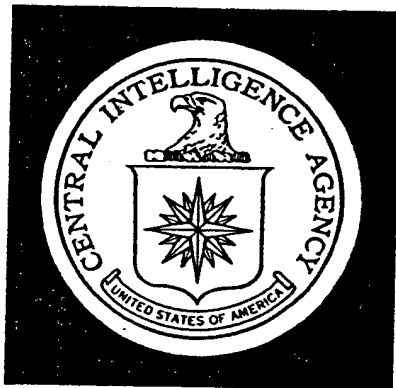


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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

*Somalia: A Comparison of Western
and Communist Aid Programs*

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May 1968

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
May 1968

INTELLIGENCE MEMORANDUM

Somalia: A Comparison of Western and Communist
Aid Programs

Summary

Since gaining its independence in July 1960, the Somali Republic has received about \$330 million in foreign economic aid commitments* -- nearly \$260 million from Western countries and international organizations and almost \$70 million from Communist countries. This has been one of the largest aid programs in Africa on a per capita basis. About 80 percent of Western aid, but only an estimated 10 percent of Communist aid, has been in the form of grants for such purposes as budget and export subsidies, infrastructure, health, education, and technical assistance. These types of aid have improved the underlying conditions for future development and have contributed to the increase in exports.

The Somali Republic has been too lacking in skilled manpower and financial resources, however, to make effective use of foreign aid for industrial and agricultural projects. Most such projects were

* The term commitment, used for both Western and Communist programs, refers to estimates of foreign aid allocated to specific end uses. This definition is synonymous with the term obligation as used in the EIC-R14 series, Aid and Trade Activities of Communist Countries in Less Developed Areas of the Free World.

Note: This memorandum was produced solely by CIA. It was prepared by the Office of Economic Research and was coordinated with the Office of Current Intelligence.

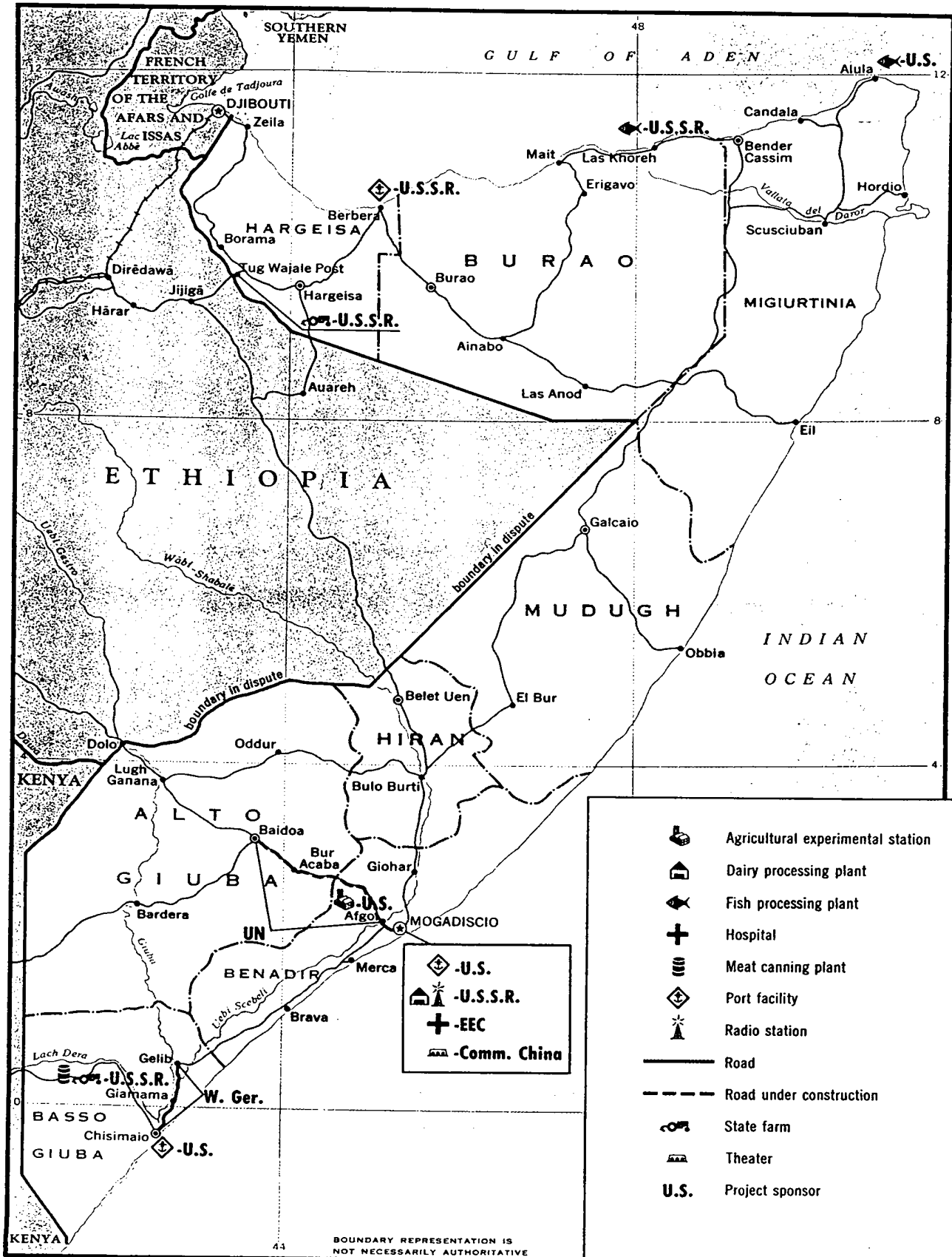
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undertaken under Communist aid programs. Many of these projects are operating below capacity and are unable to generate enough income to repay the loans used to build them. The Somali government has repeatedly requested and been granted moratoria on debt repayment.

