



SOMALI JOINT NEEDS ASSESSMENT

**MACROECONOMIC POLICY FRAMEWORK AND
DATA DEVELOPMENT CLUSTER REPORT**

Document of the United Nations & the World Bank

August 2006

FISCAL YEAR
January 1—December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective March 31, 2006)

Currency unit	Somali shillings (So. Sh.)
US\$1.00	= 13,400 Somali shillings
Somali shillings 1.00	= US\$0.00007

Currency unit	Somaliland shillings (Sol. Sh.)
US\$1.00	= 6,400 Somaliland shillings
Somaliland shillings 1.00	= US\$0.00016

WEIGHTS AND MEASURES

Metric System

ABBREVIATIONS AND ACRONYMS

CBS	Central Bank of Somalia
CIRRs	Commercial Interest Reference Rates
CPI	Consumer Price Index
CRD	Centre for Research and Dialogue
CSC	Civil Service Commission
DSOs	District Statistical Offices
FAO	Food and Agriculture Organization
FCC	Federal Constitution Commission
FEWS	Famine Early Warning System
FEWSNET	Famine Early Warning Systems Network
FMA	Financial Management Agency
FSAU	Food Security Analysis Unit
GDP	Gross Domestic Product
GNP	Gross National Product
HESPI	Horn Economic and Social Policy Institute
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IDPs	Internally Displaced Persons
IMF	International Monetary Fund
MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MFIs	Microfinance Institutions
MoF	Ministry of Finance
NGO	Nongovernmental Organization
NPV	Net Present Value
NSO	National Statistical Office
NTB	National Tender Board

OCHA	United Nations Office for the Coordination of Humanitarian Affairs
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PFM	Public Finance Management
PPP	Purchasing Power Parity
PRGF	Poverty Reduction and Growth Facility
PSG	Puntland State Government
RDP	Reconstruction and Development Program
REER	Real Effective Exchange Rate
SIMAD	Somali Institute of Management and Administration Development
SDR	Special Drawing Rights
SSA	Sub-Saharan Africa
SSD	State Statistical Department
SWG	Statistical Working Group
TB	Tuberculosis
TCG	Technical Coordinating Group
TF	Trust Fund
TFG	Transitional Federal Government
UNDOS	United Nations Development Office for Somalia
UNDP	United Nations Development Program
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
UNIFEM	United Nations Development Fund for Women
UNOPS	United Nations Office for Project Services
VAT	Value Added Tax
WFP	World Food Programme
WHO	World Health Organization

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The cluster report was prepared under the overall guidance and coordination of David Bassiouni (UNDP) and Lloyd Mckay (WB), JNA Senior Technical Coordinators. The cluster team wishes to express its gratitude to Louise Cottar (UNDP), Susan Muiruri (UNDP), Nafisa Santur (UNDP), and Margaret Onyango (UNDP) for the excellent operational and administrative support they have provided for all missions.

EXECUTIVE SUMMARY

1. **Context.** With a population of 7.7 million and an income per capita of \$226¹ (compared with an average of \$515 in Sub-Saharan Africa),² Somalia is one of the poorest countries in the world. During the 1980s, Somalia experienced stagnant per capita output, accompanied by the deterioration of physical infrastructure, a decline in the quality of public services, severe macroeconomic imbalances, and negative growth in the 1988–90 period. During this time, significant net inflows of external resources facilitated some investment and government expenditure on government social services. However, much of this expenditure was not efficient because of the weak quality and corruption of the civil service and the poor quality of the leadership of the country. Inflation remained high throughout the 1980s as a result of a rapid increase in credit expansion by the state-run commercial bank, generally to uncreditworthy public enterprises and individuals favored by the ruling regime; money creation; and bank financing of budget deficits. The eventual collapse of the commercial bank, and the loss of depositors' money, exacerbated a lack of public confidence in government and banks. The tax system was generally distortionary and cumbersome, the tax administration was weak, and government revenue was only 5 to 7 percent of Gross Domestic Product (GDP) between 1984 and 1990, one of the lowest levels in Africa.

2. Since 1991, the economy has suffered from droughts and the absence of government combined with local conflicts. Unlike the 1970s and 1980s when most of the output of the small industrial sector and many services were provided by the public sector, there has been significant (but unmeasured) private investment in commercial ventures, including in trade and marketing; money transfer services; transport; communications; airlines; telecommunications; other services including construction and hotels; education and health; and fishery equipment. This private investment has been largely funded by remittances from the Diaspora that amount to at some US\$1 billion per annum today (71.4 percent of Gross National Product [GNP]) compared with an average of \$370 million in the 1980s and 1990s. Except for the diaspora remittances, there has been very little foreign investment in recent years. In regard to real sector activity, agriculture, specifically agropastoralism and crop production, dominates GDP.

3. The incidence of poverty is very high; 43 percent of the population lives below the extreme poverty line of \$1 per day at purchasing power parity (PPP).³ Poverty in rural areas at 53 percent is higher than the average, and in urban areas it is 24 percent (table 1.3). For a poverty line of US\$2 per day (PPP), the incidence of poverty rises to 61 percent in urban areas, 80 percent for rural people, and 73 percent overall. Income inequality is significant, with a GINI coefficient of 0.4 among households as well as regions. Household surveys suggest that the poorest 10 percent of the population receives only 1.5 percent of the total income in Somalia, whereas the top 10 percent receives 35.6 percent of the total amount (UNDP 2003). In Somalia, 47.4 percent of the workforce-age population is unemployed (UNDP/WB, *Somalia: Socio-Economic Survey 2002*).

4. **Objectives.** In regard to the macroeconomic policy framework, the proposed key short- to medium-term objectives are to (a) establish and maintain macroeconomic stability; (b) develop a stable currency and a sound and growing public revenues base; (c) establish core civil service institutions along with accountable budgetary processes, public finance management, and revenue systems; and (d) reestablish financial services. In addition, it is important to establish data

¹ UNDP/WB, *Somalia: Socio-Economic Survey*, 2002.

² WB, *World Development Indicators 2002*.

³ This poverty analysis is based on estimates of household income in a household survey conducted in Somalia in 2002, which is in contrast to the expenditure-based household surveys conducted in other countries.

systems to secure the data needed to monitor social and economic developments and to inform sound policy and institutional development.

