

SOMALIA

Somalia lies in East Africa, between the Gulf of Aden and the Indian Ocean, and forms the pointed peninsula known as the Horn of Africa. Area: 637,660 km². Population (on the basis of a 1968 estimate): 2,745,000. Present-day Somalia was formed by the amalgamation of Somalia under Italian trusteeship administration with the British protectorate of Somaliland, and became independent on 1 July 1960. Limited agricultural and livestock resources (sugar cane, tropical fruit, sheep).

ORIGINS OF THE CENTRAL BANK

British Somaliland belonged, until the second world war, to the area of the Indian rupee and thereafter to that of the East African Currency Board¹. In Italian Somaliland Bank of Italy notes circulated until 1941, when, under British occupation, the East African shilling was introduced. Under the Italian trusteeship administration, between 1950 and 1960, money was issued by the *Cassa per la circolazione monetaria della Somalia*, a sort of currency board which in no way could be considered as a central bank.

¹ See above, p. 179 *et seq.*

It was not until 1960, after the country had become fully independent and unified, that Somalia established a Central Bank of its own by the Decree Law No. 3-1678 of 30 June 1960, subsequently converted into law by Law No. 2, of 3 January 1961.

In 1968 the Somali National Bank was reorganized with the help of experts from the International Monetary Fund. The new statute was promulgated by Law No. 27, of 26 November 1968. At the same time, the *Credito Somalo* was liquidated and the assets and liabilities pertaining to its ordinary and housing credit operations were transferred to the Central Bank.

The Somali shilling was introduced as legal tender by Decree Law on 6 March 1961; its par value was agreed with the International Monetary Fund on 14 June 1963 at 0.124441 grams of fine gold, equivalent to 0.14 U. S. dollars.

ORGANIZATION OF THE CENTRAL BANK

The Somali National Bank is a public corporation, whose capital was initially 1 million Somali shillings, entirely subscribed and paid by the state. Every year, the Bank allocates half its profits to a general reserve fund, which now stands at about 15 million shillings.

The policy-making organ of the Somali National Bank is its Board of Directors, which consists of seven members. The Governor and the Director-General are *ex officio* members of the Board, and its chairman and deputy chairman, respectively. Under the terms of the law of 26 November 1968, the Governor and the Director-General are to be appointed on the Prime Minister's proposal by decree of the President of the Republic for five-year terms, and the other five directors by the Prime Minister for

three-year terms, all of them eligible for reappointment; at present, however, all these appointments are within the competence of the Supreme Revolutionary Council.

FUNCTIONS OF THE CENTRAL BANK

The principal objectives of the Somali National Bank, as defined by law, are to maintain the internal and external value of the Somali shilling, and to foster credit and exchange conditions conducive to the balanced growth of the economy.

To this end, the Bank exercises the typical functions and prerogatives of a Central Bank, including: (1) the sole right to issue notes and coin; (2) collaboration with the government in formulating monetary, foreign exchange and credit policies, and responsibility for implementing them; (3) being banker to the state; (4) management of the country's gold and foreign exchange reserves, and exchange control.

The Bank also has various powers for the control of the banking system.

Originally, the monetary issue had to be covered 100 per cent, but this provision was changed by the law of 26 November 1968, which lays down instead that "the Bank shall at all times use its best endeavours to maintain an external reserve at a level adequate for the external transactions of the Republic".

Admissible reserve assets are: gold; convertible foreign exchange; securities denominated in foreign exchange and issued or guaranteed by foreign governments or international financial institutions, provided these securities mature in not more than three years; drawing facilities with the International Monetary Fund.

At present, about half of the total circulation of more than 280 million shillings is bank money.

THE CENTRAL BANK'S RELATIONS WITH THE STATE

The 1968 law describes the Somali National Bank as the sole fiscal agent, banker and foreign exchange dealer for the state, local authorities and public agencies. It may make direct advances to the state and, with the guarantee of the state, to local authorities and public agencies, and may purchase government and government-guaranteed securities. However, the law lays down certain restrictions. The sum of credit extended in these two forms to the state, local authorities and public agencies, plus advances to others against the collateral of government securities, must not exceed 35 per cent of average current budget revenue during the preceding three years, and of the total amount of that credit not more than one seventh may be to local authorities and public agencies.

These restrictions do not apply to the advances the Bank is authorized to make to the government pending the receipt of foreign loans, up to 50 per cent of their amount. The Bank may hold shares in specialized credit and financial institutes sponsored or established by the state for the purpose of financing economic development; here again, the law puts an upper limit to such holdings, which at any one time must not exceed the sum of the Bank's paid-up capital and general reserve fund.

MONETARY AND CREDIT POLICY

By virtue of the banking law of 14 August 1963, the highest authority in matters of monetary and credit policy as well as of supervision of the banking system's activities was the Savings and Credit Committee, with the Central Bank acting as its executive organ. This Committee was headed by the Minister of Finance and included the Ministers of Industry and Trade, Agriculture and

Animal Husbandry, Public Works and Communications, as well as the President (later Governor, after the law of 26 November 1968) and the Director-General of the Somali National Bank. The functions previously incumbent upon the Savings and Credit Committee are now exercised by the Secretary of State for Finances on behalf of the Supreme Revolutionary Council, but those assigned to the Central Bank have not been altered.

The functions of control and supervision exercised by the Central Bank on behalf of the Committee and in accordance with its general directives, included the licensing of banks, whether domestic or branches of foreign banks, as well as the licensing of new branch offices opened by existing banks. These powers gave the Central Bank a means of shaping the country's credit system in ways conducive to the achievement of the purposes set by the government's general economic policy.

