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Somalia: Economy Adrift

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An Intelligence Assessment

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An Intelligence Assessment

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This paper was prepared by [] Office
of Africa and Latin American Analysis, with
[] contributions from [] Office
of Leadership Analysis. It was coordinated with the
Directorate of Operations. []

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Comments and queries are welcome and may be
directed to the Chief, Africa Division, ALA []

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**Somalia:
Economy Adrift**

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Key Judgments

*Information available
as of 25 April 1988
was used in this report.*

The impoverished Somali economy shows little promise of sustained economic growth or progress toward self-sufficiency, despite seven years of IMF reform programs backed by substantial Western economic aid. Although Somalia suffers from a slender resource base, we believe the condition of the economy is largely the result of Mogadishu's unwillingness to make donor-recommended structural and administrative changes. Determined to protect the interests of constituents, President Siad continues to ignore proposed reforms designed to reshape the inefficient state-run economy into a market-centered one more conducive to growth. Failure to shrink the patronage-ridden public sector and rationalize financial policies virtually ensures further stagnation and reliance on foreign aid. This dependence probably will intensify Siad's frustration over declining US military and economic aid, straining bilateral relations and perhaps imperiling security ties.

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We believe Siad's policies are intended to ensure the loyalty of his key supporters, without regard to cost. Brought to power by a military coup in 1969, Siad has accorded priority to satisfying the demands of the armed forces and providing patronage to his Marehan clan and its allies. As a result, military expenditures dominate the government budget despite growing unemployment and declining living standards. Moreover, 10 years after Moscow dropped Somalia as its closest ally in Africa in favor of Ethiopia, Siad still professes socialism—largely, we believe, to justify the inefficient public sector from which clan allies derive their economic and political influence.

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In our view the country has paid a high price for Siad's rigid adherence to his political agenda:

- Friction with donors over Mogadishu's spotty record on reforms has interrupted vital aid flows—most recently last fall, when the latest IMF agreement was suspended; moreover, Somalia's failure to expand its infrastructure and educational system and streamline its bureaucracy has impaired its ability to absorb and use aid.
- The corrupt Marehan-dominated bureaucracy has fostered an environment unfavorable to entrepreneurship and private investment, perpetuating Somalia's reliance on a fragile pastoral economy susceptible to drought.

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- The stagnant economy and booming black market in turn have reduced government revenues, fueling budget deficits.

- These imbalances have increased Somalia's dependence on foreign aid and multiplied its external debt, which now exceeds GDP. [REDACTED]

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Despite these problems, we judge that Mogadishu over the near term will be even more resistant to liberalizing its economy. [REDACTED]

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[REDACTED] Siad and his advisers are increasingly unhappy with the conditions attached to Western aid—particularly given declining aid levels—in contrast with virtually unconditional economic aid provided by Moscow before 1977. The government may seek nominal agreement with donors this year in order to boost the aid flow, but growing Marehan influence in the Army and government will further dim prospects for major reform. [REDACTED]

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We believe Mogadishu's policies already have ensured continued economic and financial problems in the short run. Debt service will continue to be unmanageable, and living standards will fall further as demand for services and jobs outpaces the government's ability to provide them. These problems will persist even if—as we believe possible—Somalia experiences marginal growth led by the agricultural sector. The country's longer term prospects probably will be equally grim unless a future leader is willing and able to effect economic reform. [REDACTED]

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Somalia's dismal economic prospects are likely to affect US interests in several ways:

- With or without an IMF agreement, Mogadishu probably will continue to look to Washington for aid. Further reductions in US economic aid—particularly if coupled with more declines in military assistance—will make Somalia less receptive to US influence and more willing to loosen ties to Washington in the unlikely event a more favorable military package becomes available elsewhere.
- Mogadishu probably will raise the price for renewal of the US military access agreement in 1990, and, if faced with drastic cuts in US military aid, it might even consider terminating the agreement unilaterally. In any case, Mogadishu will continue seeking unconditional aid from other sources—including Saudi Arabia—although prospects are poor.

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- Tensions between Washington and Mogadishu are likely to provide openings for some resurgence of Soviet influence, but the priority Moscow accords to its ties to Addis Ababa and Somali suspicion of Soviet intentions will limit Soviet gains—and Soviet aid—in the short term.
- Mogadishu's economic problems pose no immediate threat to political stability, but the pressures of rapid urbanization make urban unrest likely over time. Widespread urban unrest in turn could further increase the role of the military in running the country, to the detriment of prospects for development.

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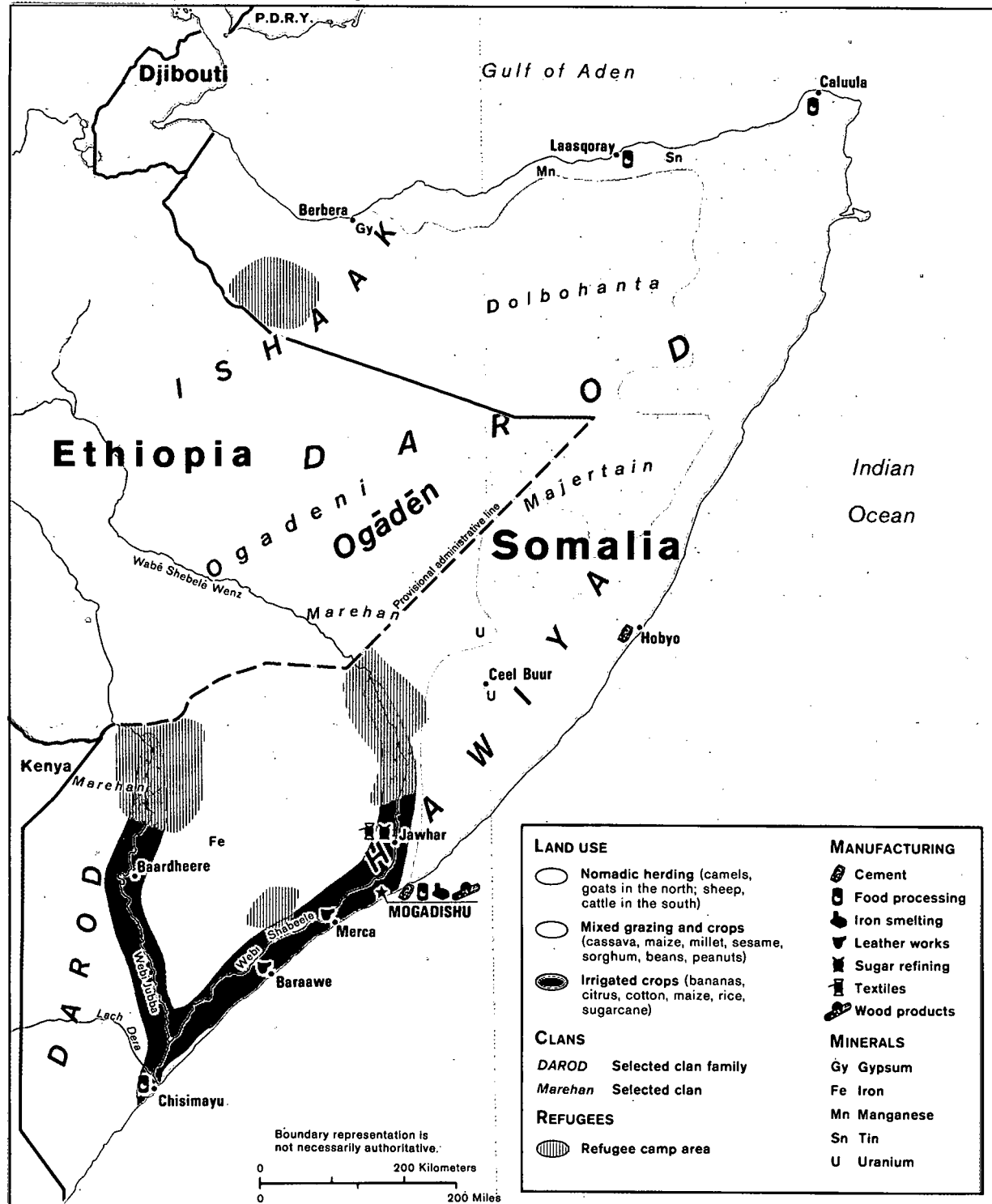
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Figure 1
Economic Activity, Clans, and Refugees