5. **Maintain macroeconomic stability.** The key instruments for maintaining macroeconomic stability are to avoid budget deficits at all levels of government and to contain the supply of local currency. To rebuild public confidence, governments at all levels—federal, state, regional, and local—should avoid spending beyond their revenue base, which is expected to be a blend of local revenues and development assistance. It is proposed that this commitment to fiscal discipline be supported by a “no-overdraft” rule and a budget act that precludes unfunded commitments. Given the widespread dollarization of the economy, the overall money supply cannot be strictly controlled. But containing the supply of local currency will still be important in maintaining stable local currency prices.

6. A macroeconomic policy department in the Ministry of Finance and a monetary policy department in the Central Bank should eventually formulate and implement macroeconomic policy. However, for the first two years, small units would be sufficient to carry out this function and this would be in keeping with the limited availability of public resources. The macroeconomic policy department, or unit, in the Ministry of Finance would be responsible for formulating tax policy changes, making revenue forecasts for the annual budget, monitoring monthly revenue collections, and making at least quarterly revisions of the annual revenue forecasts. Staff need to be recruited and trained in accounting and budgeting as a matter of urgency. These federal units along with state and local government units need to prepare preliminary local administrative budgets for the next year. In the medium term, such units should strengthen budgeting and policy-making functions through on-the-job training.

7. **Mobilize public revenue.** Although a number of donors are interested in providing budgetary support to government to help jump-start Somali reconstruction and development, the dependence on such assistance needs to be reduced over time. Indeed, the continuation of such support would be partly dependent on the ability of government to show it has the support of the Somali people by acting in a united way to collect an increasing amount of revenue. Thus, one of the most urgent tasks of government is to put in place a tax system and tax administration at the federal, state, and local government levels to generate public resources. Because this is a high priority, it is proposed that government put such a revenue system in place within the second year of the RDP.

8. Given the relatively weak revenue collection capacity in the early stages of a totally new revenue collection service, it would be best to initially concentrate on taxes on economic transactions, such as wholesale sales tax, and apply it uniformly to imports, and major services, i.e. hotels and telecoms. Moreover, to make administration as simple as possible and to keep the cost of compliance low, it will be important to keep the tax system very simple. That suggests a relatively low ad valorem import tax of 5 percent for most imported goods but then increased if necessary once it is operational. A few goods, luxuries and goods that have harmful health or environmental effects, could have a higher customs duty rate or alternatively excise taxes. Service fees should apply to passports and the use of key infrastructure, such as airports. In place of a general income tax it seems reasonable to initially have a low export tax on livestock and a tax on the profits of remittance companies and other potentially large taxpayers, but to have these replaced by an income tax as and when that can be effectively implemented. Similarly, a simple turnover tax on services such as hotels and telecommunications needs to be considered as a means of generating additional domestic revenue.

9. Currently no federal government tax administration exists. There is an agreement, however, between the TFG and *Puntland* to share revenue. The assignment of taxes between different levels of government needs to be clarified and laws need to be enacted governing federal

tax administration. Similarly, lean and well-paid independent customs and domestic tax revenue departments need to be established. The need for transparency and accountability requires that a lean, separate, well-paid revenue administration agency be established, under a separate tax administration law, with a policy to recruit staff on the basis of merits only. To aid administration and tax compliance, a simple tax procedures code and tax identification number and payments system need to be established quickly. Meanwhile, support is needed to strengthen existing *Somaliland* and *Puntland* capacity to more effectively administer taxes in their jurisdiction.

10. There are also very limited local administrative structures in Somalia for revenue mobilization. A few district administrations levy licenses, charges, and fees and provide some services. Therefore, in the short term, viable, minimal local administrative units need to be established and core staff recruited. Also, staff training in computers, record keeping, and simple revenue collecting procedures should be initiated. Thus lean local administration would be in place providing social services jointly with donors and NGOs and also progressively would be in charge of local tax revenue mobilization.

11. **Establish sound public finance management systems.** A third major priority is establishing public finance management and accountable budgetary processes. All levels of government need an efficient and sustainable financial management system that provides relevant, accurate, and reliable financial information to management at each of the decentralized levels, in a timely manner, not only to ensure that resources are used well for intended purposes, but also to rebuild public confidence. Moreover, that is essential for making sure development partners have the confidence in government necessary to underpin development assistance. Domestically it is essential that budgetary processes be transparent and participatory to further strengthen public confidence and support and by so doing help enhance revenue mobilization efforts as taxpayers want to be assured that their contributions are used well. At present the government lacks both financial resources and staff capacity to effectively establish this needed financial management system at the federal level and in South Central Somalia, and *Puntland* and *Somaliland* both have limited capacities that need strengthening.

12. To meet this need it is proposed that a financial management agent and a procurement agency be contracted for the first two years to provide these services and as part of an extensive program of institution building, which would include computerization, software acquisition, accounting and training on financial management, procurement, and participatory budget preparation and monitoring systems. Actions to clarify modalities for intergovernment transfers and to establish the needed laws (e.g., procurement) and institutional systems to underpin this establishment of sound financial management systems will also be needed. To operationalize the system, staff and other operating resources will be needed at all levels of the financial management process and at all levels of government—federal, state, regional, and local.

13. In South-Central Somalia, operationalizing the system involves building financial management capacity from scratch. In *Puntland* and *Somaliland* building on existing capacity is involved. For example, actions need to be included that develop comprehensive procurement regulations, amend laws as needed, establish procurement units, train staff, and produce standard bidding documents. Naturally, at each level of government, outcomes of the constitutional review process need to be reflected with regard to the role and function of various levels of government. At all levels of government it will be important for these financial management systems to focus on effective service delivery in a transparent and accountable manner.

14. **Establish core civil service.** The key immediate civil service priorities for the federal government are to (a) hire a small number of professional staff to constitute a policy management and advisory unit for the president, prime minister, and cabinet; (b) complete establishment of a civil service commission to assist in staffing the federal civil service along professional lines and

at the same time advise on the relationship between the federal, state, regional, and local civil services; (c) establish the expenditure management and financial accountability system so that budgets can be prepared, executed, and accounted for in an effective and transparent manner; and (d) establish the revenue mobilization capacity. A longer-term challenge is gradually building up the role of government and meeting the service delivery needs of the poor in the south. The recruitment of public sector staff can be potentially a major source of conflict. Recruitment will require transparent and consistent policies applied across government and the NGO/aid sector. Moreover, although the focus will be on objective qualifications to establish a professional civil service, care will be needed to ensure equal access for women.