Since the nationalization law of May 1970, when it became clear that commercial credit was henceforth to be handled exclusively by public banks, the Central Bank's licensing powers are restricted to the opening of new branch offices.

In matters of credit control, Articles 29 to 38 of Law No. 27, of 26 November 1968, remain in force, giving the Central Bank powers both of quantitative and selective control, as follows:

(1) it can vary its refinancing facilities for banks by changes in the discount rate and the rate for advances, as well as rediscount ceilings (only paper maturing in not more than six months is acceptable for rediscount);

(2) it can vary the proportion of reserves to be held with the Central Bank against the banks' deposit liabilities;

(3) it can prescribe different ratios for different types of liabilities;

(4) it can regulate commercial bank lending with reference to the purposes of credits, to their technical form and to the permissible proportions of various categories of credit operations.

Contrary to the provisions which govern banking elsewhere in Africa, the law gives the Central Bank powers of control also over credit institutes other than commercial banks.

THE BANKING SYSTEM

Before the *coup d'état* by which the Supreme Revolutionary Council assumed political power in Somalia, the country's banking system was as follows.

The Somali National Bank exercised the functions and activities both of a Central Bank and a commercial bank, and also handled housing credit in succession to the defunct *Credito Somalo*. Four foreign banks—the *Banco di Roma*, the *Banco di Napoli*, the National and Grindlays Bank Ltd. and the *Banque de Port Said*—had altogether eight branches in Somalia, which did ordinary commercial banking business only.

Finally, there was a development bank, the *Banca di Sviluppo Somala*, which had been set up by Presidential decree in February 1968 and had an authorized capital of 100 million shillings, of which, at the time of its establishment, 30 million were subscribed and 20 million paid up. The only shareholder was the state. Upon its establishment, the *Banca di Sviluppo Somala* took over the defunct *Credito Somalo's* autonomous medium- and long-term credit section.

In 1969, a law (No. 13, of 16 January 1969) for the establishment of a Post Office Savings Bank was promulgated, but nothing further was done, or is now likely to be done, about it.

The branches of foreign banks operating in Somalia were nationalized by Law No. 26, of 7 May 1970, and pending the definitive reorganization of the banking system in line with the new principles of economic policy, were handed over to the Somali National Bank, to be managed by it as autonomous agencies. From the moment of nationalization until the end of 1970, during the transition period, only two banks were thus operating in Somalia: the Somali National Bank, with a monopoly of commercial banking, and the *Banca di Sviluppo Somala*.

In the autumn of 1970 the reform of the banking system took shape in new legislation. Two new banks were set up, the *Banca Commerciale Somala* and the *Cassa di Risparmio e Credito della Somalia*, both public. The effect is to introduce more institutional and functional specialization into the banking system, and to limit the functions of the Somali National Bank to those typical of a Central Bank.

Both the new banks started their operations on 1 January 1971, and both have a capital of 2.3 million Somali shillings, contributed in equal parts by the state and the Somali National Bank. The new Somali Commercial Bank took over from the Central Bank the three autonomous agencies resulting from nationalization of the former branches of the *Banco di Napoli*, the *Banco di Roma* and the National and Grindlays Bank Ltd.; this gives it a total branch network of seven at present. In its turn, the *Cassa di Risparmio e Credito della Somalia* took over the assets and liabilities of the Central Bank's commercial credit section as well as the autonomous agency which had previously been a branch of the *Banque de Port Said*; its network of 13 branches covers the whole of the country.

The new Savings and Credit Bank, which was established as an autonomous public corporation by Law No. 1 of 11 December 1970, has the purpose of promoting and mobilizing domestic saving. To this end, it accepts deposits and extends short- and medium-term credit to various sectors of the economy, including housing credit which is handled by an autonomous section of the bank. Technical assistance and other aid is to be made available to the *Cassa di Risparmio e Credito della Somalia* under an agreement signed in Rome on 4 March 1971 between the credit authorities of Somalia and the Italian Association of Savings Banks.

In Somalia's new banking system, the *Banca di Sviluppo Somalia* survives with its original functions intact. These are to promote, assist and strengthen private enterprise projects in agriculture, industry, mining, tourism, fishery and animal husbandry, to the extent to which such projects fit into the official development programmes.

The bank finances its operations with government budget allocations (increases in the endowment fund), with loans from Somali and foreign sources, and with time deposits tied for more than two years. It extends medium- and long-term credit, but is not authorized to grant credits for less than one year.

Unlike the other three banks in Somalia's new banking system, the Development Bank is open to minority participation by foreign interests, but at present the whole of the equity is still in the hands of the state.

BANKING REGULATIONS

The regulations governing the structure and functions of banking in Somalia still rest essentially on the 1963 banking law (Law No. 18, of 14 August 1963), plus such provisions as were added

by the laws establishing the *Banca Nazionale Somala*, the *Banca di Sviluppo Somala*, the *Banca Commerciale Somala* and the *Cassa di Risparmio e Credito della Somalia*.

Some of the regulations governing the activities of banks have already been mentioned. The principle of specialization is incorporated in the legal prohibition on commercial banks to extend medium- or long-term credit except through autonomous sections with their own juridical personality and separate accounts.

Supervision of banking activities is exercised by the Secretary of State for Finances through the Somali National Bank, which is responsible for interpreting and enforcing the rules which govern the credit business.