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Somalia: Economy Adrift

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Introduction

Seven years after Mogadishu adopted its first IMF-backed reform package accompanied by a large infusion of Western aid, the Somali economy is still beset by serious problems, with no clear strategy for their resolution. President Siad's backpedaling on key economic reforms urged by Western donors—including the United States and the IMF—has again jeopardized badly needed economic assistance. Moreover, his failure to effect the structural and administrative reforms called for by donors has left intact the unwieldy public sector that evolved as part of Siad's socialist experiment in the 1970s. The gradual liberalization, invigoration, and expansion of the modern urban economy envisaged by donors has yet to begin, and there is no evidence that the 75-year-old President or his advisers are committed to bringing it about.

This paper explores the roots of Somalia's economic crisis, the reasons for Siad's lack of commitment to reforms, and the course of Mogadishu's rocky relationship with its Western donors. It also assesses the likely effects of recent developments in Somalia on future economic policy making, the outlook for the economy, and the implication of these trends for US interests.

The Early Siad Years (1969-81)

Siad inherited a fragile economy when he came to power by way of a military coup in 1969. The country's slender resource base offered little promise of economic growth. Recurrent drought limited the productivity of the predominantly pastoral economy, on which the small modern urban sector also partly depended. the development plans and policies of Siad's civilian predecessors—which focused chiefly on expanding the urban sector—had made little headway.

Siad's primary concerns, however, were political and military—not economic. Diplomatic reporting indicates that he was preoccupied with ensuring the support of key constituents—the military and, increasingly, members of his small but powerful Marehan clan and its allies. Siad recognized that the coup that brought him to power was prompted largely by military disgruntlement over his predecessors' failure to press Somalia's longstanding claims to Somali-inhabited parts of Ethiopia and Kenya. Accordingly, he gave priority to enhancing the country's military capabilities, with an eye both on backing up Somalia's territorial claims and on securing the personal loyalty of the armed forces. He sought also to anchor the support of his clan and its allies through extensive political patronage.

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Preoccupied from the outset with ensuring his political position, Siad has given little attention to fashioning a development strategy for Somalia. he has focused instead on obtaining foreign aid to solve the country's immediate financial and economic problems, satisfy the expectations of his constituents, and fend off urban discontent. This approach to securing his country's economic survival has resulted in erratic and sometimes conflicting policies, designed to placate key donors—first the Soviets and, later, Western donors—without compromising his supporters' interests.

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Soviet Aid and Socialism

Accordingly, we believe Siad's announcement in 1970 that Somalia would pursue "scientific socialism" signaled his desire for stronger ties to—and more aid from—the USSR, rather than an intent to restructure the economy fundamentally. US diplomats have reported that Siad in his first months in power clearly favored the USSR at the expense of relations with the United States. Siad

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On the Periphery of the World Economy

Somalia ranks among the world's poorest countries, with few natural resources and little near-term prospect of improving its lot. About 70 percent of the population lives at subsistence level; two-thirds rely on stock raising and 15 to 20 percent on settled smallholder cultivation. []

Infrastructure. *An undeveloped infrastructure inhibits both agricultural and industrial development and the delivery of social services. Somalia has no railway system; its roads are inadequate, and in many cases impassible during the mid-August to early November rainy season; and the power supply is limited and intermittent. Health and education services are meager.* []

Agriculture and Fishing. *Employment, manufacturing, and exports all are based primarily on stock raising and farming, making the economy highly susceptible to drought. Livestock production, which accounts for nearly 40 percent of GDP, cannot easily be expanded because the capacity of the rangeland has almost been reached.* []

Crop production consists of a relatively small commercial sector—the main cash crop is bananas—and a subsistence sector that employs more than 80 percent of the farming population. The major crops cultivated for domestic consumption are maize, sorghum, sesame, and sugarcane. []

With expanded cultivation and adequate rainfall, Somalia's arable land—estimated at 13 percent of the country's land area—has the potential to produce food in excess of Somalia's needs, according to academic sources. Commercial fishing, which began several years ago, also has the potential for considerable growth but currently involves only about 2 percent of the population, according to IMF data. []

Industry. *Manufacturing accounts for only about 7 percent of employment, with limited prospects for expansion. The principal constraints are the small size and relatively low per capita income of Somalia's consumer market and the difficulty of achieving competitive export costs because of limited natural resources, a small skilled manpower and management pool, and inadequate infrastructure.* []

Livestock, fish, and agricultural processing enterprises dominate the largely public manufacturing sector. The most important import substituting industries include a textiles factory, two sugar factories, as well as an oil refinery. Increased food processing, particularly sugar production, was largely responsible for the real growth of manufacturing production in 1985 after a slump in 1983-84. []

Despite these gains, manufacturing is unlikely to contribute significantly to GDP for the foreseeable future unless the groundwork is laid for an efficient private industrial sector. Most of the existing public sector has become even more structurally uncompetitive as currency devaluations have driven up input costs, according to the World Bank. []

Mining—which is limited to meerschaum, sea salts, limestone for cement production, and small amounts of tin ore—contributes minimally to the national economy. Although Western oil companies are engaged in an oil exploration program, any commercial finds would require six to 10 years before production could commence. []

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wanted to parlay diplomatic and ideological gestures toward Moscow into economic and military assistance to ensure his political survival and to press Somalia's claims to the Ethiopian-controlled Ogaden region.

The Soviets responded with substantial economic as well as military aid. We estimate that Soviet offers of economic credits and grants to Somalia from 1969 to 1976 totaled about \$100 million, of which Mogadishu used some \$50 million.¹ Moscow's aid included funding for development projects—meat and fish canning plants, a dairy, irrigation schemes, and fisheries—as well for the resettlement of nomads. Over the same period, the Soviets also provided some 1,000 military, economic, and administrative technicians and advisers, and we estimate that Moscow provided about \$370 million in military aid.

Whatever Moscow's expectations, the scope of Siad's socialist economic agenda was limited. Some of his policies were pragmatic attempts to minimize public discontent by addressing the immediate effects of drought and unemployment. The government, for example, initiated several programs to reemploy nomads migrating into the cities from drought-stricken areas. Moreover, Siad's moves toward socialism were selective. For example, in a highly visible and popular decision, he nationalized most of Somalia's foreign-owned modern enterprises—including banks, insurance companies, petroleum distribution firms, and the country's sugar refining plant. He also created state marketing and trade agencies, but left intact the small but influential Somali business community, ensuring that key exports—cattle and bananas—remained in private hands.