15. In *Puntland* the civil service priority is to complete a review of the role and functions of the *Puntland*, regional, and local governments together with that of the various ministries and agencies and then proceed with capacity building and training as needed to implement agreed outcomes. In *Somaliland* the civil service priorities are to continue rightsizing and to build the capacity of *Somaliland* and local government services to deliver services in accordance with agreements about the assignment of public services to the various levels of government. In both *Puntland* and *Somaliland* care is needed to ensure equal access for women in the civil service and to ensure access by people who are physically disadvantaged or handicapped.

16. **Expand financial services.** Expanding financial services will be essential for private sector development and for domestic firms to compete effectively for reconstruction contracts. In this regard, efforts need to initially focus on expanding financial services by attracting sound and credible commercial banks to Somalia and expanding non-bank financial institutions to provide small-scale and microcredit. This extension of financial services should build on the existing money transfer system. Ideally, foreign banks will enter into joint venture partnerships with remittance companies and expand into deposit and lending services. Naturally, prudential regulations and supervisory arrangements will need to be established by the government though this could initially be provided through the supervision of joint venture partners. Success in attracting joint venture investors will depend on establishing an environment in which providers of financial services can make reasonable profits and develop an expanding business. That involves efforts toward strengthening corporate governance and reinforcing property rights. Success with efforts to expand small-scale and microfinance is most likely to come through focused local initiatives rather than through an attempt to build a nationwide system.

17. Although the initial absence of a role for monetary policy lessens the urgency for establishing the full array of central bank functions, there is an urgent need to strengthen the payments system and to provide banking services to government. Hence, updating of the central bank and financial services legislation is a priority along with these limited central banking functions. Developing a capacity for monetary policy can wait until the latter part of the reconstruction and development program as can the introduction of new and larger denomination local currency notes.

18. **Secure needed statistical data.** Because of the absence of formal statistical systems in Somalia and continuing conflict in many areas, data collection has remained fragmented and incomplete. Some of the basic macroeconomic statistics of most of the past two decades, including national income, balance of payments, and money supply, do not exist for Somalia. Nor do the types of social statistics needed to design and implement well-managed social services. It is crucial to have reliable statistics for decision making in policy formulation, planning, budgeting and service delivery. Statistics also play a central role in supporting the implementation of policies through monitoring and evaluation, which in turn supports transparency and accountability. At present the information systems in Somalia are inadequate, and the trained staff and resources needed to collect economic and social data are lacking. There is a need to design and implement a national strategy for data development in Somalia with a strong partnership

between data producers and users as the reestablishment of the Somali statistical system will require new institutional structures.

19. The data development priorities in Somalia are the launching of the population census and further data collection on social sector and macroeconomic indicators. The major statistical need dominating all others is the population census because it is essential for socio- and macroeconomic policy analysis and it would provide a framework for almost all further data collection activities (e.g., household surveys.). However, this census needs to be kept relatively simple by focusing on a limited amount of essential data to ensure that the census will be implementable. There is a need for data on population and social indicators by gender to design effective investments in people and programs to protect the vulnerable.

1. RECONSTRUCTION AND DEVELOPMENT PRIORITIES

A. MACROECONOMIC POLICY FRAMEWORK FOR SOMALIA

Background

1. With a population of 7.7 million and an income per capita of \$226⁴ (compared with \$515 in Sub-Saharan Africa [SSA]),⁵ Somalia is one of the poorest countries in the world⁶. During the 1980s Somalia experienced stagnant per capita output, accompanied by the deterioration of physical infrastructure, a decline in the quality of public services, and severe macroeconomic imbalances resulting in negative growth in 1988–90 (table 1.1). During this period, significant net inflows of external resources facilitated some investment and expenditure on government social services; however, much of this expenditure was not efficient because of the weak quality and corruption of the civil service and the poor quality of the leadership of the country. Inflation remained high throughout the 1980s as a result of a rapid increase in credit expansion by the state-run commercial bank, generally to uncreditworthy public enterprises and individuals favored by the ruling regime. Money creation and bank financing of the domestic budget deficits also contributed to the high inflation. The eventual collapse of the commercial bank and the loss of the depositors' money led to a lack of public confidence in government and banks. The tax system was distortionary and cumbersome, and the tax administration weak. The revenue to GDP ratio at 5 to 7 percent, between 1984 and 1990, slid to one of the lowest levels in Africa.

Table 1.1. Macroeconomic Indicators, 1980–1990

	1980–83 (aver.)	1984–87 (aver.)	1988–90 (aver.)
GDP (constant prices, Somali shilling millions)	80,842	88,330	93,790
Real GDP growth (annual % change)	0.3	5.0	-0.7
Population (millions)	6.6	6.5	6.7
Mogadishu CPI (annual % change)	34.2	48.5	107.3
REER (1980=100)	102.5	93.2	21.3
Gross domestic investment (% of GDP)	30.4	25.3	19.8
Private investment (% of GDP)	13.4	9.7	6.3
Gross domestic savings (% of GDP)	-17.1	-15.1	-12.1
Private savings (% of GDP)	-9.5	-0.8	3.1
Total expenditure (% of GDP)	22.2	26.7	36.7
Total revenue (% of GDP)	9.6	6.4	5.6
Fiscal deficit (including grants, % of GDP)	-9.0	-9.3	-9.9
Fiscal deficit (excluding grants, % of GDP)	-12.6	-20.4	-31.0

⁴ UNDP/WB, *Somalia: Socio-Economic Survey*, 2002.

⁵ WB, *World Development Indicators 2002*.

⁶ World Bank, 2006. *Somalia Country Economic Memorandum: From Resilience to Recovery*. Washington, DC: World Bank.

Exports of goods and services (% of GDP)	17.2	9.5	7.1
Imports of goods and services (% of GDP)	65.2	46.2	33.1
Current account deficit (including grants, % of GDP)	-18.2	-14.6	-12.9
Current account deficit (excluding grants, % of GDP)	-40.3	-43.3	-38.6
Gross international reserves (months of import)	0.4	0.6	1.0
Broad money, including foreign currency deposits (% change)	17.7	69.9	71.2
Nominal stock of debt (US\$ millions) ^a	837	1,451	1,801
Debt service/GDP	3.8	14.3	15.4
Stock of arrears (US\$ millions)	83	124	348

Source: WB World Development Indicators; WB Somalia PER 1991.

a. Public and publicly guaranteed external debt.

