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The Other Somalia Part 1 - Illicit Trade and the Hidden Economy

Norman Miller

Dartmouth College, social@normanmillerarchive.com

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In the hot, dry, strangely beautiful land of Somalia, the first issue of the day is politics: politics of survival for the Barre regime, politics of food for the burgeoning refugee camps, politics of the East-West encounter here on the Horn of Africa. The other issue is the economy, particularly the invisible, irregular, illegal economy. Somalia's story is roughly comparable to the current "second economy" analysis of the Soviet Union which suggests a large sector of that system is extralegal, undercover, and in subversion of bureaucratic regulation—"the taxi driver can arrange it" system.

In fact, Somalia's practices would be typical of those of numerous countries in Africa and the Middle East except for one thing: Somalis are inveterate talkers, openly communicative about everything, including their hidden economy. The nomadic pastoralism that runs deep in their bones has promoted a lifestyle of independence and isolation. A key ingredient in this lifestyle is intensive communication across great distances, particularly on such vital issues as the availability of forage and water. Such communicative behavior carries into the urban areas and into trade and commerce. There is a constant exchange of rumor, gossip, and fact, particularly about adventurous or nefarious activities.

For better or worse, this conviviality also becomes a social megaphone on who is doing what, where, when, with whom, and for how much. On top of this unique character is a curious, government-sponsored "free trade" system called "Franco Valuta," which opens the way for bizarre international economic exchanges. In brief, the "other" Somalia is its own "other" economy, sub rosa, subterranean, extralegal, and very active.

Somalia Today: Hard and Hungry

Somalia is in the midst of transition on several fronts. Western "advisers" have replaced Soviet-East European advisers and, at least for the moment, "scientific socialism" is on the wane. A combination of U.S., Arab, and UN aid monies flows into the country faster than it can be absorbed. The drought that plagued Somalia for two years ended abruptly in April, bringing floods that threatened thousands of people. The instant transition was a kind of macabre curse, awesome evidence of nature's penchant for extremes. The rains do bring hope that a gradual upswing in agricultural production can be expected and that the cornerstones of the national economy (cattle, camels, sheep, and goats) will recover as parched rangelands are replenished.

The world's worst refugee situation, some one million destitute people, is also in transition. Although these ethnic Somalis harbor hopes of returning to their homelands in the Ethiopian-controlled Ogaden, in all probability they will not go home again. Their transition will be both to more permanent settled communities and to occupations other than nomadic pastoralism.

None of these transitions will be easy because all are occurring in an economy that is in terrible straits—on a comparative level among the poorest in Africa. Cables, hinting darkly of economic disaster, fly out of aid missions to their overseas headquarters. Confidential memos, circulated for economists' eyes only, are discussed in passing when the development expatriates gather for their beers on Mogadishu's lido.

It can be argued that these transitions, plus the grinding poverty and the harsh physical conditions, in fact stimulate a contempt toward

Somali Profile

Official Name	Somali Democratic Republic	Trade, transport services	14%
Capital	Mogadishu (population 480,000)	Industry, small manufacturing	8%
Government	Independent Republic under a revolutionary military regime since October 21, 1969	Refugees. 1.5 million are currently listed in the unofficial estimate. About half are in the camps, the other half scattered throughout Somalia. The official figures for refugees in the camps on February 1, 1981, was 1,316,845. It is commonly agreed that this figure is inflated, perhaps by as much as 80 percent. The lowest estimate one hears is 800,000 in the camps, with another 500,000 scattered throughout the country, either living with friends and relatives or herding within Somali borders. Thirty-seven camps are listed; some are staging centers. Few refugees want to stay in Somalia, but few will be able to go home in the near future. Most Somalis feel the Ethiopians are engaging in a double-pronged tactical effort to weaken Somalia with a "refugee flood," first to drive as many ethnic Somalis out of the Ogaden to Somalia as possible to further tax an already overburdened welfare system, and second, to deny the Ogaden to Somalia as a secondary food and fodder area (nomads in this region have historically funneled food and surplus cattle back to Somalia).	
President	Major General Mohamed Siad Barre		
Country Size	246,155 square miles (approximately size of Texas)		
Urban Centers	Mogadishu, Hargeisa, Kismayu		
Ethnic Groups	Somali, 98.8 % Arab Asian, 1.2%		
Religion	Muslim, 99%		
Languages	Somali, Arabic, Italian		
Population. Somalia was estimated in 1980 to have between 3.8 and 5 million people. There are another 1.3 to 1.8 million refugees, mainly from the Ogaden area of Ethiopia, who are ethnic Somalis. Excluding the refugees, Somalia's population is distributed roughly as follows:			
Herding, stock ranching, pastoralists		60%	
Farming (irrigation and rainfed)		18%	

economic regulation. That an economic *sotto governo* operates here is really the child of poverty, deprivation, and hunger. In a sense it reflects a spirit of survival, perhaps the last clever scheming acts of men who have their backs to the wall and who desperately want to take something home to the empty bellies of their wives and children.

The overarching reality is that the formal economic system either does not work at all, or works badly with a great many halts and starts. The formal sector serves as an umbrella to the extralegal system that lies beneath it. To understand this two-tiered system, it should be seen in context with a few realities in Somalia today:

– Behind everything else is the question of water. All life here is dependent on the whimsical nature of the rains. The rangeland grasses, the scrub brush in desert browsing areas, the settled farmlands, the irrigated, rainfed plantations are all hostages to the availability of water. The estimated loss in cattle, sheep, and goats in 1978-1980 was over two million head, the majority of

which was suffered by refugees.¹ The tragedy is that with normal rains the Somalis can feed themselves. Contrary to its image of a vast desert land, Somalia has some good soil, particularly in the south. The irrigated areas of the Shebelle River have excellent production potential.

– The geographic location of the country makes it economically useful to oil-rich neighbors as a cheap manpower pool. Somalia's proximity to the nouveaux riches of the oil world is both blessing and curse: Somalia's main export, cattle, camels, sheep, and goats, have a ready market in the oil states, but these states entice much of the needed talent away from the homeland.

– The strategic importance of Somalia also flows from its geographic location. Somalia is whimsical in its relations with both East and West. Without any strong ideology in the past, it has essentially bargained its geographical wares to the highest bidder. No one doubts that the present government is quite capable of asking the Western aid people to leave as quickly as they did

the Soviets—and even inviting the Soviets back for another decade. Opportunism remains the essence of politics in Somalia.