Total Western aid to Somalia will probably remain close to recent levels over the next few years, although US bilateral aid is scheduled to end in 1970. Italy has been and will continue to be the largest aid donor. Waning enthusiasm for Communist programs on the part of Somalia and on the part of the donor countries themselves, combined with a recent shift toward the West in Somali foreign policies, probably will reduce Communist interest in major new aid commitments and will further contribute to the continuing decline in Communist aid over the next few years. On-going projects and technical assistance programs will, however, insure a Communist presence in Somalia for some time to come. (For general comparisons, see the charts and the map.)

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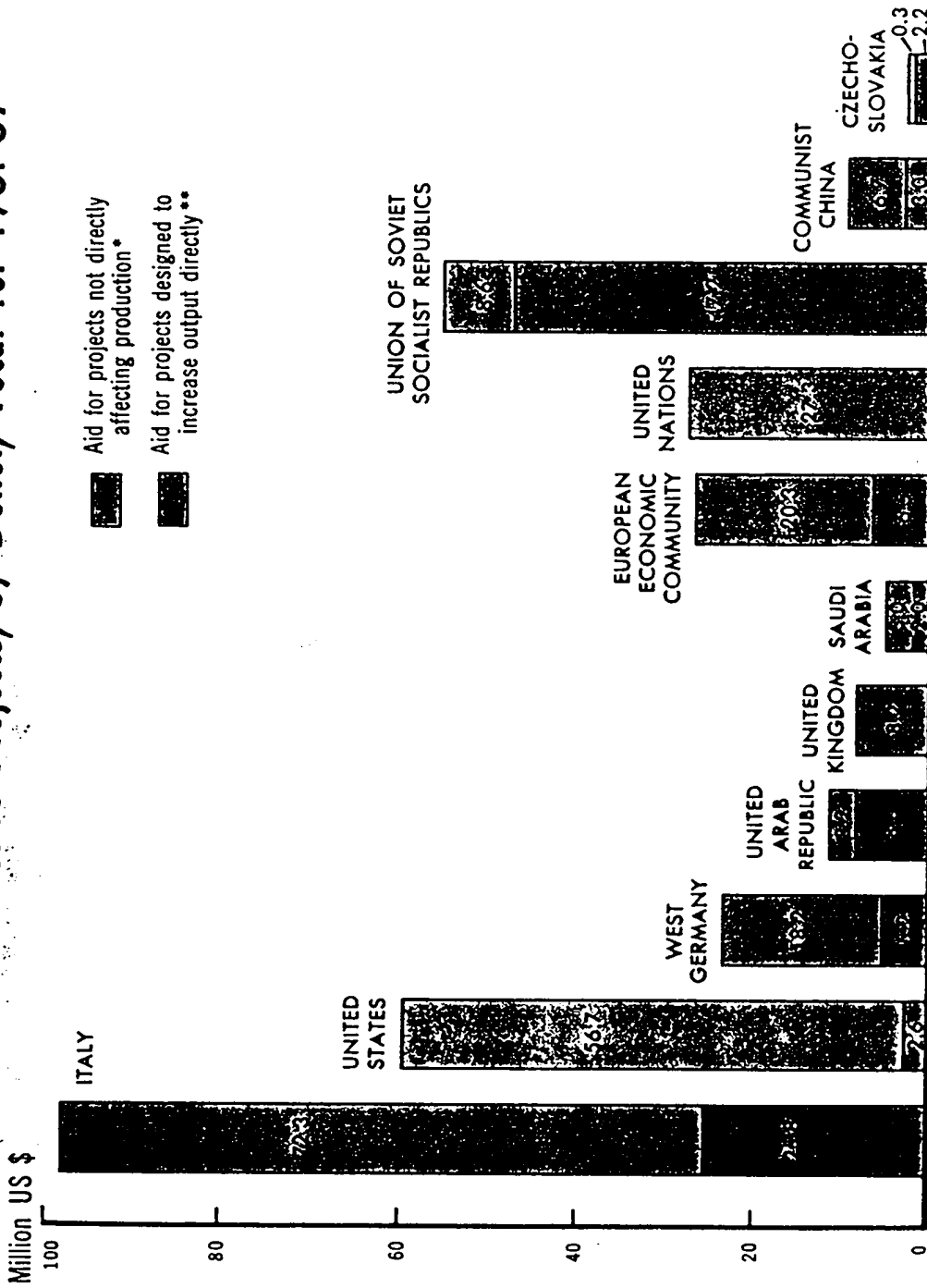


