilization of 16 per cent and 24 per cent, respectively. Around 13.3 million yards were produced in 1980, which represented the peak production level achieved to date.

In 1985 profits realized were So.Sh. 1.5 million on sales of So.Sh. 169 million. In 1986, profit rose to So.Sh. 2.4 million on sales of So.Sh. 243 million. Somaltex meets 25 per cent of the country's requirements for cloth, twills, drills, multi-colour shirting, towelling, etc. The main products consist of medium quality fabrics in grey, bleached, dyed and printed qualities. In 1985-1986, distribution of sales among these products was: grey 25 per cent; dyed 40 per cent; bleached 11 per cent; and tinted 24 per cent.

Products are marketed through five regional distribution centres and a number of private distribution agents. Major portion of the production is sold in low-income rural areas; very little volume is sold in urban areas where consumers have access to better quality imported fibres and synthetic fabrics.

Somaltex supplies some of the national organizations, like the police and army for making uniforms. A glut of finished products lying in the godown of the factory suggests the need for a marketing drive and for improvement of product quality to attract consumer preference.

Consumer needs of the country for textiles clearly indicate the necessity for expansion of the spinning and finishing capacity. In addition, the project needs modernization and replacement of the plant equipment, particularly in departments of spinning, cone winding, warping, sizing, weaving and finishing.

In mid-1980s the management submitted development plans for financing in order to achieve a production level of 14 million yards of cloth. Cost of the development project has been estimated at about $7 million. However, keeping in view the past performance of the factory, the donors have been reluctant to finance the development project. There is a better chance of attracting

finance from the donors if private sector partners are invited from Somalia or from abroad. To this end, the company has been negotiating with European private sector textile groups to participate in the project.

The enterprise is in a critical situation where production is falling steadily and profits are diminishing. Corrective measures are needed in order to arrest the downward trend. The venture, indeed, has great scope for development and to earn profits, if appropriate measures are taken:

1) Foreign exchange has to be provided for buying spare parts. In fact, a number of machines have stopped working because spares for them have been used to keep other units operating. Along with this, a programme of modernization has to be followed, continuously, in order to upgrade the level of production and quality.

2) At one time, Somalia was an exporter of cotton. Presently, however, over 50 per cent of cotton fibre requirements are imported, entailing foreign exchange expenditure. A joint venture is being negotiated between a Somali private company and a French textile group to develop 6,000 ha of land in lower Juba valley as a cotton growing pilot project. This is receiving good attention from the development authorities. A study was carried out by a French group in 1982 for producing 20,000 tonnes a year of seed cotton, which would satisfy the requirements of Somaltex.

3) Quality improvement and marketing considerations need full attention. The company is unable to compete with imports. It requires technical training, and improvements in management techniques for the marketing wing of management.

4) One of the major bottlenecks causing low production has been the shortage of diesel which is used to generate electricity necessary for driving the textile plant and to raise the steam essential for processing cloth.

Although the factory has capacity to store ten days of fuel consumption, they are seldom able to fill up the reserve capacity. This calls for better liaison and co-operation with fuel suppliers. The factory management does not plan additional reserve capacity at the premises, since adequate storage capacity exists in Mogadishu.

Involvement of the private sector in this venture will be most beneficial and will improve the operations through timely and positive actions. While it is important that cotton be grown in Somalia, this task is best suited for the agriculture sector and the energies and attention of mill management should not be diverted to the growing of cotton. Their focus should be on improving of the efficiency of the plant through training at home and abroad of the managerial staff.

Leather industries

Details pertaining to the installed capacity of both public and private sector tanneries are presented in Table 3.2. The public sector tanneries function under the State-owned Leather Agency. The fifth public sector tannery (New Tannery Km 7) is scheduled to come on stream in 1988. The private sector encompasses three large-scale tanneries and 25 cottage tanneries.

Table 3.2: Installed capacity of public and private sector tanneries, 1986

Sector	Product	Number of units per day	Capacity utilization (percentage)
A. Public sector			
1) Mogadishu Km 7	Hides	300	
	Skins	1,500	63
	Shoes	400 pairs	
2) Kismayo	Hides	300	
	Skins	1,000	23
3) Hargeisa	Hides	100	
	Skins	1,000	25
4) Burao	Hides	100	
	Skins	1,000	25
B. Private sector			
1) Missionary Tannery, Mogadishu	Hides	300	50
2) Batoon Tanning Factory, Hargeisa	Hides	150	15
3) Tannery and Shoe Factory, Brava	Hides	300	40
4) Cottage Tanneries (numbering 25)	Camel hides	150	...

Source: Ministry of National Planning.

In 1986 the combined sale of four public sector tanneries was So.Sh. 76.3 million, a profit of So.Sh. 4 million was contributed mainly by the Tannery Km 7, Mogadishu. The capacity utilization by Tannery Km 7 was 63 per cent for the item of hides only. This was an improvement from 1985 which showed 48 per cent capacity utilization. The other three public sector tanneries operated between zero to 25 per cent of the rated capacity. However, they are planning to operate above 50 per cent of their capacity. The following are cited as the main problems facing the tanneries in Somalia.

Problems

Shortage of raw materials

All the public and private tanneries are operating at low capacity due to shortages of raw materials. One of the reasons for the low collection level of hides and skins is the low price offered to the primary producers by State-owned Leather Agency, which is the main authorized buyer. Because of

the higher price prevailing in the border area, almost 50 per cent of hides and skins are smuggled out of the country. The remedy lies in offering competitive prices to the producers.

Monopoly status of the State-owned Leather Agency

Prior to 1981, this Agency was involved in trading hides and skins. However, after 1981 it was made responsible for the industrial operations also. According to the statutes, the Agency enjoys monopoly for the collection of all raw hides and skins in the country and their supply to the tanneries. It is also responsible for export of raw and processed hides and skins. It is the only Agency which can import chemicals and other materials used by the leather industry. In addition, any foreign exchange entitlement earned against export performance becomes the property of the Agency and it is up to this Agency to part with some of the earnings with the supply sources or with the private sector operations.

Defective collection mechanism

The present collection of hides and skins by the State-owned Leather Agency has been estimated at 120,000 cattle hides, one million sheepskins and 1.5 million goat skins annually. This represents only 50 per cent of the potentially available hides and skins in the country. Greater involvement of the private sector is needed in the collection of hides and skins and selling them to the tanneries.

Foreign exchange constraints

The Leather Agency has experienced problems in obtaining foreign exchange for the purchase of chemicals and spare parts for the factories. This has restrained the operating level of the units. Most hides are tanned for the domestic manufacture of footwear but almost 3 million sheep and goat skins are exported in the raw state; this is a major source of foreign exchange. The foreign currency situation is expected to ease since under the new government regulations, 50 per cent of the export value will be re-allocated as foreign exchange to the exporters.

The factories display shortage of skills at all levels including technology, maintenance, marketing and management. They are in need of technical assistance and training. The performance of individual tanneries present mixed trends.

Tannery Km 7, Mogadishu

This tannery was completed in mid-1981 but went into commercial production in early 1983. The tannery carries out chrome tanning followed by splitting and finished leather for high quality shoes, soles, bags, jackets, etc. The shoe manufacturing unit is located adjacent to the tannery. Shoes are manufactured for the home market and the armed forces. While the shoe factory can draw its needs from the tannery, a major part of wet blue hides is exported. The tannery was set up in technical co-operation with Invest-Import of Yugoslavia and in the early stages, it was run in co-operation with Yugoslav technicians.

The tannery processed 43,300 hides in 1985 and 56,600 hides in 1986. The installed technical capacity of the tannery is 90,000 hides per year; this gave a capacity utilization of 48 per cent in 1985 and 65 per cent in 1986 for the item of hides only.

Sales rose from So.Sh. 52 million in 1985 to So.Sh. 54 million in 1986, giving a profit of So.Sh. 4 million in 1985 and So.Sh. 1 million in 1986. Very few skins were processed with a capacity utilization of 3 per cent only.

During 1983 and 1984, shoe making capacity was utilized to the extent of 30 per cent, whereas the number of shoes produced in 1986 was 12,500, representing a capacity utilization rate of 10 per cent. The drop in 1986 was due to the unavailability of imported components. Low capacity utilization is also due to inadequate supply of raw materials. This difficulty can be overcome by offering attractive prices for raw materials to the market. Arrangements should be made to maintain an inventory of spare parts as the factory has been running for over 5 years and will need spare parts.

The tannery and shoe factory have immediate potential for better utilization of capacity and for production of goods both for the domestic market and possibly for export. A programme of incentives will help to improve production lines.

There is a need to bring foreign technicians to impart training in the manufacture of shoes and to produce attractive items for the home market, where the consumer is becoming increasingly fashion conscious. At present, markets are flooded with shoes from Italy and France. The factory is unable to compete because of customer preference for imported items.

Kismayo Tannery, Kismayo

The factory was established in 1978 at a cost of So.Sh. 12 million. It is owned by the government of Somalia. The capacity is 300 hides per day and 1,200 skins per day on a single shift basis. It has British and German machinery which is not fully utilized. Maintenance of machinery needs improvement. Leather of much better quality can be produced with the existing machinery, which has all the essential components for handling hides and skins.

During 1986, the factory produced 21,000 hides against the rated capacity of 90,000 hides, utilizing 23 per cent of installed capacity. Sales stood at So.Sh. 18 million, showing a break-even, with no profit or loss.

Normally, the factory could run at less than 50 per cent of its capacity, processing 150 hides against the installed capacity of 300 hides per day. Since the Kismayo Meat Factory is not functioning, there is shortage of raw materials. Additional pressure needs to be brought on the State-owned Leather Agency to improve the supply of hides and skins. In addition, the factory should make efforts to obtain raw materials through their own staff and through private sector suppliers.

The factory should obtain an entitlement of foreign exchange to buy spare parts and essential raw materials each year, depending on its performance. Its low profitability is due to the factory operating at a low capacity. The factory can be made to work on two shifts, rather than the present one shift to increase its processing capacity to 600 hides a day, which would change completely the profitability picture. Likewise, the quantity of skins produced could be increased. Supply of raw materials (hides and skins) could be entrusted to private suppliers rather than the government agencies.

Incas Packing, Jamame

The company is a joint venture between Somalia and the Italian entrepreneurs. The entire export of bananas from Somalia, carried out by Somalfruit, depends on the availability of cardboard containers manufactured by this unit. In addition, it makes polyethylene bags in which bananas are wrapped before being placed in large cardboard containers. The company also supplies these products to the local industries to meet their packaging needs.

The venture is a good example of a successful industrial operation of Kismayo region and, indeed, of Somalia. The factory should be used as a model for how a private sector can be involved in a public enterprise. According to the new rules effective January 1, 1985, out of the total foreign exchange earnings of the company, 65 per cent is made available to the company and the remainder 35 per cent is retained by the government.

During 1986, the factory produced 6 million pieces of cardboard cartons against the rated capacity of 18 million, representing a 33 per cent utilization of the installed capacity. Sales in 1986 amounted to So.Sh. 28.5 million, which yielded only a marginal profit.

The initial cost of the factory was $7 million. Around 60 per cent shares are held by Italian private sector partners while 40 per cent shares are held by the government of Somalia. Under the government policy of privatization, the government shares could be unloaded in the future to Somali private sector. Since the company is earning profits, it may not be difficult to attract private entrepreneurs.

State Printing Agency

The plant was built at the time of independence with assistance from the USSR and the German Democratic Republic. Since then, most of the original machinery has been replaced with modern equipment from the Federal Republic of Germany and Italy. The machines are equipped to do letter press printing, offset printing, plate making and composing.

The offset printing department has capacity to produce 16,000 sheets per hour. The book department can produce 2 million units per month. Although no exact estimates are available, the plant's capacity utilization is about 40 per cent. Much more output can be obtained with efficient operation.

This is an enterprise not directly under the purview of the Ministry of Industry and Commerce. It has been running at a profit. In 1985 it had a turnover of So.Sh. 100 million with an overall profit of So.Sh. 1 million.

Like most of the industries, foreign exchange is a major problem for obtaining paper supplies and spare parts. State Printing Agency has the monopoly to import printing supplies which it sells to other printing shops and stationers. During 1985, $340,000 of foreign exchange was obtained at the official rate, whereas in 1986 foreign exchange purchases were made in the free market. Frequent power cuts bring about loss of production.

There is a back-log of orders which calls for improvement and efficiency in the production line. A number of printing units are standing idle. Through a programme of incentives, a much higher capacity utilization rate can be attained.

Urea Plant

The plant was constructed and machinery installed during 1982 and 1983. The plant was built on a turnkey basis by Technipetrol of Italy, using an ammonia-urea process, utilizing heavy fuel oil produced at adjacent refinery as feedstock. Total cost of the project was $70 million. This was financed by an Italian government loan of $10.5 million and loans from the European Community of $59.5 million both loans to be payable in nine years. In 1985, the plant went into commercial production after testing and start-up runs were made in 1984. The plant has a capacity of 50,000 tonnes of urea per year. However, in 1984 production was only 1,400 tonnes. In 1985 it was 4,200 tonnes and in 1986, 2,000 tonnes. This amounted to a capacity utilization ranging from 2 per cent to 4 per cent.

Initially production levels were extremely low as the plant had suffered from initial start-up problems. Even in 1987, the plant was inoperative for a major part of the period due to continuing difficulties. Losses have accumulated.

The estimates for domestic demand of urea is set at 10,000 tonnes per year. A rough estimate of urea needed for the agricultural land commanded by the Bardhera Dam is 20,000 tonnes to 30,000 tonnes per year. Had the Bardhera Dam project come on stream, the market for fertilizer would have emerged. Production in excess of 10,000 tonnes per year would have to be exported until the time when the Bardhera Dam project develops.

The Urea Plant at Mogadishu faces a host of constraints:

a) Power supply from Gesira plant has been most unreliable with frequent interruptions. Any stoppage of the manufacturing process through power breakdowns entails a warm-up procedure which may take up to 3 days. Internal power generated at the plant amounts to 6 megawatt (MW) and an additional supply of 3 MW power is secured from Gesira Thermal Generating Station. In order to maintain continuity, serious thought will have to be given to the addition of power generation at the premises.

b) Basic feedstock has to be obtained from the Gesira refinery, a source which has its own difficulties and interruptions of supply. Again, in order to run the plant efficiently, alternate sources of feedstock through import will have to be investigated, in addition to supplies from Gesira.

c) Economic viability has been repeatedly questioned by analysts. Market price for urea is $90 per tonne. Cost of inputs have been estimated at $121.75 per tonne of urea. Assuming a plant life of 20 years and using a discount rate of 10 per cent, capital costs add up to $164 per tonne. Thus, the total price per tonne works out to $285.75 per tonne. The only way to make the plant viable is to write off the capital cost, the sources of which were Italy and France. Both these countries have a good insight into the industrial and agricultural problems of Somalia. The market is sure to expand when the Bardhera Dam is implemented and demand from agricultural land becomes operative.

In other words, to assess the project strictly in terms of return on capital is not feasible in Somalia's case, especially when investments have already been made. A more realistic approach has to be made, keeping in view other social and economic factors. If the project still does not qualify after all these considerations, there is no choice but to wind up the venture.

Some analysts, with the criteria of return on capital in view, have recommended the closure of the plant and its disposal to future buyers at home or abroad, or as an alternative, to mothball the plant. It is obvious that international machinery dealers will offer junk prices for the equipment. This is a negative approach and has not been accepted by the government. In fact, Italy with an insight into the problems of the country and a sympathetic approach, has committed $5 million to bring the plant into a state of sustained commercial production over a 3-year period.

It is true that in terms of foreign exchange cost, locally manufactured urea is almost twice as expensive as imported urea. The major component in the local price is the capital cost of the plant totalling $70 million. The plant is already installed in Somalia and the finances have already been utilized; any dismemberment means writing off the investment. Further studies are needed to find the answers for continuing operation of the plant. These studies should analyze, simultaneously the operation of the Petroleum Refinery, which is closely connected to the Urea Plant.

Petroleum Refinery, Mogadishu

The refinery came on stream in 1978 with a rated capacity of 460,000 tonnes per year. In 1986 it produced 27 per cent of the rated capacity. With sales of So.Sh. 1,180 million, it broke even showing no profit or loss. This has been the pattern for the last 3 years. The initial investment was $16 million, which came as a loan from the government of Iraq. Originally the facility was managed by an Iraqi team. Somali management has faced many problems since the Iraqi team left in 1983. Finally, Italy has agreed to finance technical assistance requirements and to repair and operate the unit at an efficient level.

Around 30 per cent of the refinery's output of gasoil and kerosene meets 70 per cent of domestic consumption. The unused surplus of heavy fuel oil and naphtha are presently exported at low prices. The Urea Plant, which is located adjacent to the refinery, has been based on utilization of residue from the refinery. Start-up and other problems faced by the Urea Plant have not been able to absorb the refinery's heavy fuel production. Due to inadequate foreign exchange, maintenance of the enterprise leaves a lot to be desired. Also the structure has become corroded because of its proximity to the ocean. Lack of spare parts causes frequent stoppages. Also, the problem is further accentuated because of power breakdowns from the Gesira power station.

Viability of the plant was made possible because of crude oil coming as a grant from Saudi Arabia for a certain period of time. However, this has been discontinued and the country now has to pay for imported crude oil, fully. Some observers have questioned the intrinsic viability of the entire project. However, the country is not prepared to close the plant. In fact, the Italian government has been requested to provide technical and management teams. There is need for extensive maintenance and inventory of spare parts to ensure that no breakdowns occur.