– From a foreign aid point of view, the Western entry into Somalia could not have come at a more difficult time. Although the Soviets departed in November 1977, by the time the first Western aid projects were under way the country had entered the prolonged drought. The years 1979 and 1980 were extremely difficult times to start any projects aimed at helping the flagging economy. Even as aid has become more available, there is serious question whether managerial skills and infrastructure are sufficient to use and absorb it.

– The unique ethnic homogeneity of the country carries both positive and negative factors. On the positive side, Somalia has a reservoir of independent, resilient people who live together without the destructive ethnic differences or religious factionalism that plague most African states. The population is over 90 percent Somali and nearly 99 percent Islamic, so that common cultural and behavioral patterns undoubtedly promote basic cooperation. The population growth rate is believed to be moderate for Africa, at about 2.8 percent per year. It is also true that beneath the Somali "oneness" there are strong clan rivalries; deep currents of sub-ethnic factionalism run through the economic and political

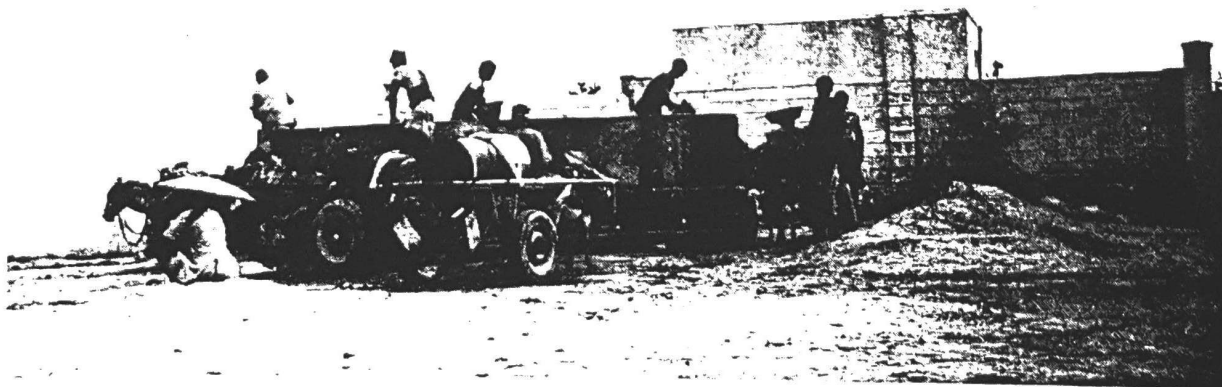
alliances. Further, in a society partially made up of nomadic pastoralists, groups have different incentives, different views of wealth and status, and different concepts of what a "work ethic" should be. Those trying to make the transition from the nomadic life to urban employment are at the center of these differences.

– The degree of resilience and strength the Somali people have in the face of deprivation is remarkable and little known outside Somalia. There is a healthy, jaunty attitude toward adversity, a kind of tough humor that prevails, clouding the real suffering. People living in some of the refugee camps and scattered in remote parts of Somalia exist literally on the floor of life. People are starving, and yet if one is not a keen observer, it can all seem less serious because of the Somali offhand way of coping with adversity. No one knows how much punishment nomadic pastoralists can absorb. They are conditioned by centuries of living under conditions that would seemingly preclude life itself. There is a genius in this adaptation that is still poorly understood and often underestimated.

* * * * *

Taken together, the background issues point to prolonged uncertainties, a pepper and salt of hope and despair. On the positive side is a strategic location that can be exploited, a ready market for beef and skilled labor, a courageous survivor's attitude among the people, a common

Water wagons near Afgoi, Somalia.



religious and ethnic identity, and an apparently moderate population growth.

On the negative side is the uncertainty of rainfall, the lack of technicians and technology, the inability to absorb aid, the enormous drain on the nation posed by the refugees, and the smoldering Ogaden war.

Other uncertainties result. Many feel Somalia is vulnerable to attack and, in truth, unable to defend itself. At the same time it has politically alienated itself from much of Africa by its invasion of another land, Ethiopia, even if that was justified as a "war of liberation." This does not rest easily with other African states who hold their boundaries inviolable. At the heart of the uncertainties is the shaky economy with its unique, amazing twin, the "second economy."

The Economy

What is the economic reality today? What are the main factors that stimulate the second economy? The overall performance of the Somali economy during 1979 and 1980 was on a downward slide. Production in the manufacturing section was down, agricultural production declined, and particularly in 1979, livestock exports fell. There was a major deficit in Somalia's balance of trade in 1979. In 1980 oil production stopped entirely, when Somalia's refinery was shut for lack of crude oil.² Foreign aid did increase significantly on paper, but the actual aid to the economy showed little initial impact. Other factors:

- A major lack of foreign exchange seriously affects investment, importation, manufacturing, and foreign trade.
- Per capita income is one of the lowest in the world, placing Somalis among the poorest of the poor.
- A serious lack of incentive, including wages for government employees and adequate prices for farmers, has been accompanied by an inflationary rise in prices that in 1979 and 1980 was reported to have been over 40 percent per annum.
- The ranges that support Somali livestock are being overgrazed so severely that specialists compare the situation to the disastrous practices in the U.S. during the second half of the nineteenth century.

- Transportation and communications are in serious trouble: there is a major shortage of buses and trucks, of fuel and adequate roads, of internal telecommunications, and of economical methods of moving goods and people. The camel remains Somalia's most reliable transport.

The litany of economic ills (the general economic picture is summarized in Appendix A) could be expanded ad infinitum. Two factors, however, the state of poverty that stimulates illegal activity and the labor situation, provide impetus for the many anomalous situations and illicit activities that power the "second economy."

First, how does one gauge the depth of poverty in a country like Somalia? In comparisons by the Overseas Development Council (ODC) of London for Ethiopia, Kenya, Somalia, Sudan, Tanzania, Uganda, Burundi, and Rwanda, Somalia had the *lowest* GNP, the *lowest* physical quality of life index, the *lowest* life expectancy (41 years), the *highest* infant mortality per 1,000 live births (177), the *lowest* literacy (5%), the *lowest* per capita public education expenditures (\$2), and the *highest* per capita military expenditure (\$7).

Although it cannot be proven in any quantifiable sense, the overpowering impression is that poverty is the engine that drives the second economy. The quality of life is dreadful enough to stimulate Somali citizens to act outside the law. Yet even here there is an anomaly; only the rich and middle class make big profits as manipulators. The poor would participate if they could, but in fact they are relegated to small-time activities by comparison—smuggling, poaching—the scut work of illegality.