Growing Financial Crisis

Despite the limited scale of Siad's socialist policies, we believe they accelerated Somalia's economic and

¹ Soviet economic aid to Somalia—although large in comparison with Moscow's assistance to other African countries—did not dominate Somalia's total aid picture.

Western bilateral and multilateral assistance added another \$155 million between 1974 and 1977, although the United States discontinued its aid program after 1970. Aid from China, North Korea, and Arab countries also was substantial.

financial decline. The extension of the public sector strained the government's limited resources and managerial capacity. Moreover, public-sector jobs increasingly became a source of patronage for regime supporters.

Government regulations imposed as part of Siad's socialist experiment also impeded economic growth. Low government-established agricultural prices, for example, reduced incentives for productivity, thereby contributing to economic stagnation.

Similarly, regulation of foreign exchange rates resulted in overvaluation of Somalia's currency, raising the cost of its exports.

Overextended financially and administratively as a result of these policies, the Siad regime was ill equipped to cope with the combined effects of three catastrophic events in 1977-78: a costly war with Ethiopia, the loss of Soviet aid, and widespread drought. Somalia's invasion of Ethiopia's Ogaden region precipitated a rupture in Siad's alliance with the Soviet Union—which ultimately sided with the Mengistu regime in Addis Ababa—and the termination of Moscow's vital concessional aid. The war also cost the defeated Somalis most of their military equipment. Ensuing drought dealt the economy a severe blow, compounded by a massive influx of Ethiopian war refugees.

Without sufficient foreign aid, Mogadishu's efforts to cope with these problems soon foundered. Siad first boosted the money supply, which fueled inflation. To hold down inflation, he banned price increases, but merchants responded by withholding goods or shifting them to the flourishing black market. By the end of 1980, the country's meager foreign exchange reserves

The Refugee Factor

Siad's decision in 1977 to invade Ethiopia in an effort to reclaim the disputed Ogaden region sparked a massive influx of Ogadeni refugees—some 400,000—into Somalia. The 35 camps into which the refugees subsequently were settled have been beset by food and water shortages and by disease. Additional refugees periodically have crossed the frontier to escape droughts—including that of 1984. []

Essential as the flow of international aid has been to the survival of the refugees, it also has engendered corruption and economic dependency in Somalia. To spur donor generosity, Mogadishu has exaggerated refugee counts, according to diplomatic [] sources. We believe donor response to these inflated figures has enabled Somalia to divert large quantities of relief aid. Although the extent of the problem is difficult to document, we believe the diverted aid in effect has created diverse constituencies dependent on the continuation of refugee relief operations. Refugee aid in the form of commodities, equipment, and funds has become an important component of Somalia's black-market economy. Diverted food aid also probably has helped to feed the Somali military along the Ethiopian border and the guerrillas of the Western Somali Liberation Front.^a At the very least, the food

aid reaching the refugee camps has relieved the guerrillas of the responsibility to feed their families. []

Although the infusion of refugee aid has temporarily boosted employment and economic activity in Somalia, we believe it has provided few long-term benefits. The proceeds of trade in diverted refugee goods, for example, probably have been used largely to import luxury items, according to academic sources. Moreover, much of the employment and income derived from donor-funded relief programs would end with the eventual resettlement or return of the refugees to their homeland, and the aid-inflated Somali economy would be susceptible to depression as donor assistance tapered off. []

In our view, the refugee crisis also may have serious long-term effects on the country's agrarian economy. In particular, the large refugee population has strained Somalia's meager natural resources, especially water and firewood. Although the UN has started a limited repatriation program, there is little chance that Somalia's refugee-related problems will be alleviated in the near term. []

^a These guerrillas are Somali Government-supported ethnic Ogadeni who still operate in their Ethiopian homeland. []

were nearly exhausted, []
In addition, the flight to oil-producing Gulf Arab states of many poorly paid professionals and technicians siphoned off skills needed to run public and private enterprises.² []

² Although the flow of workers overseas has caused a shortage of skilled manpower in Somalia, their remittances continue to provide vital, but declining, support for many underemployed urban Somalis. []

Recent Trends (1981-Present)

Turn to Western Donors

The loss of Soviet support and the associated economic problems prompted Siad to turn to Western aid donors in 1981, marking a major—and, for Siad, an unwelcome—shift in Somalia's external aid relations.

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The Soviets had attached virtually no conditions to their economic assistance, giving Siad little incentive to come to grips with a development strategy or to accept a political price for growth. []

In contrast to Moscow, the IMF and bilateral Western donors conditioned their aid on a variety of economic reforms, including deregulation and privatization of some inefficient government-run enterprises, budget tightening, and currency devaluation. The reforms were designed, in conjunction with economic aid, to initiate a transition from a state-run to a free market economy favorable to economic growth, as well as to alleviate Somalia's financial problems. Moreover, whereas Moscow made no effort to wean Somalia from its economic assistance, the IMF hoped reforms would ultimately reduce the country's dependence on foreign aid. In effect, the Western donors urged Siad for the first time to place development at the top of his agenda, to dismantle the institutions impeding it, and to impose austerity where necessary—or forgo aid. []

In our view, Siad agreed to the donor-mandated reform program in 1981—and to succeeding programs—primarily because he desperately needed aid to stem his growing economic crisis. In particular, he sought to stave off popular discontent and buoy the confidence of his clan and military constituents, shaken by Somalia's defeat. We doubt he seriously considered the economic merits of the prescribed reform measures or of the market-oriented growth strategy they implied. Indeed, he probably calculated that he could secure Western aid without substantially altering his policies. []

Flirting With Reforms

Siad, in our view, set out to show progress on selected reforms while sidestepping those he deemed politically risky. Embassy reporting indicates that he has largely ignored the advice of proreform technocrats in the Ministry of Finance and Revenues, taking his cues instead from the military, the Marehan, and their allies. Consequently, the reform measures he has

implemented most consistently are those that would have the least effect on these groups whose interests are primarily concentrated in the modern sector of the economy. The area of greatest progress on reforms, for example, has been deregulation of agricultural marketing, which, together with favorable weather conditions, has boosted grain production. Similarly, improved tax collection—also called for in Somalia's reform program—has netted Mogadishu somewhat higher revenues without arousing Marehan opposition, although these gains have fallen far behind the government's budget outlays, according to US officials. []

In contrast, implementation of reforms deemed by the donors to be most important to Somalia's economic future has repeatedly foundered on Marehan opposition and Siad's unwillingness to turn aside the military's demands for resources, in our view. These unfulfilled reforms include:

- Exchange rate reform and currency devaluations—which, in the Marehan view, increase the cost of foreign exchange and raise the cost of living.
- Privatizing key Marehan-controlled public enterprises—notably the insurance and hides and skin industries—which would spell the end of the profitable clan-based spoils system.
- Shrinking the civil service—the heart of Siad's patronage system and a major urban employer. Donors have called for streamlining the bureaucracy and raising civil service salaries to enhance productivity.
- Increasing expenditures on social and economic services—which would almost certainly require Siad to cut military spending in the face of the armed forces' perennial shortage of weapons, fuel, and food. []

