NOTES ON INDIVIDUAL COUNTRIES BY THE SECRETARIAT

THE SOMALI REPUBLIC

I. Basic data on the economy

1. The Somali Republic, which comprises the former United Nations Trust Territory of Somalia and the former British Somaliland Protectorate, is located on the north-eastern coast of Africa on the Indian Ocean and the Gulf of Aden. It covers an area of approximately 650,000 square kilometres. Most of the country is arid. The location of the country on the equator and the prevalence of monsoon winds during the greater part of the year are the determining climatic factors. Accurate census figures are not available as most of the Somali people lead a nomadic life. Population estimates range from 2 to 2 1/2 million. The rate of population increase has been estimated to be in the neighbourhood of 1 per cent per year. Approximately 80 per cent of the Somali population are virtually outside the market economy. About three fourths of the population depend for their livelihood primarily on animal husbandry, about 15 per cent on settled agriculture, some 3 per cent on commerce and approximately 1 per cent each on handicrafts and fishing. The remainder are employed by the Government, in industry, construction, transport and services.

2. Accurate national income statistics are not available because of the difficulties of assigning meaningful monetary values to economic activities in the subsistence sector. From a number of estimates which have been made, it appears that average per capita incomes is of the order of magnitude of 50-60 dollars per year.

1 Certain data included in this note are based on fragmentary information in view of the difficulties to establish reliable and truly comparable statistics for what is predominantly still a subsistence economy. The statistics included in this note, which are subject to verification and amendment by the competent Somali authorities, should therefore be regarded as indicators of the overall magnitudes involved rather than as precise data.
3. Livestock, estimated at some 4.3 million camels, 1.1 million cattle and approximately 13.5 million goats and sheep, is the country's most valuable economic resource. In general, however, animal husbandry is not undertaken with a view to supplying the market and, compared to production, the proportion offered for sale is negligible.

4. Approximately 20 per cent of the land area of the Republic is considered arable, but only a very small proportion is under cultivation. Yields are low. Principal dry-land crops are sorghum, corn and sesame, other non-irrigated crops include cotton, peanuts, beans and tobacco. Some 22,000 hectares are under irrigation. Bananas, planted on approximately 9,000 hectares, are the main cash crop, the single most important export commodity and an important food item in the Somali diet. Other crops grown on irrigated land are: sugar-cane, citrus, papaya and some maize.

5. The known mineral deposits of the country include beryllium, columbite, mica, manganese, copper, lead, titanium and low-grade iron ores. Small quantities of beryllium, columbite and mica have been exported in the past, but production was uneconomic and was therefore abandoned. Oil prospecting has been in progress for a number of years but so far no commercially exploitable deposits have been found.

Exports

6. Total exports in 1961 amounted to $26.8 million. Over the period 1958 to 1961 the value of exports showed an average annual increase of approximately 13 per cent. Exports for 1962 were between 10 and 15 per cent lower than in 1961 due to large-scale flood damage late in 1961. The most important export commodities over the five-year period 1957-1961 (figures in brackets indicate their average share in overall exports) were: bananas (46%), live animals (23%), hides and skins (10%), timber and charcoal (4.6%), fish and fish preparations (2.4%), meat and meat preparations (1.8%), raw cotton (1.25%), incense and myrrh (0.95%). Exports to Italy have in recent years accounted for more than 55 per cent of all exports followed by exports to Arabia and Aden, which accounted for approximately 16.5 and 12.4 per cent respectively.

Imports

7. Imports amounted to $32.8 million in 1961. In recent years the value of imports has shown an average rate of increase of 6 per cent per annum. The most important categories of imports over the period 1957-61 (figures in brackets give average shares in overall imports) were: textiles and clothing (18%), cereals and cereal preparations (10%), non-electrical machinery and transport equipment (8% each), fruit and vegetables (6%), fuels, lubricating oils and related products (5.5%), sugar (4%).
Balance of payments

8. During most of the post-war period Somalia has incurred heavy trade deficits which were balanced by foreign grants and more recently also by loans. The deficit has been decreasing in recent years due to the more rapid expansion of exports as compared with imports. Nevertheless there remains a gap of considerable proportions. According to Central Bank statistics, the deficit on merchandise account in 1961 was approximately $10.4 million, with a total deficit for goods and services of $13.22 million, offset by net receipts, mainly transfers from foreign governments, of $13.24 million. Foreign exchange reserves are equivalent to approximately five to six months’ average import payments.