Previously it was planned to double the installed capacity of the facility. However, this idea has been abandoned for lack of finances and the mere fact that the present unit has not operated at higher capacity levels. It is planned to install a Memerox unit to produce jet fuel at the rate of 1,500 barrels per day. The unit will be attached to the existing machinery. In addition, facilities will be developed for producing bitumen.

Pharmaceutical Industry, Mogadishu

Pharmaceutical Industry was established during the period 1982-1984 at a cost of ECU 9.5 million, with funds provided by the European Community, the government of Italy and the government of Somalia.

Although construction of the factory and installation of machinery was completed in 1984, the factory did not go into commercial production until late 1986 for want of working capital and technical partners. The government of Somalia requested the Italian government to supply not only technical assistance, but also working capital to initiate the plant. A workable arrangement has been evolved, financed by the Italian Emergency Aid Programme (FAI). A reputable Italian firm, Carlo Erba Farmitalia, has been engaged to take over the technical management of the company. They were expected to make sales of $13 million in 27 months against which they would be given 30 per cent advance, amounting to $3.9 million to buy raw materials and to use this as working capital. The products would be bought back by Italy and sold in East African countries, as an aid package or for commercial sale.

The factory went into production in late 1986 and produced So.Sh. 36 million worth of products. This amounted to 4 per cent utilization of the available capacity. This was practically the start-up period and much higher production is anticipated in the future.

This is a well laid plant with machinery of a high degree of sophistication, full auxiliary facilities of quality control, laboratory, water supply, air conditioning, compressed air and stand-by electric generators.

The factory is equipped to produce ampules, intravenous solutions, antibiotics, capsules, syrups, ointments, suppositories and household insecticides. At least, in the early stages, all the active ingredients will have to be imported. The installation is capable of producing products of value over $10 million per year. Unfortunately, arrangements for operating the plant were not firmed up at the time of completion of the factory and a delay of almost two years took place in the finalization of the technical co-operation arrangement to run the plant.

In the recent past, Somalia has been importing pharmaceuticals valued at over $10 million per year, including supplies from aid donors. The factory can supply at least 50 per cent of all the needed items. Some special drugs will continue to be imported. The factory can produce for the internal market with export having its own inbuilt problems.

Africa has been divided into zones of influence of multinational companies and market penetration looms as a big challenge. The only export possibility is through supplying the products to international donors, who will pass the goods onto appropriate recipients in the adjoining countries.

It is important that the partnership of the technical team from Carlo Erba be continued, until the takeover by the Somali staff will be in order. In fact, the transition should be smooth with the foreign technicians phasing out gradually over the period. Motivated Somali technical work force should be attached with the foreign technicians to pick up skills. Staff salaries should be at a sufficient level so that employees do not quit their jobs for opportunities in the local or foreign manpower markets.

Berbera Cement Plant

The project commenced production in 1987 and produced 25,000 tonnes up to July 1987. Production in 1988 is projected at 120,000 tonnes. In view of the delay in construction and late start-up, losses have accumulated.

The project aims at exploitating clay, limestone and gypsum deposits at Suria-Malable for the manufacture of cement. Originally, the project was undertaken in 1973 with the assistance of the People's Republic of Korea. However, for technical reasons, the implementation of the project did not progress according to schedule.

On account of the shortage of water, it was subsequently decided to change the process from wet to dry and to increase capacity from 100,000 to 200,000 tonnes per annum. A new contract was entered into with a French company to carry out modifications at an additional cost of $40 million. The French government provided a major part of the funding. In December 1985 a management contract was given to a French company, Lafarge Coppee International.

Local demand for cement has reached over 200,000 tonnes in 1987. In the past, the entire demand was met through imports, however, due to lack of hard currency, there has not been sufficient import of cement to meet the current demand. The industry will provide raw materials for production of asbestos roof sheets and will contribute directly to low cost housing for the people. It is also expected to accelerate building construction activities, thus opening more avenues for employment.

Asbestos Cement Plant

The plant has been producing below capacity but there are plans to produce at higher capacity in 1987 and 1988. Rated capacity is 12,000 tonnes per year. The plant is in need of technical assistance and foreign exchange to import spare parts.

Gypsum Plant, Berbera

The project was initiated in 1978 through assistance from UNIDO with a pilot project to ultimately produce 60,000 tonnes per year of crushed gypsum. The plant has operated at low capacity since the start-up in 1983. Production is planned to pick up in 1988.

The plant is in need of technical assistance and foreign exchange to import spare parts. It suffers from lack of working capital and poor management.

Foundry and Mechanical Workshop, Mogadishu

The Foundry and Mechanical Workshop was founded in 1975 with extensive assistance from UNIDO. Subsequently, this assistance has continued in the form of technical and managerial inputs. The objective was to create a nucleus for the development of metallurgical and engineering industries in Somalia and to develop a centre for the training of Somali technicians.

The firm was designed to produce castings, machinery parts, steel structures and oil tanks. Progressively, it was to take up the task of complex items to substitute for imports, and ultimately, to become a supplier of indigenous machinery. Initially, equipment was installed with a capacity of 450 tonnes on a one shift basis. An annual output of 1,500 tonnes with a two shift operation was anticipated, but this goal has not been realized.

At present, the unit has a small foundry, with an oil fired cupola furnace of one tonne per hour capacity. It has also a medium-sized well-equipped machine shop for castings and production of other metal parts by cutting, forging, milling and welding.

The factory processed 84 tonnes of metal in each of the years 1985 and 1986. The plant was operating at 14 per cent of its installed capacity during 1985-1986. There has been a falling trend in capacity utilization since 1982 when it was 33 per cent. Sales in 1986 were So.Sh. 13.4 million, with a profit of So.Sh. 0.7 million.

During the first 13 years of its lifespan production levels have been low. However, it has fulfilled its initial objective of serving as a mechanical training centre. Trainees later found employment in the private sector and in the Middle East.

Although the financial accounts have been indicating profits over the years, the figures have been constantly challenged by analysts from bilateral institutions and donors. The firm has not generated any real profit due to operating at low capacity level for the past 5 years. The firm is going through a process of de-capitalization because of the equipment not being improved constantly.

Due to the low salaries offered, turnover is very high, especially among skilled workers. Unskilled workers are recruited as trainee operators, welders, millwrights, etc. However, after receiving some training, they leave for higher wages in the private sector. Although the work of the factory suffers, this aspect scores a positive point since the unit serves its initial purpose of being a training centre for mechanical skills.

There are diesel shortages and interruptions in the power supply. Imports of raw materials such as metal, spare parts and coke are constrained by the foreign exchange shortage. Since the company itself is unable to earn foreign exchange, allocations are needed from the government. This has not been forthcoming because of the overall foreign exchange difficulties in the country. Marketing efforts by the company seem to be inadequate. There is a need to pick up items where there is a good market demand.

It is apparent that private sector involvement in this venture could produce positive results. With this objective in mind, a number of studies have been carried out, the last one being done by the International Science

and Technology Institute, Inc., Washington, D.C., sponsored by USAID. They recommended leasing out the venture to private entrepreneurs for a limited period. Their recommendations are as follows:

a) The plant may become a viable, profit-making enterprise provided its management is completely restructured and its policies overhauled.

b) Under its current budgetary and political constraints, the government is unable to support the management restructuring process.

c) The private sector is best equipped to supply with necessary profit-making incentives and management expertise.

d) As an interim solution, it is suggested that the plant and equipment be leased to a private entrepreneur with an option of ownership transfer to be exercised at a future date. Meanwhile, the entrepreneur will be guaranteed complete freedom of action, thereby completely separating management of the firm from its ownership.

Yet another recommendation with regard to the process of handling over the enterprise to the private sector is to form an interim owner with a representative from the government. This entity will enter into agreement with the entrepreneur who will be shielded against outstanding claims and liabilities of the plant.

Mechanical workshops are an extremely important factor in the development of industry and technologies. They serve as a basis for technological development and can even be subsidized as part of the needed infrastructure. In spite of the relatively poor performance, the programme for rehabilitation and improvements in this organization has to be taken as a matter of high priority. If this project is abandoned or closed down, it would be a definite setback to the technological development of Somalia.

As training is a very important ingredient, additional training facilities have to be provided for both management and skilled workers. In fact, management should be exposed to training in successful private sector mechanical workshops in countries with medium-level technology.

Aluminium Utensils Factory

The Aluminium Utensils Factory went into production in 1980 and was intended to supply the Somali market with basic aluminium utensils, pots, pans and various household objects. Machinery was supplied by Indian firms which also provided technical assistance until early 1986. The plant has simple manufacturing machinery, suited to the requirements of the country. It operates best from aluminium coils, but due to lack of working capital, the plant has been using a stock of aluminium ingots acquired in 1982. This is rather an inefficient process and creates scrap up to 50 per cent of the raw material used.

Factory production has been falling since 1982. Against the rated capacity of 120 tonnes per year, it produced only 9 tonnes in 1985 and in 1986 it produced only 7 tonnes of utensils. This gives a capacity realization of 15 per cent for 1985 and 12.5 per cent for 1986. Highest capacity utilization achieved was 45 per cent in 1982.

Sales in 1985 stood at So.Sh. 4 million - giving a loss of So.Sh. 6.4 million. In 1986, sales were So.Sh. 3 million, showing a loss of So.Sh. 7.7 million. The factory has been accumulating losses and is in a precarious financial position. Lack of raw materials (aluminium coils and chemicals) is the major problem. This has been caused by diminished working capital and lack of foreign exchange available to the company.

The firm uses second hand lubricating oil as fuel which is brought from the electricity company. Fuel supply is not regular and because of its lower quality the life of the electrical plant is shortened. Power supply from the city mains is also intermittent and subject to interruptions.

The production is of crude quality. Despite the 200 per cent duty imposed on imported utensils, competition from Taiwan Province of China and India is sharp and adds to the difficulty of selling the products.

The plant is of small size and the process is not a complex one. Total investment is relatively small and hence, the operations are ideally suited for handling by the private sector. The project could have made good success in the hands of motivated profit-oriented management. The need for rehabilitation is obvious and it is almost certain that the plant will not succeed, unless it is placed in the hands of efficient management.

Multifabric, Somalia, Pte. Ltd.

Multifabric, Somalia, Pte. Ltd., was initiated in 1983/1984 as a joint venture between the government of Somalia and entrepreneurs from Singapore with a total investment of $3.7 million. However, the foreign partners backed out before the project became operational. The plant produces canvas and soft cloth and converts them into tents, jeans, ground sheets, shelters, bags, belts, pouches and furniture. It also produces items such as water bottle carriers, webbing straps, ammunition pouches, kit bags, stretchers and camouflage tents for government institutions according to specifications. All departments of the plant are not fully operative. Until late 1986, only 25 per cent to 30 per cent capacity utilization was being realized.

The industry is facing financial problems and start-up difficulties. In order to become fully operational, it will need foreign exchange amounting to $0.5 million per year in the immediate future.

This industry has export potential. A technical/managerial tie-up with a similar institution in a country with medium technology can be expected to improve operations a great deal.

3.2 Selected private sector enterprises[1/]

National Bottling Company

The controlling shareholding is 93.5 per cent shares held by Somali nationals and 6.5 per cent held by the government. It is producing Coca-Cola, Fanta, Sprite and soda water. All the concentrate is imported. During the

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1/ Generally, it is difficult to get full information from private sector units, especially with respect to financial turnover and profitability.

period 1982-1984, capacity utilization was about 50 per cent. It dropped to 16 per cent in 1985 and to 7.8 per cent in 1986. Sales in 1986 stood at So.Sh. 43.6 million and the venture made a small profit of So.Sh. 0.5 million. The company has been running at a profit.

A new bottling parallel line was installed in 1986 at a cost of $3 million. This has almost doubled the productive capacity. However, the company is facing marketing problems due to local competition. The company is able to surmount the problem of imported concentrate and spare parts by buying foreign exchange in the free market or in the auctions carried out by the Somali government.

Somali Bottling Company, Hargeisa

The company was founded in 1973 with an initial capital of So.Sh. 5.5 million. A further So.Sh. 4 million loan was sanctioned by the Somali Development Bank.

This company dominates the soft drink markets, supplying Pepsi Cola, Mirinda and Teem in 7 regions from Hargeisa to Galgudud and the entire northwest region. The bottling plant has a capacity of 5,500 bottles an hour or 3,000 cases a day; all of which can be sold in the hot months between March and September. Production drops in the remaining 5 cooler months to around 1,500 cases per day, assuming that production can be kept up at a steady pace.

The company is operating at a profit and is able to overcome the numerous difficulties. Like most of the factories in Hargeisa, the Somali Bottling Co. has its own generator and keeps up its stock of diesel. The company is also able to maintain a constant supply of concentrate, which comes either from New York or from Europe. They are also able to ensure supply of raw materials; ground corks from Italy, carbon dioxide from Djibouti, bottles and chemicals from Kenya. Normally the company receives authorization from the Somali Central and Commercial banks to import sugar. However, when there are delays or difficulties, they import against their own account by buying foreign exchange on the free market. The company employs more than 100 full-time staff, including 2 expatriates on the managerial staff. The plant is well-kept and serviced.

Alba Beverage Factory, Mogadishu

Prior to 1975, the factory was foreign owned, when it was purchased by Somali entrepreneurs. The factory has the capacity to bottle 2,000 bottles (80 cases) per hour. Normal capacity utilization is 50 per cent. Alba's products are mineral water plus 4 types of local drinks, which are very popular in Mogadishu and competing with foreign labelled beverages.

The factory is equipped with semi-automatic Italian machinery which was rehabilitated after the take-over. It employs 48 persons working on a single shift basis. The company has a forward looking attitude and is able to tackle day to day problems. They have an efficient distribution system and deliveries are made at the doorsteps of the clients. The main problems are the power cuts and the scarcity of diesel for their auxiliary generator. When sugar is not available from national sources, they are able to buy it on the open market.

Somali Chemical Industry (BAYL), Mogadishu

In 1986, the company produced 0.39 tonnes of detergents with a capacity utilization of 4.6 per cent (against 21.2 per cent in 1982). While good profits were made in the early 1980s, losses were registered in 1985 and 1986. The main reason for this was the difficulty in obtaining foreign exchange. All the raw material is imported. The management is progressive and better results are expected in the future despite heavy import dependence for raw materials.

Within the same premises there are two privately owned joint stock companies producing detergents and toilet and laundry soap. The first was established in 1966 and commenced production activities in 1969. The second began operations in 1977. The main activity of these industries is to process and transform imported chemical components and raw materials into powder and liquid laundry detergents. They also manufacture solid toilet and laundry soaps using local animal fats and oil. The annual production capacity of this industry is 6,500 tonres of detergents and 2,000 tonnes of soap.

The industry has taken a positive step forward in its line of detergent manufacture. In the past, detergent powder was imported in bulk and packaged in cartons locally. The company imported machinery in 1987 to manufacture detergent powder, starting with imported basic ingredients. Towers have been built to employ automization process with imported raw material. The expansion unit was planned to go into production in January 1988, producing 50 per cent of the installed capacity during the first year. The annual rated capacity of the new plant will be 6,000 tonnes per year.

Total investment in this expansion project is $1.5 million, out of which So.Sh. 34 million ($340,000) has been provided by a loan from Somali Development Bank, the balance has come from the company's own resources. Annual sales will be of the order of $4 million with the raw material requirement of $1.8 million; thus, there will be a 50 per cent savings in foreign exchange.

Other industries competing with BAYL are SNAI Biasa and the Benadir Soap Co., Mogadishu. BAYL has about 50 per cent of the detergent business in the country and will be able to compete. The company needs government assistance in order to stop smuggling from Kenya and other foreign countries.

Sunshine Soap, Hargeisa

The factory was established in 1979 with an initial capital of So.Sh. 4.5 million, of which So.Sh 0.5 million was a loan from the Somali Development Bank. Land was provided by the local authorities. Production started in 1980.

The factory produces only one item, soap with the brand name Sunshine Soap. It is a relatively small unit, employing 15 persons who work one shift a day. Like other laundry soap made in Somalia, the product is of a high quality, cheaper than the imported equivalent and very competitive on the market.

The factory is able to surmount difficulties of importing raw materials. Fat tallow comes usually from India. Chemicals are imported from Singapore, Taiwan Province of China or the USA. During the mid-1980s, the company was able to obtain foreign exchange through the Commodity Import Programme. Future prospects seem to be good.

Svilla Paint Factory, Mogadishu

The factory was constructed at a capital cost of So.Sh. 12.75 million. This included the cost of construction, equipment, preparation and initial production. The investors were exclusively from the Somali commercial sector. Capacity of the factory is 3,000 kilos per day of paint, distemper and all allied products. Dependent on the availability of raw material, capacity utilization ranges between 20 per cent and 100 per cent.

The company is able to meet home demand and is well in a position to meet foreign competition, in spite of the fact that foreign products, at times, are heavily subsidized by foreign donors.

The company is able to tackle the difficulties of importing raw materials which include oils, solvents, pigments and resins. Only alcohol and lime are obtained locally. The company employs 50 workers and the management is forward looking, ready to boost production and make up for all the setbacks.

Benadir Paints and Tin Factory

Benadir Paints and Tin Factory was inaugurated in 1985. The cost of the building was So.Sh. 25 million, with machinery costs of $0.5 million which included a good initial supply of raw materials. The products were released on the market in May 1986 and received good customer acceptance. The factory has the capacity to produce 1,500 kilos of paint per day. It was operating at 60 per cent of its capacity in 1986.