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Political Impediments to Reform and Development

We believe Siad's own policies have helped create political and social obstacles to economic development in Somalia. His clan favoritism, his decision to preserve the vestiges of his 1970s socialist experiment, and his propensity to cater to the armed forces' appetite for resources have skewed public expenditures and frustrated Western-backed economic reform programs. []

Clan Rivalries. *Clan feuds^a traditionally have centered on local issues, such as water and grazing rights, but in recent years Siad's favoritism toward some groups has raised the stakes. Although he has made token appointments from all clans to the government, the party, and the military, diplomatic reporting indicates that a disproportionate share of key positions has gone to his own small Marehan clan and its allies. These officials provide jobs, lucrative construction permits, and other patronage to influential clan members and their families in return for support—an arrangement that has kept even blatantly corrupt and incompetent government officials in power. In turn, Siad's cronies have used*

^a Unlike most African states, Somalia has a clear-cut national identity and cultural uniformity, but this masks divisive rivalries between clans to which most Somalis give their primary loyalty. The composition of both civilian and military governments that have ruled Somalia since 1960 has reflected the relative numerical strength and influence of clan coalitions, rather than individual leadership abilities. While the Majertain, Ishaak, and Hawiya clans ruled Somalia from 1961 onward, the military coup that brought Siad to power in 1969 shifted power to a coalition of the Marehan, Ogadeni, and Dolbohanta clans. Members of the disenfranchised clans have since formed two opposition insurgent groups, but their disunity makes them largely ineffectual. []

their influence to resist reforms—which threaten to dilute their control of the economy by privatizing or deregulating the public sector, according to diplomatic reporting. []

Socialist Ideology. *We judge that Somalia's continued profession of socialism a decade after the end of its alliance with the USSR also has discouraged reforms. Although Somalia's IMF-led reform program includes provisions designed to deregulate and privatize some economic sectors, the government still tightly controls much of the official economy.* []
Moreover, the socialist ideology, by providing official justification for perpetuating the primacy of the public sector, in effect sanctions the political and economic dominance of the Marehan and their allies. []

Although the principal proponent of socialism—the ruling Somali Revolutionary Socialist Party (SRSP)—has little power independent of the President and serves chiefly to put a civilian face on his military rule, it has emerged as a focal point for resistance to liberalization. []

The SRSP harbors hard-core Marxist ideologies—some of them Marehan—who have urged Siad to reduce his reliance on the IMF and recommit himself to a socialist economy. Their advocacy has generated friction with those in the Ministry of Finance and Revenues, the Central Bank, and the small private sector who strongly support economic liberalization. []
the hardliners also have met with resistance from

Siad's unwillingness to implement at least some of these key reforms over the objections of his supporters has repeatedly brought him into conflict with the Western donors and aborted IMF programs:

- In early 1984, for example, despite the country's continuing financial difficulties, Siad caved in to Marehan sentiment and rejected a new IMF agreement. The government's undisciplined fiscal and monetary practices intensified its balance-of-payments problems and increased inflation so that

Mogadishu for the last half of the year lacked the foreign exchange to cover debt service and oil import requirements.³

³ Somalia's economic problems were aggravated by the 1983-84 drought and a Saudi ban on livestock imports from Somalia in 1983 because of disease. In 1984, the inflation rate topped 90 percent—nearly three times the 1981-83 average; the budget deficit increased from 6.9 percent of GDP in 1983 to 11.2 percent in 1984; and the foreign payments situation worsened considerably. []

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pragmatists in the party who favor reforms, probably as a means to secure foreign aid. [REDACTED]

Military Influence. *In our view, Siad's determination to satisfy the resource demands of his armed forces also has impeded Somalia's economic development. Since the 1969 coup that brought Siad to power, the Army has remained his main pillar of support. He has placed military officers in key government positions, where they have substantial impact on policy formulation—presumably including budgetary decisions. The continuing tensions with Ethiopia over Mogadishu's claims to the ethnic-Somali-inhabited Ogaden region and the government's counterinsurgency effort, in our view, have bolstered the military's influence and its claim to the lion's share of public resources in a society where military virtues traditionally have been celebrated.* [REDACTED]

Heavy defense expenditures—which we believe have consumed as much as 60 percent of the government's revenues in recent years—have detracted from investments in agriculture, transport, education, and health. Somali Government figures show that in recent years the share of the budget spent on economic and social programs has fallen to half its 1976-80 level in the face of rapid population growth, deteriorating roads and irrigation facilities, and an inadequate educational system. [REDACTED]

[REDACTED] *Somalia spent only some 12 percent of its 1986 budget on economic and social services, compared with an estimated 37 percent for Sub-Saharan Africa as a whole.* [REDACTED]

- By February 1985, these financial problems and pressure from Western donors spurred Siad to reactivate an IMF program in order to restart the flow of aid. But Mogadishu's failure once again to reform public enterprises and meet spending, interest rate, and exchange-rate targets delayed completion of the program and resumption of a new Fund arrangement until July 1987, disrupting debt re-scheduling by the Paris Club. [REDACTED]

The High Cost of Resisting Change

Although we doubt that faithful implementation of donor-mandated reforms alone could have reversed the long-term decline of the narrowly based Somali economy, we believe Siad's failure to carry out the measures has been costly in several respects. Interruptions in Somalia's IMF programs, for example, have cost the country vital foreign aid. In addition, the government's ability to absorb and use aid has been impaired by its failure to expand the educational system, invest in roads and communications, and streamline government agencies, as recommended by the donors. The effect of these shortcomings has been particularly evident in Mogadishu's consistent inability to maintain projects initiated by donors—which has prompted the World Bank to review the country's public investment program for 1987-89 in search of ways to improve project performance. [REDACTED]

In addition, we believe Mogadishu's unwillingness to discipline and reduce the role of the graft-ridden public sector has discouraged private domestic and foreign investment. Indeed, the absence of orderly legal and administrative business procedures probably has helped perpetuate the flow of Somalia's limited wealth into luxury consumption, the black market, or more secure banking and investment opportunities outside the country. Moreover, the government's role in the allocation of foreign exchange—by ensuring the continuing overvaluation of the Somali shilling—has made export-oriented activities unattractive, at some cost to the country's balance of payments. [REDACTED]

In our view, these factors, among others, have ensured the continuing economic stagnation that has been reflected in the country's large budget deficit. Despite an increased tax collection effort since 1984, government revenues have declined as a share of GDP from 9.3 percent in 1982 to 5.3 percent in 1986, according to US officials. The decline has resulted from shortfalls in import-generated revenues, delays in implementing revised tax laws, tax evasion, and administrative difficulties. At the same time, the government

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since 1982 has maintained a constant rate of expenditures only by increasing its dependence on donor grants and loans and on domestic borrowing, thereby fueling high inflation. []

The budget deficit in turn has contributed to the massive trade deficit. Imports of goods and services continue to exceed exports by about four times, according to US Embassy reporting. [] livestock continues to dominate exports, which have yet to recover fully from a cut in Saudi purchases in 1983. New livestock markets have boosted the value of exports somewhat since 1984, but in our view Mogadishu's export position remains precarious. Financing the trade deficit has increased Somalia's dependence on foreign assistance, with the result that Mogadishu's external debt of approximately \$1.9 billion exceeds its GDP. []