Second, what about the manpower issue? Somalia's labor situation is a major part of the economic dilemma. Although the country's migrant laborers are often men of wealth, they represent a staggering drain on the skills needed at home. Some 200,000 to 250,000 skilled and semiskilled Somalis, mostly men, work in Saudi Arabia, the Gulf States, and elsewhere overseas. Their salaries are eight to ten times higher than those of their counterparts at home, and their absence from Somalia is often reckoned in decades rather than years. Although some funds flow back to their relatives in Somalia, most of their earnings are spent or invested abroad.

Two economists, a Canadian with Saudi Arabian experience and an American living in Somalia, estimated that Somalis based in Saudi



Political paintings of Somali leaders on a Mogadishu wall, including Major General Mohamed Siad Barre, center, and Brigadier General Mohamed Ali Samantar, left center. Somalis jokingly insist the positioning of the leaders (left to right) has nothing to do with their political views.

Arabia alone number approximately 200,000 (180,000 workers, 20,000 dependents). The average wage runs between \$700 and \$800 a month. In total earnings, this amounts to about \$1.5 billion a year. Since most workers go abroad to save, it can be assumed that at least 33 percent of their earnings are set aside. This \$500,000,000, by Somali standards, is an enormous amount of money, yet very little of this wealth flows back to Somalia. Most is siphoned into enterprises abroad, either invested in Saudi Arabia, in businesses elsewhere, or deposited in foreign bank accounts (usually in Switzerland or Italy).

The labor picture within Somalia is not a happy one by anyone's estimate. Wages are so low and inflation so damaging (estimated at 42% in 1980), Somali workers' buying power is negligible. Government employees are underpaid at the middle and lower levels, creating a widespread "why work?" attitude in many ministries. One Somali clerk talked of work as "a waste of time." Even Somalis working outside government are disenchanted. A middle-aged USAID employee said that, although the wage was good by local standards, he had to fulfill so many

"expectations" of his kinsmen that the effort was not worth it.

The policy of government to guarantee every secondary school graduate a job, mostly in the government or parastatal organizations, means the average wage at entry levels must be far below a living wage. The situation stimulates a flight of the skilled and semiskilled to higher-paying jobs overseas and means that Somalia is plagued constantly by a shortage of skilled manpower and rapid turnover in many important jobs. Doctors, nurses, accountants, engineers, builders, architects, planners, tradesmen, cooks, hotel workers, oil field workers, agricultural laborers, and repairmen have been leaving in large numbers.

Although there is talk of government control of the exodus, as yet there have been no serious restrictions. Indeed, such controls would be politically dangerous for President Siad Barre, unless circumspectly handled. Much of his support and financial backing comes from the richer migrants and their well-placed families at home. Key families in Somalia rely on their overseas contacts and would not take easily to losing them.

For multinational or bilateral donors trying to help Somalia, the labor dilemma creates bizarre situations. United Nations Development Program (UNDP) officials report that the attempt to establish counterpart training for their projects is their single greatest frustration. The counterpart idea works the same way throughout the donor world: a technical assistant or foreign expert is supported for, say, four years, the first half of that time being dedicated to training his local counterpart. During the latter half of the period, he is subordinate (in theory) to the counterpart. The basic necessity is that the Somali counterpart stick to the job. Most don't. The lure of other opportunities, particularly the desire to migrate, creates an enormous turnover. Turnover is often so great that the intended enterprise becomes unfeasible.

To overcome this problem, UNDP agreed to top up the wages of some counterparts to make the jobs more attractive, an incentive that worked in the training stage. But when the counterparts had to go back on the government payroll, usually at lower salaries, they consistently left the jobs for which they had been trained. In another attempt the counterparts are sent abroad for part of their final training to get their credentials polished in professional settings such as architectural or engineering firms. Many get "lost" on their way home and take other jobs. Again it is because of the low wages and lack of incentive in the homeland.

At higher levels of training, one of the great Somali anomalies is the university system. The national university is an Italian enclave, both in the sense that the Italian government continues to fund much of its activity and because Italian is the language of instruction. A bright student destined for the university is first trained in Somali through the secondary school level, then in Italian in the university. Most specialized training after the university, however, is taught in English, with some in French, German, and Russian. This means the student must either learn English in a crash course in Mogadishu or go abroad to start his advanced work while learning the language of instruction.

Compounding this anachronism from colonial days is the rapid turnover of Italian professors. Apparently the assignment in Somalia for many is seen as a form of sabbatical. Others consider it a short leave opportunity. The upshot is an instructor who is probably new to Somalia, and at his post only three months. Student-faculty rela-

tions, particularly access to faculty members, are at the bad joke level.

Another anomaly is the labor shortages that exist in pockets of the country. Along the Juba River, and especially in the sugar-producing areas, there are shortages of agricultural workers, reportedly because of the male exodus to the oil-rich states. One answer may be to employ female labor, but there is little information on the nature of women's traditional role in agriculture in this geographic area. The question has been posed by UNDP; as yet there are no clear answers, either from the Somali government or from the women themselves.

The female labor question is intriguing because of the large number of women in the settlement camps. Women here, as in most of Africa, perform the bulk of the manual labor: wood-gathering, water-hauling, routine farm work. Whether they are willing to take on more specialized agricultural tasks and undergo periods of training is the question. Traditional pastoralist work habits are deeply ingrained.

On balance, labor problems stimulate illegal activity. Many workers lack the skills for available jobs; the lower economic classes are discouraged because they see their wages as too low even to buy food. Inflation and taxes are high for the middle echelons of wage earners; they often cannot buy what they need with their wages. If a man has other options, he may well elect not to work. To drift into nefarious activities is one possibility.

The Second Economy

One of the disarming things about Somali acquaintances is the degree to which they talk openly about extralegal activity in their country. There is a kind of "smuggler's ethic," an honor code among economic adventurers, that has definite bounds. One friend summed it up with a flick of his wrist and a broad grin: "We Somalis are smugglers; we are not thieves!"

In addition to the general poverty level and the manpower situation, the stimulants behind the system can be traced to age-old trading practices. The fact that the Horn of Africa is situated on a world crossroads has allowed Somali entrepreneurial instincts to blossom. The poverty and hardship endemic in the land give trade and bargaining a special urgency: there is an adventurousness, a willingness to travel long distances, a keenness about prices and the availability of goods that flows from the nomad's need to obtain information across large areas. There is also a

tradition of exchange via the sea; for millennia dhows have linked Somali ports to the greater Indian Ocean trade.

Even in colonial times, most Somalis lived outside the system set up by Italian and British regimes. To beat them at their own game—whether through illegal trade, illegal grazing, poaching, smuggling, or tax-evasion—was as much a form of economic sport as anything else.

