REPORT AND RECOMMENDATION
OF THE
PRESIDENT OF THE
INTERNATIONAL DEVELOPMENT ASSOCIATION
TO THE
EXECUTIVE DIRECTORS
ON A
PROPOSED SDR 12.9 MILLION (US$13.5 MILLION) CREDIT TO THE
SOMALI DEMOCRATIC REPUBLIC
FOR A
FISHERIES EXPLORATION/PILOT PROJECT

April 10, 1984
CURRENCY EQUIVALENTS

Somali Shilling (So.Sh.) = 100 cents

US$1.00 =

Up to June 30, 1981 = So.Sh. 6.295
July 1, 1981 to June 30, 1982 = A dual exchange rate with:
                                    So.Sh. 6.295 (for essential imports)
                                    So.Sh. 12.590 (for all other foreign transactions)
July 1, 1982 = So.Sh. 15.227 (for all transactions)
October 24, 1983 = So.Sh. 17.58 (for all transactions)

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS

DANIDA - Danish International Development Agency
GOS - Government of Somalia
GRP - Glass Reinforced Plastic
SDB - Somali Development Bank
SIDA - Swedish International Development Authority
UNCDF - United Nations Capital Development Fund

GOVERNMENT OF SOMALIA

FISCAL YEAR

January 1 - December 31
S O M A L I A

FISHERIES EXPLORATION/PILOT PROJECT

CREDIT AND PROJECT SUMMARY

Borrower: Somali Democratic Republic
Beneficiary: North East Coast Fisheries Enterprise
Amount: SDR 12.9 million (US$13.5 million equivalent)
Terms: Standard
Co-financing: US$3.5 million equivalent loan from Arab Fund for Economic and Social Development, in Kuwait, on concessionary terms and conditions to be determined.

Onlending Terms:
1. The Government would onlend the proceeds of the credit to the North East Coast Fisheries Enterprise at a rate of interest of 12 percent per annum, with a repayment period and/or conversion to equity to be determined following the completion of a future financing plan based on the outcome of the exploration/pilot project.

2. The North East Coast Fisheries Enterprise would onlend about $600,000 of the proceeds of the Credit to individual fishermen, at a rate of interest of 12 percent per annum, with repayment over 11 years, including a grace period of one year.

Project Objectives:
The Project is designed to (i) test critical assumptions for the development of the artisanal fisheries in the Project area; (ii) determine the feasibility and financial viability of offshore commercial availability of a variety of pelagic species in the northern Somali waters; and (iii) develop an institutional framework for long-term public and private sector activities in fishing through the operation of an autonomous enterprise.

Components:
(a) Inshore Artisanal Fisheries. Development of fisheries facilities at Bolimog, Habo, Bossaso, and Candala;

(b) Offshore Commercial Fisheries. Pilot/exploratory test program of purse seine fishing, including the charter of two purse seine vessels, and operation of a support vessel.
(c) Technical Assistance. Assistance to the management of the North East Coast Fisheries Company; Design of an institutional training program for the fisheries sector; and Studies for a future project involving harbor and fisheries facilities.

Benefits:

A substantial start would be made in laying the foundation for future commercial development of the Somali fishing industry in its northern waters, by gathering more information on the resources, technical and logistical parameters, and reducing the risk for future commercial investments.

Inshore: In advance of data and lessons drawn from the pilot project, the most likely projections for the North Coast would postulate a small expansion in fish production from about 100-200 tons a year to about 1,600 tons by the end of the third year.

Offshore: Assuming a successful offshore pilot project phase, considerable possibilities exist for a fuller commercial exploitation of the fish resources. The catch from a fleet of purse seiners would enable considerable investments to be made in harbor development and processing facilities, leading to significant export earnings, a profitable enterprise and attractive returns.

Risks:

The remoteness of the project area, hostile physical environment, lack of basic facilities and problems of operating during periods of extreme heat, present a challenge for the development of a successful fishing industry. To assist in overcoming these risks, additional support vessels, radio communication, charter planes, and the control center at Bolimog have been included in the project, together with increased technical assistance, to compensate for the lack of trained manpower within the area and in the fisheries subsector.

The risk that the proposed project will be unable to develop and test the assumptions required for the future development within the specified timeframe is partly mitigated by the fact that the Fisheries Enterprise has already been established, the General Manager is in post, and the contract for the pilot/exploratory test fishing program has been let.
Total Project Cost:

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<th></th>
<th>Local</th>
<th>Foreign</th>
<th>Total</th>
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</thead>
<tbody>
<tr>
<td>Inshore Fisheries</td>
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<td>0.7</td>
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<tr>
<td>Technical Assistance and Training</td>
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<tr>
<td>Base Costs</td>
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<td>Physical Contingencies</td>
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<td>Price Contingencies</td>
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Financing Plan:

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<th>(US $ million)</th>
<th>% of Total Project Cost</th>
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<tr>
<td></td>
<td>Local</td>
<td>Foreign</td>
</tr>
<tr>
<td>IDA</td>
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<tr>
<td>GOS</td>
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<tr>
<td>Arab Fund</td>
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<td>Total</td>
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Estimated Disbursements:

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<th>FY88</th>
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<tr>
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<td>5.8</td>
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<tr>
<td>Cumulative</td>
<td>4.5</td>
<td>10.3</td>
<td>13.3</td>
<td>13.5</td>
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Estimated Rate of Return: N.A.

Staff Appraisal Report: No. 4658-SO, dated March 5, 1984

1. I submit the following report and recommendation on a proposed credit to the Somali Democratic Republic for SDR 12.9 million (US$13.5 million equivalent) to help finance a Fisheries Exploration/Pilot Project. The Government would onlend the proceeds of the credit to the North East Coast Fisheries Enterprise at a rate of interest of 12 percent per annum, with a repayment period and/or conversion to equity to be determined following the completion of a future financing plan based on the outcome of the exploration/pilot project. The North East Coast Fisheries Enterprise would onlend about $600,000 of the proceeds of the credit to individual fishermen, at a rate of interest of 12 percent per annum, with repayment over 11 years, including a grace period of one year. The Arab Fund has agreed in principle to co-finance the project with a loan of US$3.5 million equivalent on concessionary terms and conditions to be determined.

PART I - THE ECONOMY

2. A report on the economy entitled: "Somalia — Policy Measures for Rehabilitation and Growth" (Report No. 4081a-SO) was distributed to the Executive Directors in May 1983. An Agricultural Sector Review in three volumes (Report No. 2881a-SO) was distributed to the Executive Directors in June 1981. Country data sheets are provided in Annex I to this report.

3. Somalia is a large, sparsely populated country; its varied topography includes a hot and arid coastal plain, rugged mountains and plateaus, and lowlands of varying fertility and rainfall. Its population of about 5 million (including 400-500,000 refugees) is unevenly distributed over a land area of nearly 630,000 sq km of semi-desert. Population growth in recent years has been approaching 3 percent (excluding refugee inflows) which will result in long-term pressure on the fragile resource base. Only about 13 percent of the land is suitable for cultivation, but with water the limiting constraint, only a small fraction (8.5 percent) of this potentially arable land is cultivated.

4. The mainstay of the economy has long been nomadic pastoralism. Over 60 percent of the people depend on livestock for their livelihood; about 20 percent are farmers; and 20 percent are engaged in various
agricultural operations. Livestock production accounts for about 35 percent of GDP and provides over 80 percent of export earnings. Crop production generates about 10 percent of GDP. Although Somalia has one of the longest coastlines (3,000 km) in Africa, fishing generates only about 2 percent of both GDP and employment.

5. The country's limited natural resource base and its uncertain energy potential account for the scarcity of economically viable investment opportunities. Apart from the traditional export of livestock, commercial agriculture is centered mainly on the production and export of bananas (in which foreign concession holders are important) and the production of sugar for the domestic market. Expansion of the manufacturing and service sectors is limited by the small size of the domestic market, poor infrastructure, and shortages of capital and entrepreneurial experience. The existence of several minerals has been confirmed, but their exploration is still at an early stage, and the commercial viability of production remains to be proved.

6. A number of foreign companies have been engaged in inshore and offshore exploration of hydrocarbons but so far no commercially viable oil prospects have emerged. However, investigations under an IDA project for petroleum exploration promotion have indicated possible natural gas reserves near Mogadishu which could be used for power generation in substitution for petroleum imports. In the absence of other known resources, Somalia's prospects depend upon agricultural and livestock development, whose progress will depend upon careful management of the scarce land and water resources.

7. Somalia is among the poorest countries in the world and is classified by the United Nations as a least-developed country. Per capita income was estimated to be below $300 in 1981. Other indicators of the country's low level of social and economic development include: a crude death rate estimated at 25 per thousand population (compared to a crude birth rate of 48 per thousand); an average life expectancy of only 40 years; an infant mortality rate as high as 150 per thousand population; primary and secondary enrolment ratios of 50 percent and 7 percent, respectively; and a ratio of nearly 20,000 persons per physician.