Fading Prospects for Reform

Siad's actions over the past several months suggest that he is less likely than ever to alter his policies despite the dismal economic effects of his backsliding on reform. We believe Siad's reimposition last September of price controls on some commodities and his cancellation of the foreign exchange auction—the linchpin of the latest IMF program—underscore the continuing primacy of political considerations at the expense of the economy. As in the past, we believe Siad made these decisions in response to political pressure from his backers. []

[] Siad's party and government supporters argued that canceling the auction would improve Somalia's economic performance, but we believe they also sought to regain their profitable control over the distribution and pricing of foreign exchange. []

[] the recent reductions in the size of the aid package—the result of financial constraints in donor countries—have made the reforms mandated by donors less palatable than ever to Siad's inner circle, which probably increasingly questions the benefit of implementing even token reforms to keep an IMF program in force. Embassy [] reporting reveals that, in the wake of the current impasse

with Western donors, Siad and his advisers are increasingly disenchanted with the Western aid relationship and the conditions attached to it:

- Somali officials have hinted that the inadequacy of Western assistance compared with Soviet aid has contributed to the country's growing indebtedness and deepening poverty through the 1980s.
- Mogadishu continues to fault the West for failing to provide high-visibility projects, such as the factories built by the Soviets in the 1970s. []

Recent high-level personnel shifts by Siad, in our view, presage a further hardening of Mogadishu's position on reforms. The President in December underlined his commitment to his recent policy changes by transferring the finance portfolio from a moderately proreform official to Jama Barre—Siad's half brother, a leading Marehan clansman, and a strong opponent of IMF reform. Shortly after his appointment, Jama Barre announced an austerity budget for 1988, which reduces government spending to 72 percent of 1987 levels. []

[] while the new budget is an attempt by the government to control inflation, it also is intended to reduce donor pressure to further liberalize the economy. []

In addition to appointing Jama Barre Finance Minister, Siad late last year named his son, Maj. Gen. Mohamed Siad Moslah, commander of all military forces in the capital area, and gave the Defense portfolio to Maj. Gen. Aden Nur—widely viewed as a Moslah ally and promoter of Marehan interests, according to Embassy reporting. Siad himself has taken charge of foreign affairs. We believe these moves significantly increase Marehan dominance of both the government and the military, signaling Siad's intent to continue protecting clan equities. []

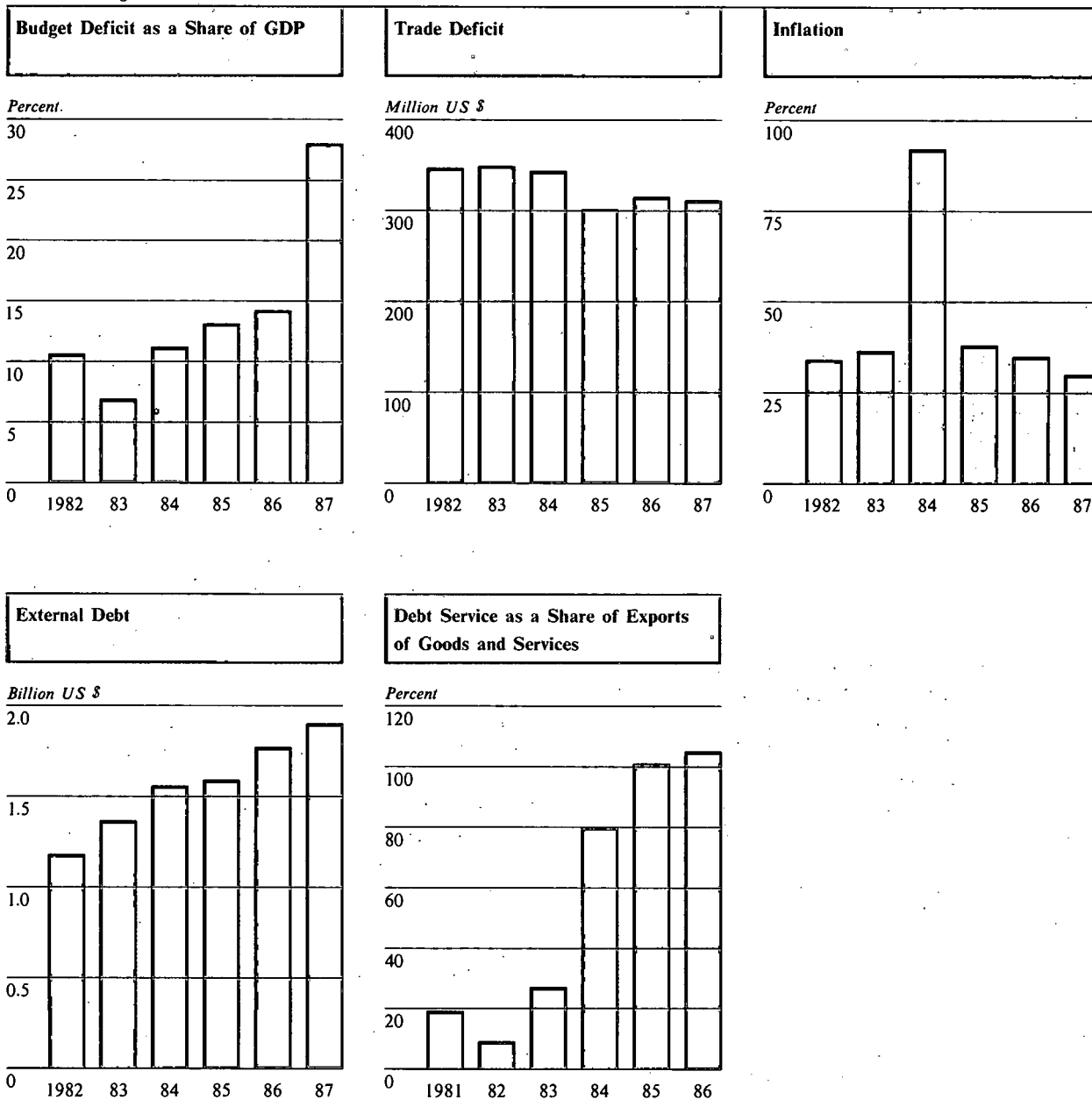
Although Mogadishu may try to reach a nominal compromise with the IMF in order to obtain the external aid needed to fund the government's budget,⁴

⁴ External aid in recent years has financed some 50 percent of the government's expenditures and almost 100 percent of development expenditures, according to Somali Government data. []

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Figure 2
Somalia: Key Economic Indicators

Note scale change



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we believe Jama Barre's position on reform, added to Siad's growing clan favoritism, probably will complicate—and perhaps ultimately scuttle—any new agreement. Bolstered by growing Marehan chauvinism, Jama Barre may resist many of the IMF's standard prescriptions for reform. To bolster his case, Jama Barre may cite as evidence of domestic resistance to reforms the vociferous objections of ruling party hardliners and the public riots over food taxes last fall. His disinclination to accept unpopular structural reforms may be all the greater if [redacted]

[redacted] he has Siad's full backing to change the country's economic policy direction. [redacted]