Key Economic Developments

2. **Sources of growth in a conflict economy.** Since 1991 the economy has suffered from droughts and the absence of government combined with local conflicts. Unlike in the 1970s and 1980s when most of the output of the small industrial sector and many services were provided by the public sector, there have been significant (but unmeasured) private investments in commercial ventures, including trade and marketing, money transfer services, transport, communications, airlines, telecommunications, and other services including construction and hotels, education and health, and fishery equipment, funded mainly by the large remittances from the diaspora. Remittances amount to at least US\$1 billion today, 71.4 percent of gross national product (GNP), compared with an average of \$370 million in the 1980s and 1990s. There has been very little foreign investment (exclusive of remittances) in recent years.

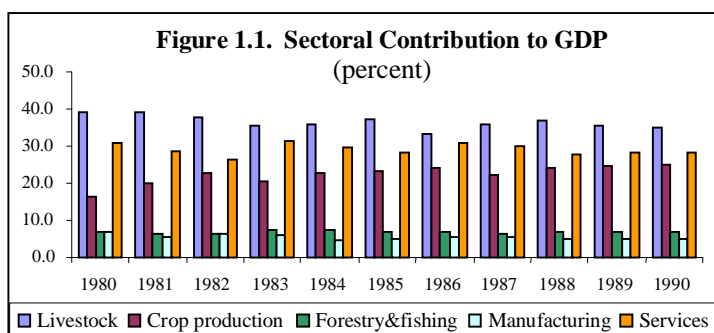
3. Remittances, the single largest source of foreign exchange and hard currency in Somalia, have strong positive effects on the current account balance of the country. Remittance companies, in the absence of commercial banks, have been the main mechanism to transfer money in and out of Somalia. Especially in times of economic depression and external shocks, remittances have been extremely important to the Somali economy because they tend to smooth consumption and thus create a “buffer” against shocks. Most Somali remittances are used for direct consumption by the household, including education and health. A study on *Somaliland* shows that remittances are also increasingly used to fund new organizations and development projects.⁷ Whether invested or consumed, remittances have important macroeconomic effects, stimulating various sectors of the economy, creating positive multiplier effects.⁸ Recent studies analyzing links between remittances and poverty in Ghana (2005) suggest that raising remittance by 10 percent decreases the share of those in poverty by 3.5 percent and has a negligible effect on inequality, as measured by the GINI coefficient.⁹ One negative effect is that remittances might discourage job seeking and therefore keep unemployment high.

⁷ Peter Hansen. *Migrant Remittances as a Development Tool: The Case of Somaliland*. Danish Institute for Development Studies (DIIS), Department of Migration Policy, Research and Communications, p. 2

⁸ Adelman and Taylor (1990) found that for every dollar Mexico received from migrants working abroad, the GNP rose by US\$2.69 to \$3.17 depending on whether remittances were received by urban or rural households. Ratha, Dilip. *Workers' Remittances: An Important and Stable Source of External Development Finance*. World Bank Development Finance 2003.

⁹ Richard Adams, 2005. *Remittances and Poverty in Ghana*. Development Research Group (DECRG), World Bank.

4. In regard to real sector activity, agriculture, specifically agropastoralism and crop production, dominates gross domestic product (GDP). Because of the lack of GDP data by sectoral breakdowns, the share of the productive sectors in the Somali economy at present is not known. Some assessment can, however, be made on the basis of information available for 1990 and earlier. In 1990, the agricultural sector accounted for about 64 percent of the total GDP (figure 1.1). About 52 percent of this share was generated by the livestock subsector and some 37 percent by agricultural crops including fruits. The most prominent subsectors in services were trade and hotels and transport and communications. Although shares might remain similar to the pre-1991 period, the level of agricultural production is well under the mid-1980s peaks, owing mainly to continued insecurity, destruction of irrigation systems, and absent or weak government. Camel and cattle population declined by about 8 to 10 percent, sheep and goat population went down about 15 to 20 percent, and the value of crop production is at 38 percent of the 1989 levels. Livestock off-take (slaughters and exports), however, remains in the same range as it was during the late 1980s, suggesting a less negative impact on these sectors than on crop production. In all agriculture subsectors, including fishing, potential output is considerably higher than historical and current output. The contribution of manufacturing to GDP in the late 1980s was no more than 5 percent, and it remains low today.



Although shares might remain similar to the pre-1991 period, the level of agricultural production is well under the mid-1980s peaks, owing mainly to continued insecurity, destruction of irrigation systems, and absent or weak government. Camel and cattle population declined by about 8 to 10 percent, sheep and goat population went down about 15 to 20 percent, and the value of crop production is at 38 percent of the 1989 levels. Livestock off-take (slaughters and exports), however, remains in the same range as it was during the late 1980s, suggesting a less negative impact on these sectors than on crop production. In all agriculture subsectors, including fishing, potential output is considerably higher than historical and current output. The contribution of manufacturing to GDP in the late 1980s was no more than 5 percent, and it remains low today.

5. Cross-border trade has been growing steadily during the past six years. Aggregate trade data reported by partner countries to the IMF show that imports have almost doubled, reaching a historical record in 2004 at \$461 million (table 1.2). Similarly, exports have almost tripled during the past six years, by reaching \$266 million in 2004. Agricultural products dominate exports, as in the pre-1991 period. Before the civil war, livestock and livestock products accounted for 80 percent of exports; bananas for 10 percent; and fisheries and frankincense accounted for the rest. Today, livestock continues to dominate exports—despite the Saudi ban on Somali livestock imports—followed by charcoal, fish, and hides and skins. Banana exports almost stopped in the late 1990s. The largest recorded imports through Berbera and Bosasso ports are food (sugar, wheat and wheat flour, rice, and cooking oil), building materials, and fuel. Khat, a mild narcotic, is the second top import product after sugar, with annual recorded imports value estimated between US\$30 million and US\$50 million.

Table 1.2. Trade Flows, 1980–2004

	1980	1988	1990	2000	2001	2002	2003	2004
Total merchandise exports	166.4	137.4	163.7	68.2	77.6	118.3	157.9	265.5
Total merchandise imports	439.5	267.0	351.8	263.6	280.8	299.8	340.3	460.8

Source: IMF Direction of Trade Statistics based on partner data.