Past Development Strategy and Performance

8. Following its assumption of power in 1969, the Government adhered to a program of "scientific socialism" whose stated objectives were egalitarianism and social justice, development through the public sector, nationalization of certain foreign enterprises, and the formation of cooperatives. Public ownership and management expanded both through nationalizations and through the creation of new public enterprises. The parastatal sector established in the 1970s included about 45 autonomous agencies which eliminated private enterprise in wholesale trade and banking and which dominated manufacturing. The 1974-78 development plan and the 1979-81 development plan were essentially public investment programs that allowed for only a few small private ventures. Although the plans provided a needed impetus to investment, they did not play a major role in the allocative process. Despite the Government's initial intentions, industry
and infrastructure, especially transport and communications, received more public investment than agriculture. At the same time, public enterprises operated without firm Government control, owing largely to weak management and inadequate monitoring.

9. In the early 1970s, Somalia made considerable progress in meeting certain basic needs. A program of literacy and primary education had noticeable results, and an effective system of food distribution was also established. In other respects, however, the record in the social sectors has been less impressive, particularly in water supply, sanitation and health where services have frequently been biased in favor of the urban population. Moreover, there are indications that there has been a trend towards increasing income differentiation within the rural sector.

10. On the production side, provisional national accounts data show that between 1972 and 1978, Somalia's GDP grew in real terms by 2.8 percent per annum, at approximately the same rate as population. On average, the productive sectors grew much more slowly -- by only one percent -- as compared to the growth of the services sector at about 7 percent, reflecting to a large extent increased Government employment. Within the productive sectors, the average annual growth was 2.7 percent in livestock, minus 3 percent in crop production, and minus 2 percent in industry. Comparable national accounts for 1979-1982 are not yet available, but indicators suggest that an upturn in value added in crop production occurred in 1981 and 1982, due to unusually favorable rainfall which stimulated the output of maize and sorghum, and partly owing to improved incentives provided by increased producer prices made effective in April 1981. In recent years, Somalia's dependence on food imports to meet its growing consumption needs has increased; food imports now account for one-third of total requirements. The growth of other sectors however, continued to be stagnant.

11. About 100,000 Somalis have migrated to work in neighboring oil-exporting countries in the Gulf area. As labor migration has been neither organized nor controlled by the Government, it has led to a severe depletion of Somalia's already small stock of qualified and skilled manpower, thereby weakening institutions and reducing the country's absorptive capacity. The savings of these emigrants are potentially an important resource for the economy, but despite substantial adjustment of the exchange rate, only a small proportion of emigrants' savings is remitted, largely through unofficial channels.

12. Following the border conflict of 1977/78, there was a great surge in Government expenditures which resulted in widening of deficits in both the budget and the balance of payments. During 1978-80, the Government's financial situation deteriorated rapidly, mainly because of the sizeable expansion in expenditures consequent upon the border conflict, the cost of maintaining large numbers of refugees, and the wage bill associated with the Government's policy of guaranteeing employment for secondary school leavers. At the same time, official foreign aid declined. This resulted in Government recourse to deficit financing. With further deterioration in the budgetary situation in 1979 the Government's recourse to the Central Bank rose to record levels (about 13 percent of GDP). This, in turn, led to rapid inflation, from 10 percent in 1978 to 60 percent in 1980.
13. Official data on Somalia's balance of payments are incomplete and provide a very deficient basis for meaningful analysis of trade and capital movements. It may nevertheless be concluded that Somalia had a reasonably comfortable overall balance of payments position up to the beginning of 1979. The stagnation in exports and surge in imports since 1979 resulted in a widening of both the current and overall balance of payments deficits. The current account deficit during 1980-83 averaged $283 million, as compared to $110 million in the years 1977-78. Total international reserves, which rose steadily in the 1970s to $158 million in March 1979, dropped to $15 million at the end of December 1980, and have since then remained at about this level (about two weeks' imports).

14. The stagnation of export earnings and the low level of domestic savings have rendered Somalia increasingly dependent upon external assistance for the financing of development. After joining the Arab League in 1974, Somalia mounted a major effort to attract funds from the Arab petroleum exporting countries. The large inflows of external capital and transfers from 1975 onwards indicate that the effort has been successful. After 1977, the sources of foreign assistance shifted from the centrally planned economies (except for the People's Republic of China which maintains a large program) towards Arab bilateral and multilateral institutions and OECD countries, several of which have had substantial assistance programs for a number of years. According to OECD data, Somalia's receipts of ODA during the period 1980-1982 averaged $400 million per year, equivalent to some $80 per capita per year.

15. Somalia's external debt burden has grown rapidly in recent years and amounted to about $1,080 million at end 1983, representing nearly ten times the value of recorded exports in that year. The structure and terms of borrowing have also hardened. The debt service ratio rose from 7 percent in 1979 to 27 percent in 1982 and is projected (without debt relief) at 45 percent in 1984. The country has also accumulated debt service arrears. The IMF and the World Bank staffs have encouraged the Government to seek debt relief, where possible on concessional terms.

16. In sum, Somalia experienced in the late 1970s and into the early 1980s a deep economic and financial crisis characterized by: stagnation in production and exports; a rapidly rising budget deficit financed through recourse to the banking system; rapidly rising inflation; a worsening balance of payments situation; a critical loss of foreign reserves; and a worsening external debt situation. This crisis reflected not only adverse developments in the international economy, but also past and current weaknesses in economic management.

Recent Policy Changes

17. As the financial crisis deepened through 1978-1980, the Government became convinced of the need to take remedial action. It embarked on a new course of moving towards a market-oriented economy, which marked a basic reversal of past economic policies. Beginning in early
1981, the Government began to take substantial remedial action, and successfully implemented two successive stabilization programs, which were both supported by IMF Standby arrangements. The core of these measures comprised adjustments of the exchange rate, fiscal and monetary restraints, and de facto liberalization of agricultural marketing. As part of stabilization under the first Standby program, a dual exchange rate was introduced which meant a substantial devaluation of the Somali shilling. Producer prices for agricultural crops were increased, while banana growers received the full benefit of devaluation. The program stipulated a substantial reduction in Government recourse to the banking system, and this was achieved. The Government also increased interest rates.

18. Following the completion of the 1981/82 program, the Government adopted a new stabilization program in mid-1982, supported by the IMF with a SDR 60 million 18-month Standby arrangement for the period July 1982-December 1983. Under this program, several key policy measures were taken: the dual exchange rate was unified on July 1, 1982, the Somali shilling was further devalued, and interest rates were further raised. The Government also agreed further to restrict fiscal and monetary expansion. Furthermore, in January 1983, the Government introduced a bonus scheme providing for a premium of 25 percent in foreign exchange terms of inward remittances and capital inflows by Somali nationals. These actions were reinforced in mid-1983, when Somalia introduced a more flexible exchange rate system. Under the new arrangement the Somali shilling was pegged to the SDR adjusted by the relative rates of inflation between Somalia and the five countries in the SDR basket. However, the beneficial effects of these measures have so far been overshadowed by the negative impact of a ban on Somali cattle imports by Saudi Arabia (which has been in effect since May 1983) and by the impact of a drought in 1983.

19. In a recent courageous action, the Government decided to abandon its policy of guaranteed employment to high school leavers. An interministerial committee is looking into the future of public enterprises; the Committee's report and recommendations are likely to become available soon. The Government has also taken some steps to liberalize the economy, particularly by de facto eliminating Government monopsony grain purchases.

20. The policy reforms introduced by the Government in the past three years are quite significant and they had a positive impact on the economy by reducing the rate of growth of the money supply, Government recourse to the banking system, and the rate of inflation. These measures, which also resulted in increasing commodity production and exports, represent the first stage in the formulation and implementation of a policy agenda which must be directed simultaneously at restoring financial equilibrium, rehabilitating and making fuller use of existing agricultural and industrial productive capacity, and establishing the foundations of long-term growth.

21. In March 1983 the Government requested the Bank to organize a first Consultative Group meeting for Somalia and accepted the Bank's recommendation that it prepare a Medium Term Recovery Program (MTRP) to be presented to the Consultative Group meeting. As outlined by the Government and subsequently elaborated in a government paper entitled "Development Strategy and Public Investment Programme for 1984-86", the MTRP consists of
a program of phased policy measures aimed at restoring equilibrium in the balance of payments and public finances and at rationalizing the pricing and incentive structure; and (ii) a resource-constrained Public Investment Program for the period 1984-86. The formulation of this recovery program represented a major accomplishment on the part of the Government.

22. The inaugural meeting of the Consultative Group for Somalia was held on October 26-28, 1983. Participants were encouraged by the remedial measures taken by the Government under the stabilization programs supported by the IMF and by the Government's pursuit of its new policy path. In particular, the participants appreciated the formulation of the Public Investment Program and the emphasis in the program on rehabilitation and improved utilization of existing facilities. The participants welcomed the substantial adjustments made by the Government in the size and composition of the investment program at the Consultative Group meeting. These adjustments included postponing some new projects (including the Bardhere dam and associated investments, pending results of new studies), rephasing the implementation of ongoing projects and introducing new high-priority schemes such as the rehabilitation of irrigation in the Shebelli region. Participants at the meeting favorably responded to the external aid requirements of the public investment program and other elements in the recovery program for 1984-86. It was recognized at the meeting that further financial aid to Somalia should be on highly concessional terms and that Somalia should attempt to secure debt relief on concessional terms.