SOMALIA: Selected Western and Communist Aid Projects

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Somalia: A Comparison of Aid for Infrastructure and for Productive Projects, by Donor, Total for 1961-67



* Including expenditures on items such as health, education, transport, and budget subsidies

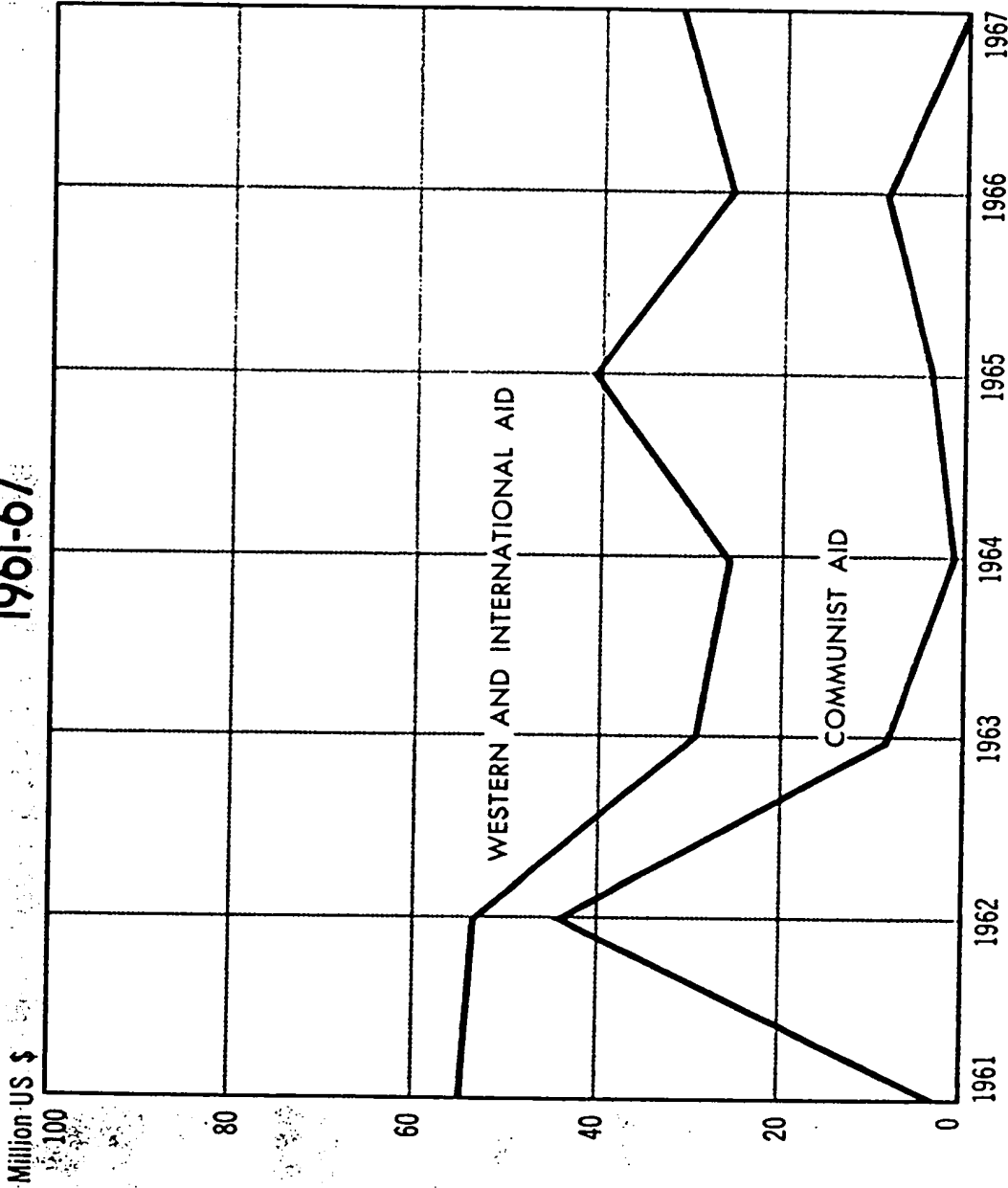
** Chiefly plant and equipment, farms, etc.