6. **Poverty and Millennium Development Goals (MDG)s.** The incidence of poverty is very high; 43 percent of the population lives below the extreme poverty line of \$1 per day at

purchasing power parity (PPP).¹⁰ Poverty in rural areas at 53 percent is higher than the average, whereas in urban areas it is lower at 24 percent (table 1.3). For a poverty line of US\$2 per day (PPP), the incidence of poverty rises to 61 percent in urban areas, 80 percent for rural people, and 73 percent overall. Income inequality is significant, with a GINI coefficient of 0.4, among households as well as regions. Household surveys suggest that the poorest 10 percent of the population receives only 1.5 percent of the total income generated in Somalia, whereas the top 10 percent receives 35.6 percent of the total income (United Nations Development Program [UNDP] 2003). In Somalia 47.4 percent of the workforce is unemployed (UNDP/World Bank [WB], *Somalia: Socio-Economic Survey, 2002*).

Table 1.3. Poverty Estimates, 2002

	Extreme poverty		General poverty	
	Share of population (percent)	Average per capita income (\$ PPP)	Share of population (percent)	Average per capita income (\$ PPP)
Somalia	43.2	210.3	73.4	338.1
Urban	23.5	240.3	60.7	428.7
Rural and nomadic	53.4	203.4	79.9	302.7

Source: UNDP/WB, *Somalia: Socio-Economic Survey, 2002*. Extreme and general poverty: per capita income less than \$1 and \$2 per day, respectively, in purchasing power parity (PPP).

7. There has been a significant deterioration in the food security situation owing mainly to the lack of access to and the unavailability of food, water, and pasture resulting from a severe regional drought in the Horn of Africa and continuing civil strife. In April 2006, 1.7 million people in Somalia faced an acute food and livelihood crisis. Preliminary estimates show that, in the worst-case scenario of below normal *Gu* '06 rains, that number could increase to 1.8 million between July and December 2006—which poses the risk of a deepening humanitarian catastrophe (Food Security Analysis Unit [FSAU] and Famine Early Warning Systems Network [FEWSNET]).

8. Somalia is ranked 161 of 163 countries in the 2001 UNDP Human Development Index. Although the statistics are abysmal, human development conditions have improved slightly as a result of the intense efforts of community-based groups and private sector initiatives. Primary school enrollment was only 19.0 percent in 2006 (table 1.4), an improvement compared with the even lower enrollment rate of about 12.0 percent in 1988.¹¹ Similarly, although under-five and maternal mortality rates are among the worst in the world at a staggering 22.4 percent and 11 to 16 per 1,000 live births, respectively, under-five mortality is lower than before the start of the civil war.¹² Life expectancy at 47 years in 2002 is abysmally low and is lower than in Senegal and Eritrea (52 and 51 years, respectively), but it is higher than just before the war when it was estimated at 44 years (in 1987) and is also higher than in Kenya and Nigeria (45 years), Tanzania (43 years), and Ethiopia (42 years). Similarly, the under-five child malnutrition prevalence rate is higher (26 percent) than in Senegal (23 percent) and Kenya (20 percent), but is lower than in Ethiopia (47 percent), Eritrea (40 percent), Nigeria (29 percent), and Tanzania (29 percent).

¹⁰ This poverty analysis is based on estimates of household income in a household survey conducted in Somalia in 2002, which is in contrast to the expenditure-based household surveys conducted in other countries.

¹¹ The old estimate is drawn from official statistics reported in the World Bank's *1991 Public Expenditure Review*, whereas the more recent estimates are produced by UNICEF from its nationwide surveys.

¹² A range estimate is used because the higher estimate is reported in the published UNDP *Somalia Human Development Report, 2001*, and the lower figure is reported in the draft UNDP *MDG Report Somalia, 2004*.