23. Since the Consultative Group meeting, intensive discussions between the Government and donors have been held concerning follow-up action on the development of the Juba Valley, including the proposed Bardhere Dam, and agreement was recently reached with the Bank on terms of reference and a timetable for a study of interim water solutions. After effectively implementing during the last three years two successive Stand-by Arrangements, the Government approached the IMF for further balance of payments support under an Extended Fund Facility (EFF) to deal with the country's structural and short- to medium-term financial problems. Agreement in principle on such a program was reached in early 1984. However, in February the Government decided not to implement certain key measures. Discussions during the visit of a recent Fund mission indicated that, although the Government accepts these measures in principle, it is reluctant to implement some important ones at the present time when the country is facing serious difficulties.

23. The condition of the Somali economy, after having improved markedly between mid-1981 and late 1983, has in recent months come under increasing stress. It appears, moreover, that the renewed financial and balance of payments difficulties which the country is now experiencing may well intensify in the course of coming weeks and months. This situation has emerged from (i) the acute shortage of foreign exchange due to the fall in livestock exports (consequent upon a ban on Somali cattle imports by Saudi Arabia), a probable shortfall in grant receipts and the Government decision not to go ahead with the IMF program at this time; (ii) a drop in domestic food production owing to the current drought situation; and (iii)
a prospective shortfall in Government revenues which could lead to either
distruptive cutbacks in investment and current expenditures or to an
acceleration in credit and money supply, or some combination thereof.
These developments are resulting in a rising rate of inflation and a
rapidly falling exchange rate in the parallel market. If corrective
measures are not taken soon, a renewed economic and financial crisis could
ensue. A Bank economic mission, scheduled to visit Somalia this spring,
will review the current economic and financial situation and prospects.

PART II - BANK GROUP OPERATIONS IN SOMALIA

25. Since 1970, IDA has extended 24 credits to Somalia, amounting to
about US$193 million, of which roughly thirty percent has been for
agriculture, twenty five percent for transport and the rest is about
equally divided over education, water supply, ports, energy, industry and
technical assistance. Over the last three years annual commitments have
risen from $10 million in 1981, to $15 million in 1982 and $23 million
1983. IFC has so far made one investment in Somalia -- a $375,000 loan in
1981 for a molasses terminal for the Juba Sugar Project. IFC is now
focusing its attention on export-oriented projects. In recent years, the
Abu Dhabi Fund, African Development Fund, Arab Fund, IFAD, Islamic
Development Bank, EEC, Kuwait Fund, Saudi Fund, and USAID have co-financed
projects in Somalia with IDA.

26. Physical progress in implementing IDA projects has been mixed;
agriculture projects have not always done well, with the exception of the
North West Agriculture Project. Projects for roads, ports, water and
education have in general been executed expeditiously. Most projects have
included expatriate technical assistance, while also benefitting from
regular supervision missions, follow-up through the resident mission, and
annual country implementation reviews. The disbursement rate under the
projects has improved appreciably in recent years from about 15 percent in
FY79 to about 24 percent in FY83; this compares very favorably with the
Bank-wide average of 21 percent. The Government's Project Implementation
Unit which was set up in the Planning Ministry in 1980, and the more recent
Monitoring and Evaluation Unit contributed notably to this encouraging
trend.

27. The Bank assistance strategy for Somalia is to encourage and
assist the Government in the formulation and implementation of rolling
medium-term recovery programs directed simultaneously at restoring
financial equilibrium and rehabilitation and making fuller use of existing
capacity, and at establishing the foundations of longer-term growth. The Bank's economic and sector work for Somalia is designed to assist in developing an adequate data base and improvements in macro-economic management. Two other projects are in an advanced stage of preparation, namely the Afgoy Gas Delineation Project, for which documents will be distributed for Board consideration on a date to be determined, and a proposed Second Technical Assistance Project, which was recently appraised.

PART III - THE FISHERIES SECTOR

28. An Agricultural Sector Review in three volumes (Report No. 2881a-SO) was distributed to the Executive Directors in June 1981. It emphasizes the need to strengthen and develop certain key areas of the agriculture and fisheries sector, especially those which generate increased production and exports in the short-run. The sector strategy also calls for development of underutilized resources (including activating sunk capital) the expansion of private sector incentives and opportunities and the establishment of additional export markets to increase foreign exchange earnings.

29. Adverse natural conditions that hamper full exploitation of Somalia's known fish resources, include the lack of natural harbors with safe anchorage for ocean-going vessels and smaller fishing craft, a continental shelf which is too narrow and rough to be suitable for large-scale trawling, hazardous navigation conditions for small boats during the monsoon periods and the seasonal variations in distribution and abundance of fish. Only Berbera, Mogadishu and Kismayo have commercial deep water harbors with full port facilities. Another constraint is the lack of institutional infrastructure. There are virtually no landing facilities, workable ice plants, chill storage, nor workshops for engine and boat repairs to serve the traditional fish communities. Although some processing facilities have been established over a number of years, all of them, with the exception of the cold store being refurbished in the south, are in a rundown condition. The shortage of boats and fishing gear, the absence of marketing and collection systems, especially along the north coast, and the alternative of attractive work opportunities in the Middle East have led to a general reduction in the number of full time fishermen.

30. Resources: Data gathered by fishery research vessels in the project area, the most notable being that of the FAO/NORAD survey vessel R.V. Fridtjof Nansen, provide the best available estimates of stock resources by species. These data analyzed by the Fisheries Research Institute at Bergen, Norway, indicate good availability of pelagic 1/

1/ Pelagic fish are at the water surface and include species such as sardines, herring, anchovies, and tunas. Demersal fish are bottom living species such as groupers, snappers, flounders, and lobsters.
stocks, and have been estimated to be capable of yielding annual catches of the order of 50,000 to 100,000 tons. At the same time, it is recognized by experienced observers that the stocks, mainly sardine, king mackerel and tuna, are subject to considerable fluctuations in abundance both from year to year and place to place.

31. There are two distinct parts to the fisheries subsector: (i) artisanal fishing in inshore waters which accounts for most of the landings in Somalia; and (ii) commercial deep-sea fishing operated by joint-venture operations using foreign vessels which do not generally land their catches in Somalia but trans-ship the high value catches back to their home countries for processing and marketing.

32. **Artisanal Fishing:** Fish production from artisanal fishermen reached a peak of almost 8,000 tons in the mid 1970s, but fell by 1982 to a level of about 4,000 tons because of lack of spare parts, maintenance facilities, and cold storage facilities. In the absence of ice plants and cold storage facilities along most of the coast, almost half of the total annual catch of the artisanal landings is sun-dried and salted, mostly for export. In 1980 the National Fish Factory at Kismayo bought about 6 percent of landings for export in frozen form; the canning plants at Las Koreh and Habo/Candala utilized about 18 percent; about 20 percent were used for fresh fish consumption mainly in Mogadishu; about 5 percent consumed by hired fishermen directly as payment in kind. Unrecorded exports of fresh fish to Djibouti and Kenya are estimated to total about 4 percent. Fish resources available to the artisanal fishery have not been estimated but records of landing indicate that the present production levels could be increased substantially.

33. **Commercial Fishing:** Commercial deep-sea trawling off Somalia started in 1974 when a Somali/Soviet joint venture was established. The total catch of the fleet over some four years was about 10,000 tons of fish and 4,000 tons of lobsters. Following the Russian departure, catches fell dramatically, but efforts have been made to re-establish a Somali offshore trawling capability through the joint ventures with recent catch levels of about 14,000 tons per year. The trawlable resources of Somalia have been the subject of significant commercial exploitation by distant water fishing vessels. However, these vessels have concentrated primarily on demersal species -- lobster, cuttlefish, and the larger snappers, bream and grouper. Present catch rates for these species and the high cost of fuel supplies cast some doubt on the degree to which present and planned trawling effort can be expanded.

34. Because no successful modern commercial fishery has been conducted on any of the pelagic fish, such as sardines, herring, anchovies and tuna, it is recognized that the first attempts under the proposed
project have to be exploratory in nature and be expanded only as more experience and data are gained. The known small pelagic resources are considerable and the large pelagic tuna and king mackerel have high unit values; therefore the long-term development of these resources could be of vast importance to Somalia's economy. Once catch rates and profitability are established, the next step would be the development of harbor and processing facilities and the phased purchase of purse seine fishing vessels.

35. The Ministry of Fisheries is responsible for all deep-sea industrial operations, fishing cooperatives, the fish factory in the south, marketing and cold storage operations in Mogadishu, canning plants on the north coast and the resettlement centers which are administered through the Coastal Development Agency. There are no extension services except those organized through ongoing foreign funded projects.