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Somalia: A Comparison of Levels of Western and Communist Aid Commitments

1961-67



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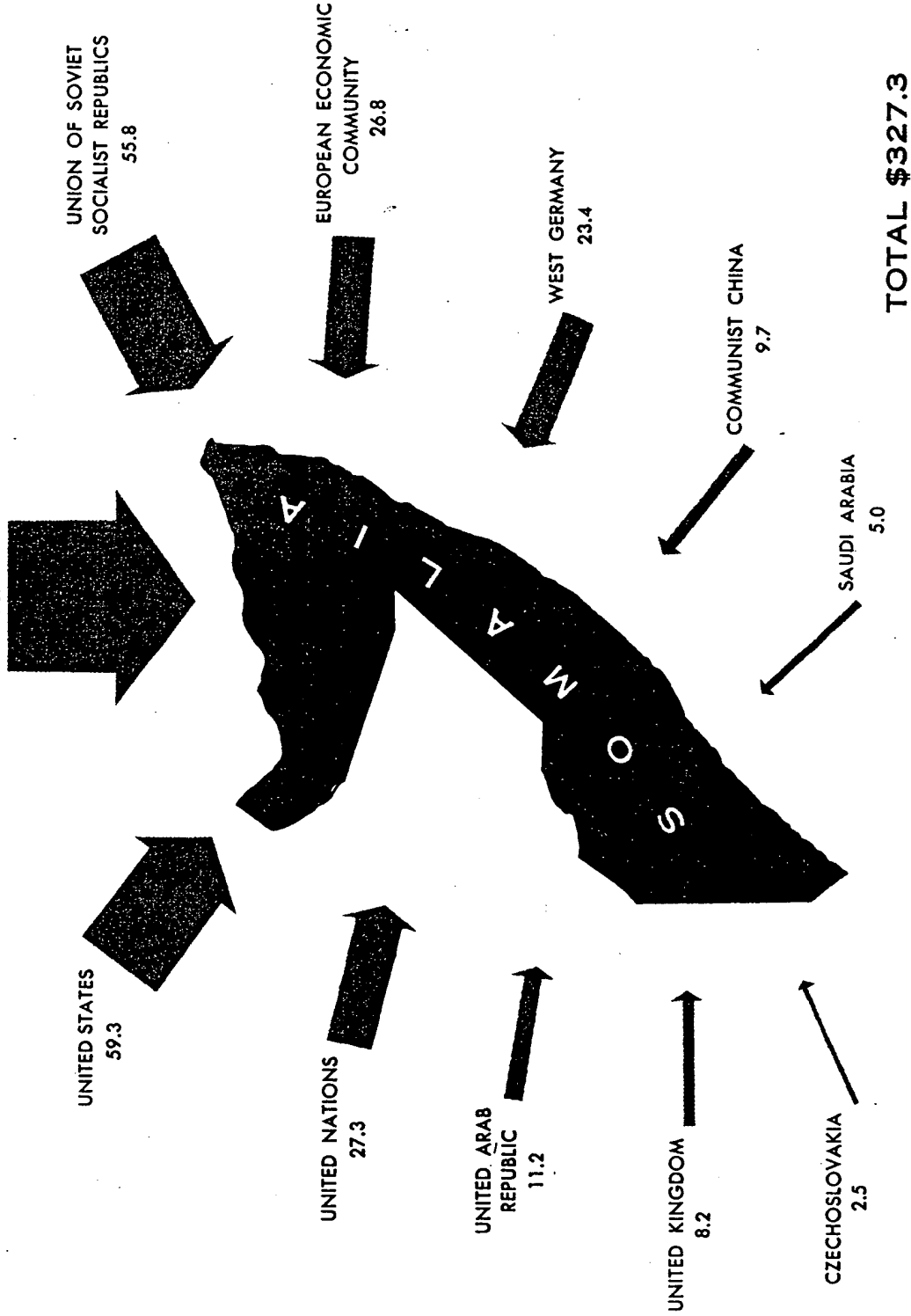
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Somalia: Aid Commitments, by Donor, Total for 1961-67

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Political-Economic Setting

1. Since independence, successive Somali governments have received relatively massive foreign assistance to develop the country's primitive economy. Until recently, at least, the development effort was hampered by Somali preoccupation with a Greater Somalia, which would include those parts of Kenya and Ethiopia inhabited by ethnic Somalis and former French Somaliland -- now called the French Territory of Afars and Issas. This irredentism prompted Somalia to maintain relatively large armed forces which in turn strained the budget and drew heavily on the small number of literate and technically trained personnel. When Prime Minister Egal came to power in mid-1967, he inaugurated a policy of détente toward neighboring Kenya and Ethiopia partly, at least, to free the government's limited energies for attention to domestic affairs.

2. Politically, Somalia is remarkably cohesive. There are almost none of the ethnic, cultural, or religious divisions which plague much of the rest of Eastern Africa. Economically there are some differences between the northern region, which, until independence, was British Somaliland, and the southern region, which was an Italian Trust Territory. Britain's interest in its colony centered on its strategic location at the mouth of the Red Sea, and the British legacy was an efficient administrative apparatus but very little economic development. Italy, however, encouraged emigration of Italian nationals and investment in its colony to the south with some success. Italian interests in southern Somalia remain strong, and these economic and cultural ties have been the reason for continuing official Italian aid.