Table 1.4. Millennium Development Goals

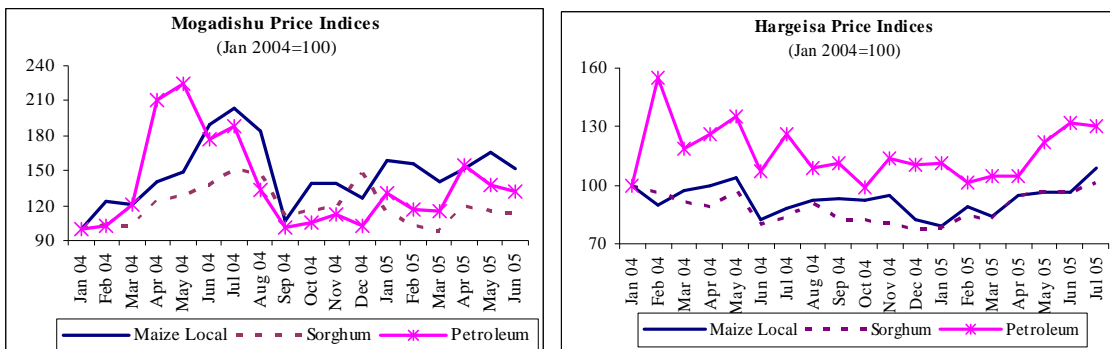
	Somalia	Somaliland	Puntland	South-Central	Target for 2015
Eradicate extreme poverty and hunger					
Population living below \$1/day (%)	43.0 (2002)	..	..	..	22.0
Poverty gap ratio at \$1/day (%)	18.3(2002)	..	..	..	9.0
Share of poorest quintile in national consumption (%)	4.1 (2002)	..	..	..	2.0
Children underweight for age (percent of children under 5)	35.0 (2006)	19.6 (2006)	26.2(2006)	27.5 (2006)	13
Achieve universal primary education					
Net primary enrollment ratio (% of school-age population)	19.0 (2006)	39.7 (2006)	27.7 (2006)	10.4 (2004)	100
Youth literacy rate (% ages 15–24)	20.0 (2004)	..	..	..	100
Promote gender equality, and empower women					
Ratio of girls to boys in primary & secondary education	0.55 (2000)	0.44 (2004)	..	..	1.0
Ratio of literate females to males (ages 15–24)	0.52 (2002)	..	..	..	1.0
Proportion of seats in parliament held by women	25/275 (2003)	2/82 (2006)	4/68 (2006)	..	Promote gender equality, and empower women.
Reduce child mortality					
Under-five mortality rate (per 1,000)	156 (2006)	116 (2006)	115 (2006)	173 (2006)	75
Infant mortality rate (per 1,000 live births)	96 (1999)	73 (2006)	73 (2006)	105 (2006)	44
One-year-olds immunized against measles (%)	19.0 (2006)	..	..	..
Improve maternal health					
Maternal mortality rate (per 100,000 live births)	1,013 (2006)	1,600 (2005)	..	..	275
Births attended by skilled health staff (%)	33.0 (2006)	41.0 (2006)	36.8 (2006)	29.7 (2006)	
Combat HIV/AIDS, malaria, and other diseases					
HIV prevalence (% adults ages 15–49)	0.9 (2004)	1.4 (2004)	0.9 (2004)	0.5 (2004)	Halt and begin to reverse spread of HIV/AIDS, incidence of malaria and other major diseases.
HIV prevalence (% females ages 15–24)	0.9 (2004)	..	..	..
HIV prevalence among 15- to 24-yr-old pregnant women (%)	0.9 (2004)	1.4 (2004)	1.0 (2004)	0.9 (2000)	
Contraceptive prevalence (% of women ages 15–49)	15.0 (2006)	26.0 (2006)	12.0 (2006)	12.0 (2006)	
Prevalence associated with malaria (per 100,000)	118 (2000)	..	113 (2005)	..	
Death rates associated with malaria	81 (2000)	..	..	..
Incidence of TB (per 100,000)	412 (2003)	460 (2000)	..	..
TB cases detected under DOTS (%)	42.0 (2003)	..	..	..
Percentage of children under 5 treated with antimalarials (within 24 hours)	3.0 (2006)	1.6 (2006)	4.9 (2006)	2.8 (2006)	
Ensure environmental sustainability; land, air, and water					
Proportion of land area covered by forest (%)	12.0 (2002)	..	..	..	Integrate principles of sustainable development into policies; reverse loss of environmental resources.
Ratio of area protected to maintain biological diversity to surface area (%)	0.01 (2002)	..	..	..
Energy use per unit of GDP	50.43 kg p.a. (2000–2)	..	..	..
Proportion of population using solid fuels (%)	99.6 (2006)	99.8 (2006)	99.4 (2006)..	99.9 (2006)..	
Access to an improved water source (% of population)	29.0 (2006)	40.5 (2006)	25.0 (2006)	25.5 (2006)	64.5
Access to improved sanitation (% of population)	37.0 (2006)	40.0 (2006)	43.7 (2006)	35.3 (2006)	62.5
Develop a global partnership for development					
Fixed-line and mobile phones (per 1,000 people)	15 (2002)	20 (2004)	..	..	With the private sector, make benefits of new technologies available.
Personal computers in use per 1,000 people	0.5 (2002)	0.5 (2004)	..	..
Internet users per 1,000 people	9 (2003)	6.7 (2003)	..	..

Source: WB World Development Indicators 2006; UNDP MDG Report Somalia, 2004; UNDP and the WB, Somalia Socio-Economic Survey 2002; UNDP Somalia Human Development Report, 2001; Multiple Indicator Cluster Survey, 1999; Conflict Analysis Regional Report: Puntland, 2004; UNICEF Primary School Survey 2004/5; UNICEF, The State of the World's Children, 2004; Ministry of Planning of Puntland, Facts and Figures 2004; WHO Annual World Health Report, 2004; WHO Report on Seroprevalance Sentinel Sites, 2004.

9. **Inflation and exchange rate.** In the absence of a cohesive government for 15 years, inflation rose even further compared with prewar years, because of substantial amounts of

foreign-printed currency injected into the economy by various political and business entities. Apart from the monetary expansion, the prices rose as a result of higher fuel prices and food insecurity. In South-Central Somalia, the market price data suggests inflation went up from 14.4 percent in 2002 to 16.4 percent in 2003. Recent inflation data based on Mogadishu market prices suggest average inflation of 5 percent for the first quarter and 2.4 percent for the second quarter of 2005, measured across 102 consumer goods (figure 1.2). In *Somaliland*, based on the price developments of 115 consumer goods in the Gobanimo market in Hargeisa, average inflation for the period of January to July 2005 stood at 3.9 percent (figure 1.2). Price developments at the Shiraaqle market in Hargeisa for the same goods and the same period show an average inflation of 8.0 percent. In 2006, as a result of drought and two consecutive seasons of below-normal and failed crop production, cereal and sorghum prices in local markets continued to rise. In Somalia, sorghum prices increased 66.0 percent between November 2005 and March 2006. Maize prices in the Juba region are now 214.0 percent higher than they were before the drought.¹³

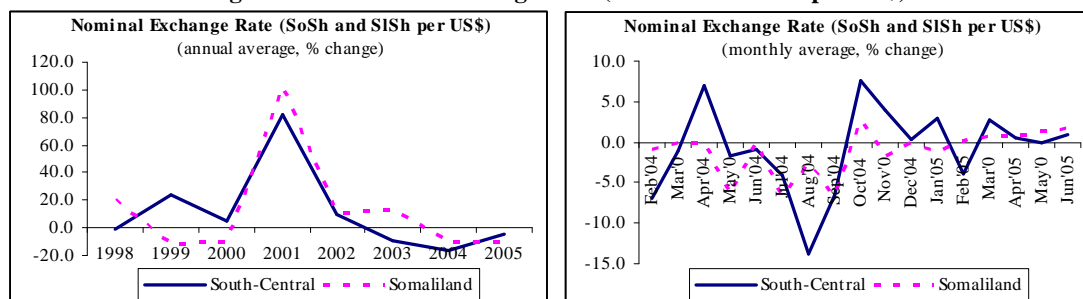
Figure 1.2. Price Indexes



10. Money exchangers operate freely in the country, and the monetary system is becoming increasingly dollarized. Both the Somali and the *Somaliland* shilling have remained relatively stable since October 2004, at 14,500–15,600 So. Sh/US\$ for the Somali shilling, and at 5,900–6,400 SLSh/US\$ for the *Somaliland* shilling (figure 1.3).

¹³ International prices for sorghum and maize are also rising. Sorghum prices rose 8.4 percent during the first quarter of 2006 compared with the last quarter of 2005 because of strong demand and expectations of reduced supply from Australia, Spain, and Indonesia (WB, *DECPG Commodity Markets Review*, May 2006). Maize prices rose 5.2 percent in international markets during the same period. Crude oil prices reached a nominal record \$72.3/bbl in May 2006. Prices continue to be supported by fears of supply disruption in a number of oil producing countries.