In recent years the burgeoning of the "second economy" has been a reaction to government policies, particularly those of "scientific socialism." Government control of nearly every sector of the economy, including trade and commerce, triggered an extralegal reaction. The "other economy" today is in part a response to what Somalis see as a restrictive system. Somali-Soviet ideas of parastatal operations, cooperative movements, government-owned farms, and bureaucratic control of trade essentially caused an illegal backlash. Right-leaning Somalis will tell one this has happened because the Somali character is far more free-trade oriented than the system imposed upon them officially permits. This may be true, but there are other stimulants: adventurism, greed, obligation to one's kinsmen, plus undoubtedly the much-touted free-enterprise ethic.

There appears to be no central, monolithic structure to the second economy, no overlords or bosses, but rather dispersed, fragmented individual operators and small groups connected to overseas networks. "Cooperative arrangements are the thing," said one Mogadishu businessman. "It is necessary that a lot of people get paid off a little." Second economy activities include:

1. Extralegal use of the Franco Valuta system
2. Dealings in blackmarket currency

3. Smuggling and illegal commodity trade
4. Poaching and trade in wildlife products
5. A "commissioner" system sanctioned by government that sets up middleman profiteering
6. A "lost cargo" practice which claims losses at sea for insurance payments
7. False certification practices and bureaucratic payoffs
8. Refugee camp profiteering, particularly in the resale of food and other contributed goods

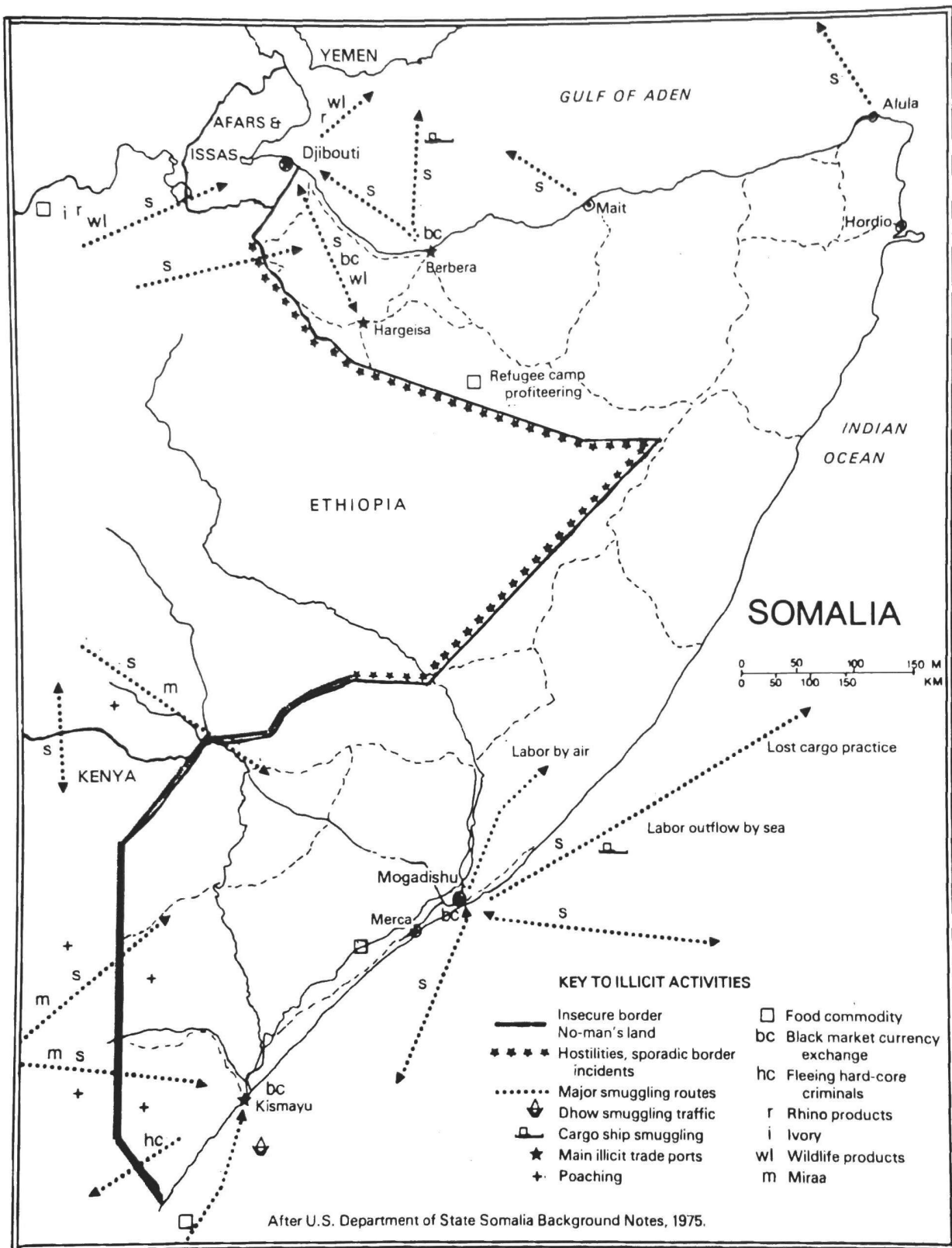
The "Franco Valuta" system is a legal, government-sponsored way of importing goods purchased overseas by Somali migrants. Workers are permitted to buy goods overseas with their foreign earnings and to arrange their import—and profitable resale—in Somalia. It is a remittance system which can be organized either by the workers themselves for personal profit, or by Somali-based traders who profit from by-passing the foreign exchange problem. Usually three-way cooperation exists between the trader, the migrant worker abroad, and the worker's family in Somalia.

Who profits; who loses? In the legal system, the worker and his family make a profit because the money paid the family is usually two to three times the equivalent paid by the worker. The trader also profits. Essentially the Somali government is admitting it cannot get at the earnings of migrant workers, but it can get goods needed in Somalia by allowing profits to be made in exchange.

Illegality comes on two fronts. Economists studying Somalia suggest that Franco Valuta imports are usually grossly undervalued—by as much as 50 percent—and that they often clear customs surreptitiously. Many imports under this

Steps in a Franco Valuta Transaction

1	2	3
Somali trader, in Somalia, decides to buy 1,000 yards of cloth.	Contacts Japanese supplier and gets sales contract drawn up. Trader then contacts migrant worker through his family.	Sends contract to Saudi Arabia where Franco Valuta system pays with migrant worker's earnings.
4	5	6
Goods arrive in Mogadishu.	Pays customs and clearance fees, plus other small fees and bribes to expedite.	Repays Somali worker's family in Somali shillings for use in foreign exchange.



system are not declared at all. Franco Valuta is a form of legal cover for illegal importation. Who suffers? The government tax and excise system obviously suffer, but the system brings other economic problems:

- Franco Valuta does not bring in development products such as pumps and road equipment, but rather small consumer items for the relatively affluent: perfumes, fancy shoes and shirts, silks, and embroidered cloth.