3. The Somali Republic lacks natural resources and skilled manpower. Approximately 90 percent of the population of some 2.5 million lives within the subsistence sector. About 70 percent are nomadic pastoralists, and the rest eke out a precarious existence in primitive agriculture. The farming sector is unable to meet domestic food requirements because of low productivity and uncertain rainfall, although nearly half the country is pasture or potentially arable land. Exports, amounting to more

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than \$30 million in 1967, consist almost entirely of livestock products and of high-quality but high-cost bananas. Economic development is severely hampered by a lack of natural resources, the smallness of the local market, the dearth of infrastructure, and the scarcity of skilled and literate manpower.

4. In 1963, Somalia launched a five-year development plan which relied heavily on foreign aid and planned outlays of \$196 million, later increased to approximately \$280 million. Although Somalia failed to get all the aid it had hoped for, considerable sums were provided by the United States, Italy, and international organizations and smaller amounts by the USSR. During this plan period, transport, power, and port facilities were improved, mainly with foreign assistance, but agriculture and industry, which absorbed nearly 40 percent of total development expenditures, did not develop commensurately. Most of the manufacturing and agricultural projects completed under that plan are either inoperative or functioning well below capacity. The Mogadiscio dairy plant, the Las Khoreh fish canning plant, and the Tug Wajaleh and Giamama state farms are examples of projects that have fallen short of expectations.

5. The first plan foundered not so much for lack of foreign aid as for lack of Somali technical and administrative skills needed for planning and implementing projects. Moreover, the government's inability to meet its share of financial commitments and to provide operating capital to completed plants contributed to the plan's shortcomings.

6. The second development plan, scheduled to begin this year, is based on a realistic appraisal of available resources. High priority is accorded projects to increase production of food and the major exports -- bananas and livestock products. Less emphasis is placed on health, welfare, and industrial prospects than in the first plan. The new plan also is heavily dependent on foreign aid.

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Foreign Assistance from Western Sources

7. Western countries and international organizations have committed about \$260 million, or about 80 percent, of all foreign aid received since 1961 (see Table 1). About 80 percent of Western aid has been in the form of grants for development of infrastructure and education and for budget and export subsidies. Increased exports of bananas, livestock, and livestock products have been made possible by improvements in transportation and port facilities. New power stations have made electricity available to more urban dwellers, and educational and medical services are now enjoyed by a larger, although still small, portion of the populace. The remaining 20 percent has been project aid for industry, most of which has been in the form of interest-bearing loans. It is too early to judge the results of this aid because most of the projects are still under construction or only recently completed.

8. Italy, the major aid donor, has committed nearly \$100 million in aid, of which an estimated \$50 million was for budget subsidies and banana price supports. Since 1964, Italian assistance has declined as Somalia's budget deficit was reduced and as Somali bananas became more competitive in foreign markets. In 1967, Italy's commitments fell to about \$8 million, compared with \$11.5 million in 1964, and are expected to remain at or near the current level for the next few years. Apart from funds used to finance budget deficits and to support banana export prices, a substantial part of Italian aid was used to develop projects dominated by Italian interests including Italian-owned plantations, light industry, and commerce. An important accomplishment achieved largely with Italian funds was the development of a tougher skinned, more durable banana that would withstand the long trip to European markets. The remainder has been used to pay the salaries of Italian technicians and provide scholarships for Somali students in Italy.

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Table 1
Somalia: Annual Aid Commitments
by Western Countries
and International Organizations
1961-67

	Million US \$							
	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>Total</u>
Italy	31.1	16.0	11.5	11.5	11.0	9.0	8.0	98.1
United States <u>a/</u>	4.1	14.8	8.2	3.4	7.7	5.0	16.1	59.3
West Germany	0	4.7	6.5	3.2	3.9	4.0	1.1	23.4
United Arab Republic	11.2	0	0	0	0	0	0	11.2
United Kingdom	4.5	3.7	0	0	0	0	0	8.2
Saudi Arabia	0	0	0	0	0	5.0	0	5.0
United Nations European Economic Community	3.5	0.5	3.1	1.0	11.2	2.3	5.7	27.3
	0.3	13.6	0	6.5	6.4	0	0	26.8
	54.7	53.3	29.3	25.6	40.2	25.3	30.9	259.3

a. US aid is for the fiscal year ending 30 June.

9. Aid from the two other principal Western donors, the United States and West Germany, has fluctuated. West German aid has averaged about 40 percent of US aid, but German commitments fell in 1967 to \$1.1 million, whereas US commitments reached a record \$16.1 million.

10. About 35 percent of US aid, which totaled over \$59 million by the end of Fiscal Year 1967, was used to develop port facilities in Mogadiscio and Chisimaio. About 25 percent was committed to agriculture, irrigation systems, livestock production, and forestry. Except for emergency food and flood relief, which accounted for an estimated \$5 million, most of the remaining US aid was spent on education, public safety, student scholarships, and technical assistance. Nearly half of the West German aid was used to finance construction of the 72-mile road from Chisimaio to Gelib, a textile mill, and a banana fiber plant. The remainder was assigned to a wide range of technical assistance projects, an experimental farm, educational facilities, and equipment for the national police force.