The company has a close link with, and is operating under a licence of a Danish paints company, Sadolin. The company is looking forward to a profitable future in view of the boom in the construction industry.

I.F.C.A. Chemicals, Mogadishu

The factory is owned by a limited company founded in 1973. They moved their operation to the present premises in the industrial zone of Mogadishu in 1977. There are 48 full-time workers. The manufacturing line includes insecticides, detergents, liquid soaps and solvents for paints and cosmetics.

I.F.C.A., like most light private industries, suffers from inadequate raw material supplies as these are mainly imported. They also experience difficulties in the procurement of spare parts. Continued availability of raw materials would permit increases in production which would better cover the home market demand and some exports to neighbouring countries.

The factory is operating at a profit and has been increasing its production.

GARGAAR Rubber Foam Factory, Mogadishu

The factory was established in 1980 as a limited company, with the aid of a loan from the Somali Development Bank. It is functioning smoothly, though its present performance is 30 per cent of the rated capacity due to lack of raw materials which are totally imported. At full capacity, it can produce 36,000 square metres of 10 cm thick foam rubber per year. Foam rubber is produced for making cushioning for seats and mattresses from polyurethane, a petroleum by-product. The factory employs 80 workers.

It is a dynamic company and will be able to tackle the bureaucratic hurdles. It has operated at a profit and has made timely payments of installments on loans. The weakness lies in the fact that all raw materials have to be imported.

WARMASH Wire and Nail Factory, Mogadishu

The factory has been running at a profit since its start-up in the mid-1970s. It started with a capital cost of So.Sh. 1 million. Commencing with meagre nail making capacity, it has expanded to the present day capacity of 250 tonnes per year. It can also manufacture 4,000 tonnes of wire mesh per year. Raw materials are coils of steel wire, imported mainly from Italy.

The main problems are delays in the acquisition of imported materials, steel wire, alloys, nail sizers, wire rollers, mechanical failures and power cuts from the city supplies. Contradictory interpretation of import regulations by the authorities adds to the difficulties. Another problem stems from black marketers who buy commodities through wholesale and retail outlets, with the aim of hoarding them until the scarcity period.

HAPLAS Aluminium Window Factory

The factory started with the manufacture of plastics in 1983 and then developed into aluminium frame manufacture in 1984. The present rated capacity stands at 10,000 window and door units per year on a one shift basis.

Gross sales in 1984 stood at So.Sh. 7 million, rising to So.Sh. 14 million in 1985. This rising trend is continuing. The company has been operating at a profit.

Plans for the future include selling the products in the northern regions and entering export business. In addition, handles and hinges will be manufactured locally. The problems are similar to those of other private companies, i.e., difficulties in importing raw materials and power cuts.

Plastic Bags and Poly Woven Sacks Industry

This is a large-scale company producing plastic bags and poly-woven sacks. It went into production in 1987. The company has been promoted by the private sector with the aid of $1.5 million from an ADB line of credit. The bags manufactured will be used by the cement, fertilizer and sugar industries.

4. POLICIES, PLANS AND INSTITUTIONS FOR INDUSTRIAL DEVELOPMENT

4.1 Industrial policy environment

The industrial policy environment in Somalia is marked by a shift in emphasis from State control of industrial enterprises to private sector initiatives and relaxation of controls. Several policy changes have been initiated by the government, with a view to creating a more favourable environment for efficient industrial development and thereby attracting private investors, both foreign and domestic, to set up industrial ventures that could make use of local raw materials. Small-scale and cottage-level industries are to be developed based on local raw materials. Industries of edible oil, glass, ceramics, marble finishing, household utensils, readymade-garments, furniture and handicrafts are also expected to be established.

Steps are also being taken to tackle the problems of the public sector. The government is preparing for the liquidation of non-viable non-essential and non-strategic enterprises. For those enterprises which are to be retained in the public sector, a vigorous programme of reforms has been initiated. Beginning in 1975, price controls were relaxed, except in the case of certain sensitive commodities. Public sector industrial plant managers have been given more autonomy with regard to management, decision-making, pay scales, and in general, means of improving productivity. They have been allowed to buy raw materials at the market price and to sell their products at the price determined by market forces. Payment incentives to both labour and management are expected to have a positive effect on both productivity and profitability of industrial enterprises. Ways are being sought to involve the private sector in the management and operation of public sector enterprises.

The central objectives for the manufacturing sector in the Five-Year Development Plan, 1987-1991, are:

a) to accelerate the pace of industrial development and maximize production;

b) to replace imports of manufactured goods by local manufacture, wherever economically feasible;

c) to promote the export of manufactured goods and maximize value added by local processing;

d) to encourage the involvement of the private sector; and

e) to establish labour-intensive and cottage industries.

4.2 Strategies and policies

Strategies to be applied in pursuit of these ends are a continuation and further elaboration of strategies agreed upon with the donor community, many of which were instituted as part of the financial stabilization programme. This programme was first undertaken in 1980 and is still being pursued. However, policies have been adapted in the light of changing circumstances. They now take into account social and political considerations, as well as the demands of other sectors on the nation's resources. They are summarized as follows:

a) Existing industries which are inefficient because of obsolete equipment or inefficient management, are to be rehabilitated. This is an area of high priority, since almost 20 per cent of national resources has been utilized by industry. The economic returns are not commensurate with the investments. Funds and technical assistance are sought for this purpose.

b) Efficiency of public sector manufacturing enterprises will be enhanced by the use of management consultancies; granting of greater autonomy to management and training of national staff. Public enterprises will be allowed to charge prices reflecting the full cost of production, plus a margin of profit. Also, they will be allowed to buy raw materials at realistic market prices. Availability of local raw materials and adequate foreign exchange for the purchase of imported inputs will be be assured. Marketing channels will be improved to assure a fair price to the consumer. Adequate compensation and incentives to maximize output on the part of the producer should result from these improvements. Public sector enterprises will be given realistic latitude in setting wages. Payment incentives to both labour and management will be encouraged in cases where it enhances productivity.

c) Public manufacturing enterprises will finance current expenditure from their own resources and should become self-sufficient. Those which are identified as non-viable on both economic and social grounds will be dealt with suitably.

d) Private sector investment in industrial enterprises will be actively encouraged. The Somali Development Bank will give preference to requests for loans to private entrepreneurs for small-scale industries. Appropriate protection will be afforded to local industry through tariff barriers, based on the merits of individual cases. Private foreign investment and joint ventures of local entrepreneurs with foreign partners will be encouraged.

e) Greatest possible use will be made of indigenous raw materials, especially in agro-industries and production of building materials.

f) Labour-intensive techniques will be used in cases where suitable labour is available and training programmes will upgrade the skills of labour and management.

g) Credit, including loans in foreign currency, will be made available to both public and private manufacturing enterprises, based on tangible collateral.

h) Vocational and technical training facilities will be improved to ensure an adequate supply of qualified personnel.

i) In order to spread economic benefits more widely, regional diversifiction will be encouraged through preferential treatment for new industrial units in industrially less developed areas. Cottage industries and village-level enterprises will be encouraged.

4.3 Stimulating growth through private sector

The basic policy of the government is that the private and public sectors should co-exist and mutually support each other for the overall development of the country. There is full realization at all levels of the flexibility of the private sector to changing economic needs and in expanding supply of products and services. There is a definite switch-over from a State controlled economy to a market-oriented economy. Policies are being pursued to attract private foreign investment in the exploitation of national resources, but with limited success. Still, there is a need to streamline procedures for sanctioning new investment. Many developing countries have evolved procedures for getting project sanctions at "one window". There is good scope for implementing this procedure in Somalia.

The basic economic and social infrastructure needs to be tuned further to be helpui and supportive to the private sector. This would also build up the confidence and morale of the entrepreneurs.

Promotion of private sector activities

Measures are being taken to provide an economic and financial environment that will stimulate private economic activity with a concomitant improvement in resource allocation as the economy is progressively oriented towards market forces. Private entrepreneurs are encouraged to enter into joint ventures with government or other private enterprises in productive sectors. An Investment Promotion Department has been established in the Ministry of National Planning. An incentive framework for mobilizing the initiative and resources of the private sector is being prepared. The framework deals with pricing policy and investment laws governing taxes, duties and repatriation of profits and capital. A unit has also been established in the Ministry of Industry to promote private investment in the manufacturing sector. The Somali Development Bank and the Commercial and Savings Bank give preference to requests for loans to private entrepreneurs for small-scale productive enterprises.

Attractive incentives are offered to private entrepreneurs; such as allocating to them a large proportion of the loans available from the Somali Development Bank, according privileges to agro-based and import substituting industries and providing inducement for foreign investors, i.e., tax holidays, tax exemption on imports of equipment, and, in appropriate cases, protection of local industry by means of tariff barriers. The Commodity Import Programme which makes inputs available for productive enterprises have stimulated private production activities.

Privatization is emphasized in sectoral policies. Steps are being taken to stimulate production of livestock by the private sector, through the provision of infrastructure and animal health services to pastoral producers. Some specific measures are envisaged to encourage private sector activities; privatization of veterinary services, loans for purchase of vehicles for livestock transport, loans to secure supplies of hay to holding grounds, and assistance for the organization of rural marketing and processing units for production of dairy products, blood and bone meal, soap, glue, etc., Some producers can be assisted to specialize in the production of livestock replacements to build up herds and flocks after periods of drought. Studies are being undertaken to assess the impact of greater participation by private individuals and companies in the domestic and export trade of products, such as hides and skins, leather and leather products.

Trade in fish products has been liberalized and only minimum prices are fixed. Joint industrial fishing ventures with private foreign or domestic partners are sought. This arrangement is desirable to ensure fuller utilization of the Somali industrial fishing fleet.

In artisanal fishing, the higher ruling market prices have promoted increased activity. Fishing co-operatives now offer their catches to the highest bidder at auction. To encourage artisanal fishing activity, basic infrastructure will have to be improved and a reliable supply of inputs and services be assured. A policy to encourage private ownership of vessels and gear was introduced in 1983, supported by a subsidy scheme which has been phased out. Loans for purchase of vessels and gear will be available through the Somali Development Bank.

The 1987-1991 Five-Year Development Plan spells out the steps for promoting viable industrial project, particularly small-scale manufacturing enterprises. Preference will be given to resource-based enterprises, import substituting and labour-intensive industries. Joint ventures of local entrepreneurs with foreign partners will be encouraged. Repatriation of capital and dividend remittances will be allowed.

The Somali Development Bank is the main source of loan capital for private sector productive enterprises. It is expected that the Bank will be able to provide local and foreign finance for investment of $7.5 million per year during the 1987-1991 period. Equity capital of $2.5 million per year will be provided by the private sector.

An investment schedule, "Investment Opportunities for the Private Sector in Somalia", has been prepared for distribution to prospective investors. Incentives for foreign investors provided under the existing legislation include tax holiday up to five years, waiver of duties on imported machinery and raw materials and protection through tariff barriers. The law has been modified to make its provisions more competitive with those offered by other developing countries.

Requirements of the private sector relating to acqusition of land, sanction for power, access roads, water, waste disposal and import licences will be dealt with expeditiously.

The Municipality of Mogadishu has plans to set up an industrial estate where serviced plots of land can be made available to private entrepreneurs. Access roads will be put in place together with connections for electricity, water, telephones, etc. For setting up industries in the estate, the government will endeavour to provide the needed sanctions from one authority.

The private sector is reluctant to invest in the public sector companies which are not profitable at present and are unlikely to show a profit in the near future. Private investors do not seem to take up the financial liabilities of indebted enterprises. Different formulae are being proposed to tackle the problem. One of these is to appoint boards of directors for certain public enterprises on which half or more of the members will be from the private sector. They would be paid a fixed remuneration plus a percentage share in the company's profits. They may also, at some future date, be given the option to buy shares in the company at prevailing market price or the evaluated net worth of the company.

Private entrepreneurs may also operate small manufacturing units within existing enterprises. The units would be independently managed and would produce a separate product line. For example, a unit for the manufacture of farm implements could be established at the Foundry and Mechanical Workshop in Mogadishu; or a methyl alcohol manufacturing unit could operate at the Juba Sugar Factory, using molasses as a raw material.

Table 4.1 shows expected private investment in manufacturing during 1987-1991. Industrial production will be oriented towards the production of import-substituting items based on the use of locally available raw materials.

Table 4.1: Expected private investment in manufacturing, 1987-1991
($ million)

	1987	1988	1989	1990	1991
Self-financed	2.0	2.5	2.5	2.5	3.0
Somali Development Bank	6.0	7.5	7.5	7.5	9.0
Total	8.0	10.0	10.0	10.0	10.0

Source: Ministry of National Planning.

Use of indigenous raw materials

Price incentives are being tailored to encourage the use of indigenous raw materials in processing enterprises. Sugar production in the two public sector factories can be supplemented by small-scale sugar plants installed on sugar cane farms. Tanning and manufacture of shoes and sandals can be based on the hides and skins available at abbatoirs. Fish processing industries can exploit more fully the hereto only marginally tapped marine resources. Likewise, oil milling capacity can be enlarged to process indigenously produced oil seeds.

Feasibility studies could identify agricultural and mineral products on which new industries can be based or existing industries expanded to include new product lines. The estimated potential for private sector processing of locally available raw materials is considerable, as indicated in Table 4.2.

Annex B gives a list of possible projects which are suitable for implementation by the private sector and projects that could increase exports of products based on locally processed indigenous raw materials.

Table 4.2: Potential of the private sector to manufacture products based on locally available raw materials, 1988

Product	Unit	Estimated internal demand	Present installed capacity	Present production	Possible private sector involvement	
					Project volume	(per cent)
Sugar	'000 tonnes	130	110	55	75	58
Clay products (bricks)	'000 tonnes	300	50	10	290	96
Tableware	tonnes	160	0	0	160	100
Glass	'000 tonnes	6	0	0	0	100
Cement products	'000 tonnes	50	5	5	45	90
Shoes and sandals	'000 tonnes	800	190	130	670	84
Tanning	million pieces	3.5[a/]	2.5	0.5	3	85
Edible oil	'000 tonnes	4.5	17	2	43	96
Fish processing	'000 tonnes	180[a/]	16.5	1	179	99

Source: Ministry of National Planning.

a/ Including processing for export.

4.4 Encouraging foreign joint ventures

Somalia welcomes foreign investment and the establishment of joint ventures with Somali partners. A number of joint ventures have already been established (Somalfruit, Incas, etc.). While the rate at which foreign investments have come to the country is not satisfactory, the impact of the new measures are soon to be felt.

In April 1987, a new law on foreign investment was enacted (see Annex C). It replaces the previous Foreign Investment Law No. 7 of January 29, 1977. The basic reason for enacting this legislation was the government's decision to involve the private sector to a much larger degree, than in the past, in the country's socio-economic development process. This legislation is in harmony with Somalia's new economic policies and objectives.

Following are the highlights of the new foreign investment law:

1) Investment can be made, apart from transfer of convertible currency, also in the form of machinery, equipment, current production inputs and intangibles.

2) There are no outright ownership and sectoral restrictions to foreign investment or phase-out provisions. Nor does the law preclude the possibility of participating, or acquiring stock, in an existing Somali enterprise.

3) In each case, proposed foreign investment is reviewed for approval within a 60-day period by the ten-member Foreign Investment Board (FIB). This is the supreme decision making authority over all matters concerning foreign investment and is composed of the Permanent Secretaries of the Ministries of Planning, Foreign Affairs, Finance, Industry, Commerce, Revenue, Labour and of the Governor of the Central Bank and the Chairman of the Chamber of Commerce. The FIB is assisted by the Foreign Investment Promotion Office which, apart from performing other duties, is to provide advice and guidance to the foreign investor on Somalia's legal, regulatory and institutional frame. Also, they will assist at the incorporation and setting-up stages.

4) The original foreign investment and any re-invested profits will be registered in convertible currency. There are no restrictions to re-investment of profit. Profit is freely transferable and profit not transferred, or portions of it, may be transferred in any following year.

5) Foreign investment (original investment plus any profit re-invested) can be freely repatriated five years as of the date of the registration of the original investment. Repatriation is to be effected in convertible currency or, at the investor's option, in the form of physical assets. FIB may reduce the above-mentioned five-year period.

6) Capital gains resulting from sale of shares or liquidation of assets are freely transferable, after payment of normal taxes.

7) The law restricts the possibility of expropriation to the only case where public interest cannot be satisfied by measures other than expropriation. In such case, prompt and freely transferable compensation is payable in an amount that reflects the investment's fair market value as a going concern.

4.5 Institutional framework for industrial development

There is some degree of fragmentation of responsiblity in the institutional framework for industrial planning, policy implementation and monitoring of the performance of industrial enterprises. Almost 80 per cent of the manufacturing sector, which comprises mainly the public sector, is under the supervision of che Ministry of Industry and Commerce. The remainder 20 per cent balance is in the private sector, whose major contact is with the banking institutions to meet their import needs.

The Somali Development Bank initiated and still controls some of the industries, the most important one being the Wheat, Flour and Pasta Factory. The co-operatives bought ITOP (fruit and vegetable processing factory) from the Somali Development Bank and are running the plant with some degree of success. The fishery sub-sector (including fishing operations and fish factories) is under the Ministry of Fisheries and Marine Transport.