36. The strategy of Somalia's five-year development plan (1982-86) calls for modifications of the fisheries policy, including privatization of vessel ownership; abolition of the fixed price system for fish marketing; liberalization of trade in fish and fish products; cessation of free supply of boats and gear; and rechanneling of export and royalty earnings for import purchases of needed spares and equipment. Institutional changes are also required to improve the organization and management of fisheries. In pursuit of these activities, the Ministry of Fisheries recognizes the need for the Government to relinquish its control over those activities which are better suited to commercial disciplines and the private sector. As a first stage, the Ministry of Fisheries has created three Government owned but autonomous enterprises -- Somalia GRP Products Company, for the manufacture of boats and other products associated with the requirements of the coastal fishery; the Somalia Marine Products Company, for implementation of the inshore fisheries program in the lower Juba Region; and the North-East Coast Fisheries Enterprise for the proposed project.

PART IV - THE PROJECT

37. The Project was appraised in February/March 1983. A Staff Appraisal Report entitled "Somalia - Fisheries Exploration/Pilot Project" (No. 4658-SO) dated March 5, 1984 is being distributed separately. A supplementary project data sheet is attached as Annex III. Negotiations were held in Washington, D.C. from January 9-13, 1984. The Government delegation was led by the Minister of Fisheries, H.E. Osman Jama Ali; the North-East Coast Fisheries Enterprise was represented by its General Manager.

Project Objectives

38. Efforts to exploit Somalia's fisheries resources have so far met with limited success, despite the strong interest of many donor agencies. The pilot project is an exploratory one. It is an attempt to
determine the most feasible means for Somalia to exploit its known fish resources on the northeast coast, and to provide a framework for future income and employment generation for one of the poorest parts of the country. During the pilot phase, the project would: (i) determine the feasibility and financial viability of exploiting the offshore resources; (ii) test the critical assumptions for resuscitating the artisanal fisheries; and (iii) evolve an institutional framework for future development of the fisheries subsector. It is thus exploratory with respect to both the need to establish the technical/economic base of information to determine whether a full fledged commercial second phase could succeed and the institutional and management requirements for a successful second phase.

39. **Project Area:** The project would be the first IDA operation located in the northeast part of the country, and as such responds to IDA strategy of greater geographic spread in our operations. Project headquarters are at Bolimog. Fishing villages are located along this coast at points of limited shelter. No harbors exist. The fishing villages of Ghesselei in Alula district, Elayu in Bossaso district and at Candala would be the focus for fishing in the project area (Map IBRD No. 17262). There are presently about 150 full-time and 400 part-time fishermen in the project area, with about 350 canoes and 60 mechanized boats. Some of the existing fishing boats are currently used for transport purposes, some in support of the small canning factories at Habo and Candala, and others in support of the subsistence catch of fish and dried fish trade. The area is extremely poor in natural resources except for fish. These resources are presently underutilized due to limited marketing facilities. Despite the narrow continental shelf and rough trawling grounds which make large-scale trawling impractical for demersal species, small boats fishing in the untrawlable areas with hook and line catch excellent sized demersal fish of superb quality.

**Project Description**

40. The proposed Project would include three major components:

I. **Inshore Artisanal Fisheries**

(a) With Bolimog as its headquarters, the project would finance fish receiving, processing and transport facilities, together with shore facilities, workshop, slipway and rehabilitation of essential physical facilities, including housing. These would service the adjacent small fishing communities of Alula, Habo and Ghesselei using land transportation and would link with Bossaso and Candala using a collector vessel.

(b) Additional smaller fish receiving facilities would be located at Bossaso and Candala. At Bossaso, facilities would be financed to service outlying fishing villages, including Elayu, and make needed repairs to the existing jetty.

(c) Two vessels would be required to support inshore activities, a vessel for fish collection from coastal villages, and a trans-shipment vessel to deliver frozen product from Bolimog to the cold storage at Berbera and to resupply Bolimog. Operating costs would also be financed.
(d) Credit program to finance the purchase of up to 28 small fishing boats and appropriate gear to be administered by the Fisheries Company, in collaboration with the Somali Development Bank.

II. Offshore Commercial Fisheries

The project would finance a pilot/exploration program with purse seine fishing trials of up to 24 months duration in north-east Somali waters. The trials would be conducted in order to determine the catch rates, species composition and seasonal variation of pelagic fish stocks in the project area. They would be carried out under conditions which would approximate commercial fishing operations. The purse seiners would be supported by a 23 m fiberglass combination fishing vessel to be transferred by the Government to the fisheries company, as a condition of effectiveness of the Credit (draft Development Credit Agreement, Section 5.01(d)).

III. Technical Assistance

(a) The project would finance the headquarters cost of the newly-established North East Coast Fisheries Enterprise, the project entity. It would include the purchase of vehicles, office equipment, staff salaries, travel, charter plane, and the office.

(b) Technical assistance would also be provided to: (i) assist in the management, setting up and operation of the inshore facilities; (ii) assist in fisheries development at the level of the village fishermen; (iii) provide a simple well-organized training program to project area fishermen mainly in the areas of basic literacy, boat, gear and engine maintenance; (iv) supervise and carry out the offshore exploratory fisheries program; (v) provide engineering, design and feasibility studies required for the preparation of future harbor and fisheries facilities; and (vi) provide for the design of an institutional training program for mid-level cadre, suitable for international financing. The total man years for the above technical assistance would be 37 at a cost of US$4.4 million. The average man year cost (based on the individual fees, international travel, local allowances and overheads) is expected to be about US$120,000.

Project Cost

Total project cost is estimated at US$19.0 million equivalent, including local costs of about US$2.0 million (11 percent) and a foreign exchange component of US$17.0 million (89 percent). Cost estimates are based on projected prices as of January 1984. Base costs are US$16.7 million. A 10 percent physical contingency has been added to the cost of processing, shore facilities, support vessels and operating costs of the Fisheries Enterprise. Price contingencies have been separately calculated for the foreign exchange and local currency components and total about 12 percent of base costs. Physical contingencies have not been provided for offshore operations, fishing boat credit, purchase of the support vessel and technical assistance.
42. A US$550,000 advance under IDA's Project Preparation Facility (PPF) was approved in December 1982; it is financing the foreign costs of the corporate feasibility study (US$230,000), some initial technical assistance (US$225,000), vehicles and equipment (US$50,000), and start-up of the Fisheries Company (US$45,000). The advance will be refinanced under the proposed IDA credit.

**Financing Plan**

43. The project would be financed by the Government of Somalia (US$2.0 million), the Arab Fund for Economic and Social Development in Kuwait (US$3.5 million) and the Association (US$13.5 million). The Arab Fund would finance, jointly with Government, the shore and processing facilities at Bolimog, Bossaso and Candala; the purchase of small fishing boats and appropriate gear for the Inshore Fisheries component and the refit of the support vessel. The IDA credit would finance, jointly with Government, all other components. Since the Board of the Arab Fund would not formally approve its proposed loan before the Summer of 1984, no cross-effectiveness clause has been included in order not to hold up implementation of the off-shore component of the Project. Rather, the availability of the Arab Fund financing has been made a condition for the disbursement of IDA funds for the in-shore fisheries component of the Project (draft Development Credit Agreement, Schedule I, para. 4).

44. The Government would make the proceeds of the Credit, US$13.5 million, available to the Fisheries Enterprise as a loan at an interest rate of 12 percent per annum, with the foreign exchange risk to be borne by the Government (draft Development Credit Agreement, Section 3.01(b)). The level of credit activity for the fisheries subsector is small and additional lending under this project would amount to only US$600,000. Although the 12 percent interest rate is not positive in real terms at the current rate of inflation (average 1981-83 = 29 percent), it is slightly higher than the current interest rate for agricultural loans (10/11 percent). There would be no payment of interest or capital during the project period. The operating costs of the processing facilities would be financed from the sales proceeds of the inshore catch and the initial working capital to commence operations would be provided by the Government through its investment in the enterprise.

45. The execution of a Subsidiary Loan Agreement between Government and the Fisheries Enterprise satisfactory to the Association, would be a condition of credit effectiveness (draft Development Credit Agreement, Section 5.01(a)). The exact arrangements for repayment of the Government loan by the Fisheries Enterprise and/or the conversion of part of the loan into equity, would be included in a future financing plan to be developed by June 1987, based on the outcome of exploration/pilot phase, following IDA agreement. In consultation with the Association, the Government would then also decide on future investments in harbor and fisheries facilities (draft Development Credit Agreement, Section 3.03).

**Project Implementation**

46. North East Coast Fisheries Enterprise: The proposed project would be implemented over a three-year period by the newly-created North East Coast Fisheries Enterprise, which was established in March 1984 under
procedures and statutes governing the formation of autonomous enterprises. It would initially be a wholly owned government enterprise with legal autonomy. The Board of Directors consists of the Minister of Fisheries (Chairman), representatives of the Ministries of Fisheries and Finance, the private business community, a representative of SDB and the General Manager. The establishing legislation, which has been approved by the Association, defines the objectives of the Enterprise, the powers of the General Manager and arrangements governing operations. The Enterprise is authorized to maintain an offshore bank account necessary for project implementation in view of the shortage of foreign exchange and to recruit and employ personnel directly. If the project is to succeed, it will need a strong organization, suitable transport, and a competitive advantage and market, in addition to motivated fishermen. The Enterprise would also provide a basis for future commercial operations, and be a mechanism that would establish a framework for future private sector investment in the fisheries sector.