Figure 1.3. Nominal Exchange Rate (So. Sh. and Sl. Sh. per US\$)



11. **Fiscal management.** Since 1991, only limited information has been collected on fiscal flows for *Somaliland* and *Puntland*, and no estimates are available for South-Central Somalia. Fiscal management in *Somaliland* and *Puntland* suffers from the same problems as in the prewar years: low revenue collections, expenditures mostly for security and general administration, and poor planning and coordination of development projects. Trade taxes, mostly specific rather than ad valorem, including export taxes, have been the source of more than 80 percent of annual revenue; they have fluctuated widely in recent years, but are currently about US\$22 million for *Somaliland* and US\$16 million for *Puntland*. Minimal allocations of expenditure are made for the provision of public goods such as infrastructure and social services. Compared with in the prewar period, now deficit financing is limited to semivoluntary loans from major businesspeople who are repaid through tax exemptions rather than monetary financing by the Central Bank.

12. In 2005, *Somaliland* had a budget of Sl. Sh. 133 billion (or US\$22 million), of which only 7.6 percent devoted to health and education expenditures. Most recurrent costs are for salary and allowances and for security, with the armed forces and the police receiving 46 percent of budgetary allocations. *Somaliland* allocated only 7.6 percent of its 2005 budget of Sl. Sh. 133 billion or US\$22 million to development expenditures. The *Puntland* government had a budget of So. Sh. 281 billion (or US\$18.8 million). Salaries and allowances constituted the major expenditure item in the budget (61 percent of budget). The military and police force constitute 45 percent of budgetary expenditure. Only 11 percent is spent on development, which is low, but there is a slight improvement over the previous year. In 2006, the government of *Puntland* reports a budget of So. Sh. 299.8 billion (or US\$20 million). Of this amount, 63.2 percent is allocated for salary and allowances, owing to the enlargement of the civil service to about 11,000 as a result of absorption of demobilized militia. Only 7 of 23 districts are fiscally self-sufficient; 9 districts need a subsidy from the regional state government to cover half of their administrative costs, and 7 districts are financed entirely by the regional state administration. In South-Central Somalia, which has been without regional administration since 1991, revenue has been extracted by various warring groups in control of numerous checkpoints on the roads that join the major cities and towns.

13. **External debt and ODA.** At the end of 1989, Somalia's external debt was estimated at US\$1,774 million, almost twice the value of GDP or nearly 30 times the value of merchandise exports. Of the total debt outstanding, 47 percent was owed to multilateral institutions. Somalia's economic performance deteriorated rapidly in late 1987 and early 1988. The government, after a major reorganization in December 1987, showed little interest in working with external creditors. Financial policies slipped out of control, the exchange rate became increasingly unrealistic, and official aid virtually ceased. In May 1988, with arrears of

US\$33 million, and no prospects for an agreement on an economic program in sight, the executive board of the International Monetary Fund (IMF) declared Somalia ineligible to use Fund resources. The undrawn balance of International Development Association (IDA) credits with the World Bank was also frozen.

14. From 1990 to 2006, lacking of a fully functional national government, Somalia neither borrowed nor serviced its public debt. Nonetheless, as a result of significant arrears accumulation, Somalia's total external debt at the end of 2004 (public and publicly guaranteed) was estimated at US\$3.2 billion, of which an estimated US\$2.5 billion was in arrears (table 1.5). Of this debt, 40 percent is owed to multilateral creditors, 46 percent to Paris Club bilateral creditors, and 14 percent to non-Paris Club bilateral and commercial creditors. The net present value (NPV) of the total debt obligations is US\$2.9 billion. Somalia remains at predecision point for HIPC.

Table 1.5. Stock of Public and Publicly Guaranteed External Debt at end-2004
(in US\$ millions)

Creditor	Nominal stock					NPV of total debt ^b
	Total		Arrears ^a			
	Stock	(%)	Principal	Interest	Total	
1. Multilaterals	1,273	39.7	479	344	822	1,118
World Bank-IDA	491	15.3	81	46	127	353
IMF	345	10.8	174	171	345	345
African Development Bank Group	126	3.9	37	21	57	102
Others	310	9.7	187	106	293	318
2. Bilaterals and commercial	1,935	60.3	924	833	1,757	1,861
Paris Club creditors	1,472	45.9	573	740	1,314	1,398
Non-Paris Club & commercial creditors	462	14.4	351	93	444	463
Total debt (1+2)	3,207	100.0	1,403	1,177	2,580	2,979

Sources: Creditor statements and World Bank Global Development Finance.

a. Includes principal and interest arrears as well as penalty charges.

b. Calculated using end-2004 exchange rates and, as discount rates, currency-specific average commercial interest reference rates (CIRRs) from Organization for Economic Cooperation and Development (OECD).

15. In the absence of lending, all foreign aid is now in the form of grants. Total official development assistance (ODA) to Somalia has been rising steadily with actual expenditure reaching US\$120 million in 2003 (annex table 4).

16. **Challenges.** In Somalia, the challenge of implementing economic reform programs is uniquely daunting because of the following special circumstances that prevail:

- **Efforts to reestablish a governing structure, especially in South-Central Somalia, are currently stalemated.** The Somali National Reconciliation Conference, which began in October 2002 in Kenya, led a power-sharing agreement under a transitional charter and over the principle of federalism among regions for the future. Representatives of 22 Somali groups established a 275-member Transitional Federal Parliament in August 2004, largely based on clan affiliation. In October 2004, the parliament elected Abdullahi Yusuf Ahmed, the former president of *Puntland*, as the interim president of the Transitional Federal Government (TFG). The following month, Mr. Yusuf selected as prime minister Ali Mohammed Ghedi, who in turn obtained approval of his cabinet in January 2005. The establishment of a broad-based TFG is a positive, but only a first, step in the long road of rebuilding the Somali nation, ensuring continued peace and stability, and moving the country onto the path to sustainable development. The lack of functional and accountable institutions is another major challenge in Somalia.