The State Printing Agency is under the direct control of the Ministry of Information. There have been some suggestions that all the manufacturing operations be placed in the purview of the Ministry of Industry and Commerce. However, there seems little merit in this suggestion due to the limited contribution which this Ministry can make under its present setup. Annual budgets are prepared at the plant level. Each venture under the supervision of the Ministry of Industry and Commerce submits returns under the Unified Reporting System. This is the major instrument for monitoring the performance of the operating units.

There appears to be a need to further strengthen the Planning Department of the Ministry of Industry and Commerce. In the past, a major part of the planning tasks was performed by the central planning agency, namely, the Ministry of National Planning. It is felt that a stage has been reached at which some decentralization of the planning process should be carried out. In future, the Department of Planning of the Ministry of Industry would be entrusted increasingly with the responsibility for formulation of the annual operational plans for the manufacturing sector, as well as the tasks of sectoral plan implementation. In addition, the department could develop medium- to long-term perspectives for the country's industrial development, related manpower, financial inputs and inter-sectoral linkages. This will require technical assistance not only for planning but also for project identification, preparation, appraisal and monitoring.

Co-ordination among the Ministries is of paramount importance and steps have been taken towards improving such co-operation. Inter-ministerial co-ordination committees have been set up with the Ministry of National Planning acting as the focal point and effective linkages have been established between the Ministry of Industry and Commerce, Ministry of Finance and Ministry of National Planning.

The flow of information between the concerned ministries needs to be institutionalized. In the past, co-operation was mainly on specific assignments and issues. A start towards strengthening the process was made in the mid-1980s through workshops in the Ministry of National Planning. The momentum would need to be maintained.

Somali Development Bank (SDB)

The Somali Development Bank was established in 1963 as a publicly owned institution to provide financial assistance to productive enterprises in various sectors within the framework of the country's development programmes and priorities. In 1986 the equity capital of the Bank amounted to So.Sh. 629 million. SDB is owned by the government of Somalia, the Central Bank of Somalia, the Commercial and Savings Bank and the State Insurance Co. of Somalia. Besides the share capital, SDB's resources are derived from borrowings in foreign currency and in Somali Shillings. Borrowings in local currency include loans from the government of Somalia and Central Bank of Somalia. Loans in foreign currencies are from international institutions such as the World Bank, the African Development Bank, the European Investment Bank and loans from the government of Iraq, the Federal Republic of Germany and Algeria.

The Somali Development Bank is the main source of loan capital for productive enterprises. It has a record of preferentially financing and promotion of private sector projects. SDB secures lines of credit and financial arrangements from overseas lending institutions to meet the foreign exchange needs of private sector projects. Loans requested by this sector are predominantly in foreign currency. Total lending by SDB during 1985 for productive projects was So.Sh. 300 million, out of which 66.7 per cent were designated for the manufacturing sector promoters. SDB can provide up to 75 per cent of the capital cost of any project with the limit in practice being 60 per cent of the total cost. The bank provides both foreign exchange and local currency for the purchase of fixed assets. The rate of interest charged ranges from 11 per cent to 15 per cent, depending on type and duration of the loan. It is expected that during 1987-1991, SDB will be able to provide local and foreign financing for the private sector amounting to

$7.5 million per year on the average; actual disbursements will be approved, depending on the availability of funds in local and foreign currency. Equity capital of $2.5 million per year will be provided by the private sector.

Annex Table A-7 provides information on annual loan operations from 1969 to 1986. Loans to the industrial sector amounted to So.Sh. 306.8 million in 1985, and So.Sh. 75.6 million in 1986. The amount lent to the industrial sector was 46.5 per cent of the total for 1985, and 26.8 per cent for 1986. The overall share of industry during the period 1969-1986 was 48 per cent of the total loan sanctioned by SDB.

Loans sanctioned for industrial projects in 1986 fell by 48 per cent in number and 75 per cent in value, compared with 1985. The major investment in this sector was directed toward the food processing industry (43.5 per cent) and the chemical industry (36.2 per cent). The remainder was nearly equally distributed between general manufacturing projects and the production of construction material.

The regional distribution of SDB's loan operations shows a considerable concentration in the Banaadir (74.4 per cent of the total of industrial loans), and the Middle and Lower Shabelle for agricultural projects (70.6 per cent of all loans to agriculture). The remainder of the country benefitted equally except the Northern region, which received a slightly above average amount of financial assistance for private projects in agriculture and food processing (see Annex Table A-8).

Private banks

In line with the liberalization policy, the government plans to initiate private sector banking, which has been non-existent until now. A British consulting firm has prepared a draft banking law, draft regulations and proposals for reform of the State-owned commercial and savings banks. The first bank to be set up under the new legislation, opening banking to the private sector, will be the Somali National Co-operative Bank. Shares in the bank will be restricted to co-operative societies, supervised by the Somali Co-operative Movement. The government is interested in both local or foreign private banks, and a possible candidate is Citibank of the USA, which provided the $22 million stand-by loan in 1987 to facilitate the IMF stand-by.

5. RESOURCES FOR INDUSTRIAL DEVELOPMENT

5.1 Human resources

The population of Somalia was estimated at 5.5 million in mid-1986, of which 44.4 per cent are nomads, 31.3 per cent are settled people (mostly farmers) in rural areas, and the rest 24.3 per cent are urban dwellers. The average crude birth rate is 4.4 per cent while the crude death rate is 1.3 per cent. This gives an estimate of average population growth rate of around 3 per cent. The employment situation in Somalia is characterized by high and increasing levels of unemployment and under-employment.

There has been notable migration of the labour force from the nomadic areas to Mogadishu and other urban centres. However, migration is estimated to be much less than the natural growth in the labour force in nomadic areas of the country. In some of these areas, the maximum carrying capacity of the rangelands is thought to have been reached, and thus the increase in the labour force in those areas has led to under-utilization or under-employment. This is not the situation in some coastal areas where grazing of sheep and goats continues to occupy the local labour force adequately. It is also noteworthy that a sizeable number of nomadic workers are engaged in marketing of milk and other products and trading of livestock moving between the urban centres and nomadic areas. Fishing, which has the potential to absorb a larger labour force, has yet to become important as a source of employment. Fish as part of the diet is foreign to the nomadic cultural background of a large part of the people. Hence, low consumption and the resultant small market for fish means a low income rate for fishermen and new workers are not attracted into the sector.

Agriculture has the best potential to absorb the natural growth of the labour force. It is estimated that the area under cultivation has increased by 100,000 ha since 1975. At the same time, the large controlled irrigation projects are reported to suffer acute manpower shortages. Factors influencing the employment picture in the crop production sector are low levels of income and wages, seasonality of employment in the project sites, and inadequate distribution of the rural population among the regions. There is also some doubt that enough land can be developed for agriculture to absorb the estimated 20,000 annual addition to the agricultural labour force.

It was estimated that in 1982/83 there were 90,000-100,000 workers employed in the modern sector (exluding the military, police and para-military units), and there has been no significant change in the ensuing five years. The stagnation in the growth of manufacturing employment is due to the termination in 1983 of the policy to absorb all secondary school graduates in public employment and the low productivity of public enterprises.

During the period 1982-1986 employment in public sector manufacturing establishments was constant at about 12,000-13,000 workers, although some of the public enterprises appear to have reduced their work force. The initial investment required to create one job in these establishments is estimated at $37,000, which is manifestly capital-intensive. For example, the pharmaceutical industry was set up with an initial investment of $17 million for a maximum employment capacity of 200 administrative and production workers, or an average cost per job of $85,000. In small-scale manufacturing enterprises, the investment required to create one job is estimated to be $20,000.

In the public sector, real income levels declined sharply and government employees were obliged to seek supplementary employment in the informal sector to make ends meet. The government, confronted with severe revenue deficits, is unable to increase the compensation of public servants to levels that are reasonable in relation to the cost of living. As a consequence, most of the employment increase in Mogadishu and other urban centres has been in the informal sector or in small, often family-run establishments and market stalls that are licensed and registered.

For Mogadishu and other towns the estimated unemployment rate is between 10 per cent and 15 per cent compared with 3-5 per cent for the entire population. The informal sector, which includes small establishments and market stalls, is providing employment and income for an increasing segment of the population. Informal activities are primarily trade, commerce, service, small-scale manufacturing, construction and transport, supported through private and informal financing schemes. Although information on this sector is sketchy, its effects on the economy are significant and increasing.

One cause of the current dearth of qualified managerial and administrative personnel in the modern sector is the outflow of trained manpower of this level to the more remunerative occupation in the informal sector and to jobs in Saudi Arabia and other Gulf States. It is estimated that 100,000 Somalis are now working abroad.

Having abrogated the policy of guaranteeing employment, the government is now in the process of reducing the overstaffed government sector. An agricultural settlement programme, at present in a preliminary and experimental stage of implementation, seeks to provide assistance and land to civil servants who have been retrenched from service, secondary school leavers with agricultural specialization and unemployed landless persons.

The supply of labour has been increasing at an estimated annual rate of 3 per cent or 95,000 net additions to the labour force each year. The rate of economic growth needed to absorb this number and to reduce the number of presently unemployed people is estimated to be at least 10 per cent per year, in contrast to the average 3 per cent annual growth that took place during the 1982-1986 period. Thus, the rapidly increasing labour force in a nearly stagnant economy is the major factor in the deterioration of the employment situation.

The capacity for employment generation has not been sufficiently taken into account in planning development strategy, and the economy has failed to tap the potential of aid and technical assistance projects to generate maximum employment opportunities.

Wages and salaries in the public sector are thought to be far below private sector levels. Government employees, obliged to seek supplemental employment in the informal sector, thus devote less than their full energies to their government jobs and efficiency of government operations is adversely affected. The administrative machinery for economic development is weakened.

Steps are being taken to overcome the shortage of managerial personnel by expanding and improving training capabilities in the Somali Institute for Development Administration and Management (SIDAM) and the Industrial Vocational Training Centre (IVTC) in Mogadishu. A training centre is being established in the north of Hargeisa. There is a great need to intensify vocational training:

(i) Management training through Somali Institute for Development Administration and Management (SIDAM)

SIDAM, established in 1965, is the only institution in Somalia that serves the needs of development, administration and management. The staff of SIDAM also provides consultancy services to various government and public sector bodies with continuing assistance from government and other international agencies such as ILO/UNDP, IDA, USAID. In addition to 5 long-term courses (two year and one year duration) in accountancy, industrial management, rural development and general management that form part of SIDAM's regular programme, short-term courses are offered.

(ii) Vocational training

An Industrial Vocational Training Centre has been established in Mogadishu with financial support from the government and from the German Technical Co-operation Programme. The Centre is expected to train graduates in ten different disciplines. It will also provide upgrading courses for about 400 employed workers per year. Training is in general mechanics, auto-mechanics, agro-mechanics, industrial and domestic electricity, welding, blacksmithing and plumbing.

(iii) Plant level training

There are 22 enterprises in Somalia which fall under the overall authority of the Ministry of Industry. Most of these enterprises have different processes of manufacture and therefore different technologies. Only the sugar plant at Jowhar (SNAI) and Mararey (JSP), and leather tanneries at Km 7 Mogadishu, Kismayo, Hargeisa and Burao share the same type of technologies. Therefore, technical training varies greatly from one enterprise to another, while management training is similar throughout. Training centres operating at plant level are:

Mugambo Training Centre

The Mugambo Training Centre, managed by the Juba Sugar Project, is better equipped than the other training centres. The centre is staffed by expatriate and well-trained Somali instructors. Mugambo trains craftsmen, artisans and graduates in practical engineering skills.

The graduates undergo approximately six months training and artisans five months training.

Jowhar Training Centre

As many of the older workers in SNAI began to move towards retirement age and with the need to inject fresh blood into the manpower of the enterprises at various levels, the management decided to establish a training school designed to impart technical training to workers with 8th grade education. This centre was launched in 1979. Initial assistance with tools and equipment was provided by the United Nations Development Programme.

The subjects covered are English, chemistry, physics, drawing, electricity and workshop technology.

Somaltex Training Centre

The centre was established at Balad in 1979. Each year the centre has continued to enrol 20 students. Training is imparted in general sciences and workshop practice.

5.2 Agricultural resources

The bulk of the manufacturing activity is agro-based and hence has dependence on the agriculture sector. The vital role of agriculture is to supply industry with the appropriate raw materials without which a whole range of industries would be physically idle.

The natural resources of Somalia are rich enough to provide the potential for resource-based pattern of industrialization for the country, at least in a limited number of fields. While there is good potential in the sub-sectors of livestock, crop production, fisheries and minerals, there is limited scope in sub-sectors of chemicals, petroleum, forestry and energy generation.

Livestock has maintained growth in recent years. The sector has been able to sustain substantial exports of animals on the hoof, as well as annual meat output, in excess of 10,000 tonnes per year, and production of hides and skins. Trading in livestock is now wholly in private hands, although leather processing remains a government monopoly, with limited activity in the private sector.

Growth in exports is currently hampered by a ban on cattle imports into Saudi Arabia because of fear of rinderpest, but alternative markets are being found. In 1982 total livestock exports ('000 head) amounted to 1,622. In 1983 and 1984, following the ban, the numbers plummetted to 1,186 and 763 respectively. However, by 1985 and 1986 they had recovered to 1,506 and 2,399 respectively; the main components of the increase being camels and sheep with cattle and goats returning to roughly the same level as in 1982. There is considerable potential for the further development of the livestock sector, particularly in the production and export of hides, skins and other by-products of the industry.

Somalia with a total area of approximately 638,000 sq km has about 8.2 million hectares (ha) suitable for cultivation. At present, about 1 million ha are under cultivation of which 835,000 ha are under dry farming, 100,000 ha are under flood irrigation agriculture and 65,000 ha are under controlled irrigation.

Crop production absorbs about 20 per cent of the working population, for the most part subsistence farmers in rainfed areas engaged in the cultivation of sorghum, maize and oilseeds for domestic consumption. In the Shebelle river basin, a small but fairly dynamic commercial sector is working on irrigated land to produce bananas (an important export crop), grapefruit, maize, sugar cane, cotton and other crops.

Crop yields are currently very low for both rainfed and irrigated agriculture, mainly due to the shortage of farm inputs. Irrigated agriculture is especially adversely affected by periodic shortages of fuel for water pumping. It is estimated that yields on irrigated land could be tripled if an optimum supply of irrigation water could be assumed. Production figures for major crops are presented in Table 5.1.

Table 5.1: Production of major crops, 1980-1986
('000 tonnes)

Crop	1980	1981	1982	1983	1984	1985	1986
Maize	110	141	150	235	270	382	294
Sorghum	140	222	235	120	221	226	273
Rice	17	19	20	3	4	10	7
Pulses	9	13	59	21	32	39	15
Sesame	38	53	57	59	46	60	63
Peanuts	3	4	3	3	5	7	5
Vegetables	27	35	102	83	95	67	30
Sugar cane	420	500	535	500	342	429	512
Bananas	60	69	72	75	80	59	75

Source: Ministry of Agriculture; Ministry of National Planning.

Shortage of water during dry seasons seriously affects livestock and reduces the agricultural potential of the country. The situation is further aggravated by intermittent droughts. Hence, water resource development is pivotal to the development of Somalia. An overall assessment of water resources and requirements indicates that Somalia has adequate resources to supply its population and sustain its major economic activities. However, the distribution of these resources is extremely uneven.

The government intends to proceed with the construction of a dam on the Juba river at Bardhere, to provide irrigation water to more than 200,000 ha, give flood protection and create 105 MW of hydro-electricity power capacity. Construction of the dam is scheduled to start during the Five-Year Plan, 1987-1991, with the assistance of a number of the major donors for completion in the early 1990s.

Somalia has a long coastline of 3,300 km with the greatest concentration of fish resources on the North East coast. The fish catch in Somalia consists of mackerel, small pelagic species, spiny lobster and shrimp. There is a great international demand for these varieties. However, the resources are not fully tapped. The estimated resource potential per annum is reported in Table 5.2.

Table 5.2: Estimated annual resource potential for fish production, 1987
(tonnes)

Tuna and mackerel	8,000
Small pelagic species	100,000
Large demersals	40,000
Shark and bay	30,000
Spiny lobster (shallow water)	500
Spiny lobster (deep water)	1,500
Shrimp	400

Source: Ministry of Agriculture; Ministry of National Planning.

The artisanal and industrial fish production can be increased with better infrastructural facilities. A number of fishing enterprises have already been established with joint ventures and there is yet abundant scope for new investment in this sector. The Somali government wishes to welcome joint venture programmes for the exploitation of its vast and highly profitable fishing resources.

Approximately 90,000 sq km (14 per cent) of the country's land area can be classified as forest. Of this total, only 11,000 sq km is considered to be mature forest. The forest sector has significance as a supplier of firewood and charcoal, the primary energy resources in rural areas, and as sources of important primary exports such as myrrh, incense and gum arabic. A serious problem is posed by desertification as a result of sand dune encroachment, particularly in coastal areas between Adale and Brava, and in parts of the central rangelands. Only a very minor proportion of the sand dunes have been stabilized up to now.

5.3 Energy resources

Somalia's energy sector is characterized by a lack of easily exploitable conventional energy resources. The two main potential sources of energy are wood fuels and hydro-electric power. Wood fuels account for approximately 82 per cent of national energy consumption. However on a national basis forest growth exceeds fuel wood demand. Serious deforestation is taking place near population centres due to over-exploitation, over-grazing and uncontrolled land clearing. Over time this has been the cause of environmental degradation and increases in wood fuel prices. At the moment, a number of donor assisted projects are focusing on increasing the efficiency of wood fuel usage and re-forestation.