47. The Enterprise would employ two consultant firms which would be under the control of the General Manager. One would implement the artisanal component of the project and the other would handle the exploratory/pilot test commercial fishing program. The employment of consultants for the artisanal component would be a condition of disbursements under the vessel category (draft Development Credit Agreement, Schedule 1, para. 4). The selection process for the employment of the pilot/exploratory test fishing program consultants has been completed and the contract would become effective when financing from the IDA credit becomes available.

48. Artisanal Component. The program for the redevelopment of artisanal fisheries in the project area would test the assumptions which could be used in production-oriented development programs to assist artisanal fishermen to achieve production levels sufficient to justify future investments.

49. In order to test the feasibility of credit operations, up to about $600,000 of the proceeds of the IDA credit would be earmarked for a Credit Program to finance up to 28 fishing boats and appropriate gear to fishermen within the project area. The estimated cost of an 8.5 m fishing boat and gear is about 340,000 Somali shillings (US$20,000). The beneficiaries would be required to make a contribution of 10 percent of the total cost and repay the balance with interest at 12 percent per annum over an eleven-year period including a grace period of one year. The Somali Development Bank will make a qualified loan officer available to assist in carrying out this credit program (draft Development Credit Agreement, Section 3.02). In the event that the inshore artisanal fisheries do not prove to be financially viable for the individual fishermen who have taken up credit from the Fisheries Enterprise, the latter would purchase the fishermen's assets at levels consistent with his original contribution. If the offshore fishery component fails, the Government would have to absorb the cost. With the exception of the fish processing facilities, however, most of the remaining infrastructure could probably be adapted to other economic uses.
50. **Pilot/Exploratory Test Fishing Program.** This program would commence in September 1984 and would determine the future commercial potential of the valuable pelagic species by establishing catch rates, seasonal fishing grounds, most appropriate fishing gear, operational base for vessel activities, local crew performance and training needs, biological data to determine species composition, maturities, age structure of the population, seasonal distribution and feeding habits, trial processing and handling procedures, and detailed data on costs. Two purse seine vessels, about 33 m long would be chartered. Each vessel would have have an experienced crew and a data gatherer/recorder. One senior consultant staff member would be aboard one of the vessels, who would direct the operation of both vessels by radio and maintain communication with the general manager. As a condition of effectiveness the Government would transfer one of its 23m fiberglass combination fishing vessels as additional support to the operations of the purse seiners, thus enabling maximum time for fishing trials (draft Development Credit Agreement, Sector 5.01(d)). The purse seiners would be capable of considerable flexibility in fishing. Nets for catching small and large pelagic species would be available and deployed as circumstances dictate. The vessels would also be capable of fishing at night using light attraction devices, and capable of carrying out experimental mid-water trawling. They would be equipped with refrigerated circulating brine freezing tanks and would be fitted out to handle both small and large pelagics. Each operational period of about 60 days would contain a period of about 10 days for maintenance, crew rests and resupply.

51. The consultants would advise on the best method for the onboard handling of small pelagics. All operations of this type are normally supported by substantial processing facilities either at sea with large expensive mother ships or by shore plants. The handling methods that would be considered under the project are: (a) freezing the catch and delivering it to one of the refrigerated carriers serving the area for onward transport to an appropriate market; (b) if the quantity of catch is sufficient to warrant it, the chilled fish would be delivered over the side to a mother ship which would purchase the catch, freeze it and arrange its onward distribution; (c) chilling or freezing the catch in brine and delivering it in the seiner to market; or (d) release to the sea subsequent to capture but after estimating quantity and species breakdown and the taking of samples.

52. The consultants would also provide marketing services and may, in due course, recommend the appointment of an agent in some or all of the potential markets in order to discharge those sales which result from the successful handling of the catch. Experiments would be conducted to assess the Middle East market acceptability of frozen small pelagics processed and handled under the conditions prevailing on board the purse seiners. Trial shipments would be made to markets in the Middle East, particularly to Saudi Arabia and Egypt. From these trials, some estimate of the market potential for full-scale production would be extrapolated. Future project markets would be predicated on the availability of shore processing facilities and these trials are viewed as being pilot project specific. However, the trials are important to the project because they would open
the opportunity for revenues to be earned even during the pilot project phase; provide valuable market information on fish processed by purse seiners; yield useful insights into the detailed marketing arrangements within the various Middle Eastern countries.

53. Annual work programs would be prepared by the two consultant firms and submitted to the General Manager. These would be essential to implementation, monitoring and evaluation for review and approval. They would include: (i) review of project implementation in the current year; (ii) detailed description of the work to be carried out in the forthcoming year including objectives, deployment of staff and equipment; (iii) requirement for additional staff, equipment and other inputs; and (iv) a budget and financing plan; (v) progress of the enterprise towards meeting its objectives; (vi) progress on the artisanal fisheries development program; and (vii) reporting of cruise plans and results from the pilot/exploratory test fishing program. Initial work programs would be prepared within two months of employment of the consultants for IDA approval. For the following year, they would be submitted to the Fisheries Company by April 1 and after review, to the Association by May 15 for its approval (draft Project Agreement, Section 2.08).

Related North Coast Fisheries Development

54. The fisheries development in the north coast of Somalia would be further assisted by two related fisheries projects being financed by United Nations Capital Development Fund (UNCDF) and Danish International Development Agency (DANIDA): (a) the UNCDF project which would support inshore fishing activities between Berbera and the Djibouti border and open up alternative export markets; and (b) the DANIDA funded project which would provide a 400-ton cold storage facility at Berbera and provide a focus for export and some small domestic sales. DANIDA expects that the facility would be completed prior to production becoming available from our proposed IDA project. Signing of the DANIDA agreement with Government for the construction of the cold storage facility would be a condition of effectiveness of the Credit (draft Development Credit Agreement, Section 5.01(b)). Input to the cold storage would be provided by fishermen from both the proposed UNCDF funded project to the west and the proposed IDA project to the east.

Procurement

55. All contracts for supply of vehicles, equipment and services financed by IDA, exceeding US$100,000 would be subject to ICB in accordance with IDA guidelines. The items would be aggregated in order to attract major contractors and suppliers. Qualifying domestic manufacturers would receive a preference in ICB bid evaluation of 15 percent or the import duty, whichever is lower. Contracts less than US$100,000 and in aggregate totalling no more than US$500,000 would be procured by the Fisheries Enterprise through local competitive bidding (LCB). These procedures were reviewed at negotiations and found acceptable to the Association. For contracts under US$10,000 up to a total of US$300,000, comparative shopping
or purchasing off the shelf would be used. Contracts would total about US$1.2 million. In total, ICB would account for about 33 percent by value of the purchase of goods described above.

56. Spare parts, fishing gear and fuel (US$1.7 million) for boats and processing facilities would be purchased by quotations from the manufacturers of the equipment, other reliable parts manufacturers and dealers, as appropriate. The secondhand trans-shipment vessel (US$0.8 million) would be procured on the basis of international shopping procedures. This would be based on a certified marine survey and appraisal by a licensed marine surveyor of a short list of available second-hand vessels to meet the outline specifications. Any needed dry docking, repair, or alterations for the trans-shipment and collector vessels (US$0.3 million) would be procured through quotations.

57. The qualifications, experience and terms and conditions of employment of internationally recruited experts and consultants (US$4.8 million) would have to be satisfactory to the Association. In addition, suitable purse seine fishing vessels to carry out the exploratory pilot fishing trials would be chartered (US$4.4 million). Due to the small number of potential suppliers procurement would be carried out through limited international bidding in accordance with IDA guidelines.

58. All bidding packages for services, works and goods estimated to cost over US$0.25 million equivalent would be subject to IDA review of procurement documentation. This would result in coverage of about 75 percent of the total estimated value of contracts financed by IDA. The balance of contracts would be subject to random post review by IDA after contract award.

**Disbursement**

59. The proceeds of the IDA Credit would be disbursed over four years; they would be fully documented. No comparable disbursement profile for a pilot project of this type exists. The IDA credit would be disbursed as follows:

(a) Vessel and Operating Costs: 100 percent of foreign expenditures and 50 percent of local expenditures - US$2.6 million;

(b) Charter of Purse Seiner: 100 percent of foreign expenditures - US$4.0 million;

(c) Fishing Gear, Vehicles and Office Equipment: 100 percent of foreign expenditures and 90 percent of local expenditures - US$0.4 million;

(d) Technical Assistance: 100 percent of foreign expenditures - US$4.3 million;

(e) Other Materials, Equipment and Services: 100 percent of foreign expenditures and 50 percent of local expenditures - US$0.7 million;
(f) Refund of Project Preparation Advance: - US$0.5 million; and
(g) Unallocated: - US$1.0 million.