- As an ad valorem system of remittance, it stimulates the flow of goods manufactured elsewhere, rather than contributing to the local manufacturing market in Somalia.

- The system increases Somali dependence on imports and stimulates consumer desire for non-capital, nondevelopmental goods. With energy and food imports rising at an alarming rate, combined imports create a major trade deficit and balance of payments problem.

It is true that since 1977 use of the system has decreased (in 1977 it was estimated 14,000,000 Somali shillings were invested in goods flowing into the country). Overall, the elite and well-connected have been able to siphon off a good deal of profit by manipulation of Franco Valuta by underdeclaring or not declaring imports. The system sets up an extended international network involving wages and wealth earned abroad that most observers feel is merely a cover for the rich. Little flows back to the economy. Pressures by international bankers and donors to abandon the system and devalue the shilling have been opposed by the rich and top government officials—for fear of losing the crucial support of the wealthy.

The Black Market. Since the government has virtually no foreign exchange, there is a roaring black market in currency and a constant search for individuals traveling into Somalia to provide such currency. Any hard currency that will allow traders to purchase overseas goods will do, but dollars are particularly sought. The official rate, as of April 1981, runs at Somali shillings 6.23 to US\$1. On the streets and in virtually every shop, earnest young men whisper, "Change dollar... good rate... I give you 14 to one." These are middlemen who will sell the currency, in greenbacks or large travelers' checks, for 18 to 20 Somali shillings a dollar.

That this black market exchange goes on is no secret to anyone. That Somalia attempts to control the bigger dealers is also known, and for

some who deal in the exchange market the departure formalities from Mogadishu airport can be harrowing. Waiting in the departure lounge, where the shops take only foreign currency, one often observes brusque plainclothes men querying travelers and occasionally escorting them to nearby search rooms. This is all *after* one has cleared formal customs, whose officials are not trusted by the Somali government. Put another way by a Somali traveler who had just been so treated, "The system does not trust the system." He was smiling. He had been cleared. No one asked how.

Smuggling. There is a lot of loose talk about smuggling in general, a lot of jokes about and enjoyment of how clever smugglers evade government controls. Geographically, there are three main smuggling sectors (see map): (1) the illicit trade in the north, particularly on an axis from Hargeisa to Djibouti; (2) the illicit trade with the Gulf States via dhows from smaller ports or cargo ships mainly from Mogadishu, Kismayu, and Berbera; and (3) finally the illicit traffic across the southern and western borders with Kenya and Ethiopia.

Each sector is unique. Northern Somalis are reputed to be very trade-oriented, and to be born businessmen and smugglers. Hargeisa in the north has "everything," according to the southern Somalis, mainly because people there are adept at using Franco Valuta, are close to Djibouti (the Hong Kong of the Horn) and because there is a great undercover flow of goods between Djibouti and Somalia.

The seaborne traffic by dhow carries a myriad of goods, some of which are being transhipped from Somali ports. Foodstuffs, consumer goods, liquor, mangrove poles, tires, spare parts, and gold move through Somalia from Ethiopia, Kenya, and Tanzania to the Middle East mainly by dhows and small ships that ply the western Indian Ocean.³

The overland traffic from the south and southwest (Kenya) is largely traffic into Somalia. Illicit maize, wheat, and rice shipments are occasionally reported; cattle (some of which are stolen) and tires made in East Africa, other Kenyan manufactured consumer items, and spare parts, occasionally stolen vehicles that may have come from Uganda, and large quantities of *miraa* (a drug chewed like coca leaves) are common items. Materials flowing south are destined mainly for transshipment or are consumer items for East African consumption.

Most of the traffic moves at night across the desolate borderlands, some moving from Kenya into Ethiopia and thence to Somalia. The illicit traffic from Ethiopia in the south is apparently open. Further north the tensions of the Ogaden war have curtailed movement; reports of Ethiopian aircraft strafing trucks near the border have apparently discouraged some of the traders.

Coffee, tea, sugar, cattle, and other livestock flow up the coastal strip north of Lamu, Kenya. Some of the items that move south surprise even customs officials who catch up with the smugglers. Officials once intercepted a shipment of cheap ball-point pens, cheap nylon shirts, Mickey Mouse watches, and transistor radios, as part of a cache of 10,000 colobus monkey skins stopped at the Moyale, Ethiopia/Kenya border. All were headed for transshipment out of Mombasa.

Poaching and Wildlife Trophy Traffic. The major items in this traffic are ivory, rhino horn, leopard and other spotted cat skins (mainly civet and cheetah), trophy objects, horn carvings, elephant-footstools, purses, colobus monkey skins (black-and-white skins used to make carpets, with as many as 20 pelts per carpet), and medicinal products of animal origin.

Elephant poaching for ivory continues in southern Somalia, inland from Kismayu, by Somalis and other nationals operating as poacher/bandits in Kenya and Ethiopia. The ivory traffic has reportedly slackened since 1980, largely due to dwindling supply and more difficult shipment. Nevertheless, ivory carved or in large chunks is readily available in the streets and shops of Mogadishu; there are no government restrictions on its sale.

Rhino products move through Somalia, either poached in southern Somalia (reported to be nearly devoid of rhino) or shot elsewhere in East Africa. The prize item, the horn, is not used as an aphrodisiac as commonly believed (except in small quantities in Yemen), but as a high-status dagger handle for Yemeni elders. It is even more important as a fever repressant in clinical medicine, particularly in Singapore, Hong Kong, Taipei, and mainland China. Rhino urine (taken and sold from zoos), and rhino skin and hair are also used medicinally, although there is little evidence their side-products move out of East Africa in great quantities. Most rhino products go through Somalia destined for Yemen and the Gulf States, often via Djibouti.

Similarly, leopard, cheetah, civet, and lion skins are openly sold on Djibouti streets and many will have passed through the smugglers' trade in Somalia. The demand for spotted cat products for coats, purses, and women's hats is high in Europe, particularly in Germany. Conservationists point to these markets as the primary stimulus for the trade. Other trophy items (purses, stools of elephant feet, zebra lamps, gazelle-skin rugs, lion-claw jewelry, colobus monkey skin carpets) are also transshipped mainly for a European and Far Eastern market.