Hydro-power potential is concentrated in the upper Juba Valley near Bardhere. Although, at the moment, these resources are underutilized, a plan is underway to tap the potential energy through the construction of a dam at Bardhere.

Petroleum imports, despite contributing a relatively small, though strategic proportion of national energy consumption, still consume approximately 40 per cent of export revenues. In recent years foreign exchange constraints have led to shortages of petroleum, which have inhibited key economic activities such as transport, power generation, industrial production and irrigated agriculture. The 0.5 million tonnes per year refinery near Mogadishu has faced difficulties since the departure of an Iraqi management team and successive reductions in the supply of crude oil grants from Saudi Arabia. The output of the refinery is incompatible with the composition of demand for refined products in the country. Consequently, excess supplies of fuel oil have had to be re-exported at low prices and refined products imported to meet the gap in demand. To-date, exploration activities have not yielded any proven commercially viable reserves of petroleum.

The electricity sub-sector is relatively underdeveloped and inefficient. The expansion in generating capacity has not been matched by the necessary institutional development which has resulted in serious managerial, operational and financial problems.

Scope exists for the development of alternative non-traditional energy sources such as solar and wind power. Efforts are underway to establish the viability of such sources.

Power for industrial purposes has been in short supply in the past. The major problem has been the interruptions in power due to mechanical breakdowns and shortage of fuel. A number of industrial processes need continuous supply of current and a momentary interruption results in long stoppages for clean-up and re-start. Typical examples of this are petroleum refinery and urea manufacture. Most of the existing industries have their own power generators run on petroleum fuel since it could not depend on the city mains.

The main source of fuel for electric energy is petroleum for the public power plants and industrial units. The exception being bagasse for the sugar mills. A small hydro-electric plant is already in use at the site of Fanole Dam in Lower Juba which has interruptions due to seasonal low water levels. Major breakthrough in hydro-electric supply will emerge when Bardhere Dam is completed and over 105 MW of power capacity is added.

The electricity generating capacity has increased at an average rate of 15 per cent per year. Nearly 50 per cent of the total capacity in the country is generated in Mogadishu. Production and consumption of electric energy for the country during the period 1981-1985 are indicated ir Table 5.3. Power generation in Mogadishu from the national grid was 21.2 MW in 1983 and was planned to increase to 82.5 MW in 1990, the realistic target seems to be 55 MW.

Table 5.3: Production and consumption of electricity, 1981-1985

Year	Capacity (in Kw)	Production ('000 Kwh)	Consumption ('000 Kwh)		
			Lighting	Motivating Power	Total
1981	34,480	69,095	42,341	19,493	61,834
1982	34,480	75,719	43,523	19,081	63,604
1983	40,500	91,902	66,714	7,936	74,650
1984	48,000	112,015	78,030	11,683	89,713
1985	57,740	109,049	66,365	26,425	92,790

Source: Somali Development Bank.

5.4 Mineral resources

The exploitation of sepiolite (meerschaum) and the quarrying of industrial minerals (sand, gravel, limestone, gypsum and clays), mainly for their application as construction materials, constitute the only mining activity in the country. Quarrying and cutting marble has been initiated in the private sector. Previous exploration efforts have established the existence of iron ore deposits in the El Bur area, uranium deposits in the Galgaduud region, tin deposits in the Northeast (Bosaso) and piezo-quartz occurrences in the Northwest (Daarbug and Lafarug). Recent investigations have established the existence of favourable geological environments for the occurrence of rare-earths in the Northeast and gold, lead-zinc and ply-metallic deposits in the Northwest. More detailed exploration efforts would be required to establish their economic viability.

Occurrences of oil and natural gas have been confirmed, but their commercial potential remains unproved. The government permits private foreign interests to explore for hydro-carbons. The companies currently include Chevron International, Consolidated International, Shell, Agip and Exxon.

During the period 1972-1979, a tin mining pilot plant was established in the Majayaham area to mine and dress the tin ore; studies were conducted which confirmed the presence of ceramics and glass sands in the Bur area. Further investigation conducted during the Three-Year Development Plan 1979-1981 period identified several mineral occurrences, including deposits of manganese, copper, lead, zinc, gold, zircon, coal, kyanite and uranium, as well as promising prospects for the exploitation of certain non-metallic minerals. It is on the basis of results achieved in this period that industries of cement, gypsum, ceramics and lime have been established in Berbera.

It is necessary to continue systematic exploration and mapping of the entire country. One fact that has been established beyond doubt is that Somalia is rich in mineral wealth which needs to be unearthed.

Summary of the mineral resources, in alphabetical order, is as follows:

Gold - Quartz veins are widespread in the area lying in the vicinity of Hargeisa town. In some vein samples, gold mineralization has been observed.

Gypsum/anhydrite - The gypsum/anhydrite deposits are located at Suria Malable about 16 km from Berbera, being among the world's largest. It contains about 7 million tonnes of high grade gypsum and anhydrite reserves. Including additional exposure of gypsum and anhydrite within 30-50 km from Berbera, the gypsum/anhydrite deposits amount to some 30 million tonnes.

Iron ore - Deposits are situated in the central portion of the Bur uplift, between the towns of Baidao, Minsor and Bur Asaba. The area is predominantly flat terrain with an average elevation of 350-400 metres. The grade of the ore is between 35 and 40 per cent Fe, and SiO_2 content is 42.55 per cent. Total reserves are preliminarily estimated at about 170 million tonnes of iron ore.

Kyanite - Small deposits of kyanite were already known at Dsmal, Mirid and Dangal in the North. New kyanite discoveries have been made recently and are thought to be of economic interest. The newly discovered kyanite-bearing rocks are distributed over an area of 350 sq km in the basement rocks. The kyanite content of the various occurrences ranges between 30 and 55 per cent. The kyanite of Dsmal alone was estimated at 400,000 tonnes, the average content of kyanite being 33 to 34 per cent.

Lead-barite - Lead-barite mineralization occurs in the basement and in sedimentary rocks. Particular attention is being paid to the exploration and exploitation of non-metallic raw materials. In this respect, priority is given to exploration for asbestos, feldspars, kaoline and glass sand.

Oil - A thick sequence of sedimentary rocks of marine faces is spread over large areas of the country. Favourable geological and structural conditions for the accumulation of hydrocarbons within the underground sedimentary formations are expected. These expectations are validly supported by the discovery of oil and gas, although not in commercial quantities, in some exploratory wells drilled by oil companies. Oil exploration is continuing.

Piezo-quartz - Recent surveys located high-grade piezo-quartz in several parts of the northern regions.

Sepiolite - A big deposit of sepiolite was discovered at El Bur, situated about 400 km of Mogadishu. This deposit is one of the largest known. The reserves of the sepiolite deposit are estimated at several million tonnes.

Sulphur - A small deposit of sulphur occurs about two miles west of Berbera. It is not considered of economic interest.

Tin (cassiterite) - Tin and quartz are known to occur in the eastern part of the basement at Majayahan. During the colonial period, the tin was mined by an Italian company, until the Second World War at which time the mine was abandoned. The tin project in the Bosaso area of Northeast Somalia, which produced 134 tonnes of tin concentrate in 1979, was abandoned with the departure of the Bulgarian consultants. A new project has been established in the Majayahan-Dalan area for the exploration and pilot exploitation of the tin deposits through bilateral co-operation.

Titaniferous sand - A large deposit of titaniferous black sand occurs at the mouth of the Giuba River on the coast of the Indian Ocean, near Kismayo port. This deposit has been partially investigated and it offers good prospects for the extraction of considerable amounts of titanium which are contained in titaniferous magnetic ilminite and rutile. As a result of preliminary evaluation of the deposit, the reserves have been estimated at 10 million tonnes.

Uranium - Uranium ore (carnotite) is the most important mineral discovered so far within the sedimentary rocks in the central part of Somalia (Mudung province). The radioactive areas were discovered as a result of geological investigations carried out by a project established through co-operation between the Somali government and the United Nations Development Programme. The areas cover 170 sq km in a belt extending 240 km from El Bur through Dusa Mareb to Galinsor. The total probable reserves of uranium with an average content of 0.08 per cent U_3O_8 in all Mudugh are about 20,000 tonnes.

Other minerals - It is known from previous investigations that poli-metallic mineralization (lead, zinc, copper) are present in several localities in the sedimentary rocks of the northern regions.

There are traces of such rare metals as rubidium, tantalum and cesium at Bosaso, but the mineral content is low. A National Geological Survey is currently engaged in mapping and mineral exploratory investigation in the Bur area, where deposits of lead and gold have been reported. Coal deposits in the Erigavo area of Northern Somalia are also being assessed.

5.5 Financial resources[1/]

Table 5.4 gives the financial plan for public sector industries for the period 1984-1991. Almost 90 per cent of the finances are coming from the donors and only 10 per cent is contributed by the government of Somalia which

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1/ The role of Somali Development Bank in meeting the financial requirements of industrial enterprises is discussed in Chapter 4 under institutional framework for industrial development.

Table 5.4: Public investment programme in manufacturing, 1984-1991
($ million)

	1984	1985	1986	1987	1988	1989	1990	1991	Total 1987-1989	Total 1987-1991
Total	11.3	7.2	14.3	40.4	28.6	14.0	6.3	5.6	84.0	95.9
Food and beverages	7.1	2.2	3.6	30.2	23.0	15.0	6.3	5.6	68.2	80.1
Juba sugar estate	3.8		3.0	5.0	6.8	7.8	4.5	5.3	19.6	29.4
Saudi Fund	-	-	-	-	-	-			-	0.0
Abu Dhabi Fund	-	-	-	-	-	-				0.0
OPEC	-	-	-	-	-	-				0.0
GOS	3.8			1.0	-				1.0	1.0
Self financing		-	3.0	4.0	6.8	7.8	4.5	5.3	18.6	28.4
SNAI sugar factory	3.3	2.2	0.6	18.4	11.5	5.6	0.2	0.2	35.5	35.9
Italian emergency programme	-	-	0.5	18.4	10.9	5.0	-		34.3	34.3
GOS	3.3	-	0.1		0.6	0.6	0.2	0.2	1.2	1.6
Domestic loan		2.2								
Cigarette/match factory				0.3	0.5	1.6	1.6	0.1	2.4	4.1
Self financing				0.3	0.5	1.6	1.6	0.1	2.4	4.1
Pasta factory expansion				2.5	2.5				5.0	5.0
IDB	-		-	2.0	2.0				4.0	4.0
Self financing	-	-	-	0.5	0.5				1.0	1.0
Mogadishu abbatoir	-	-	-	4.0	1.7				5.7	5.7
Italian emergency programme	-	-	-	4.0	1.7				5.7	5.7
Building materials	2.6	5.0	9.7	5.1	-	-			5.1	5.1
Berbera cement plant	2.6	5.0	9.7	5.1					5.1	5.1
France	1.5	5.0	8.0	4.9	-				4.9	4.9
People's Rep. Korea										
GOS	1.1	-	1.7	0.2	-	-			0.2	0.2
Textiles and leather				4.6	4.6				9.2	9.2
Tannery, Balad road			-	4.6	4.6				9.2	9.2
Italian emergency programme		-	-	4.6	4.6	-			9.2	9.2
Other industrial projects	1.6	-	1.0	0.5	1.0	-			1.5	1.5
Pharmaceutical industry	1.6	-	0.5							
UNCDF		-	0.4	-						
EEC/Italy	1.4	-	-	-	-					
GOS	0.2		0.1	-	-					
Petroleum refinery		-	0.5	0.5	1.0				1.5	1.5
Italy		-	0.5	0.5	1.0				1.5	1.5

Source: Ministry of National Planning.

indicates heavy dependence on aid support. During 1987-1991, expenditure planned for industry is $95.9 million to be utilized mainly for rehabilitation with hardly any new projects planned.

The private sector is expected to invest $2.5 million per year on new projects supported by loans at the rate of $7.5 million per year.

5.6 Infrastructural facilities

The provision of adequate infrastructure has to be considered as a prerequisite to facilitate social services, socio-economic activities and economic growth.

The existing infrastructure in the transport, communications, water and energy sectors is not well developed. The major problem arises from the difficulty to provide infrastructure to a population dispersed over an area of 638,000 sq km. Another serious problem is the lack of proper maintenance of the existing infrastructure and equipment. Proper maintenance protects capital investment, ensures the safety of users, and ensures the required level of service. At present, the existing infrastructure and equipment has deteriorated such that huge investments are required for rehabilitation.

Industrial estates

Although industrial areas have been demarcated in the major cities, no industrial estate has as yet been established. Existence of industrial estates is an effective catalyst for promoting the private investment in industry.

Plans are in advanced stage for setting up an industrial estate in Mogadishu where serviced plots of land will be made available to private entrepreneurs. Access roads will be put in place together with connections for electricity, water, telephone, etc. For setting up industries in the estate, the government is planning to provide the needed sanctions from a "single window".

5.7 The role of technical co-operation in industrial development

The UN has been an important donor to the technical assistance programme of the country. During the UNDP programme cycle 1981-1986, approximately $24 million to technical assistance was delivered. A major portion (35 per cent) was directed at primary activities including agriculture, livestock, forestry and fisheries and 18 per cent to manpower development. These allocations were in line with the resource priorities of the government. One major UNDP contribution has been the support to a major project of assistance in development planning, which has absorbed 15 per cent of the programmed funds. The quantum of technical assistance earmarked for the manufacturing sector during the 3-year period 1987-1989 is hardly 5 per cent of the total.

Donors tend to provide technical assistance to projects which they support. The technical assistance content of investment packages needs to be related to national priorities for the development of manpower and to ensure the effective operations of production sectors. Donors have shown agreement that by and large, technical assistance be provided as a grant and not as a loan.

The government accords high priority to technical assistance in agriculture, infrastructure, education, manpower planning and regional/rural development. The public investment programme indicates total technical assistance requirements averaging $67 million per year during 1987-1989. These needs are probably underestimated insofar as capital assistance requirements of many projects are concerned.

The long-run objective of technical assistance is to improve the national institutional capability. This implies the improvement of manpower and employment situation. In the short term, it also implies the improvement of capability for implementing the development projects and maximizing output of existing production units. The low capacity utilization of the industrial units (25 to 30 per cent) emphasizes the need for technical assistance to the industrial units not only at the managerial level but also at technical level to assist in production and to train the counterparts.

A list of projects completed by UNIDO in the past are given in Annex D. There are two major projects in which UNIDO is involved at present, the Industrial Consultancy Unit and the Industrial Information Unit.

In order to assist the manufacturing sector, an Industrial Consultancy Unit (ICU) was established in 1987. The Institute for Industrial Economics, Belgrade, Yugoslavia is providing consultancy services and training to national consultants employed by ICU. The Unit is manned by five international and seven national professionals. The major focus is on rehabilitation and improvement of the performance of industry. The most significant feature of this unit is the training of qualified nationals to handle independently functions and responsibilities. This will enable them to maintain continuity after the foreign counterparts depart.

An Industrial Development Information Unit is expected to offer a range of information services to the private and public sectors. It will strengthen the Ministry of Industry's Library, continue to publish the Industrial Management Review and issue a bi-monthly Economic Newsletter.

UNIDO pipeline projects include a project to develop existing salt resources. This is a project to field a salt expert to Somalia to improve the functioning of the existing salt works, to locate more suitable sites for salt production and to streamline the procedure of collection and maintenance of statistical data for all the salt works.

Somalia's natural resource endowment offers good potential for the industrial transformation of the economy through the development of the country's livestock, crop production, fisheries and mineral sectors. The government's endeavour towards a resource-based pattern of industrialization seems to have received an impetus in recent years as a result of a shift in emphasis from public sector ventures to indigenization, foreign direct investment and private initiatives in manufacturing activities. These efforts are to be supplemented by both multilateral and bilateral technical co-operation support.

In the short run technical assistance is to be attuned towards optimal use of installed capacities of industrial units. The long-run objective of technical co-operation in industrialization could aim at improving the national institutional capabilities and infrastructural facilities in order to transform the economy of Somalia through industrial diversification.

ANNEX A

STATISTICAL TABLES

Table A-1: Distribution of GDP by sector of origin, 1977-1986
(million of So.Sh.)

Sector	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986[a/]
Agriculture	3137	3304	2760	3010	3626	3650	2905	3477	3777	3707
Livestock and livestock products	2283	2458	1893	2110	2583	2552	1838	2317	2520	2372
Crop production	647	646	652	666	813	863	820	889	985	1054
Forestry	186	192	198	204	210	217	223	230	237	245
Fishing	21	8	17	30	20	18	24	41	35	36
Mining	40	25	27	20	22	20	21	21	21	21
Manufacturing	323	273	327	357	297	370	300	278	299	334
Electricity and water	30	29	43	43	43	40	40	46	59	62
Construction	366	204	242	286	294	262	238	276	300	318
Trade and hotels	500	531	596	677	523	639	572	613	588	580
Transport, communication	385	339	296	331	306	332	345	334	410	427
Finance and insurance	92	129	137	120	75	81	92	37	34	36
Real estate	220	229	238	247	257	268	278	290	301	313
Government services	388	485	520	539	545	547	550	522	493	461
Other services	149	153	158	163	168	173	178	183	189	194
Imputed bank service charges	-113	-137	-148	-110	-76	-88	-111	-44	-64	-80
GDP at factor cost	5517	5564	5196	5683	6080	6294	5408	6033	6407	6373
Indirect taxes	572	938	854	475	568	533	563	252	295	382
GDP at market prices	6089	6502	6050	6158	6648	6827	5971	6285	6702	6755

Source: Ministry of National Planning.

a/ Estimate.