Reporting, Monitoring and Evaluation

60. In addition to the normal reporting requirements of similar projects, arrangements would be made for specific monitoring and evaluation of the offshore and artisanal components. Draft guidelines for the conduct of the pilot/exploratory pelagic fishing trials and for the socio-economic and catch data for the artisanal fisheries are available. These would be finalized by the consultants, in consultation with the general manager of the company, and the association with a view to adopting them to serve as a management tool. The offshore consultants would by December 31, 1986, make available their final report which would estimate the future commercial potential for development of pelagic fishing in Somali's northern waters. The artisanal consultants would by the end of the project period report on the major components of the inshore fisheries. These reports and the data collected would also constitute the basis for planning the future harbor and fisheries facilities (draft Development Credit Agreement, Section 3.03).

Accounts and Audit

61. The Fisheries Company would establish and maintain separate project-related accounts in commercial form, in accordance with sound and generally recognized accounting principles and practices satisfactory to IDA, thus enabling the company to provide interim and annual financial statements to reflect the financial performance and position of the project. Independent commercial auditors acceptable to the Association, would be appointed and their report, would be provided within six months of the close of the fiscal year (draft Project Agreement, Sections 4.01 and 4.02).

Environmental Effects

62. The project would have no adverse effect on the environment and such minimal effects as may occur would be justified in view of the substantial economic and social benefits expected to occur in the future. Insignificant fish processing waste would be expected from the daily volume of fish as the export product would be frozen whole fish.

Benefits

63. Most of the investments under the project are exploratory and the objective is to gather more information on the resource, the technical and logistical parameters and reduce the risk for future investments. During the project cycle, there would be no significant incremental production due to the pilot nature of the project and no attempt has been made to calculate an economic rate of return. However, an attempt has been made to look beyond the pilot phase to view the longer term possibilities.
64. The key to unlock the small-scale fisheries sector in the North-East is the development of the valuable offshore pelagic commercial fish stocks in order to provide adequate volume, quality and price required to secure both export markets and funds needed to support the costs of infrastructure for both offshore and inshore operations. The development of the artisanal sector depends also upon the future ability of the inshore fleet to market its catch in export markets opened up by commercial scale operations. Although the pilot project would only initially benefit about 1,000 families, the number of beneficiaries should increase considerably if the pilot/exploration project is successful.

65. Inshore: Artisanal Fishing. In advance of data and lessons drawn from the pilot project, the most likely projections for the North Coast, would postulate a steady expansion in fish production from about 100-200 tons a year to about 1,600 tons by the end of the third year. Full production of about 4,000 tons, valued at about US$7 million at 1983 prices could be reached in year seven. While 1600 tons in year three is a substantial increase in relative production, it is small by fishery standards and would serve only to validate the pilot approach taken by project authorities.

66. The inshore catch handled by the project would consist mainly of species highly regarded by markets in nearby Middle Eastern countries and by other international markets (Europe and Far East). Export markets for bream, snapper, grouper, seabass and crevalle are excellent. New supplies of high quality hook and line caught fish of these species are few. Incremental exports from the project would constitute less than 1 percent of total supply and therefore project production would have no impact on international markets for these species. A major emphasis of the project would be to improve the quality of the fish exported from Somalia relative to similar supplies from other countries in order to attract premium prices. Only a small part of the catch would be sold on the local market.

67. Offshore: Commercial Fishing. Assuming a successful offshore pilot project phase, considerable possibilities exist for a fuller exploitation of the fish resources. Purse seiners of the type to be used in the pilot are capable of catching about 8,000 tons each which at 1983 prices would produce annual export earnings of about US$4 million. The catch from a fleet of purse seiners would thus enable considerable investments to be made in harbor development and processing facilities; thus producing significant export earnings, a profitable enterprise and an attractive return on such investment.

68. The achievement of this level of production would not be easy to accomplish. However, the lack of viable alternatives for a country with few resources as a basis for developing the North Coast justifies the risk inherent in the development of the pelagic fishery as a means of ensuring the development of an inshore fishery (ref. para. 64) which could in turn have significant regional development implications for employment, income
generation, modernization and poverty alleviation. Furthermore, there is ample reason to believe that these pilot operations in the commercial fishery could lead to significant and profitable private sector opportunities after the pilot stage.

**Risks**

69. The very nature of the exploration/pilot project points to major risks, among which are the complete remoteness of the project area, the hostile physical environment, lack of basic facilities and the extreme heat during the three-month monsoon period. These factors present an enormous challenge for the development of a successful fishing industry. The project management will have to overcome the extraordinary logistic problems of dealing with an area which is essentially isolated from the rest of Somalia. To assist in overcoming these risks, additional logistical support for the cost of support vessels, radio communication, air charter and the control center at Bolimog have been included in the project costs. In addition, allowance has been made for increased technical assistance to accommodate the lack of trained manpower within the area and the fisheries subsector.

70. The project implementation period of three years also presents a challenge as to whether the project will be able to develop and test the assumptions required for the future development within the timeframe. This risk would be partly mitigated by the fact that the Fisheries Company has been established, a qualified General Manager is in post and a letter of intent for the contract for the pilot/exploratory test commercial fishing program has been signed. There may be risks associated with the implementation of Government's declared policy of relinquishing centralized control but it is not possible to assess at this time the degree to which operational difficulties may be encountered because of Government actions.

71. The success or failure of the artisanal operation would also depend whether it would be possible to establish a fisheries development program. The system must be one that is easily understood and adopted by the fishermen because of a realization that it offers a solution to some of their problems. Much would depend on the goodwill and ability of the local leaders, Government officials and the consultants to work harmoniously with the fishermen and the other traders who presently provide the only viable link with the outside world.

72. If the offshore fishery component failed, the Government would absorb the cost. With the exception of the fish processing facilities, however, most of the few remaining infrastructure could probably be adapted to other economic uses.
PART V - LEGAL INSTRUMENTS AND AUTHORITY

73. The draft Development Credit Agreement between the Somali Democratic Republic and the Association, the draft Project Agreement between the Association and the North East Coast Fisheries Enterprise, and the Recommendation of the Committee provided for in Article V, Section 1 (d) of the Articles of Agreement of the Association are being distributed separately to the Executive Directors.

74. Special conditions of the project are listed in Section III of Annex III to this report.

75. I am satisfied that the proposed Credit would comply with the Articles of Agreement of the Association.

PART VI - RECOMMENDATION

76. I recommend that the Executive Directors approve the proposed Credit.

A. W. Clausen
President

Attachments

April 10, 1984
<table>
<thead>
<tr>
<th>AREA (THOUSAND SQ. KM)</th>
<th>TOTAL</th>
<th>637.7</th>
<th>637.7</th>
<th>637.7</th>
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<td></td>
<td>AGRICULTURAL</td>
<td>296.2</td>
<td>290.7</td>
<td>299.2</td>
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<tr>
<td>GNP PER CAPITA (US$)</td>
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<td>110.0</td>
<td>120.0</td>
<td>280.0</td>
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<td></td>
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<td>.</td>
<td>254.5</td>
<td>1167.9</td>
</tr>
</tbody>
</table>

**Energy Consumption Per Capita**

- (Kilograms of Coal Equivalent)
  - . | 10.0 | 35.0 | 85.0 | 19.0 | 716.1 |

**Population and Vital Statistics**

- Population, Mid-Year (Thousands)
  - . | 2450.0 | 3238.0 | 4392.0 | . | . |
- Urban Population (% of Total)
  - . | 17.1 | 23.1 | 30.9 | . | . |

**Population Projections**

- Population 1 Year 2000 (Mill)
  - . | 7.0 | . | . | . | . |
- Stationary Population (Mill)
  - . | 2135.0 | . | . | . | . |

**Population Density**

- Per Sq. Km.
  - . | 3.6 | 5.1 | 6.7 | 29.5 | 56.5 |
- Per Sq. Km. Agricult. Land
  - . | 8.2 | 10.8 | 14.3 | 96.1 | 31.8 |

**Population Age Structure (%)**

- 0-14 yrs
  - . | 43.8 | 46.5 | 43.5 | 45.0 | 45.9 |
- 15-64 yrs
  - . | 53.6 | 51.6 | 53.0 | 52.1 | 52.2 |
- 65 and Above
  - . | 2.7 | 1.9 | 2.7 | 2.9 | 2.8 |

**Population Growth Rate (%)**

- Total
  - . | 1.8 | 2.6 | 2.8 | 2.8 | 2.8 |
- Urban
  - . | 4.8 | 3.7 | 3.4 | 6.2 | 5.3 |

**Food and Nutrition**

- Index of Food Prod. Per Capita (1969-71=100)
  - . | 97.0 | 100.0 | 62.0 | 87.8 | 95.7 |
- Per Capita Supply of Calories (% of Requirements)
  - . | 89.0 | 81.0 | 100.0 | 88.0 | 97.1 |
- Prozing (Grams Per Day)
  - . | 76.0 | 66.0 | 78.0 | 51.2 | 56.0 |
- Of which Animal and Pulse
  - . | 47.0 | 43.0 | 38.0 | 18.1 | 17.2 |