Government finance

9. In 1961 Government tax revenue amounted to So. 123.6 million ($17.6 million) and total Government expenditures to So. 172.3 million ($24.6 million). Despite significant progress in increasing Government revenue in recent years there remains a serious gap between receipts and expenditures. Both in 1961 and in 1962 the deficit in the Central Government budget, which was met by foreign grants, amounted to approximately 25 per cent of ordinary budget expenditures. Revenue receipts under the heading "customs and taxes on production" have in recent years accounted for more than one half of total ordinary revenue. Export duties on bananas, levied at a rate of $8.57 per ton, accounted for approximately 5.5 per cent of total tax revenue in 1959 and 1960 and for approximately 4.0 per cent in 1961. Total tax revenue directly or indirectly attributable to charges levied on production, exports and income from bananas has been estimated to have been of the order of So. 20 million ($2.82 million) in recent years.

II. Economic development policies

10. A five-year development plan has been under consideration by the Government for some time and is now in an advanced stage of preparation. It is understood that, as under previous plans in operation prior to independence, expenditures for the improvement of grazing land and agriculture will continue to receive high priority. On the other hand more stress than hitherto is likely to be placed on measures for the diversification of exports. Bananas are expected however to continue to be the country’s major source of foreign exchange earnings and exports of bananas are expected to increase. Other exports for which the plan foresees some increase are livestock, hides and skins, and particularly canned meat products, fish and fish preparations.

11. At the same time high priority will be given to measures reducing the country’s reliance on imports of items which could economically be produced in sufficient quantities in Somalia namely textiles, grains, sugar, fruits and vegetables and tobacco, items which, if taken together, at present account for approximately 40 per cent of all imports into Somalia.
12. Heavy emphasis will be placed on the improvement of the country's infrastructure. At the present time the country has no port with a deep-water berth, there is no railway, road traffic between the major cities and between the producing areas and the ports has to depend on sand and gravel roads many of which become impassable during certain periods of the year. The overall length of asphalted roads in the country is estimated at less than 1,000 kilometres. The inadequacy of the infrastructure has been one of the most serious obstacles to development and a major cost item in Somalia's exports. A number of major road and port improvement projects are under way or scheduled and should permit a reduction of costs and facilitate exports. Most of these projects are scheduled for completion within a period of approximately two years.

III. The rôle of bananas in Somalia's economy and trade

13. Bananas are the most important export crop of Somalia. They accounted for 48.0 per cent of total exports from Somalia in 1961 and for 67.7 per cent of all exports from the southern region. The industry provides employment for more than 25,000 workers who, with their families, account for almost 40 per cent of the non-migratory population in the southern region of Somalia. Tax revenue directly or indirectly attributable to the production and export of bananas has been estimated to amount to approximately So. 20 million ($2.82 million) a year, the equivalent of approximately one sixth of ordinary Government revenue.

14. Bananas are cultivated on an area of approximately 9,000 hectares of irrigated land along the Uebi Scebeli and Giuba rivers in the southern region of the Republic. Total exports of bananas from Somalia amounted to almost 74,000 tons in 1960 and 78,500 tons in 1961. In 1962 exports were somewhat lower, due to extensive flood damage to the plantations in the autumn of 1961.

15. The Italian Banana Monopoly (A.M.B.) is the sole importer of bananas; the trade between Italy and Somalia is regulated by a special agreement valid for a period of five years, ending 31 December 1965, with provision for renewal. The agreement provides for the purchase of A.M.B. of specified quantities of bananas at pre-determined prices to be agreed upon between A.M.B. and F.E.B.A.S., the association representing the growers in Somalia. Maximum retail prices for bananas on the Italian market are fixed by A.M.B. Italy grants duty-free entry to imports of bananas from Somalia. Italian imports of bananas from States associated with the EEC are subject at present to a duty of 25.2 per cent ad valorem and imports from third countries to a duty of 31.2 per cent. Prices obtained by Somalia for its banana exports to Italy have been well above those received by other suppliers in Italy, or elsewhere. Prices have, however, been decreasing from a level of $371 per ton c.i.f. Italian port of entry in 1949, to $250.3 in 1957, $215 in 1961 and approximately $200 in 1962.