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11. The remainder of aid from Western countries came mainly from the United Kingdom, the United Arab Republic, and Saudi Arabia. The United Kingdom concentrated on budget support and a variety of small development projects mainly in the northern region, which formerly was British Somaliland. In 1963, however, aid was suspended when diplomatic relations with the United Kingdom were broken because the British refused to give part of Kenya to Somalia. Economic assistance from the United Arab Republic has been allocated to agricultural schemes, a development bank, housing, roads, and educational facilities under a credit extended in 1961, but little has been done to implement these projects. Saudi Arabian aid has been limited to one loan in 1966 for regional airports and several small manufacturing projects.

12. The European Economic Community (EEC) provided about half of the \$54 million in aid from international organizations; the remainder came from United Nations affiliates and the International Development Association (IDA). EEC aid consists of grants for welfare projects, school construction, basic infrastructure, agricultural diversification, and student scholarships. Although the EEC made no new commitments in 1967, expenditures under several earlier grants will continue into the next several years. UN agencies have granted more than \$21 million, principally for technical assistance, health, welfare, and training programs. In 1965, the IDA provided a \$6.2 million loan for construction of a road from Afgoi to Baidoa. Interest rates are nominal and repayments extend 40 years, allowing a 10-year grace period.

Communist Aid

13. The Soviet Union, Communist China, and Czechoslovakia have extended about \$90 million in economic assistance since 1961, but only about \$70 million had been committed to specific purposes by the end of 1967 (see Table 2). About 90 percent of Communist aid has been in the form of loans on quite favorable terms, and the remainder was in grants. Chinese Communist loans bear no interest, include a grace period, and call for repayment over ten or more years. Some Soviet loans allow up to twelve

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years for repayment after a grace period, and repayment is to be made in goods and convertible currency if acceptable goods are not sufficient. Czechoslovakia's loans must be repaid in three to eight years starting one year after utilization of each portion, and repayment may be made in goods or convertible currency. Extensions of Communist aid totaled about \$80 million between 1961 and 1963, reflecting initial interest in the newly independent state. The Somalis appeared to be impressed by the Communist emphasis on visible and large-scale projects such as state farms and industrial development schemes. Praise turned to criticism, however, as Soviet projects experienced construction delays and output fell short of expectations.