**Health**

- Life Expect. At Birth (Years)
  - . | 35.0 | 37.2 | 38.8 | 47.4 | 51.9 |
- Infant Mort. Rate (Per Thous)
  - . | 175.0 | 158.5 | 145.1 | 126.5 | 117.6 |

**Access to Safe Water (% Pop)**

- Total
  - . | . | 15.0 | 33.0 | 26.7 | 25.4 |
- Urban
  - . | . | 17.0 | 58.0 | 56.3 | 70.6 |
- Rural
  - . | . | 14.0 | 20.0 | 18.3 | 12.3 |

**Access to Excreta Disposal (% of Population)**

- Total
  - . | . | . | 47.0 | 26.1 | . |
- Urban
  - . | . | . | 77.0 | 65.7 | . |
- Rural
  - . | . | . | 35.0 | 21.9 | . |

**Population Per Physician**

- . | 36370.0 | 26530.0 | 14290.0 | 27420.6 | 12181.6 |
- PFD. PER NURSING PERSON
  - . | 4810.0 | 4200.0 | 2330.0 | 3656.2 | 2492.0 |
- PFD. PER HOSPITAL BED
  - . | 690.0 | 660.0 | 660.0 | 1183.2 | 1075.4 |
- Total
  - . | 140.0 | 280.0 | 360.6 | 402.3 | 402.3 |
- Rural
  - . | 5840.0 | 7390.0 | . | 377.5 | 3926.7 |

**Admissions Per Hospital Bed**

- . | . | . | . | . | . | . |

**Housing**

- Average Size of Households
  - Total
    - . | . | . | . | . | . | . |
  - Urban
    - . | . | . | . | . | . | . |
  - Rural
    - . | . | . | . | . | . | . |

**Access to Elect. (% of Dwellings)**

- Total
  - . | . | . | . | . | . | . |
- Urban
  - . | . | . | . | . | . | . |
- Rural
  - . | . | . | . | . | . | . |
### Annex I

#### Social Education Data Sheet

<table>
<thead>
<tr>
<th>Indicator</th>
<th>1970/71</th>
<th>1971/72</th>
<th>Estimate/72</th>
<th>Africa S. of Sahara</th>
<th>Africa E. of Sahara</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Income Distribution</strong></td>
<td></td>
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<tr>
<td><strong>Estimated Absolute Poverty Income Level (US$ per Capita)</strong></td>
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<td></td>
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</tr>
<tr>
<td>Urban</td>
<td>150.0 (\pm) 59.9</td>
<td></td>
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</tr>
<tr>
<td>Rural</td>
<td>110.0 (\pm) 87.6</td>
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</tr>
<tr>
<td><strong>Estimated Relative Poverty Income Level (US$ per Capita)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban</td>
<td>65.0 (\pm) 190.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural</td>
<td>50.0 (\pm) 64.6</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Estimated Pop. Below Absolute Poverty Income Level (%)</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Urban</td>
<td>50.0 (\pm) 39.5</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural</td>
<td>70.0 (\pm) 69.0</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

---

**Notes**

- The group averages for each indicator are population-weighted arithmetic means. Coverage of countries among the indicators depend on availability of data and is not uniform.
- Unless otherwise noted, "Data for 1970" refer to any year between 1969 and 1971; and data for "Most Recent Estimate" between 1979 and 1981.
- **Increase due to literacy campaign of 1974.**
GNP PER CAPITA: US$280 (1982) 1/

CENTRAL GOVERNMENT FINANCE

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Million So. Sh)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Revenue</td>
<td>890</td>
<td>1420</td>
<td>1526</td>
<td>1421</td>
<td>2262</td>
<td>2687</td>
</tr>
<tr>
<td>Current Expenditure</td>
<td>802</td>
<td>1362</td>
<td>1573</td>
<td>1670</td>
<td>2795</td>
<td>2880</td>
</tr>
<tr>
<td>Current Surplus or Deficit (-)</td>
<td>88</td>
<td>58</td>
<td>-47</td>
<td>-249</td>
<td>-532</td>
<td>-193</td>
</tr>
<tr>
<td>Other Expenditures 2/</td>
<td>820</td>
<td>1010</td>
<td>1671</td>
<td>1402</td>
<td>587</td>
<td>1854</td>
</tr>
<tr>
<td>Overall Deficit</td>
<td>732</td>
<td>952</td>
<td>1718</td>
<td>1657</td>
<td>1119</td>
<td>2047</td>
</tr>
</tbody>
</table>

BALANCE OF PAYMENTS

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(Million US Dollars)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merchandise Exports (f.o.b.)</td>
<td>109</td>
<td>106</td>
<td>133</td>
<td>114</td>
<td>131</td>
</tr>
<tr>
<td>Merchandise Imports (c.i.f.) 3/</td>
<td>-275</td>
<td>-394</td>
<td>-461</td>
<td>-442</td>
<td>-461</td>
</tr>
<tr>
<td>Trade Balance</td>
<td>-166</td>
<td>-288</td>
<td>-328</td>
<td>-308</td>
<td>-310</td>
</tr>
<tr>
<td>Services, Net</td>
<td>-5</td>
<td>-12</td>
<td>-8</td>
<td>19</td>
<td>19</td>
</tr>
<tr>
<td>Private Transfers, Net</td>
<td>28</td>
<td>36</td>
<td>57</td>
<td>64</td>
<td>11</td>
</tr>
<tr>
<td>Current Account Balance</td>
<td>-193</td>
<td>-264</td>
<td>-279</td>
<td>-225</td>
<td>-310</td>
</tr>
<tr>
<td>Direct Investment</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Official Grant Aid</td>
<td>78</td>
<td>58</td>
<td>143</td>
<td>148</td>
<td>155</td>
</tr>
<tr>
<td>Private Net</td>
<td>-</td>
<td>4</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Official, Net</td>
<td>79</td>
<td>84</td>
<td>87</td>
<td>73</td>
<td>99</td>
</tr>
<tr>
<td>Errors and Omissions</td>
<td>7</td>
<td>19</td>
<td>21</td>
<td>-9</td>
<td>-19</td>
</tr>
<tr>
<td>Overall Balance</td>
<td>21</td>
<td>-99</td>
<td>-28</td>
<td>-13</td>
<td>-37</td>
</tr>
</tbody>
</table>

RATE OF EXCHANGE

From 1973 to June 1981 - US$1.00 = 6.295

From July 1, 1981, Somalia had a dual exchange rate:
US$1.00 = 6.295 (for essential imports)
US$1.00 = 12.59 (all other foreign transactions)

From July 1, 1982 - US$1.00 = 15.22 (unified)

From July 1, 1983 - US$1.00 = 15.22 (a managed float) 
Plus 25% premium on emigrants' remittances.

Latest (Dec. 1, 1983) - US$1.00 = 17.58

1/ Based on tentative estimates of National Accounts recently prepared by EPD.

2/ Includes mainly development expenditure largely financed from external assistance.

3/ The import data for 1978 and 1979 include Franco Valuta imports.

March 1984
### Money, Credits and Prices

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Bank Claims on Government (Net)</strong></td>
<td>-97.8</td>
<td>311.1</td>
<td>1,231.3</td>
<td>1,902.4</td>
<td>2,249.6</td>
<td>2,100.0</td>
</tr>
<tr>
<td><strong>Bank Claims on Private Sector and Public Enterprises</strong></td>
<td>1,280.7</td>
<td>1,404.6</td>
<td>1,725.8</td>
<td>1,977.2</td>
<td>2,296.0</td>
<td>2,923.8</td>
</tr>
<tr>
<td><strong>Money Supply</strong></td>
<td>1,325.1</td>
<td>1,728.0</td>
<td>2,335.2</td>
<td>2,783.2</td>
<td>3,674.0</td>
<td>4,108.4</td>
</tr>
</tbody>
</table>

(Percentage or Index Numbers)

| **General Price Index (1977=100)** | 100.0      | 110.0      | 136.2      | 217.1      | 313.2      | 388.7      |
| **Annual Percentage Change in:**   |            |            |            |            |            |            |
| General Price Index                | 9.8        | 10.0       | 23.8       | 59.4       | 44.3       | 24.2       |
| Bank Claims on Private Sector and Public Enterprises | 29.8       | 9.7        | 22.9       | 14.6       | 16.1       | 27.3       |
| Money Supply                        | 33.2       | 30.4       | 35.1       | 19.2       | 32.0       | 11.8       |

### Merchandise Exports

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Livestock</td>
<td>71.2</td>
<td>101.6</td>
<td>97.7</td>
</tr>
<tr>
<td>Bananas</td>
<td>9.8</td>
<td>8.1</td>
<td>6.7</td>
</tr>
<tr>
<td>Meat and Meat Products</td>
<td>2.1</td>
<td>1.0</td>
<td>0.3</td>
</tr>
<tr>
<td>Hides and Skins</td>
<td>5.8</td>
<td>6.6</td>
<td>5.0</td>
</tr>
<tr>
<td>Fish and Fish Products</td>
<td>1.5</td>
<td>0.3</td>
<td>1.0</td>
</tr>
<tr>
<td>Others</td>
<td>5.2</td>
<td>15.6</td>
<td>8.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>95.6</td>
<td>133.3</td>
<td>113.9</td>
</tr>
</tbody>
</table>