Medicinal products, aside from rhino horn, are hard for customs officials to pin down because ingredients are often powdered, ground, chopped, or mixed with herbs and leaves. Items that have been stopped include antler horn, monkey paws, substances that are believed to be crocodile bile or gallbladder, and some insect concoctions. The traffic is headed to the Middle East and Far East apothecary trade. Traffic in crocodile skins and rare birds has slipped, the market in crocodile skins having apparently dropped, although one hears of Italian shoe manufacturers offering high prices. The bird traffic is slow, according to one Somali brigand, because "they either die on you, or squawk at night at the wrong time... when you are trying to move quietly."

The "Commission System" is a further element in the second economy. Virtually all major contracts involving the government, whether for oil, commodities, building materials, or trucks, go through a middleman, a commissioned agent who has the responsibility of importing the items and seeing that the government gets what it wants. These "agents" take enormous commissions—from the sellers—to provide "service" to the government, resulting in a higher price for the item. That the government is cutting off its own economic nose is apparently understood. The higher costs are willingly borne to allow agents, some of whom are members of elite families, to make profits. How the flowback to other officials works in detail and what percentage is taken remain closely guarded secrets.

An American oil executive's experience is perhaps illustrative. It was arranged that a major U.S. company would respond to the multiple petroleum needs of the country: gas, diesel, cooking gas, aviation fuel, and other oil products; its contract would be exclusive. After representation was made directly to the government, and the deal seemingly agreed upon, a long delay ensued.

"Lost Cargo Caper"

1	2	3
Exporter sends 1,000 live cows to Port X in Gulf States.	Ship officers claim death of 200 cows, dumped at sea.	800 cows landed and paid for. Exporters reimbursed.
4	5	
200 cows sold illegally for profit by (1) ship officers, (2) port officials, (3) export agents, and (4) Somali officials who verify cattle death.	Insurance loss sometimes claimed. If cattle have been consigned to an agent for sale, cattle owners will only receive "sympathy" for loss of 200 cows. Usually cattle buyers are middlemen.	

When inquiries were made, it became apparent that an agent had been appointed (from an elite family) and that new agreements would be arranged through him. The new conditions were such that the U.S. firm withdrew.

Commissioned agents do not necessarily live in Somalia, nor need they even be Somali. Historic ties to Italy, the continued export to Italy of bananas and other produce, and the importation from Italy of many consumer goods also have an agent system. Much is legal and aboveboard. Some is not. The Mafia's interest in the fruit and vegetable markets within Italy is well known, and ties to Somali products are openly discussed.

Lost Cargo Capers are included in the "Italian connection" agent system. This is a practice of claiming losses of perishable items, particularly cattle or bananas, and thereafter selling the "lost cargo" for profit. Some of the proceeds are distributed among cooperating officials. Two patterns are reported to occur commonly from Mogadishu. The "lost cow caper" proceeds in five steps (see above).

The "great banana charade" has similar elements: banana cargoes are reported to have been dumped at sea because of "tip end rot" or other spoilage. A ship may then off-load this portion of the cargo at an alternative port, often in southern Italy or Sicily, according to Mogadishu observers. The remaining cargo reaches its destination and is duly certified to indeed be only "X" tons, rather than the original shipment. Part of the charade's cover is that rot does occasionally occur on the voyages and can spread rapidly if the bad bananas are not eliminated. Whether insurance eventually pays for such "losses," or whether the original producers absorb it apparently varies between cases.

False Certification Practices and Bureaucratic Payoff. Numerous "illegal paper transactions" allow for the movement of goods that will eventually reap an illegal profit for someone. This is perhaps the most widespread practice, as it allows a semblance of legality to be maintained to cover the illegal activity. The following example is actually common practice in several eastern African countries: A cache of ivory is found, the poachers arrested, the ivory put into a government warehouse. Later the ivory is either auctioned for an undervalued price to a small "in-group" (the auction being required by law and certified to have taken place by officials) or the auction side-stepped and false certification documents prepared. The trick lies in undervaluing the tusks. The ivory may be worth \$10,000 on the free market in Hong Kong, where it is destined, but is certified to be worth only \$2,500. A cooperative buyer in Hong Kong sends \$2,500 properly to the government treasury and the other \$7,500 to the Swiss bank account of the "organizers." It is also important to note that the poachers end up in jail and that the country itself can denounce illegal game killing.

There are other bureaucratic irregularities as well. Although not as rampant as in most African countries, payoffs and petty extortion are elements of Somalia's second economy. To move necessary paperwork through channels—visas, passes, exit permits, customs clearances, dock permits, and the like—orders are often accompanied by requests for "assistance." A typical example is an exit permit which can be pro forma, or can invoke endless petty demands by the officer-in-charge: birth certificate, marriage license, work document, old passports, father's passport, and on and on. The harried Somali traveler has the option of cutting through the bureaucratic

maze, which may be wrapped around him intentionally, by offering "assistance." Otherwise his papers may languish for months, perpetually at the bottom of a bureaucrat's "in" box.

Refugee Camp Profiteering. The general picture is that the Somali government is staunchly behind the refugees and trying hard to make the best of a very difficult situation, and no charges of corruption are made against higher levels on this score. (Food moves as designated from donor to camps without major losses or siphoning by "big men.") The problems start at the camp level, and here there are recurring reports by aid workers and volunteers of major malfeasance. One set of reports detailed how military trucks arrive at night at the camp storehouses, load, and disappear with sizable cargoes, reportedly to be sold and resold to the highest bidders. Sacks of maize still marked as food aid donations are openly sold in markets near the camps.

At another level there are reports of favoritism and extortion by camp administrators as to who gets food and who does not. Some cases involve kickbacks of a portion of the food itself; in others cash payments are demanded of the recipients before welfare food is given. This puts the recipient in a situation where he must sell something (often part of the food he receives) to get the shillings with which to buy his next meal.

At all levels, including the top, one practice is universal: overcounting refugees. Whether to get greater inflows of food and other aid, greater sympathy and wider international news coverage, it is apparently expedient for the refugee officers to grossly inflate totals. At the lower levels, for essentially the same reason, camp figures remain overstated and inaccurate. No one really knows the true number of refugees; perhaps no one wants to know. When there is profit in uncertainty, it is expedient to remain vague.

* * * * *

Searching for reasons the "second economy" flourishes, one is most acutely aware of loopholes in the various national laws. Confusion reigns. A Somali trader may deal with separate sets of regulations in Djibouti, Jeddha, Dubai, North Yemen, Mombasa, and Lamu in Kenya, Zanzibar and Dar es Salaam in Tanzania, to name but a few. Ivory and trophy curios are banned in Kenya, but openly sold in Somalia and other Horn areas. Commodity movements and foodstuff smuggling, which are a national crime in hungry Tanzania, are openly done in other markets farther north.