Conditions and prospects for banana production in Somalia

16. The reasons for the high cost of Somali bananas have been the subject of detailed investigations. The Somali banana growers themselves have sent representatives to all major banana-producing areas of the world to study
method and costs of production. On the basis of their findings, various measures are currently being taken to improve the competitive position of the industry. The high cost of Somali bananas were found to be mainly due to high costs for packing, stevedoring, loading and sea transport.

17. The table below contains a break-down of the cost, by major categories, of Somali bananas at various dates, together with an indication of the reduction in cost which the industry hopes to achieve by 1965/66, bearing in mind the provision of the Agreement on Bananas between Italy and Somalia, that the industry should become internationally competitive. The figures are rounded and represent average values adapted from different cost estimates, obtained from Somali trade and industry sources. Figures cited should be understood as general indicators rather than as precise cost data.

<table>
<thead>
<tr>
<th>TABLE 1</th>
<th>Average Cost of Somali Banana Exports</th>
<th>(dollars per 1000 kg.)</th>
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<tbody>
<tr>
<td></td>
<td>1957</td>
<td>1962</td>
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<tr>
<td>Price ex plantation</td>
<td>87.8</td>
<td>73.8</td>
</tr>
<tr>
<td>Packing (material and labour)</td>
<td>27.2</td>
<td>14.7</td>
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<tr>
<td>Transport from plantation to port</td>
<td>7.5</td>
<td>7.0</td>
</tr>
<tr>
<td>Stevedoring, loading and harbour tax</td>
<td>10.7</td>
<td>9.8</td>
</tr>
<tr>
<td>Export duty, miscellaneous fees and charges</td>
<td>14.7</td>
<td>14.7</td>
</tr>
<tr>
<td>Sea transport and insurance</td>
<td>88.0</td>
<td>70.0</td>
</tr>
<tr>
<td>Shrinkage and waste during sea transport loading and unloading</td>
<td>14.4</td>
<td>10.0</td>
</tr>
<tr>
<td>Price c.i.f. Italian port of entry</td>
<td>250.3</td>
<td>200.0</td>
</tr>
<tr>
<td>Average price received f.o.b.**</td>
<td>147.9</td>
<td>120.0</td>
</tr>
</tbody>
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* Assumes that present export duty with an incidence of $8.57 per ton (weight at loading) will be eliminated.

** Export prices agreed upon between A.M.B. and F.E.B.A.S. are paid on the basis f.o.b., weight and grading c.i.f. The prices received per ton exported therefore fall short of the prices stipulated in the purchase arrangement. The price stipulated under the present arrangement is lire 87 per kg. plus lire 4 per kg. contribution to the Banana Infrastructure Fund, plus Lire 4 per kg. temporary flood relief assistance, the latter being paid out of profits by A.M.B.
18. To achieve this reduction in cost the industry is shifting its production from the Juba nana variety, a local strain of the Cavendish banana, to the poyo, a variety now extensively grown in West Africa. The shift to this variety, which is expected to be substantially completed by August/September 1965, will, it is hoped, permit substantial savings to be achieved in packing and transport costs, through certain special qualities inherent in this type of banana. Increasing use is to be made of polyethylene bags and cardboard boxes for the packing of bananas. The use of crates for packing bananas will be discontinued. As a result of this shift in packing materials better load factors on the banana ships will be obtained and a decrease in expenditures for sea freight by approximately 30 to 40 per cent is expected by the industry.

19. On the production side, efforts are being made to reduce overhead costs, by the consolidation of the smaller plantations into larger producer co-operatives. Considerable investments are being made for new equipment. In the Genale area, the most important banana producing area, deep wells are being drilled to ensure adequate water supplies at all times of the year in order to permit the phasing of production with seasonal variations in export demand. Production seems to be capable of significant expansion, both through increasing the yield per hectare through greater use of fertilizers and by putting new land under irrigation. Reduced unit costs are expected to result from a further expansion of banana production.