Table A-2: Estimates of livestock population in Somalia, 1978-1985
(million heads)

Year	Goats	Sheep	Camels	Cattle
1978	16.7	9.9	5.6	3.9
1979	17.1	10.1	5.7	4.0
1980	17.4	10.3	5.7	4.0
1981	17.8	10.4	5.8	4.1
1982	18.3	10.6	5.9	4.1
1983	18.7	10.8	5.9	4.1
1984	19.1	11.0	6.0	4.2
1985	18.5	11.1	6.0	4.4

Source: Government of Somalia, Ministry of Livestock.

Table A-3: Types and sources of aid, 1987-1989
($ million)

	Food aid	Other commodity aid	PIP before slippage	Technical assistance	Total	Annual breakdown of totals 1987	1988	1989	Total
Loans	11.0	53.2	260.4	21.8	346.4	155.1	86.2	105.1	346.4
ADB			8.9		8.9	3.8	2.2	2.9	8.9
ADF			9.3		9.3	3.6	2.6	3.1	9.3
Arab Fund			21.3		21.3	0.2	4.7	16.4	21.3
China			22.6		22.6	6.0	12.6	4.0	22.6
Denmark			9.2		9.2	3.2	4.6	1.4	9.2
France			31.3		31.3	13.0	8.3	10.0	31.3
IBRD				2.6	2.6	0.7	0.9	1.0	2.6
IDA		53.2	60.1	18.2	131.5	80.0	29.2	22.3	131.5
IDA/IFAD			0.6	0.3	0.9	0.9	-	-	0.9
IDB			21.1			17.0	4.1	-	21.1
IFAD			8.2			3.4	2.0	2.8	8.2
Japan			20.6		20.6	9.8	10.8	-	20.6
Kuwait Fund			21.5		21.5	0.2	1.3	20.0	21.5
OPEC				0.4	0.4	0.2	0.1	0.1	0.4
OPEC Fund				0.3	0.3	0.1	0.1	0.1	0.3
Saudi Fund			25.7		25.7	2.0	2.7	21.0	25.7
United States	11.0				11.0	11.0	-	-	11.0
Grants	31.1	70.4	606.0	89.2	796.7	402.3	226.5	167.9	796.7
Australia	0.3				0.3	0.3	-	-	0.3
Belgium			7.5		7.5	1.0	3.0	3.5	7.5
Canada/UNDP				1.1	1.1	0.4	0.3	0.4	1.1
EEC	2.7	3.5	35.9	4.2	46.3	9.8	14.2	22.3	46.3
Finland			15.4	6.0	21.4	8.7	6.3	6.4	21.4
France				0.6	0.6	0.3	0.3	-	0.6
Fed.Rep.Germany		9.0	85.7	4.6	99.3	36.8	29.8	32.7	99.3
Italian emergency programme		4.9	216.5		221.4	165.0	51.4	5.0	221.4
Italy	5.0	22.0	179.3	19.2	225.5	73.2	84.7	67.6	225.5
Sweden				1.0	1.0	0.4	0.3	0.3	1.0
United Kingdom			1.7	0.2	1.9	1.9	-	-	1.9
United States	12.0	31.0	49.4	29.5	121.9	77.1	24.8	20.0	121.9
				0.9	0.9	0.3	0.3	0.3	0.9

Table A-3 (continued)

	Food aid	Other commodity aid	PIP before slippage	Technical assistance	Total	Annual breakdown of totals 1987	1988	1989	Total
UNDP			2.0	5.8	7.8	3.2	2.5	2.1	7.8
UNDP/IDA				0.1	0.1	-	0.1	-	0.1
UNFPA			0.1	1.8	1.9	0.7	0.7	0.5	1.9
UNICEF			0.7	0.8	1.5	1.3	0.1	0.1	1.5
UNIDO				1.5	1.5	0.5	0.5	0.5	1.5
UNSO			4.6		4.6	3.7	0.5	0.4	4.6
FAO				1.1	1.1	0.7	0.3	0.1	1.1
WFP	11.4		3.3		14.7	13.6	1.1	-	14.7
WHO			3.6	5.8	9.4	2.5	3.2	3.7	9.4
WHO/UNICEF				0.1	0.1	0.1	-	-	0.1
Arab Labour Organization				3.6	3.6	0.4	1.7	1.5	3.6
BOCO			0.1		0.1	0.1	-	-	0.1
CAA			0.2		0.2	0.2	-	-	0.2
ICIPE				0.6	0.6	0.2	0.2	0.2	0.6
Oxfam				0.3	0.3	0.1	0.1	0.1	0.3
SCF				0.4	0.4	0.1	0.1	0.2	0.4
Swedish relief			0.1		0.1	0.1	-	-	0.1
Voluntary agencies				0.1	0.1	0.1	-	-	0.1
To be funded	111.6	226.4	222.1	70.4	630.5	7.6	292.4	330.5	630.5
Total	153.7	350.0	1088.5	181.4	1773.6	565.0	605.1	603.5	1773.6
Core PIP slippage			325.9		325.9	127.6	109.1	89.2	325.9
Net disbursements	153.7	350.0	762.6	181.4	1447.7	437.4	496.0	514.3	1447.7

Source: Ministry of National Planning.

Table A-4: Installed capacity, domestic needs and industrial production, selected industrial enterprises, 1979-1986

Industry	Products	Installed technical capacity (per year and one shift)	Domestic needs (per year)	Unit	Production 1979	1980	1981	1982	1983	1984	1985	1986
1. Food manufacturing												
1.1 Juba Sugar Complex	Sugar molasses	67,000 tonnes	67,000	Tonnes '000		7.9	14.8	24.6	28.1	26.9	39.1	27.0
1.2 SNAI Sugar Jowhar	Sugar	40,000 tonnes	67,000	Tonnes '000	21.4	21.8	11.8	11.9	2.8	0.68	2.7	3.3
	Alcohol			Hl							1100	1230
1.3 Oil Mill, Mogadishu	Edible oil	Crushing: 140 T/day Refinery: 3 T/day	45,000	Tonnes	190	40	90	396	256	0	0	0
1.4 Wheat, Flour and Pasta, Mogadishu	Pasta and Macaroni	16,280 tonnes		Tonnes '000	5.73	7.62	5.87	2.1	8.8	12.6	9.12	10.0
1.5 Somali Marine Products	Fish	2,000		Tonnes							400	
1.6 Meat Factory Kismayo	Canned meat	5,000 tonnes		Tonnes				150	97			350
1.7 ITOP Fruit and vegetable processing, Afgoi	Canned fruit and vegetable	Tomatoes: 54,000 tonnes Mangoes: 10,800 tonnes		Tonnes	1013	534	439	316	85	122	255	350

Table A-4: (continued)

Industry	Products	Installed technical capacity (per year and one shift)	Domestic needs (per year)	Unit	Production 1979	1980	1981	1982	1983	1984	1985	1986
1.8 Milk Plant Mogadishu	Processed milk and cheese	6 million litres	56 million litres	million litres	2.7	1.2	1.3	1.1	0.4	0	0	1.0
2. Beverage industries												
2.1 National Bottling Company	Coca Cola, Fanta, Sprite, Soda	1 million cases of 24 bottles		'000 cases of 24 bottles	932	689	459	660	553	455	160	130
3. Tobacco												
3.1 Cigarette and Match Factory Mogadishu	Cigarettes Matches	Cigarettes: 1,000 tonnes Matches: 480 tonnes		Tonnes	264	416	421	511	352	270	259	300.8
4. Textiles												
4.1 Somaltex Balad	Cloth	22.5 million yards	38 million yards	Million yards	9.5	13.3	10.1	10.7	6.8	5.2	3.5	5.5
5. Leather												
5.1 Tannery Km 7 Mogadishu	Tanned leather shoes	450,000 skins 90,000 hides 120,000 pairs of shoes and sandals	900,000 pairs of shoes and sandals	Pieces '000					3 43 44	 26.1 40	7.6 43.3 24.2	14.5 56.6 12.5

Table A-4: (continued)

Industry	Products	Installed technical capacity (per year and one shift)	Domestic needs (per year)	Unit	Production 1979	1980	1981	1982	1983	1984	1985	1986
5.2 Tannery Kismayo	Cattle hides, sole leather	360,000 skins 90,000 hides		Pieces '000					22.7 18.3	12.0	- 9.4	2 21.0
6. Paper products												
6.1 Incas Packing Jamame	Cardboard boxes Polyethylene bags	18 million pieces 16.8 million pieces		Pieces million Pieces million	-	-	-	-	-	3.8 4.2	4.25 7.75	6.0 8.68
7. Chemicals												
7.1 Somali Chemical Industry	Detergent Toilet and laundry soap	Chemical: 6,500 tonnes Soaps: 2,000 tonnes		Tonnes '000	3.01	2.97	2.13	1.86	1.1	1.3	0.41	0.39
7.2 Urea Plant	Urea	45,000 tonnes	15,000 tonnes	Tonnes '000	-	-	-	-	-	1.4	4.2	2.0
7.3 Pharmaceutical Industry	Antibiotics injections, medicines			Sale value million shillings	-	-	-	-	-	0		36.4
8. Petroleum products												
8.1 Petroleum Refinery	Petroleum products	460,000 tonnes	600,000 tonnes	Tonnes '000	-	231.3	263.5	220	202	143	168	126

Table A-4: (continued)

Industry	Products	Installed technical capacity (per year and one shift)	Domestic needs (per year)	Unit	Production 1979	1980	1981	1982	1983	1984	1985	1986
9. Cement and clay products												
9.1 Cement Plant Berbera	Cement	200,000 tonnes	200,000 tonnes	Tonnes '000	-	-	-	-	-	0	-	0
9.2 Asbestos Cement Plant, Berbera	Asbestos products	12,000 tonnes		Tonnes	-	-	-	-	-	15	-	
9.3 Gypsum Plant, Berbera	Crushed gypsum	60,000 tonnes		Tonnes '000	-	-	-	-	-	20		
10. Metal products												
10.1 Foundry and Mechanical Workshop, Mogadishu	Sanitary fittings and metal casting fabrication	610 tonnes		Tonnes	60	100	120	203	133	105	84	84
10.2 Aluminium Utensils Plant Mogadishu	Aluminium utensils	120 tonnes		Tonnes	16	25	29	54	29.8	41	9	7

Source: Ministry of National Planning.

Table A-5: Value of exports by major commodities,[a/] 1975-1985
(So.Sh. million, unless otherwise indicated)

Item	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985
Bananas	80.9	88.2	53.1	59.0	73.2	51.2	39.6	113.7	103.3	284.4	533.0
Live animals	358.7	301.8	299.5	570.4	474.1	639.5	1,001.9	1,516.9	1,122.1	514.4	2,604.0
Meat and meat products	59.3	37.1	32.1	0.7	7.3	6.5	2.6	0.3	2.7	-	-
Hides and skins	20.7	44.4	23.6	29.7	56.4	41.8	18.5	56.2	20.9	74.8	7.4
Fish and fish products	17.4	23.3	21.2	4.3	2.7	1.5	9.6	35.2	33.0	7.6	169.2
Myrrh	14.3	11.3	11.9	14.8	21.0	61.5	28.8	50.5	89.9	49.3	172.8
Oil	-	-	-	-	-	61.0	-	58.8	42.7	89.6	63.0
Other	6.3	4.1	7.7	10.2	32.7	15.4	2.9	4.7	8.4	76.1	26.5
Total	557.6	510.2	449.1	689.1	667.4	878.4	1,103.9	1,836.3	1,423.0	1,096.2	3,575.9
(US$ million)	88.6	81.0	71.3	109.5	106.0	134.2	114.0	136.9	100.7	62.0	92.5

Source: Central Bank of Somalia.

a/ Based on foreign exchange record.

Table A-6: Import composition estimates, 1985-1991
($ million)

Imports	1985	1986	1987	1988	1989	1990	1991
Food	68	54	52	50	48	46	44
Petroleum	79	42	48	55	62	71	85
Agricultural inputs	8	12	20	19	19	19	18
Raw materials	10	16	27	26	26	26	24
Chemicals and pharmaceuticals	6	9	15	14	15	14	13
Construction materials	17	7	11	11	11	11	10
Farm machinery	5	8	13	13	13	13	12
Transport equipment	15	12	20	19	19	19	18
Other machinery and equipment	14	20	33	32	32	32	30
Consumer goods and other	12	19	28	30	30	30	28
Public investment programme	158	160	245	227	223	203	159
Total	392	359	512	496	498	484	441

Source: Five-Year Development Plan, 1987-1991.

Table A-7: Loan operation of Somali Development Bank, 1969-1986
(So.Sh. '000)

Sector	1969-1983		1984		1985		1986		Up to 1986	
	No.	Amount	No.	Amount	No.	Amount	No.	Amount	No.	Amount
Industry	268	299,838	26	110,484	27	306,847	14	75,646	335	792,815
Agriculture	1,425	134,964	142	54,173	158	234,340	192	194,123	1,917	617,600
Livestock	42	8,614	9	12,015	4	5,000	2	5,615	57	31,244
Fisheries	50	6,400	3	5,960	6	50,000	4	4,854	63	67,214
Transport	37	29,025	-	-	2	36,000	-	-	39	65,025
Water development	6	10,517	-	-	-	-	-	-	6	10,517
Construction and housing	4	5,611	-	-	-	-	-	-	4	5,611
Tourism	4	10,201	1	500	1	1,500	-	-	6	12,201
Mining	-	-	2	8,000	2	20,000	-	-	5	28,950
Others	51	12,706	3	1,300	4	6,000	1	1,500	59	21,506
Subtotal	1887	517,876	186	192,432	205	660,432	213	281,738	2,491	1,652,683
Ujahaynta[a/]							5	204,000	5	204,000
Total	1,887	571,876	186	192,432	205	660,432	218	484,738	2,496	1,856,683

Source: Somali Development Bank.

a/ SDB is the executing agency of a government-sponsored resettlement programme called Ujahaynta.

Table A-8: Total loans approved by SDB by region, 1986
(So.Sh. '000)

Region	Agriculture	Industry	Services	Total
Benadir	-	56,271	1,500	57,771
Middle Jubba	5,605	-	-	5,605
Lower Jubba	15,076	1,876	-	16,952
Geddo	8,088	-	-	8,088
Hiran	505	--	--	505
Eastern	2,456	-	-	2,456
Northern	21,054	16,000	--	37,054
Awdal	1,813	-	-	1,813
Sanaag	2,429	-	-	2,429
Togdher	3,367	1,500	--	4,867
Middle Shabelle	36,864	-	-	36,864
Lower Shabelle	107,334	-	-	107,334
Total	204,501	75,647	1,500	281,738

Source: Somali Development Bank.

ANNEX B

INDUSTRIAL INVESTMENT OPPORTUNITIES

Annex B - Industrial Investment Opportunities

Serial No.	Item	Estimated investment US $ (000)	Description	Approximate Output
	FOOD			
1.	Salt manufacture and packing	500	A large quantity of refined table salt is imported at present. Raw material is there and a low technology plant can supply the internal market.	
2.	Small scale sugar plants (Khandsari sugar)	25	Present production of sugar in Somalia covers only about 20% of the internal demand which can be placed at 120,000 tonnes in 1985. Sugarcane supply is at the moment very limited so there is need to put new areas under cultivation and instal Khandsari sugar factories at village level.	2 tonnes day
3.	Oil Milling Plant		There is room for private people to invest in this sector. The plant can process different kinds of seed such as sesame, peanut, cotton, sunflower which are all available in the Country. The resulting oil cake can also be used effectively as feed and fertilizer.	6 tonn d
4.	Packaging of food items, gums and cardamons	1,000	Packaging of peanuts, salt, pepper, gums, etc. offers a good opportunity. At present, these items are sold in open sacks. In packaged form, these could be exported or consumed in the local market.	
5.	Fruit juice making plant	270	This plant has great potential demand in the Country. All over the world, this industry is prospering, using indigenous raw material. Mango and grapefruit juice are very much in demand. However, ITOP Afgoi should first be revived with private sector participation.	8 tonn d
6.	Alcohol from molasses	2,000	Molasses is produced as a by-product at Juba and SNAI sugar factories. Private entrepreneurs can set up alcohol production.	