Even if Somalia negotiates a new program, it will still face the uphill job of persuading donors to help clear its arrears to the Fund—a prerequisite for initiating a Fund program. Siad's suspension of his IMF program makes it certain that the government will discontinue payments to the IMF until a new Fund program is negotiated. [redacted] Somalia's arrears could total some \$70 million by the end of 1988—a further disincentive for donors to obligate additional funds. [redacted]

Even if a new IMF program is initiated, we believe Siad's recent consolidation of Marehan influence in the government and the military has dimmed prospects for implementation of key reforms both during his reign and for some time after the 75-year-old President passes from the scene. Although we see no evidence that Siad is yielding control to his advisers, we suspect his personnel changes were intended to safeguard clan interests—and those of his family—by ensuring policy continuity in the post-Siad era. In effect, we view his moves as making it unlikely any successor, whether Marehan or non-Marehan,⁵ would be able in the short term to reorder Mogadishu's priorities and implement tough IMF reforms:

⁵ Prime Minister Samantar, a member of a small outcast clan, is constitutionally slated to assume the presidency, but clan and personal rivalries in the Somali elite seem likely to fuel a succession struggle whose outcome is uncertain. [redacted]

- Siad's Marehan coterie almost certainly would continue to oppose key reforms; in fact, a strong Marehan successor, eager to distinguish his policies from Siad's, might break more decisively with the IMF, even at the cost of Western economic aid.
- A new and vulnerable non-Marehan leader probably would be equally disinclined, particularly at the outset, to reduce the military's resources or challenge the prerogatives of the powerful Marehan establishment. [redacted]

Outlook for the Economy

More Stagnation in the Short Term

We see Somalia's near-term economic prospects as bleak, whether or not the Siad regime again comes to terms with the IMF and Western donors in the coming months. Siad in the past several years has passed up the opportunity afforded by his firm grip on power and the availability of substantial foreign aid to advance economic development. His refusal to impose sacrifices on his constituents has cost the country vital assistance as well as years of potential development. Somalia's resource limitations, coupled with its inefficient state-regulated economy, virtually ensure further economic and financial problems and continued dependence on foreign assistance. [redacted]

In particular, we believe Somalia's debt service will continue to impose an unmanageable burden on the government. Debt-service payments to multilateral donors alone—which cannot be rescheduled—will present Mogadishu with serious cash-flow problems. [redacted] nonreschedulable debt service will rise from \$51 million in 1986 to \$100 million in 1988, and will remain at about \$60 million per year through 1991. The 1987 debt-service obligation to the IMF alone equaled about 35 percent of Somalia's export earnings, while total multilateral debt service amounted to 50 percent of export earnings in 1986 and will surpass 70 percent in 1988. As a

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result, even with generous debt relief, Somalia probably will continue to fall behind on its repayment obligations. []

Given these economic problems and the Siad regime's resistance to increasing social and economic spending at the cost of military expenditures, Mogadishu probably will be unable to increase employment opportunities for its rapidly growing population for the foreseeable future. The Census Bureau estimates Somalia's population at 7.7 million, with an annual growth rate of 3 percent—or slightly less when adjusted for emigration to the Gulf. We expect population growth to continue at roughly this level into the 1990s. At this rate, Somalia's population would double to about 16 million in about 25 years, a factor that will further dilute government and donor development efforts by diverting scarce resources from investment to consumption for a larger population. []

As a result of these factors, we believe, living standards for both urban dwellers and the country's nomads—about 50 percent of the population—will continue to fall. The overgrazing of marginal land, added to recurrent drought and famine, is spurring the flight of rural dwellers to the cities. According to US Embassy reporting, rural migrants seeking to improve their lot already have helped to swell Mogadishu's population from about 520,000 in 1980 to some 1.2 million in 1986—up 130 percent. The gap between demand for urban social services and employment and the government's ability to provide them will continue to grow. Diplomatic reporting indicates that reduced migration to the Gulf states, where declining oil revenues have resulted in wage cuts and layoffs for Somali workers, is aggravating the employment problem. []

These economic and financial problems will persist in the short term even if, as we believe possible, Somalia experiences marginal economic growth. In our view such growth—primarily dependent on the weather—would be fragile for several reasons:

- Inadequate rainfall could again diminish food and livestock production.

- Even in the unlikely event Siad imposed further currency devaluations in an effort to boost Somalia's export prospects, its foreign exchange earnings would still partially depend on the fluctuating economic health of its traditional Middle Eastern markets.

- Somalia's reliance on the livestock sector and bananas to increase export earnings makes its foreign exchange prospects particularly vulnerable to competition from other suppliers. []

Uncertain Prospects Over the Long Term

Somalia's long-term development prospects will continue to be limited by the government's past unwillingness to press forward with economic reforms. Ultimately, in our view, Mogadishu's failure to give priority to economic development will undercut its ability to grapple effectively with population growth, youth employment, and an educational system inadequate even by Third World standards. Although Somalia's unutilized agricultural and fishing resources represent considerable potential for economic growth and jobs, there is little hope that Mogadishu will effectively develop these resources unless the effects of the clan-based system of political patronage, the associated socialist economic policies, and the dominance of the military are mitigated. Moreover, these problems virtually preclude any significant opportunities for Somalia to offset its meager financial resources with private foreign investment. []

Implications for the United States

Aid-Dependence

Despite declining US aid levels to Somalia in recent years, we expect the increasingly hard-pressed Siad government to continue looking to Washington for assistance, even if Mogadishu fails to conclude a new IMF agreement. Siad probably will try to use the US

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Secret**US Assistance to Somalia,
1984-88***Million US \$*

	1984	1985	1986	1987	1988 ^a
Total economic	68.8	78.7	58.2	52.7	36.0
Development	14.9	20.7	14.8	13.2	6.0
Support funds	35.0	30.0	22.0	17.5	25.0
PL 480 Title I/III	16.0	25.3	20.6	10.0	5.0
PL 480 Title II	2.9	2.7	0.8	12.0	
Total military	33.0	33.2	21.5	8.75	6.5
Foreign military sales					
Military assistance program	32.0	32.0	20.0	7.50	5.5
International military education and training	1.0	1.2	1.5	1.25	1.0

^a Estimated.

military facilities access agreement ⁶ with Somalia as a bargaining chip and will hint at an accommodation with the Soviet Union. Siad also almost certainly will continue to seek alternative donors rather than significantly alter his domestic agenda. _____

Mogadishu's response to any further US economic aid cuts will depend in large part on the level of US military aid, in our view. Given Siad's preoccupation with the potential military threat from Ethiopia, military assistance will remain the key criterion by which Mogadishu measures the success of its relationship with Washington. _____

_____ Siad expected the United States, in exchange for the US-Somali military access agreement of 1980, to help rebuild and rearm his military in the wake of its defeat in the 1977-78 Ogaden war. _____

Whatever the level of US economic aid, unhappiness over recent cuts in US military assistance probably will make the Somali Government less cooperative in

⁶ The Somali-US Military Access Agreement—concluded in 1980—allows US air and naval use of Somali facilities, joint exercises, military construction activity, and pre-positioning of supplies in support of US objectives in the region. _____

implementing the military facilities agreement and more likely to seek a higher price for renewal in 1990. Mogadishu probably would willingly loosen its ties to Washington and forfeit all US aid in the unlikely event that a larger and more reliable military aid package were available elsewhere. Even without an alternative source of military aid, we cannot exclude the possibility that further cuts in US military assistance would prompt Siad or a successor to cancel the bilateral security agreement on the grounds that it no longer commanded a sufficiently high return for Somalia. _____