Djibouti is perhaps the greatest anomaly. This tiny port city is a former French colony, now independent as a part of the territory of Afars and Issas. The city-port itself is fenced with barbed wire to keep the thousands of refugees outside. Tough French Foreign Legion troops patrol the perimeter of the fence, watched by the baleful eyes of hungry refugees.

Goods that find their way into Djibouti illegally (i.e., illegal from the point of origin) can be exported legally without Djibouti restriction. It is a modified, free-trade system that resembles Hong Kong, but without the close scrutiny that British officials insist upon. One is told that most of the goods for export from Djibouti arrive there by ship, either traditional dhow or motorized cargo liner. Relatively little comes in through the barbed wire, although outbound items do flow through the barricades, presumably because it is easier to pay off the Foreign Legion patrols from inside rather than outside.

Important trade ties exist between Somalia and Jeddha, Dubai, and the Gulf Ports, but the Italian connection is said to be equally important. Remnants of the colonial links to southern Somalia (Italian Somaliland) still exist, and it is probably natural that extralegal ties flourish on this axis. The main connections are reported to be with the Mafiosi in the vegetable and fruit trade (mainly bananas), traditionally a Mafia-controlled business in many parts of Italy. A second connection with the Mafia is reported in the drug and patent medicine trade. Animal medicines, veterinary products, insecticides, and fungicides are important imports for a country so heavily dependent on livestock and banana production. Although the actual manufacturer for a drug product may be any one of many European houses, the delivery and handling, and presumably major profit-taking, "is in the hands of very efficient gentlemen in Italy."

* * * * *

What can one conclude about the second economy? Whose money is involved? Is there hidden benefit in a hidden economy? Basically any extralegal system is confusing, leads to chaos and uncertainty, and in the extreme—anarchy. The system functions as one of several by which men distinguish themselves from other men, in order to become richer and accumulate more of the power and status that go with wealth. To the extent that money legitimately due the government is siphoned off, the things that taxes support—roads, clinics, schools—suffer. By

beating the system, the system is weakened. If the system is already shaky and inefficient, then the illicit siphoning may be a death blow.

One hears arguments that corrupt practices are not all bad, that if the pilfered shillings are invested in the local economy to create jobs and products, or are put in local savings, they in fact have economic worth. It is when the pilfered shillings are spirited abroad to secret bank accounts that there is true "moral" corruption. There is some logic in this, although the justification overlooks social costs described above. Indeed, the greatest social costs may be lack of faith. If enough people become disenchanted, angry, and hungry at the same time, partly because of the hidden economy or because they blame these practices for their poverty, then political instability follows. These conditions ripen a country for coups d'état, always in the name of "clearing out the rascals," but not always to anyone's advantage. (Idi Amin's coup in Uganda comes to mind.)

And whose money is it, anyway? Ultimately, it is the wealth of the people—all of them but mostly the poor. In a country like Somalia where not all adults are taxpayers (nomads are shy of tax collectors and difficult to track down), one cannot make a convincing argument that the righteous taxpayer is being abused, except on a broader "equity" basis. In Somalia, however, citizens are second class if they cannot get their

fingers in some till or their sons working on a smuggler's boat. In essence, the second economy denies equity and economic fair play. It sets up a privileged class and promotes a class system, although classes may be divided variously and it may be more accurate to talk about "pockets" of new wealth attained by rich and poor alike in specific groups. Smuggling will not help the poor in general, but it can occasionally create instant wealth for a heretofore poor and unemployed man.

A final, international dimension surrounds the rise of extralegality throughout Africa. Somalia's condition, by African standards, is not bad in comparison to Uganda's and a dozen West African nations, yet what we may be seeing is part of a generally rising tide of illegality throughout the world. A return to smuggling as a way of life is in contravention of codified law and in line with rising, worldwide disenchantment with the established order. We can argue that illicit economic activity leads to a broader breakdown in law and order, a rise in despair, a rise in terrorism and anarchy. One thing is certain: throughout Africa, petty illicit activity at all levels is rife. It is more advanced in some economies, developing into a mafia-like *sotto governo* with an invisible structure of its own, a power, a force with codes, rules, and an array of loyal practitioners. Few leaders seem willing or able to do much about it.

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Photographs by the author and through the courtesy of the Ministry of Agriculture, S.D.R.

NOTES

1. Even more worrisome is the depleted water table. Hydrologists report that of the 2,000 boreholes in Somalia (600 deep wells, 1,400 shallow wells), some 700 of the

shallow wells are dry. Both major rivers in the south, the Juba and the Shebelle, were dry or nearly dry in March 1981, with only intermittent pools still providing water. The drought picture is of course mixed for different sectors, some being worse hit than others. Most of Somalia has suffered serious rainfall shortages since the end of 1979, but for some areas the dry years go back to 1977. Although the April 1981 rains came—overabundantly in some regions—it was too early to tell if rain was falling in the headwaters of the Juba and Shebelle Rivers, these areas being in the Ethiopian highlands where friendly information is unavailable.

2. The only oil refinery in the country was built by Iraq under a joint Iraqi-Somali plan. The facility worked for a time, but the technical specifications of the refinery are such that it can take only Iraqi crude of one type (and reportedly from only one Iraqi well). The source has been shut down since the Iran-Iraq war; so has the refinery in Somalia.

3. See the author's "The Indian Ocean: Traditional Trade on a Smuggler's Sea" [NNM-2-'80], *AUFS Reports*, no. 7, 1980.

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Appendix A - Economic Profile

Overview

1970-1973	Modest economic growth
1973-1974	Drought
1975	Refugees, drought
1976	War with Ethiopia
1977	War, refugees flood Somalia, Soviet aid departs
1978	Arrival of Western aid, refugees
1979	Drought, refugees

Economic Trends: 1970-1980

- Shortage of foreign exchange
- Shortage of skilled labor because of drain to Arabian markets
- General stagnation and decline of exports
- Somalia dependent on 2 exports: livestock (72%) and bananas (20%); other agricultural products equal 8 percent*
- Exports reach highest level in 1972, declining at constant prices by 30 percent by 1978

- Remittances from overseas workers stimulate consumption of consumer items, but do not help saving rates, or development objectives
- Inability to cut public consumption expenditures
- Refugee burdens lead to extra food costs of 50 million Somali shillings in 1979, excluding additional costs of internal transport and distribution
- Government incurs deficits because of increased expenditures and nonexpanding tax base. Result is increased dependency on external resources