Annex B (continued)

r- l .	Item	Estimated investment US $ (000)	Description	Approxi-mate output
	TEXTILES			
	Hosiery & knitted fabrics	300	In 1985 imports were over 20 tonnes. Somaltex has 52.5 tonnes/yr manufacturing capacity but cannot meet the full demands of the country for the civil and military population. The plant will make socks and under garments. Part of the yarn will be supplied by Somaltex and the balance will be imported.	
	Paper & Paper Board			
	Waste paper recycling plant	1,300	Packing board is imported by INCAS Jamama for making corrugated containers used for export of fruit and packing of local industrial goods. Waste paper is available in the country for a 5-10 T/day recycling plant.	10,000 tons day
	Particle Board	2,000	Particle board can be manufactured using bagasse from the sugar mills. At present, bagasse is burned in the sugar mills. Particle board is used in the building and furniture industries. Formaldehyde glue will have to be imported.	
.	Printing & Notebooks	100 to 1,000	There is an urgent need to print books, publications, copybooks, etc. in the country. The State Printing Agency seems to be overloaded. The investment is variable according to the sophistication of the technology, quality and output.	
	PLASTICS			
	Rigid PVC Pipe making Plant	2,500	In the near future, this technology will be in great demand in the Country especially for modern irrigation systems and water supply.	30 tons/ month
	GLASS, POTTERY & MINERALS			
.	Tableware production Plant	400	Investigations have confirmed that raw materials are available in the Country. Technology is available from Europe	300 tons/ year

Annex B (continued)

Serial No.	Item	Estimated investment US $ (000)	Description	Approximate output
13.	Glass bottles & glassware production	4,000	Market and raw material resources for a glass production unit have been identified and established. Present internal demand is around 4,500 tonnes/year. Recorded yearly import is about 700 tonnes.	10,000 t yea
14.	Brick making Plant	400	Raw material (clay) is available in the Country. The final product to be used as building material is in great demand.	
15.	Concrete block making Plant	450	The principal raw materials such as cement and aggregates are available in the Country. The blocks are used as building material (walls for houses). Technology is very simple. A concrete block manufacturing plant should be built on a site near the area of consumption, where it is easy to obtain the required raw materials.	
16.	Cement pipe Plant	500	Raw material is available in the Country from the Berbera Cement Plant. Demand will increase in the near future for waterworks, sewerage works and house construction. It is the right time to establish reinforced spun-pipe plant.	
	IRON & STEEL			
17.	Bolts, screws, nuts, hinges and hardware for housing	300	Demand seems to be very high and the technology used seems to be appropriate for this Country. Raw material such as coil drawn round wire, flat wire and hexagonal bars must be imported.	8 mil piec
18.	Light engineering workshop	200	There is great demand in the Country for a workshop in the private sector to fabricate steel, carry out repairs and service other industries.	
	MISCELLANEOUS			
19.	Mosquito coil making plant	35	Raw material is phyrithrum (available in Somalia) in which the effective component for killing mosquitos is pyrithrine. It is also effective against insects, flies, etc. The estimated investment refers to plant of 3 million spirals per month capacity.	

Annex B (continued)

Serial No.	Item	Estimated investment US $ (000)	Description	Approximate output
20.	Feed Mill	250	Somalia is a livestock-exporting Country. It is necessary to provide animal nutrition, especially during the dry seasons, to maintain healthy animals. A feed mill processing currently available raw materials like molasses, rice bran, sesame, seed cake, cotton seed cake, will find a good market for its products.	
21.	Fish meal making plant	150	Somalia has huge potential in fisheries. Private and public investments will strengthen this sector in the near future. A fairly large portion of fish, such as bones, internal organs, heads, tails, etc. is cast away without being utilized as food. This portion could be utilized to manufacture fish meal for poultry farming, as well as for cattle breeding because of its high protein content. The factory could be located in the vicinity of a fish processing plant.	
22.	Bone meal making plant		Similar to item 10, using animal bones. In fact, crushed bones collected from slaughter houses and from skeletons scattered in the countryside can be exported to earn foreign exchange.	

Annex B (continued)

Additional industrial opportunities

Serial No.	Industrial opportunities
1.	Bakery for bread, biscuits, etc.
2.	Chocolate and Sweets
3.	Leather Tanning
4.	Shoes, footwear, leather goods, belts
5.	Carbon paper
6.	Abrasives, sand paper
7.	Formulation of disinfectants, insecticides, pesticides, fungicides, herbicides and fumigants.
8.	Fertilizer formulation
9.	Paints, varnishes, polishes
10.	Inks
11.	Perfumes, essences
12.	Caustic soda and chlorine
13.	Steel water supply and sanitary fittings
14.	Pins, clips, clamps
15.	Agricultural implements
16.	Water pumps
17.	Electric fans, cooking stoves
18.	Cast iron foundry
19.	Cutlery, knives, spoons, forks
20.	Wire and wire products
21.	Brass sanitary fittings
22.	Locks and padlocks
23.	Electric fans assembly plant
24.	Accumulators
25.	Stamp pads
26.	Pencil sharpeners
27.	Pencil making plant
28.	Gum processing plant
29.	Dry cells and batteries
30.	Extruding mild steel bars utilizing scrap
31.	Cold storage combined with ice manufacture
32.	Light engineering workshop for general purposes
33.	Body building of buses, trucks and rickshaws
34.	Industrial estate for private sector (to be organized by the Covernment)

Annex B (continued)

Cottage level industries investment opportunities

Serial No.	Industrial opportunities
1.	Jams and squashes
2.	Bee keeping
3.	Co-operative milk societies
4.	Grinding cereals with light diesel driven engine
5.	Bread making
6.	Coconut and coir products
7.	Rope and twine
8.	Leather boxes for travel
9.	Livestock harnesses
10.	Mats using tree fibres
11.	Furniture
12.	Weaving fabrics and cloth
13.	Dyeing and stamping
14.	Garment tailoring
15.	Shoes
16.	Plaster of Paris souvenirs
17.	Steel boxes
18.	Small machine repair shops
19.	Children's toys
20.	Umbrellas
21.	Brushes
22.	Donkey carts
23.	Camel carts
24.	Embroidery and knitting co-operatives
25.	Sea-shell arrangement as tourist souvenirs
26.	East African indigenous art wood carvings
27.	Bone collecting and crushing
28.	Soap
29.	Artificial jewelry
30.	Musical instruments
31.	Sports goods, footballs

Source: Ministry of National Planning.

ANNEX C

FOREIGN INVESTMENT LAW, 1987

Annex C - Foreign Investment Law, 1987

ARTICLE 1 Foreign Investor

Under this law a foreign investor is any foreign juridical or physical person.

ARTICLE 2- Forms of Foreign Investment

Foreign investment can be made in any of the following forms:

1- Convertible currency specified by the Central Bank of Somalia and duly transferred to Somalia.

2- Machinery, equipment, spare parts, installations and current production inputs, whose importation is permitted under the prevailing import legislation.

3- Patent rights, trade marks and licenses duly registered in Somalia, provided they are necessary for the activities to be pursued under the approved investment.

4- The amount of foreign currency spent on studies and technical documentation, prepared in connection with the approved investment.

5- Profit reinvested, originating from foreign investment approved in accordance with this law.

Said investment shall be made for the purpose of the establishment or the expansion of an enterprise incorporated and registered in Somalia.

ARTICLE 3- The Foreign Investment Board

1- The Foreign Investment Board, hereafter referred to as The Board shall have the supreme decision making authority over all matters concerning foreign investment in Somalia. It shall be established at the Ministry of National Planning where it shall convene at least twice a month.

2- The board shall consist of:

   1- The Permanent Secretary of the Ministry of National Planning.
   2- The Permanent Secretary of the Ministry of Foreign Affairs.
   3- The Permanent Secretary of the Ministry of Finance.
   4- The Permanent Secretary of the Ministry of Industry.
   5- The Permanent Secretary of the Ministry of Commerce.
   6- The Permanent Secretary of the Ministry of Revenue.
   7- The Permanent Secretary of the Ministry of Labour and Sports.
   8- The Permanent Secretary of the Ministry under whose sectoral responsibility the respective foreign investment comes, with the exception of the Ministries mentioned above.
   9- The Director General of the Central Bank.
   10- The Chairman of the Chamber of Commerce, Industry and Agriculture.

The Chairman of the Board shall be the Permanent Secretary of the Ministry of National Planning.

Annex C (continued)

ARTICLE 4- Functions of the Board

The functions of the Board shall be the following:

1- To approve proposed foreign investment in accordance with the policy guidelines laid down in Article 7 of this law;

2- To approve the registration of foreign investment;

3- To review the registration of foreign investment made under previous foreign investment legislation in order that such investment may benefit from the more favourable provisions, as per Article 20 of this law;

4- To determine the value of foreign investment made as per Article 2, paragraphs 2, 3, and 4 of this law;

5- To ensure compliance with the provisions of Article 16 concerning the contracting of debt from domestic sources;

6- To facilitate the granting of visas to foreign personnel to be employed by enterprises registered under this law;

7- To perform any other function concerning foreign investment in conformity with this law.

ARTICLE 5- The Board: Quorum and Vote

Seven members of The Board, including the Chairman, shall constitute a quorum. Decisions will be made by simple majority vote.

ARTICLE 6- The Foreign Investment Promotion Office

The Foreign Investment Promotion Office, hereafter referred to as "The Office", shall be the administrative and promotional office responsible for assisting The Board in the performance of its functions. The duties of The Office shall be the following:

1- To implement the decisions taken by the Board;

2- To propose the administrative and regulatory procedures required for the implementation of this law.

3- To provide information and advice to the foreign investor on matters such as: application and registration procedures under this law; taxation; foreign exchange regime; economic legislation; foreign trade regime; investment opportunities; institutional framework; local sources of debt financing; partner search;

4- To assist the foreign investor in meeting the application requiremens related to foreign investment;

5- To assist approved foreign investment, at the incorporation and development stages, with guidance and advice, concerning official institutions and channels and related administrative procedures;

6- To formulate proposals concerning foreign investment policy and the improvement of investment conditions;

7- To promote and attract new foreign investment in collaboration with other institutions involved in this field.

8- To perform any other duty related to foreign investment, assigned to it by The Board.

Annex C (continued)

ARTICLE 7- Investment Priorities and Sectors

Priority shall be given to foreign investment in those areas where it:

a] puts Somalia's human and natural resources to productive use;

b] introduces innovative technology suited to the country's conditions;

c] generates new earnings or savings of foreign exchange through exports, resource-based import substitution or service activities;

d] contributes to regionally balanced socio-economic development;

This refers particularly to foreign investment in or closely related to:

I] agriculture;
II] livestock;
III] fishing;
IV] mineral resources;
V] industrial activities using significant amounts of inputs produced by the afore-mentioned sectors;
VI] tourism, provided the investment harmonizes with the prevailing social, economic and infrastructural conditions;
VII] any other investment in production and service activities appropriate to support and stimulate, to a significant degree, the development of the aforementioned sectors.

ARTICLE 8- Procedures for Application

1- The application by the foreign investor shall be made by completing the form "Application Form for Approval and Registration", available at The Office located in the Ministry of National Planning, and mailing it by registered letter to "The Foreign Investment Board" c/o Ministry of National Planning, Mogadishu, Somalia.

2- Alternatively, the foreign investor may deliver the application directly to The Office which will issue a delivery receipt.

3- The Office shall review the application, at the applicant's request, for completeness and certify its satisfaction in respect of this requirement.

ARTICLE 9- Conditions and Procedures of Approval

1- Within sixty (60) days from the date of the receipt of a duly completed investment application, The Board shall notify the applicant by registered mail of its decision. At the applicant's option, this notification may be collected by his representative directly from The Office against issue of a delivery receipt.

2- In case a modification of an application is required, The Board shall notify the applicant to this effect by registered letter. At the applicant's option, this notification may be collected by his representative directly from The Office, against issue of a delivery receipt.

3- The Board shall notify, through The Office, the approval of a foreign investment by issuing a "Certificate of Foreign Investment in an Approved Enterprise." Such approval shall be construed by the foreign investor as conferring eligibility for registration under this law.

4- The Certificate of Foreign Investment in an Approved Enterprise shall be valid for the period of eighteen (18) months of the date of issue. During said period, the applicant shall effect the transfer of assets to Somalia listed in Article 2, paragraphs 1, 2, 3 and 4. In case this period is exceeded, The Board may grant, at the applicant's request, an additional period or ask for a new application.

Annex C (continued)

5- Additional investment to be made as per Article 2, paragraphs 1, 2, 3 and 4, in an enterprise that is the object of a foreign investment already duly registered, shall require application and approval as per Article 8 and paragraphs 1, 2, 3 and 4 of this Article.

ARTICLE 10- Procedures for Registration

1- The board shall proceed with the registration of an approved investment as soon as the foreign investor has effected the transfer of assets to Somalia listed in Article 2 paragraphs 1, 2, 3 and 4, in accordance with the terms and conditions contained in the "Certificate of Foreign Investment in an Approved Enterprise". To this effect, The Board shall issue to the foreign investor a "Certificate of Foreign Investment Registered".

2- In the case of a transfer of assets listed under paragraphs 2, 3 and 4 of Article 2, The Board shall proceed with said registration as soon as it is satisfied that the value assigned by the foreign investor to the assets transferred, represents fair market value. The Board may ask the foreign investor to produce sufficient documentary evidence to demonstrate the fair market value of the assets transferred. In case of a transfer of assets as per paragraph 2 of Article 2, this value shall be determined in accordance with the prevailing import legislation.

3- The foreign investment shall be registered in convertible currency, as specified by the Central Bank of Somalia.

ARTICLE II- Reinvestment of Profit

1- Profit shall be understood as "net income" less income taxes payable, as applicable, in accordance with the prevailing legislation.

2- Profit originating from a duly registered foreign investment may be reinvested in the same enterprise that is the object of the investment, or in another enterprise in accordance with the provisions of this law.

3- When such profit is to be reinvested, The Board shall be notified to this effect by registered mail or directly, against issue of delivery receipt.

4- The Board shall proceed to register profit invested in the convertible currency specified in the "Certificate of Foreign Investment Registered". The amount shall be determined in accordance with the prevailing laws and regulations governing foreign exchange.

5- To this effect, The Board shall issue a "Certificate of Reinvestment".

6- Subsequent rights to transfer profit and repatriate investment, as well as other benefits under this law, shall be determined on the basis of the original registered investment plus profit reinvested.

7- In the case of the reinvestment of profit in an enterprise, other than the enterprise that is the object of a duly registered foreign investment, the provisions of Article 8 and 9 of this law shall apply.

ARTICLE 12- Transfer of Profit

1- Profit originating from a duly registered foreign investment, as per paragraph 1 of Article 11, may be freely transferred abroad.

2- In the case that only part of such profit is transferred abroad in one year, the foreign investor may transfer the remaining portion in any one of the following years.

Annex C (continued)

ARTICLE 13- Repatriation of Foreign Investment

1- Duly registered foreign investment, defined as the original investment plus profit reinvested, shall be freely transferable abroad after five years from the date of the registration of the original investment, as specified in the "Certificate of Foreign Investment Registered".

2- The Board may reduce the said period, taking into consideration the priorities under the policy guidelines as per Article 7 of this law.

3- The transfer abroad shall be effected in the original currency specified in the"Certificate of Foreign Investment Registered". The funds destined for transfer shall originate from the liquidation of assets or the transfer of capital stock of the enterprise that is the object of the foreign investment, to other juridical or physical persons. The foreign investor is free to transfer abroad the physical assets that were the object of the investment in the event this alternative is opted for.

4- In cases where the amount realized from the liquidation or sale of capital stock exceeds the amount of the original investment plus registered reinvested profit, the foreign investor shall be free to transfer abroad the difference, in accordance with the prevailing tax legislation and foreign exchange regulations.

ARTICLE 14- Alienation of Foreign Investment and Notification Requirements

1- Alienation of foreign investment shall be effected either through the liquidation of assets, or through the transfer of capital stock of the enterprise that is the object of such investment, to juridical or physical persons

2- In the event of alienation of a foreign investment to a resident, Somali juridical or physical person, the transferee shall cease to enjoy the benefits derived from the status of a foreign investor.

3- Any alienation is subject to prior notification to the Board by both the transferor and the transferee. Such notification shall be accompanied by appropriate supporting documentation.

4- The alienation of a foreign investment to other foreign investors shall not require approval, as per Article 9 of this law, but only notification, as per paragraph 3 of this Article.

ARTICLE 15- Investment Incentives

Foreign investment shall be eligible for incentives and facilities, in accordance with the legislation in force governing such incentives and facilities.

ARTICLE 16- Limits to Contracting Debt from Domestic Sources

1-Any enterprise that is the object of a duly registered foreign investment may contract debt from institutional domestic financial sources up to the limit established by the Central Bank of Somalia, in consultation with The Board.

2- The proceeds from such debt contracted from domestic sources shall be used strictly for the carrying out of the activities specified in the "Certificate of Foreign Investment Registered". The Board shall be authorized to verify the due application of the proceeds.

Annex C (continued)

ARTICLE 17- Facilities for Foreign Personnel

1- The Board shall ensure that the immigration authorities facilitate the granting of the entry permits and residence visas to foreign personnel employed by an enterprise registered under this law, and to their families.

2- The Board shall also ensure that said personnel and their families be granted access, for reasons of work, to any part of Somalia.

3- Said personnel may freely transfer abroad up to fifty per cent of their salaries, wages, gratuities and allowances paid in Somalia by the enterprise employing them.

4- Any enterprise registered under this law shall employ qualified Somali nationals whenever they are available. Foreign investment shall seek to make a significant contribution towards the transfer of technology and managerial know-how,and the upgrading of professional skills available in Somalia.

ARTICLE 18- Guarantees for Foreign Investment

1- All enterprises that are the object of foreign investment shall receive treatment as favourable as that accorded to domestic enterprises.

2- The property of foreign investment, duly registered under this law, shall not be subject to expropriation measures, except in the case where public interest cannot be satisfied by measures other than expropriation.

3- In the case of such expropriation, prompt compensation shall be paid. Said compensation shall reflect the fair market value of the assets, as a going concern, and shall be freely transferable.

ARTICLE 19- Settlement of Disputes

1- Disputes in respect of the implementation of this law shall be settled:-

a) In a manner to be agreed upon with the investor; or in the absence of such agreement;

b) within the framework of the agreements in force between the Somali Democratic Republic and the investor's home country,

or, in the absence of (a) and (b),

c) within the framework of the Convention for the Settlement of Investment Disputes between the State and the Nationals of Other Countries, to which Somalia has adhered by virtue of Law No. 11 of 1967, when such convention applies.