Should the military facilities agreement remain intact through Siad's tenure, however, we believe US interests probably would be secure in the immediate post-Siad era as new leaders jockeyed for support and sought additional assistance from donors to bolster their standing. Indeed, we suspect even a successor ill disposed toward the United States probably would try to elicit increased military and economic aid from Washington in order to undercut opposition challenges. In the longer term, however, no matter who succeeds Siad, only substantial increases in US military and economic aid are likely to reverse the cooling trend in US-Somali relations. This trend would be quickened if Mogadishu concludes that US humanitarian aid to Ethiopia is helping to consolidate the position of the Addis Ababa regime. _____

Growing Political Instability

In our view, Somalia's economic problems—despite their magnitude—pose little immediate threat to Siad, but prospects for civil strife are increasing as population pressures, drought, and famine swell the flow of nomads into the cities. With the safety valve of emigration closed, at least temporarily, by stagnating employment opportunities in the oil-producing Gulf Arab states, competition for scarce government resources and jobs at home has intensified. Even if overseas employment opportunities improved, we believe increasing competition for resources—added to the hardships resulting from an austerity program and

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falling donor support—may set the stage for serious urban unrest and perhaps for violence directed against local or national authorities. []

We believe that widespread and sustained urban unrest triggered by economic problems could also lead indirectly to a further increase in the armed forces' role in running Somalia, at some cost to its already limited development prospects. If such unrest crossed clan lines, it would probably strain the capabilities of the Somali security forces and the military might demand a greater role in day-to-day decisionmaking to ensure order. At a minimum, the growing involvement of regular troops in maintaining order probably would raise the cost to Siad's successors of retaining the loyalty of the armed forces. Whatever the political stakes, any Somali leader in our view would have difficulty increasing the military's share of economic resources, and any effort to do so almost certainly would worsen the economic conditions fueling the unrest. []

The Soviet Angle

We believe the Soviets may attempt to exploit Mogadishu's discontent with US assistance, but we see no signs that Moscow is prepared to replace the United States as a major donor. A recent Somali-language article released by TASS, for example, blames the West for Somalia's economic problems and says the

time is ripe for an improvement in relations between Mogadishu and Moscow. Nevertheless, we doubt the Soviets would sink significant resources into the Somali economy because of Moscow's reluctance to upset its close ally, Ethiopia—which it views as far more important than Somalia—its own economic difficulties, and Mogadishu's debt to the USSR of about \$100 million. In our view, the Soviets' distrust of Siad also will continue to limit cooperation. Even if an anti-US faction took power in Mogadishu, we believe Moscow's gains would be limited—at least in the short term—by its alliance with Ethiopia and by Somali resentment of the Soviet “betrayal” during the 1977-78 Ogaden war. Still, any growth of Soviet influence in our view would:

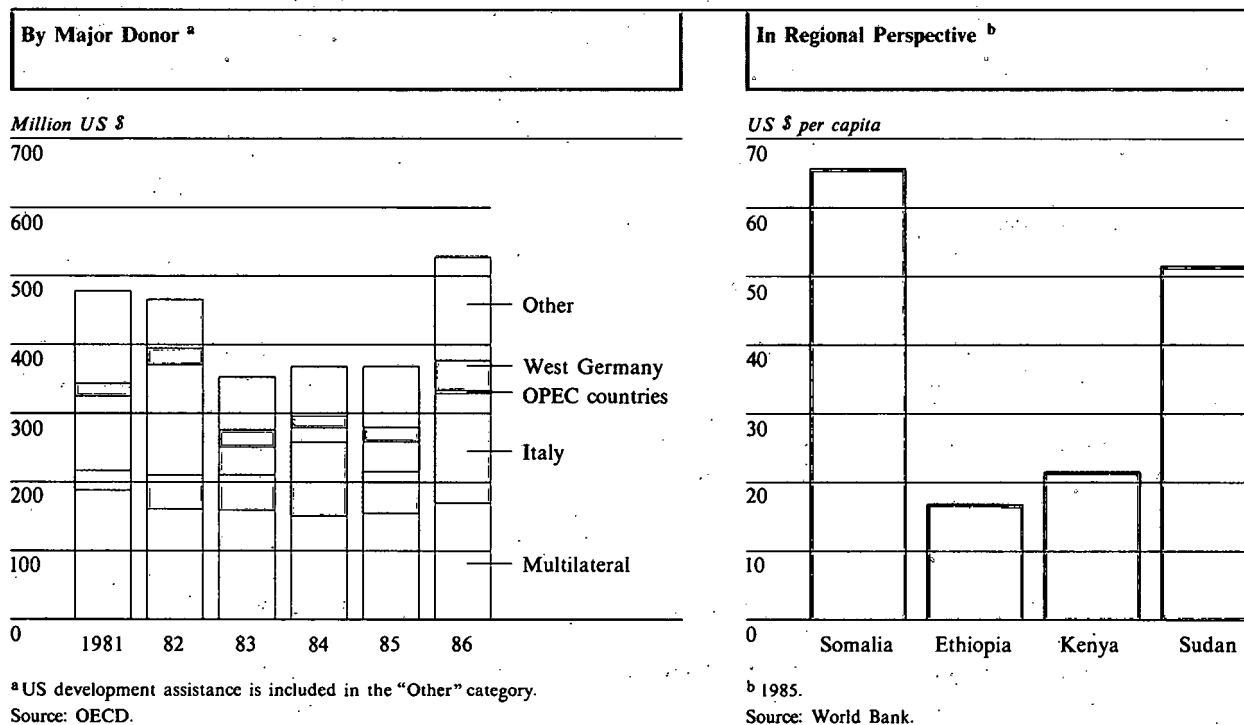
- Further decrease the Somalis' commitment to implement IMF liberalization measures and to negotiate new agreements with donors.
- Increase Somalia's inclination to demand a substantially higher price for renewing US security agreements in 1990.
- Increase Mogadishu's disposition to cancel the military facilities agreement if US aid continued to fall far short of Mogadishu's expectations. []

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Figure 3
Official Development Assistance to Somalia



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Appendix A
Relations With Donors

Despite Somalia's poor economic performance, donor response to Siad's quest for economic assistance over the past decade has been generous. In 1985, for example, Somalia's official external development assistance per capita was about 2.5 times more than the average for Sub-Saharan African countries, [redacted]

Major Donors. *Italy* for many years has been Mogadishu's major aid donor—primarily because of its colonial legacy in Somalia—in addition to purchasing almost 20 percent of Somalia's exports, mostly bananas. While its previous aid has been a mixture of grants and loans, Rome's assistance since 1985 has taken the form of grants, which periodically have helped to reduce Somalia's arrears to the IMF, according to Embassy reporting. Italy plans to extend more than \$225 million in economic assistance to Somalia for the period 1987 through 1989. [redacted]

The Italian assistance program nevertheless has been of limited benefit to the Somali economy because its priorities tend to conform more to Rome's political and business interests than to Somalia's long-term development needs, according to diplomatic reporting. [redacted]
[redacted] The Italian Government [redacted] appears committed to maintaining or even increasing its assistance to Somalia. [redacted]