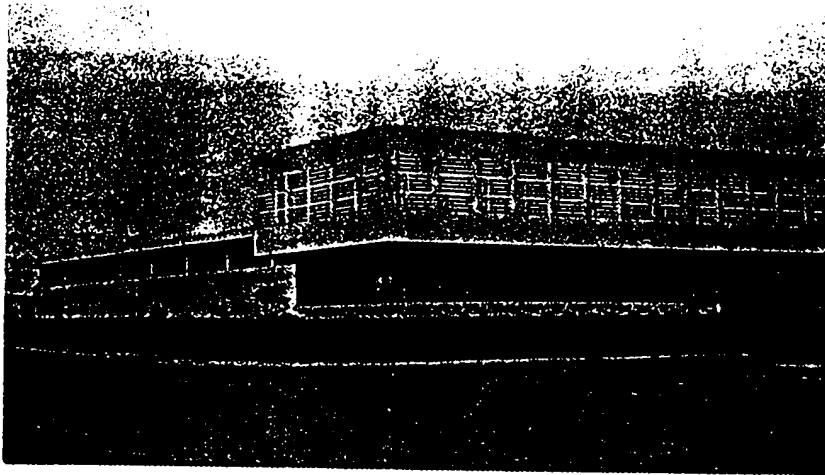
Table 2

Somalia: Estimated Annual Aid Commitments
by Communist Countries
1961-67

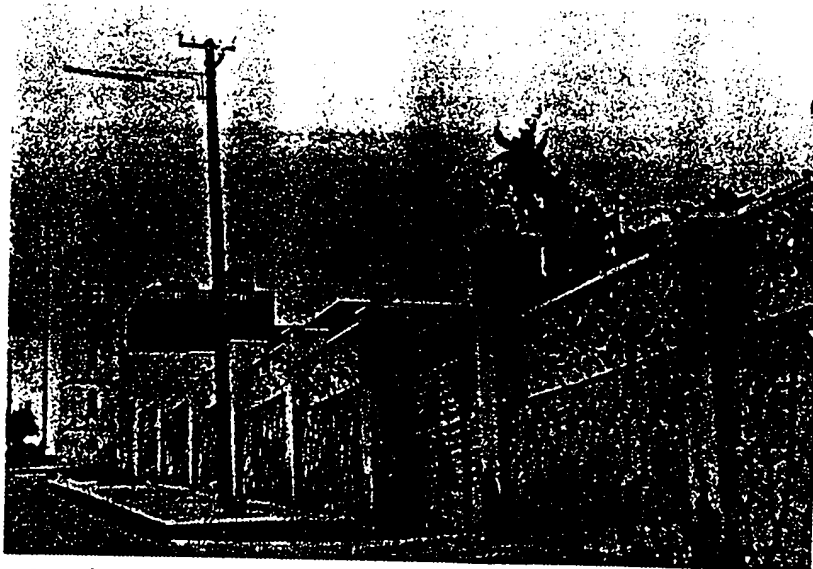
	Million US \$							
	<u>1961</u>	<u>1962</u>	<u>1963</u>	<u>1964</u>	<u>1965</u>	<u>1966</u>	<u>1967</u>	<u>Total</u>
USSR	0	44.3	0	1.0	2.0	8.5	0	55.8
Czechoslovakia	2.5	0	0	0	0	0	0	2.5
Communist China	0	0	8.0	0	1.5	0.2	0	9.7
	2.5	44.3	8.0	1.0	3.5	8.7	0	68.0

14. Somalia and the USSR share responsibility for the failure to maximize benefits from the estimated \$56 million Soviet commitments. Somalia's inability to finance local costs has resulted in numerous delays of Soviet projects. Somalia's inability to finance its share from local revenues may have led the USSR to double the initial quantity of commodities to be sold on the domestic market in order to generate the necessary local currency. Moreover, the USSR failed to conduct adequate feasibility studies in some cases before undertaking projects, with the result that some projects have failed to meet operating costs or have been unable to compete in free markets. At the Soviet-built dairy in Mogadiscio and the fish-processing plant

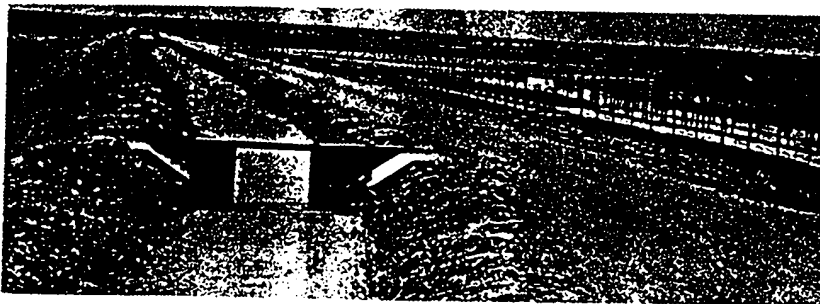
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*Soviet-Built Printing Building Used in
Corrier Della, July 1964*

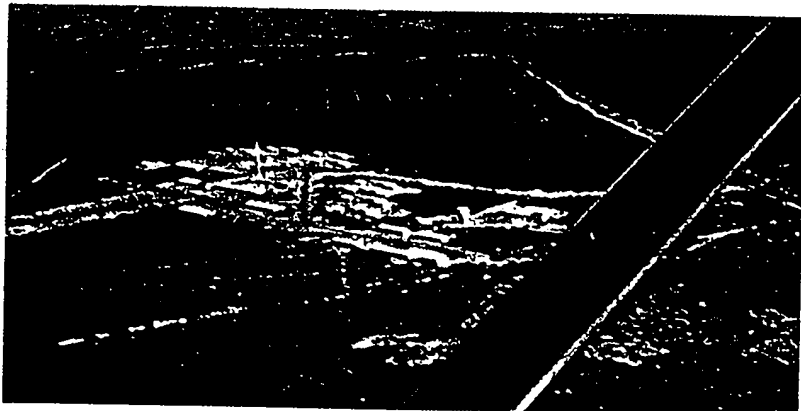


*Soviet-Built Radio Station in Mogadiscio,
December 1967*

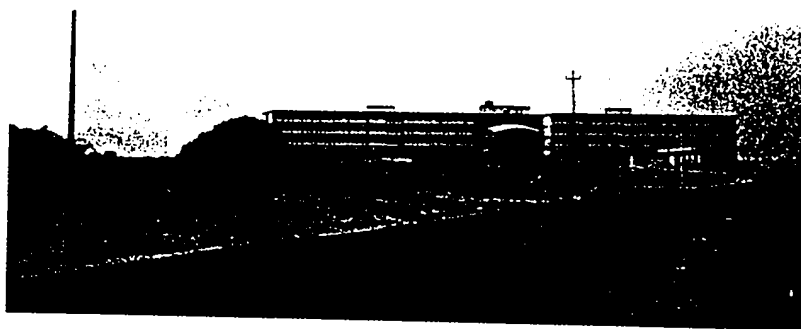


*USAID-Built Irrigation Canal at the Afgoi
Agricultural Experimental Center, 1966*