2- In the absence of agreements or convention as per paragraph 1 of this Article, disputes shall be settled through arbitration. An arbitration board shall be established, comprising one member on behalf of each disputing party and a third member acting as a chairman, to be jointly named by the said two members. In the case that the disputing parties fail to agree on the nomination of the chairman within 30 days of the date of the nomination of the second member, the chairman shall be appointed by the President of the Supreme Court of Somalia. The Arbitration Board shall lay down its rules of procedure unrestricted by the rules contained in the civil and commercial code of procedures, stipulates rules which relate to the basis of guarantees and principles of litigation. The Board shall see to it that the disputes be expediently resolved. Awards shall be rendered by majority vote, and shall be final and binding on both parties and enforceable as any other final judgement. The Arbitration Board shall decide who shall bear the arbitration costs.

Annex C (continued)

ARTICLE 20- Benefits to Existing Foreign Investment

1- Existing foreign investment in Somalia, duly registered under current or previous laws concerning foreign investment, shall continue to enjoy the rights and obligations conferred to it by said laws.

2- Such foreign investment shall be entitled to benefit, at the foreign investor's option, from the provisions of this new law, provided the registration requirements and other provisions of the previous laws have been complied with, and satisfactory documentary evidence is produced to this effect by the foreign investor. In such case, the foreign investor may apply to The Board for registration under this law within hundred eighty (180) days as of the date of its promulgation.

ARTICLE 21- Foreign Investment not Subject to this Law

The provisions of this law shall not apply to foreign investment in mineral research and mining activities, including those related to the petroleum industry and nuclear power. Such investment shall be subject to the Mining Code and the Mining Regulations, and of agreements reached, hereunder, between the Government of Somalia and the interested party.

ARTICLE 22- Obligations to Report Transactions Concerning Foreign Investment

Banks, public notaries and entities involved with foreign investment shall notify the Board of the particulars of any important pertinent acts and transactions within thirty (30) days from the date of completion of such acts or transactions. This refers, inter alia, to acts or transactions concerning incorporation, contracting of debt from institutional domestic financial sources, transfer of profit and repatriation of investment.

ARTICLE 23- Non-compliance with the Provisions of this Law

Failure to comply with the provisions of the law, on the part of the foreign investor, shall result in the forfeiture of benefits provided hereunder.

ARTICLE 24- Enjoyment of Benefits under Subsequent More Favourable Provisions

No provisions of this law shall preclude the enjoyment by the foreign investor of benefits under more favourable provisions which might be subsequently promulgated.

ARTICLE 25- Regulations

The President of the Somali Democratic Republic at the proposal of the Board, and having heard the Minister of National Planning and the Council of Ministers, may issue regulations for the proper implementation of this law.

ARTICLE 26- Repeal

Any law incompatible with the provisions of this law is hereby repealed.

ARTICLE 27- Entry into Force

This law shall come into force as of the date of its publication in the Official Bulletin of the Somali Democratic Republic.

Source: Government of Somalia.

ANNEX D

THE COMPLETED, OPERATIONAL AND/OR APPROVED TECHNICAL CO-OPERATION PROJECTS OF UNIDO

Annex D - The completed, operational and/or approved technical co-operation projects of UNIDO

I. The completed projects

SOMALI Democratic Republic

(1)

since 1972

Backstopping Responsibility	Spec.Act./ All.Acc.Code	Project Number	Project Title
IO/IIS/INFR	31.4.00	DP/SOM/72/006	Small-scale industries development in the Ministry of Industry
IO/IIS/INFR	31.4.00	SM/SOM/72/006	Small-industry adviser
IO/IIS/IMR	31.3.00	DP/SOM/68/021	Industrial development
IO/IIS/IMR	31.4.B	DP/SOM/72/007	Strengthening of the Ministry of Industry (continued under DP/SOM/81/013)
IO/IIS/IMR	J12206	DP/SOM/81/013	Assistance to the Ministry of Industry in improving the performance of industrial enterprises (continuation of DP/SOM/72/007)
IO/IIS/IMR	J12206	TF/SOM/80/001	Associate expert visit (multifund to DP/SOM/81/013)
IO/IIS/IMR	31.4.B	RP/SOM/82/002	Assistance to 'SOMALTEX'
IO/IIS/IMR	31.4.B	RP/SOM/83/001	Assistance to SOMALTEX (continued under RP/SOM/84/001)
IO/IIS/IMR	31.4.B	RP/SOM/84/001	Assistance to SOMALTEX (continuation of RP/SOM/83/001)
IO/IIS/IMR	31.4.B	RP/SOM/85/001	Assistance in the maintenance of industrial equipment (continued under XP/SOM/86/001)
IO/IIS/IMR	J12206	XP/SOM/86/001	Assistance in the maintenance of industrial equipment (ex RP/SOM/85/001)
IO/IIS/IMR	31.4.B	SI/SOM/78/802	Assistance in industrial management
IO/IIS/IMR	31.4.B	SI/SOM/83/801	Assistance in industrial legislation
IO/IIS/IMR	J12206	SI/SOM/85/801	Assistance in rehabilitation and improvement of industrial productivity
IO/IIS/IMR	J12206	UC/SOM/85/169	Assistance in industrial legislation (multifund to US/SOM/85/169)
IO/IIS/IMR	J12206	US/SOM/85/169	Assistance in industrial legislation (multifund to UC/SOM/85/169)

Annex D (continued)

SOMALI Democratic Republic
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since 1972

Backstopping Responsibility	Spec.Act./ All.Acc.Code	Project Number	Project Title
IO/IIS/IMR	J12208	DP/SOM/86/016	Preparatory assistance to establishment of industrial consultancy unit project
IO/IIS/PLAN	00.0	TS/SOM/72/003	Exploratory mission on industrial surveys
IO/IIS/PLAN	32.4.01	SM/SOM/72/004	Industrial survey
IO/IIS/PLAN	31.2.B	RP/SOM/76/007	Strengthening the Ministry of Industry, industrial economist
IO/IIS/PLAN	31.2.D	RP/SOM/78/006	Assistance to SNAI sugar plant at Jowhar
IO/IIS/PLAN	31.2.D	SI/SOM/77/801	Short-term consultants
IO/IIS/PLAN	31.2.D	SI/SOM/78/801	Short-term consultants
IO/IIS/PLAN	32.2.01	TS/SOM/71/002	Re-organization of development bank operations
IO/T/AGRO	30.6.00	RP/SOM/73/001	Food industries
IO/T/AGRO	31.7.C	SI/SOM/79/804	Assistance to the SNAI sugar plant at Jowhar
IO/T/AGRO	31.7.C	TF/SOM/77/001	The setting-up of a model agro-industrial complex consisting of a vegetable oil factory for the production of edible oil cakes combined with an animal feed production plant, phase I
IO/T/AGRO	31.7.D	RP/SOM/77/002	Shoe design
IO/T/AGRO	31.7.D	SI/SOM/79/801	Leather and leather products development
IO/T/AGRO	31.7.D	UC/SOM/81/203	Leather industry consultant
IO/T/AGRO	J13104	BR/SOM/86/001	Sectoral study on hides, skins, leather and leather products trade and industry
IO/T/MET	00.0	TS/SOM/72/001	Establishment of a mechanical workshop and foundry

Annex D (continued)

SOMALI Democratic Republic
(3)
since 1972

Backstopping Responsibility	Spec.Act./ All.Acc.Code	Project Number	Project Title
IO/T/MET	30.2.04	RP/SOM/74/002	Foundry and mechanical workshop tour
IO/T/MET	J13209	DP/SOM/73/004	Foundry and mechanical workshop (RP/SOM/84/002 and RP/SOM/84/005 also refer)
IO/T/MET	J13209	DC/SOM/84/008	Assistance to the foundry and mechanical workshop (FMW), Mogadiscio - project manager (multifund to DP/SOM/84/008; related to DP/SOM/73/004, RP/SOM/84/002 and RP/SOM/85/601)
IO/T/MET	J13209	DP/SOM/84/008	Assistance to the foundry and mechanical workshop (FMW), Mogadiscio - project manager (multifund to DC/SOM/84/008; related to DP/SOM/73/004, RP/SOM/84/002 and RP/SOM/85/605)
IO/T/MET	31.8.D	RP/SOM/82/001	Rehabilitation of equipment and upgrading of the efficiency of the Foundry and Mechanical Workshop (F.M.W.) (continued under RP/SOM/84/002)
IO/T/MET	J13209	RP/SOM/84/002	Rehabilitation of equipment and upgrading of the efficiency of the foundry mechanical workshop (continuation of RP/SOM/82/001; DP/SOM/73/004 and RP/SOM/84/005 also refer)
IO/T/MET	31.8.D	RP/SOM/84/005	Assistance to the foundry and mechanical workshop (FMW), Mogadiscio - project manager (DP/SOM/73/004 and RP/SOM/84/002 also refer) (see RP/SOM/85/605) (IDDA)
IO/T/MET	31.8.D	RP/SOM/85/605	Temporary 1985 IDDA allotments (ex RP/SOM/84/005 - Assistance to the foundry and mechanical workshop (FMW), Mogadiscio - project manager (DP/SOM/73/004 and RP/SOM/84/002 also refer) (continued under XA/SOM/85/605) (IDDA)

Annex D (continued)

SOMALI Democratic Republic
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since 1972

Backstopping Responsibility	Spec.Act./ All,Acc,Code	Project Number	Project Title
IO/T/MET	J13209	XA/SOM/85/605	Temporary IDDA allotments (ex RP/SOM/84/005 and RP/SOM/85/605 - Assistance to the foundry and mechanical workshop (FMW), Mogadiscio - project manager (DP/SOM/73/004 and RP/SOM/84/002 also refer) (IDDA)
IO/T/MET	31.8.D	UC/SOM/81/108	Upgrading of the productivity and in-plant training in the foundry and mechanical workshop in Mogadiscio (multifund to UD/SOM/81/108)
IO/T/MET	31.8.D	UD/SOM/81/108	Upgrading of the productivity and in-plant training in the foundry and mechanical workshop in Mogadiscio (multifund to UC/SOM/81/108)
IO/T/MET	31.8.D	VC/SOM/70/003	Prototype foundry shop and prototype mechanical workshop
IO/T/MET	J13209	UC/SOM/85/170	Technical assistance in upgrading of production efficiency and local skill of the Foundry Mechanical Workshop (FMW), Mogadiscio, provided by Egyptian experts (multifund to US/SOM/85/170)
IO/T/MET	J13209	US/SOM/85/170	Technical assistance in upgrading of production efficiency and local skill of the Foundry Mechanical Workshop (FMW), Mogadiscio, provided by Egyptian experts (multifund to UC/SOM/85/170)
IO/T/ENG	31.9.A	RP/SOM/76/005	Bulgarian proposal for the establishment of a small factory for the production of water irrigation pumps
IO/T/ENG	31.9.A	US/SOM/78/191	Study for progressive local manufacture of pumps
IO/T/ENG	J13316	US/SOM/80/083	Establishment of a pump repair section within the existing mechanical workshop and foundry in Mogadiscio
IO/T/ENG	31.9.C	RP/SOM/76/006	Technical adviser in the field of water distillation for human and animal consumption by utilizing solar energy
IO/T/ENG	31.9.Z	RP/SOM/76/008	Solar water distillation plants in Somalia

Annex D (continued)

SOMALI Democratic Republic
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Backstopping Responsibility	Spec.Act./ All.Acc.Code	Project Number	Project Title
IO/T/ENG	31.9.Z	RP/SOM/77/005	Solar water distillation plants in Somalia
IO/T/ENG	31.9.B	RP/SOM/84/003	Assistance to the Agricultural Machinery Agency (phase I)
IO/T/CHEM	30.3.02	IS/SOM/71/806	Expert in building materials research, testing and development
IO/T/CHEM	30.3.02	SM/SOM/73/806	Expert in building materials research, testing and development
IO/T/CHEM	30.3.02	TS/SOM/73/001	Gypsum prefabrication pilot project exploratory mission
IO/T/CHEM	32.1.B	DP/SOM/71/007	Gypsum prefabrication pilot project
IO/T/CHEM	32.1.B	DP/SOM/74/002	National laboratory for the development of building material industry
IO/T/CHEM	32.1.B	TF/SOM/74/003	Associate expert in building materials
IO/T/CHEM	J13419	SM/SOM/71/007	Integrated gypsum pilot project
IO/T/CHEM	32.1.F	SI/SOM/79/803	Assistance for establishing a fertilizer bulk blending bagging plant
IO/T/CHEM	32.1.C	SI/SOM/77/802	Processing of molasses, manufacture of ethyl alcohol and fodder yeast (torula) by fermentation
IO/T/CHEM	32.1.C	SI/SOM/78/803	Development of charcoal industry and establishment of demonstration plant for charcoal production and basic chemicals
IO/T/CHEM	32.1.I	SI/SOM/83/802	Improvement of the charcoal production industry
IO/T/CHEM	32.1.C	RP/SOM/77/003	Establishment of a pesticide formulation plant
IO/T/CHEM	32.1.G	SI/SOM/79/805	Assistance in pesticide formulation
IO/T/CHEM	J13421	UC/SOM/82/111	Preparatory mission for the establishment of a demonstration plant for pesticide formulation

Annex D (continued)

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since 1972

Backstopping Responsibility	Spec.Act./ All.Acc.Code	Project Number	Project Title
IO/T/CHEM	J13423	UC/SOM/87/017	Fact-finding mission on the possibility of establishing a sea-salt production in the Peninsula at Ras Hafun
IO/SD/FEAS	31.6.A	SI/SOM/79/802	Training workshop in industrial project preparation, evaluation and financing
IO/SD/TRNG	31.5.B	RP/SOM/77/006	Fourth General Course on Development Banking, Bangalore, India, 22 August to 10 September 1977
IO/SD/TRNG	31.5.B	RP/SOM/80/001	Project analysis
IO/SD/TRNG	31.5.B	RP/SOM/79/003	Industrial training manager
IO/SD/TRNG	31.5.B	RP/SOM/81/002	Training in sugar industry
IO/SD/TRNG	31.5.C	RP/SOM/76/004	Technical course on criteria for the selection of woodmaking machines, Milan, Italy, 17 to 26 May 1976
PPD/SPA/ECDC	30.9.Z	RP/SOM/80/002	Promotion of TCDC between Somalia and Yugoslavian assistance of 'Pan Institute Yugoslavia' to the Ministry of Industry, Mogadiscio, in the field of food processing
PPD/SPA/ECDC	E04100	XP/SOM/86/116	Solidarity ministerial meeting for co-operation in the industrial development of the Somali Democratic Republic
IPCT/II	31.1.A	RP/SOM/76/003	Advice to the Development Bank on financial matters
IPCT/II	31.1.A	RP/SOM/77/004	Assistance to the Somali Development Bank
IPCT/II	31.1.A	SI/SOM/77/803	Financial analysis expert
IPCT/II	31.1.D	RP/SOM/84/004	Training in investment promotion
EPL/REL/GOV	70.3.Z	RP/SOM/79/001	Visit of the Director General, Ministry of Industry, Somalia, to UNIDO from 16 to 17 May 1979

Annex D (continued)

SOMALI Democratic Republic
(7)
since 1972

Backstopping Responsibility	Spec.Act./ All.Acc.Code	Project Number	Project Title
EPL/REL/GOV	70.3.Z	RP/SOM/81/001	Visit of the Minister of Industry and Senior Officer, Ministry of Industry, Somalia, to UNIDO

Annex D (continued)

II. The operational and/or approved projects

SOMALI Democratic Republic

Backstopping Responsibility	All.Acc.Code	Project Number	Project Title
IO/IIS/IMR	J12206	DC/SOM/87/003	Establishment of industrial development information service (multifund to DP/SOM/87/003)
IO/IIS/IMR	J12206	DP/SOM/87/003*	Establishment of industrial development information service (multifund to DC/SOM/87/003)
IO/IIS/IMR	J12207	DU/SOM/86/015	Service of associate experts
IO/IIS/IMR	J12207	DC/SOM/88/008	Industrial maintenance management (multifund to DP/SOM/88/008)
IO/IIS/IMR	J12207	DP/SOM/88/008*	Industrial maintenance management (multifund to DC/SOM/88/008)
IO/IIS/IMR	J12207	XP/SOM/88/047	Project management seminar
IO/IIS/IMR	J12208	DP/SOM/86/034**	Establishment of an Industrial Consultancy Unit
IO/T/AGRO	J13104	SI/SOM/87/801	Assistance to the leather industry
IO/T/CHEM	J13420	SI/SOM/88/801	Development of existing salt-works in the Somali Democratic Republic
IO/SD/FEAS	J14101	UC/SOM/87/153	Pre-feasibility study for the production of agricultural tools, implements and simple equipment
PPD/SPA/ECDC	E04100	XP/SOM/87/003	Solidarity ministerial meeting for co-operation in the industrial development of the Somali Democratic Republic preparatory assistance
PPD/SPA/ECDC	E04101	UC/SOM/87/145	Expert service on technical co-operation between Somalia and India in the field of wind mills for water pumping (in co-operation with IPCT/DTT/TEC) (multifund to UD/SOM/87/145)
PPD/SPA/ECDC	E04101	UD/SOM/87/145	Expert service on technical co-operation between Somalia and India in the field of wind mills for water pumping (in co-operation with IPCT/DTT/TEC) (multifund to UC/SOM/87/145)

* Large-scale project (= total allotment $150,000 or above).
** Total allotment $1 million or above.

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