West Germany's development program in Somalia, while considerably smaller than Italy's, has contributed on average about \$25 million a year since 1979. Technical assistance features prominently in Bonn's program, which includes support for small holder and irrigated agriculture. [redacted]

Arab countries and institutions also have provided Somalia—a member of the Arab League—with vital foreign aid. We estimate that Arab official development assistance—multilateral and bilateral—was

about \$50 million in 1985. None of Somalia's Arab creditors, however, participated in the 1985 debt rescheduling [redacted]

Saudi Arabia has been the key Arab donor and the cornerstone of Mogadishu's relations with the Arab world. Besides economic and some military assistance, the Saudis provide a reduced but still major market for Somali livestock exports as well as employment for some 50,000 Somali migrant workers. Saudi aid to Somalia, however, has fallen substantially in recent years, reflecting both lower oil revenues and frustration with Siad's failed economic policies, according to US Embassy reporting. In 1987, for example, Riyadh refused to help Somalia clear its arrears with the IMF. [redacted]

China has been the only steady source of Communist economic aid since Siad expelled the Soviets in 1977. The value of Beijing's aid has been relatively small, but the highly visible projects completed by the Chinese over the years include the country's only north-south highway and Mogadishu's hospital. China also maintains substantial numbers of civilian technicians in Somalia, many of them involved in road construction and diverse bilateral donor projects. Although Somali-Chinese relations initially grew out of China's efforts to counter Soviet influence in Africa, the Embassy reports that Beijing now appears to favor relations based on mutual economic cooperation. [redacted]

Searching for New Aid. Decreases in US aid since 1985—particularly for the military—and the failure of Saudi Arabia and European donors to expand their assistance have spurred Siad to look for new sources of assistance untied to economic reform. Last year, Siad sought to increase political and economic ties to

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several countries, including China, South Korea,⁷ Japan, Brunei, and Romania, but he netted only a few small-scale economic projects, some trade agreements, and promises of limited military assistance.

Siad also has sought to hedge his bets—and to goad Washington to restore recent cuts in military assistance—by attempting to mend relations with the Soviets, but his efforts have yielded no significant aid commitments. [redacted] cultural accords signed by a Soviet delegation last June provide for up to 400 scholarships for Somali students in the USSR, while a companion industrial cooperation agreement calls for Soviet restoration of several food-processing facilities financed by Moscow in the 1970s. The two countries also agreed to further negotiations to establish limited Soviet fishing rights in Somali waters. [redacted]

Siad's failure to secure substantial new assistance from non-Western sources has ensured at least in the near term his continued reliance on Western donors. His inability to attract new donors probably reflects Mogadishu's notoriously poor record of repaying foreign loans and maintaining development projects, the country's limited infrastructure and absorptive capacity, and the paucity of realistic proposals from the government. We believe these factors will continue to limit new assistance, especially for large-scale projects requiring advanced know-how, and the country's access to commercial credit. [redacted]

Siad in any case probably will continue to woo new donors less concerned with reforming the Somali economy—including Arabs and Soviets—albeit with limited success. In our view, Mogadishu may gain some economic—and possibly military—assistance by emphasizing its political and religious ties to the Arab world and its willingness to support donor country positions in international forums. [redacted]

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Appendix B

Key Economic Officials



Mohamed Siad Barre
President (since October 1969)

Has dominated Somali politics since coming to power in bloodless military coup ... about 75 years old ... expelled Soviets and allied Somalia with West after Moscow threw its support to Ethiopia during the Ogaden war (1977-78) ... opportunist ... puts highest premium on loyalty in making government appointments ... has rewarded his own Marehan clan with lucrative government positions and opportunities to participate in profitable business deals ... continues to recover from injuries suffered in May 1986 automobile accident ... gradually resuming former schedule, but has delegated some administrative duties to subordinates. [redacted]

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Mohamed Ali Samantar
*Prime Minister (since February 1987);
First Vice President (since 1971)*

Constitutionally designated successor to Siad, but faces strong opposition from elements of military and Marehan clan ... belongs to small outcast Toumal tribe, has weathered many Marehan attempts to replace him ... adept political infighter ... headed Defense Ministry from 1971 until his appointment as Prime Minister ... forceful, confident; has gained respect of many military and government officials ... nonideological ... recently criticized nepotism and encouraged private businessmen to reduce dependence on imports ... worked closely with Soviets during early 1970s when Siad was allied with Moscow ... now has good working relations with US officials ... [redacted]

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[redacted] opposed to Siad's cancellation last fall of foreign exchange auction ... member, SRSP Politburo ... about 56 years old. [redacted]

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Ahmed Suleiman Abdulle
Second Deputy Prime Minister (since February 1987)

Long a key figure in ruling circle ... member, SRSP Politburo ... confidant and adviser to his father-in-law, President Siad ... strong presidential contender, but has enemies from his days as chief of National Security Service (1970-81) and lacks command of security units ... has consistently followed Siad's political views. [redacted]

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[redacted] ... opposed to Siad's recent cancellation of foreign exchange auction ... as Minister of Planning (1982-84), served as liaison with donor nations ... member of Dolbohanta clan ... about 50 years old. [redacted]

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Abdurahman Jama Barre
Minister of Finance and Revenues (since December 1987)

Reluctant to deal with IMF because its programs would lessen government control over economy, according to US diplomats . . . long coveted the finance portfolio, say Embassy officers . . . frequently contentious and sometimes anti-US, but lately statesmanlike in relations with West . . . publicly promotes message of austerity, self-sufficiency, and nation-building . . . opportunist . . . distrusted by many Somalis, according to US officials . . . Minister of Foreign Affairs (1977-87) . . . about 50 years old. [redacted]

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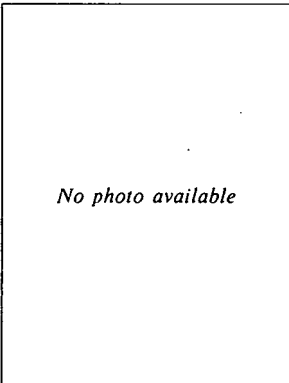


Abdulkadir Haji Mohamed
Assistant Secretary General, Somali Revolutionary Socialist Party (since March 1987)

Ruling party's top administrative official, but has limited decisionmaking authority . . . [redacted] longshot presidential contender; has some support among his own Marehan clan . . . member of the original ruling council established when Siad came to power . . . opposed to economic reform because it jeopardizes his clan's privileged economic and political position . . . about 48 years old. [redacted]

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Mohamoud Mohamed Noor
Governor, Central Bank (since August 1987)

Appointment reflects President Siad's concern about recent economic disturbances and his desire to assert greater control over economy . . . technocrat . . . former president of Somali Development Bank (1981-87) . . . member of group that influenced President Siad to revalue Somali shilling [redacted]

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No photo available

Osman Haji Yusuf

Chairman, Somali Commercial and Savings Bank

Member of group that influenced President Siad to revalue Somali shilling . . . rose through the ranks during long career with the Central Bank . . . US officials describe him as intelligent, but easily swayed . . . earned B.S. in banking from German Institute of Banking in 1969 and B.S. in economics from Somali National University in 1973 . . . member of Dolbohanta clan . . . about 45 years old.

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