20. Taking account of the various efforts being made for improving the infrastructural facilities of the country and for reducing costs of packing, transport and production and especially if there were a reduction or elimination of the present export duty, it appears reasonable to expect that the target set by the industry for reducing present export costs by almost 30 per cent by 1965/66 will be reached.

IV. Effect of the removal of trade barriers and preferential systems on Somali banana exports

21. It will be noted that the target price of $144 per ton c.i.f. Italian port of entry by 1965/66 corresponds to the price at which suppliers in Latin America at present offer their bananas on the unprotected German market, increased by 20 per cent, i.e. the rate of duty under the Common External Tariff of the EEC. Given a duty incidence of 20 per cent and assuming that the prices c.i.f. European port of entry from Latin American suppliers would remain at their present level, it appears that imports from Somalia, if the 1965/66 target price were reached, could be offered in markets of the EEC at prices not higher than those of the most competitive suppliers. It should be pointed out, however, that imports from Latin America are predominantly of the "Gros Michel" variety, while those exported by Somalia belong to the "Cavendish variety". Apart from price, therefore, preferences for one type or the other may play a significant rôle in determining a suppliers competitiveness in any given market.
22. As far as exports to Italy are concerned the volume of exports and the prices received would seem to depend, at least until the end of 1965, on the arrangements negotiated annually under the Agreement on Bananas, concluded between the Italian Government and the Somali Government.

23. Given a continuation of the present arrangements and success by the industry in increasing the targets it has set for itself, possibilities for expanding exports, at any rate to the Italian market, appear favourable. Progressive reductions, in the maximum retail prices for bananas fixed by the Italian Banana Monopoly from lire 650 per kg. in 1949, to 450 and 350 lire per kg. in 1960 and 1962 respectively have led to a significant increase in per capita consumption from 0.8 kg. in the period 1948-52, to 1.5 kg. in 1960 and 2.3 kg. in 1962. Still, consumption in Italy is relatively low, only one third of average per capita consumption in the other countries of the EEC, so that with rising incomes and an appropriate price policy, together with improvements in and expansion of the distribution system for bananas in Italy, possibilities for significantly increasing consumption, and consequently imports of bananas into Italy appear to be promising.

24. If the present arrangement with the Italian Banana Monopoly for the purchase of specified quantities of bananas were to be discontinued and if barriers to trade generally on bananas were to be eliminated it would be difficult to imagine that the industry could remain in operation on its present basis. On the other hand the possibility cannot be excluded that the more highly organized plantations may eventually be able to supply bananas at internationally competitive prices. To permit Somali bananas to be landed in Europe at a price of $120 per ton, and assuming that no further reduction in the cost of transfer from those given as targets for 1965/66 in the table above could be achieved, the ex-plantation price of Somali bananas would have to be reduced to $40 per ton, which is approximately 54 per cent of 1962 average costs, and $23 below the target set by the industry for 1965/66.

V. Development possibilities for other products

25. In order to ascertain to what extent any possible loss in export earnings from bananas could be offset by expansion in other sectors, it seems relevant to examine possibilities for the expansion or development of other export commodities and possibilities for import saving.

Production for export

26. Somalia has considerable, at present largely unutilized, resources for the production for export of livestock, meat products, hides and skins, fish and fish preparations, citrus and cotton. Developments in these sectors are as follows:
(a) **Livestock exports**

27. Livestock is the second most important export item in Somalia's export trade, but in relation to the volume of production exports are small. Exports of livestock have been increasing from $2.9 million in 1957 to $7.2 million in 1961 and considerable progress has been made in recent years in reducing the incidence of animal diseases. Nevertheless animal diseases are still a serious problem. With the tightening up of veterinary regulations in neighbouring countries Somalia stands in danger of losing its traditional export markets. Even if this can be avoided, an expansion of livestock exports on economic lines will require different methods of shipment and marketing. At present it is all export on the hoof, a requirement for importation into most Moslem countries, to ensure proper slaughtering. This involves enormous losses in transit in loss of weight, and death of animals on the road, while waiting in the port, on board ship and after arrival. There may be possibilities of exporting chilled and frozen meat, slaughtered under the supervision of inspectors of the importing countries. This would, however, require the establishment of new slaughtering and refrigeration facilities. In view of what has been said above, it seems unlikely that foreign exchange earnings for livestock export could be significantly increased in the short term.