### External Debt

<table>
<thead>
<tr>
<th></th>
<th>US$ Mln.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Debt (Dec. 31, 1982)(^1)</td>
<td>1,369.5</td>
</tr>
<tr>
<td>(of which disbursed)</td>
<td>(991.6)</td>
</tr>
</tbody>
</table>

### Debt Service Ratio

<table>
<thead>
<tr>
<th></th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public Debt 1982 (estimate) (incl. arrears)</td>
<td>27.0</td>
</tr>
</tbody>
</table>

### IDA Lending (March 30, 1984)

<table>
<thead>
<tr>
<th></th>
<th>US$ Mln.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding and Disbursed</td>
<td>134.50</td>
</tr>
<tr>
<td>Undisbursed</td>
<td>59.90</td>
</tr>
<tr>
<td>Outstanding inc. Undisbursed</td>
<td>194.40</td>
</tr>
</tbody>
</table>

---

1/ Excludes undisbursed commitments from East European countries, totalling US$154 million, which are not expected to be disbursed any further.

March 1984
### STATUS OF BANK GROUP OPERATIONS IN SOMALIA

#### A. Statement of IDA Credits (as of March 30, 1984) 1/

<table>
<thead>
<tr>
<th>No.</th>
<th>Year</th>
<th>Borrower</th>
<th>Borrower</th>
<th>IDA</th>
<th>Undisbursed (US$ Million)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td>Ten Credits have been fully disbursed</td>
<td>64.6</td>
<td></td>
</tr>
<tr>
<td>623-SO</td>
<td>1976</td>
<td>Somalia</td>
<td>Drought Rehabilitation</td>
<td>8.0</td>
<td>0.34</td>
</tr>
<tr>
<td>635-SO</td>
<td>1976</td>
<td>Somalia</td>
<td>North-West Agriculture</td>
<td>10.0</td>
<td>0.62</td>
</tr>
<tr>
<td>698-SO</td>
<td>1977</td>
<td>Somalia</td>
<td>Somali Development Bank</td>
<td>5.0</td>
<td>0.48</td>
</tr>
<tr>
<td>699-SO</td>
<td>1977</td>
<td>Somalia</td>
<td>Third Highway (Hargeisa-Borama)</td>
<td>7.0</td>
<td>2.58</td>
</tr>
<tr>
<td>738-SO</td>
<td>1977</td>
<td>Somalia</td>
<td>Third Education</td>
<td>8.0</td>
<td>1.64</td>
</tr>
<tr>
<td>821-SO</td>
<td>1978</td>
<td>Somalia</td>
<td>Technical Assistance</td>
<td>3.0</td>
<td>0.92</td>
</tr>
<tr>
<td>838-SO</td>
<td>1978</td>
<td>Somalia</td>
<td>Fourth Port</td>
<td>5.5</td>
<td>0.21</td>
</tr>
<tr>
<td>905-SO</td>
<td>1979</td>
<td>Somalia</td>
<td>Agriculture Extension</td>
<td>10.5</td>
<td>6.04</td>
</tr>
<tr>
<td>906-SO</td>
<td>1979</td>
<td>Somalia</td>
<td>Central Rangelands</td>
<td>8.0</td>
<td>3.68</td>
</tr>
<tr>
<td>972-SO</td>
<td>1979</td>
<td>Somalia</td>
<td>Bay Agriculture</td>
<td>12.0</td>
<td>9.69</td>
</tr>
<tr>
<td>1043-SO</td>
<td>1980</td>
<td>Somalia</td>
<td>Petroleum Exploration Promotion</td>
<td>6.0</td>
<td>1.38</td>
</tr>
<tr>
<td>1105-SO</td>
<td>1981</td>
<td>Somalia</td>
<td>Fourth Education</td>
<td>10.2</td>
<td>2/ 6.56</td>
</tr>
<tr>
<td>1236-SO</td>
<td>1982</td>
<td>Somalia</td>
<td>Second Mog. Water Supply</td>
<td>15.0</td>
<td>2/ 5.33</td>
</tr>
<tr>
<td>1324-SO</td>
<td>1983</td>
<td>Somalia</td>
<td>Fourth Highway</td>
<td>23.0</td>
<td>2/ 20.43</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>TOTAL</td>
<td>195.8</td>
<td>59.90</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>of which has been repaid</td>
<td>1.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>TOTAL now held by IDA</td>
<td>194.4</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>TOTAL Undisbursed</td>
<td>59.90</td>
<td></td>
</tr>
</tbody>
</table>

1/ The status of the projects listed in Part A is described in a separate report on all Bank/IDA financial projects in execution, which is updated twice yearly and circulated to the Executive Directors on April 30 and October 31.

2/ Credits approved in SDRs; principal and undisbursed amounts expressed in US dollars equivalent, computed at the March 30, 1984 exchange rate.
### B. Statement of IFC Investment
(As of March 30, 1984)

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Obligor</th>
<th>Loan</th>
<th>Equity</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>Somali Molasses Co. Ltd.</td>
<td>0.375</td>
<td></td>
<td>0.375</td>
</tr>
<tr>
<td></td>
<td>Total gross commitments</td>
<td>0.375</td>
<td></td>
<td>0.375</td>
</tr>
<tr>
<td></td>
<td>less cancellations, terminations</td>
<td>0.054</td>
<td></td>
<td>0.054</td>
</tr>
<tr>
<td></td>
<td>Total now held by IFC</td>
<td>0.321</td>
<td></td>
<td>0.321</td>
</tr>
</tbody>
</table>
SOMALIA
FISHERIES EXPLORATION/PILOT PROJECT
SUPPLEMENTARY DATA SHEET

Section I. Timetable of Key Events

(a) Identification January/February 1981

(b) Time taken to prepare project: 18 months

(c) Preparation by: Government, FAO, IFC and IDA

(d) Appraisal Mission: February/March 1983

(e) Completion of negotiations January 1984

(f) Planned date for Credit Effectiveness: July 1984

Section II. Special IDA Implementation Actions

A US$550,000 advance under the Project Preparation Facility was approved in July 1982 to cover foreign exchange costs of a corporate feasibility study, some initial technical assistance, vehicles and equipment and start-up costs of the Fisheries Company.

Section III. Special Conditions

a) Effectiveness:
   - Provision by Somalia of a 23 meter fiberglass combination fishing vessel to the Fisheries Company (para 40, II); and
   - Execution of Subsidiary Loan Agreement between the Government and the Fisheries Enterprise (para. 45).
   - Signing of the funding agreement between DANIDA and Somalia for the construction of the cold storage facility at Berbera (para 54);
b) **Disbursement:**

- No disbursements would be made for vessels prior to the employment of consultants for carrying out the Inshore Artisanal Fisheries part of the project (para 47) and the US$3.5 million from the Arab Fund being made available to the enterprise.

c) **Other:**

- Repayment period of the Government loan by Fisheries Enterprise would be determined following the completion of a future financing plan (para. 45).

- The Fisheries Enterprise would (re)purchase the fishermen's boats at cost in case the artisanal component would not be viable (para. 49).
SOMALIA
FISHERIES EXPLORATION / PILOT PROJECT
DISTRIBUTION OF DEMERSAL AND PELAGIC FISH ON THE
SOMALIA COAST DURING THE NORTHEAST MONSOON, 1975-76

School Density:
- very scattered
- scattered
- dense

Rivers
Regional Boundaries
International Boundaries

This map has been prepared by
The World Bank's staff exclusively
for the convenience of the
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internal use of the World Bank
and the International Finance
Corporation. The data and
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countries shown on the
map do not imply, on the
part of The World Bank and the
International Finance
Corporation, any judgment on the
legal status at any territory or any
endorsement or acceptance of
such boundaries.

Source: Institute of Marine Research, Bergen

SOMALIA
WEST
GALBEED
SANAAG
BARI
TOGDHEER
NUGAL
MUDUG
OGADUN
Togdheer

EXPLORATION / PILOT PROJECT
DISTRIBUTION OF DEMERSAL AND PELAGIC FISH ON THE
SOMALIA COAST DURING THE NORTHEAST MONSOON, 1975-76

School Density:
- very scattered
- scattered
- dense

Rivers
Regional Boundaries
International Boundaries

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such boundaries.

Source: Institute of Marine Research, Bergen
SOMALIA
FISHERIES EXPLORATION / PILOT PROJECT
DISTRIBUTION OF DEMERSAL AND PELAGIC FISH ON THE
SOMALIA COAST DURING THE SOUTHWEST MONSOON, 1975

School Density:
- very scattered
- scattered
- dense

Rivers
Regional Boundaries
International Boundaries

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