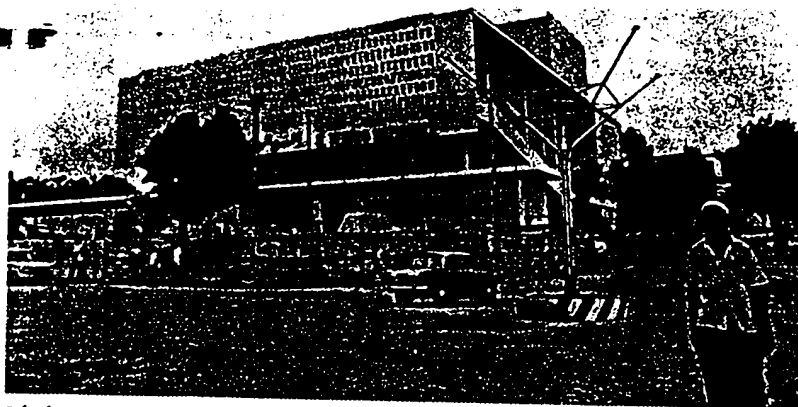
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*USAID-Built Michigan Technical Training School
in the Afgoi Agricultural Experimental Center,
May 1968*



*EEC-Built New Hospital in Mogadiscio, July
1964*



*Chinese-Built National Theater in Mogadiscio,
December 1967*

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in Las Khoreh, for example, inadequate supplies of raw materials for processing have limited output to far below capacity levels. The progress of the state farms at Tug Wajaleh and Giamama, which have been reduced in size from original plans, has suffered from construction delays that stem from a variety of causes, among them a shortage of materials and labor. Other Soviet projects, including two hospitals, a printing plant, a secondary school, and a radio transmitter, have been completed and function effectively. Although still unfinished, the new port facilities at Berbera also have notably aided economic development.

15. Communist China has agreed to supply about \$23 million in aid since 1961, but less than half of this has been committed to specific tasks. China has provided grants for budgetary support, a theater, and 30 water tank trucks. Also, a small number of Chinese Communist doctors and agricultural technicians are in Somalia. Czechoslovak assistance has been minor and limited to medical supplies and mechanical equipment for the machinery pool, all of which has been delivered.

Prospects

16. The slight decrease in Somalia's foreign aid anticipated over the next several years will make little difference in the country's slow rate of economic development. Somalia's major problem has been the acute lack of natural and human resources to assimilate and make effective use of foreign aid. Until large improvements are made in the educational level, in transportation, and in basic agriculture, the prospects for project aid that can pay for itself are dim. The failure of the USSR to recognize this need for a basic infrastructure was one of the reasons that its earlier self-amortizing projects in industry and agriculture were not particularly successful. In addition, the Soviet projects typify the difficulties that can arise when ill-conceived projects are developed in isolation and are not preceded by adequate feasibility studies.

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17. Non-Communist aid steadily declined for several years and now appears to have leveled off, except for US bilateral assistance which rose to a record \$16.1 million in 1967 but is scheduled to be phased out by 1970. Somali authorities apparently hope that joint development of the Webi Shebelli River basin by Somalia and Ethiopia might qualify as a regional project under the new US policy of replacing bilateral aid with assistance to regional development.

18. Italian subsidies to Somalia's budget and banana industry have been reduced and may decline still further, but development assistance probably will continue at present levels. West German aid fell sharply in 1967 but seems likely to increase in the next few years. Aid from the UAR and Saudi Arabia has never been large or consistent, and the costs of the Arab-Israeli hostilities are expected to lead to a further reduction or complete elimination of these programs. Although diplomatic relations with the United Kingdom have recently been resumed, that country probably will provide only token aid. International organizations are likely to maintain programs at past levels.

19. Although large amounts of additional Communist aid to Somalia are doubtful, moderate amounts of new credit may be forthcoming from the USSR, as was the case in Guinea, to bail out the projects to which the USSR has already committed its prestige. The lessons learned in small underdeveloped countries like Guinea and Somalia are evident in the more critical approach that the USSR has adopted since 1965 toward project aid. Prospects for additional aid from Communist China are not promising, although small projects may be undertaken under the 1963 line of credit, of which some \$13.6 million apparently remains uncommitted.

20. Although the economic outlook for Somalia is generally dim, there are several bright spots. The closure in mid-1967 of the Suez Canal, through which perishable bananas were moved to Italian and other European markets, resulted in an immediate dislocation of this important export sector; but within five or six months, as a result of new marketing and handling techniques, exports had

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largely recovered. Bananas now move around the Cape of Good Hope in faster ships and arrive in better condition than before the closure of the canal. Thus, if and when the canal is reopened, Somali bananas will be more competitive than before and the need for subsidies will be reduced or eliminated sooner than had been expected.

21. In December 1967, uranium and rare earth deposits were found in Somalia and are now being surveyed. Initial results suggest that the uranium reserve may total 250,000 tons, or more than one-fourth the proved world reserves. Exploitation of these deposits could begin by the early 1970's and, if present expectations are borne out, could increase exports by nearly 50 percent, or about \$15 million. However, the return to the Somali government in royalties and tax revenues would be relatively small.

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