Economic Indicators**

	1977	1978	1979	% Change 1978 to 1979
Population (millions estimated)	NA	3.7*	3.8	2.7
Average Industrial Monthly Wage (\$/Mo.)	82.4	97.2	97.2	-0-
Electricity Sales (million KWH)	5.0	5.4	6.4	+ 19.0
National Consumer Price Index	100.0	108.5	156.0	+ 43.8
Balance of Payments (\$M)	+ 28.6	+ 8.2	- 85.3	- 1140.0
Balance of Trade (Deficit)	135.9	167.3	291.0	74.0
Exports F.O.B., U.S. Share (\$M)	72.0	110.5	107.0	- 3.1
Import C.I.F., U.S. Share (\$M)	4.7	6.2	NA	NA

The breakdown of the gross national product gives further indication of the relative importance of each sector.***

Livestock	750 million Somali shillings
Other Agriculture	500
Industry	150-180
Farmers	35
Commerce, Services, other	306
	1761 (approximate)

Official Estimates****

Somalia territory	638,000 sq. km.
Administrative Regions and Districts	16 and 81
Population Estimate	about 5,000,000
Population: urban vs. rural	23% vs. 67%
Population growth rate	2.83% per annum
Arable land	8.2 million hectares
Pastural land	28.8 million hectares
Other areas	26.8 million hectares
Livestock Population	33.7 million head
Camel	5.3 million head
Cattle	3.7 million head
Sheep	9.4 million head
Goats	15.3 million head

Synopsis of 5 Sectors

Trade. Deficit in balance of trade worsened in 1979. A sizable balance of payments deficit existed in 1979 and is expected in 1980. A major lack of foreign exchange discourages trade. While total exports declined in 1979 and probably in 1980, a 43.2

percent increase in imports was reported for 1979 (to \$398 million). Oil and foodstuffs for refugees were primarily factors.

Livestock is the core of Somalia's economy, employing over 70 percent of the population and providing over two-thirds of its export earnings. During 1979 some 1,503,000 head were exported, mainly to Arab countries, principally sheep and goats to Saudi Arabia. Related to this is the unfortunate "status value" of livestock. The exportation of live animals has dropped over the past ten years; although offset by worldwide increases in beef prices, the total value to Somalia has remained roughly the same.

Agriculture is believed to have suffered a 12-14 percent across-the-board decrease in export production in 1979. Bananas, the mainstay, fell 3.4 percent, to 55,000 metric tons, a sad commentary on the efficiency on plantations that had in 1974 exported 140,300 metric tons. Rehabilitation of the banana industry is under way. Other 1979 crop figures showed maize decreased by 5 percent and sorghum by 2 percent. As a result the importation of 15,000 metric tons of maize for domestic consumption was necessary. Agricultural exports in 1979 barely covered the value of food imports.

Industry. Somalia's manufacturing sector is small and across-the-board decreases in production, about 14 percent, were recorded in 1979. The most severe problems were as follows:

- textile factory (Somaltex)	-28%
- milk factory	-18.1%
- pasta and wheat flour factory	-11.2%
- sugar factory	-11.2%

These declines were overshadowed by the closure of several factories: five fish processing plants, the country's only oil refinery, and partial closure of meat packing facilities. The privately owned SOPRAL meat packing factory remained closed throughout 1979.

Production increases were registered in a few industries:

- electric power (new facility)	91.8%
- cigarette and match factory	31.5%
- fruit and vegetable planting (ITDP)	12.0%
- cardboard and plastic bag factory (INCAS)	8.1%

Key problems in the industrial sector included power fluctuations, lack of spare parts, shortages of diesel fuel, shortage of tins and other packaging materials and of raw materials necessary for production. Energy is a major problem. Although oil exploration goes on (reportedly led by Sinclair of the U.S.), no discoveries as yet have been reported. The country is currently forced to import refined petroleum products, largely from Saudi Arabia.

A case example is Somalia's leading industry, the Juba Sugar Project, a British aided enterprise which in 1981 was going badly. Machinery that was brought in was partially secondhand from India. The processing plant is not able to set the crystals, so that after a relatively short period the sugar turns to syrup in its plastic bags. Labor problems persist, as many of the cane cutters are finding jobs elsewhere. This is serious since the Juba Sugar Enterprise is the single largest industrial program in Somalia.

The production of sugar is down from 30,000 to 24,000, to 21,000 tons in 1977, 1978, and 1979 (resulting from power supply interruptions, obsolete processing machinery, and a shortage of trucks for transporting sugar cane). At the same time a striking increase in the domestic consumption led to a need to import increases and shortages through 1979. Somalis use large amounts of sugar for coffee and tea.

Sources

- * Estimated by Berry, *Eastern African Country Profiles: Somalia*, p. 21.
- ** "Foreign Economic Trends," Somalia Key Economic Indicators, U.S. Embassy, Mogadishu.
- *** Berry, p. 22.
- **** Somali Government pamphlet, "Special Statistical Issue: For the 10th Anniversary of the Revolution of 21 October" (Central statistical department, State Planning Commission, Mogadishu, October 1979).

Note on Data: Statistics, particularly population statistics and figures of productivity, are not available, or when put forward are unreliable. Every document is prefaced with a disclaimer that the statistics are "approximations" made on the basis of incomplete information. Thus, in a sense, the first problem is the data problem.

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THE AUTHOR



NORMAN N. MILLER has been concerned with East Africa's anthropology and politics for more than two decades. In 1959-60 he traveled extensively in East and Central Africa and subsequently, with research support from the Ford Foundation, The National Science Foundation, and the Carnegie Foundation, lived in Tanzania, Kenya, and Uganda on nine separate occasions. He has taught at the University of Dar es Salaam and the University of Nairobi. Receiving the M.A. and Ph.D. degrees from Indiana University, in 1966 he joined the faculty of Michigan State University where he was founder and editor of *Rural Africana*, a research bulletin in the social sciences. He became an Associate Professor in 1969 and shortly thereafter he joined the Field Staff to report on East Africa. His publications include two edited volumes, *Research in Rural Africa* and *Faces of*

Change: Five Rural Societies in Transition, chapters in several books, and articles in such publications as the *American Political Science Review*, the *Journal of Modern African Studies* and the *Canadian Journal of African Studies*. From 1971 to 1977 he was director of the AUFS Film Program and has produced or directed the 27 documentary films known collectively as the *Faces of Change*.

Since 1977 Dr. Miller's work has focused on health. He holds a concurrent appointment as Professor of Community Medicine at Dartmouth Medical School, teaching in the areas of international health, medical anthropology, and environment.