(b) **Hides and skins**

28. Somalia produces hides and skins in large quantities but exports are handicapped by the fact that many of these are scarred by skin diseases which considerably lower their market value. Present methods of flaying in Somalia and the processes for curing and tanning animal hides make the latter often unsuitable for export. While efforts are being made by the Government, with the assistance of foreign experts, to improve methods of flaying and the preparation of skins, some time will certainly be required before new methods are widely employed. It might be mentioned that skins of the Persian Fattail variety of sheep, which exist in large numbers in Somalia, are much sought after and are highly priced on export markets.

(c) **Meat preparations**

29. A new meat canning factory, approximately doubling present installed capacity, is being established. Exports of canned meat which have been increasing in recent years have gone mainly to Italy where they enjoy duty-free entry. Exports of canned meat and meat preparations accounted for 1.7 per cent of total exports in 1961.

(d) **Fish and fish preparations**

30. A number of fish canneries, in addition to those already in existence, are in the process of being established. The major product is canned tuna fish but more recently other marine products have also been packed. Production is almost exclusively for export. Prospects for an expansion of the industry would seem to depend on developments in the international market. Exports of fish and fish preparations accounted in 1961 for 1.9 per cent of total exports.
(e) **Citrus fruits**

31. Lemons and grapefruit, are now produced on a small scale. Studies undertaken, on behalf of the fruitgrowers, expressed the view that grapefruit might offer good export prospects. In fact, some grapefruit is being exported.

(f) **Cotton**

32. Under irrigation, Egyptian type long staple cotton can be grown in Somalia, while production of medium and short staple cotton is possible without irrigation. Cotton was once an important plantation crop and an important export commodity. Because of large-scale fluctuations in world market prices, difficulties in controlling parasites, the need to import fresh seeds every year, as seeds turn hybrid, cotton has, on the whole, been abandoned as a plantation product. A Government experimental farm, covering an area of 5,000 hectares, for the cultivation of high quality cotton is being established with foreign technical and financial assistance. If results prove satisfactory cotton may once again become an important export crop.

**Production to replace imports**

(a) **Agricultural products**

33. Cereals, cereal preparations, vegetables, sugar and tobacco have in recent years accounted for approximately 20 per cent of all import outlays, due particularly to inadequate supplies in the northern region. All these products could economically be produced in Somalia and it is the hope of the Government that within a few years most of the country’s requirements will be met from domestic production. Measures to this effect are being undertaken with the assistance of the Government.

(b) **Manufactures**

34. Textiles and clothing have in recent years accounted for approximately one sixth of total import outlays. A textile factory employing approximately 100 workers was in operation until recently. The establishment of a new textile factory, possibly on a larger scale, is under consideration.

35. Manufacturing establishments for the processing of domestically available raw materials are to be expanded, and the establishment of a cement factory is under consideration.

**VI. Conclusions**

36. In considering the importance of exports to the Somali economy it is necessary to bear in mind that only a small part of the economy operates on a market economy basis. The banana industry, which is the largest private employer in the country, is the dominant factor in this limited market economy. Somalia depends largely on the export of bananas for her foreign exchange earnings.
37. Serious efforts are being made by the Somali banana industry to increase its competitiveness and it is understood that the industry aims to reduce its f.o.b. price by some 30 per cent over the next few years. However, if all barriers to trade and preferential systems were removed it would seem that, even with such a reduction, Somali banana prices would still not be competitive either in its traditional market or on world markets generally.

38. While there appear to be possibilities for some diversification, particularly in agriculture, the necessary studies and groundwork do not appear to have yet been carried out. In these circumstances precise assessments are not possible. In any case, the development of production and export of additional products on a significant scale is bound to take a considerable period of time.