- **The proposed federal structure has been agreed to in principle, but is yet to be defined and agreed on in specific administrative terms by all political entities.** Following lengthy negotiations in Kenya, an agreement has been reached on a power sharing arrangement under a transitional charter and based on the principle of federalism among regions for the future. However putting this agreement into practical effect will require further efforts to achieve reconciliation among clans, warlords, and political leaders. The process is further complicated by *Somaliland's* wish to secure international recognition as an independent state.
- **The extremely low levels of private sector and public confidence in public institutions, including public financial establishments.** Before the civil war, general public management was characterized by frequent policy reversals, weaknesses in fiscal management, slippages on the monetary side, poor governance, inadequate public expenditures, and security problems that discouraged the private sector from investing in long-term production-oriented activities and that generated low or negative returns for public investment. Further, banking sector closures, due primarily to mismanagement, eroded confidence in publicly owned financial institutions. Overall, the Somali people still harbor suspicion and ambivalence toward public authorities.
- **An extremely poor investment climate.** In a postconflict environment, attracting new foreign and domestic firms is central to private sector development. New decisions about investment, especially financial institutions, usually depend on the availability of five basic factors: political and economic stability and security, unambiguous regulations, reasonable tax rates that are equitably enforced, access to finance and infrastructure, and an appropriately skilled workforce. In Somalia, these conditions are lacking. The challenges facing the new federal government in addressing these constraints are formidable.
- **Deterioration of human and physical capital.** The civil conflict, absence of government, continuing insecurity in many parts of the country, and inadequate access to social and financial services caused severe deterioration of human and physical capital. Overall productivity declined compared with pre-civil war times, causing a negative effect on economic growth. Today, there are critical gaps in the provision of key public goods, in which the absence of an effective state role is felt more profoundly.

Macroeconomic Policy Strategy and Priority Initiatives

Vision for Fiscal Policy and Institutions

17. The main goal of the new government will be to achieve peace throughout the country. To do this, it will necessary to disarm, demobilize, rehabilitate, and reintegrate ex-militia members so that they can become productive members of society. The cost of doing this will be the main component of budget expenditure for at least the first few years. To preserve peace, a critical goal will be to establish government institutions that are vital to maintain the rule of law, including a well-vetted and managed police force, and a functioning judiciary and criminal courts.

18. For at least the first couple of years of operation of the new government, there should be no fiscal deficit requiring domestic financing by printing money. Given the experience of the pre-civil war Somalia government with high levels of domestic deficit financing through money creation, it would be prudent to avoid any domestic financing of the deficit until a firm

record of good fiscal management has been established. One possibility would be to legislate a fiscal restraint, a “no overdraft rule,” as was done for example in Afghanistan.

19. However, there is likely to be a need for financing to balance revenue and expenditure on a monthly basis with a strong commitment to fiscal discipline. Thus, there is an important issue of what would be the most appropriate mechanism for such temporary financing. Selling government securities to the public is not likely to be feasible until a track record for prudent fiscal policy is established. It would also be unwise to do the kind of ad hoc borrowing from prominent businessmen, which has frequently been done in the past. A limited and well-managed overdraft facility may be an appropriate tool.

20. A Macroeconomic Policy Department in the Ministry of Finance and a Monetary Policy Department in the Central Bank should eventually formulate macroeconomic policy. However, for the first two years, small units will be sufficient to carry out the function. The Macroeconomic Policy Department would be responsible for formulating tax policy changes, making revenue forecasts for the annual budget, monitoring monthly revenue collections, and making at least quarterly revisions of the annual revenue forecasts. It should also monitor developments in monthly expenditure commitments, payments, and any payment arrears. On the basis of this analysis, the Department should make recommendations on whether any adjustments in revenue or expenditure policy appear necessary to meet the objective of no fiscal deficit. A Gender Advisory Unit should be formed under the Ministry of Planning to provide technical expertise on gender budgeting, and to monitor efficient budget execution in women empowerment.

Revenue Generation

21. **Short-term options.** While a number of donors are interested in providing budgetary support to a new government to help jump-start the establishment of the Somali state, the continuation of such support will eventually be partly dependent on the ability of the new government to show it has the support of the Somali people by acting in a united way to collect some of its own revenue. Thus, one of the most urgent tasks of the new government will be to put in place a tax system and tax administration. It will be desirable to put this revenue system in place in the first year. In the short to medium term only marginal progress will be possible towards giving the new government autonomous sources of revenues. Donor support will be needed to provide direct budget support for at least 5 years on a declining basis.

22. It will be important to design a tax system that is consistent with the basic objective of the new government to severely limit the role of government and to concentrate on providing a favorable enabling environment for the private sector to prosper. Thus, the new tax system should not be a constraint on private sector growth and development. The objective should be to make the initial tax base as broad as administratively feasible, while keeping the initial tax rates quite low. Such a system can yield a significant amount of revenue in an equitable manner, while not having any serious adverse impact on business activity. Toward that end, it is important to identify the major potential tax bases, including some that have not frequently been taxed, and to design effective mechanisms to tax them.

23. Given the relatively weak revenue collection capacity that will be feasible in the early stages of a totally new revenue collection service, it will be best to concentrate on taxes on economic transactions, especially imports. Another important objective is to make the tax system as simple as possible to keep the cost of collection low and to keep the cost of compliance by businesses low. In the short term, excises should be imposed on selected imported goods and a wide range of service should be taxed. Excisable goods subject to

considerable price volatility (petroleum products) and with a high risk for price underreporting (cigarettes) should be subject to a specific rather than ad valorem rate. In order to extend the tax base, other post-conflict countries (e.g. East Timor and Kosovo) successfully taxed a range of high-value services, covering bars and restaurants, hotels, telecommunications, transport rental and aviation charter. The tax was based on a simple turnover calculation and levied on the service provider. Experience shows that this tax was not difficult to administer and can be introduced within a short period. Box 1.1 presents the revenue generation options that could be considered for short-term implementation.

Box 1.1. Short-Term Revenue Generation Options

Tax on Imports. The simplest and most efficient option would be to tax most imports at a uniform low ad valorem (percentage) rate of 5 percent, and to tax a few specified goods, ones that are either luxuries or have harmful affects on health or the environment, at higher rates of 10 to 50 percent. Excisable goods subject to considerable price volatility (petroleum products) and with a high risk for price underreporting (cigarettes) should be subject to a specific rather than ad valorem rate.

Exports. The normal international practice is to not tax exports because that would put the country's exporters at a competitive disadvantage and it is usually not possible for the exporter to pass on the tax to the foreign consumer. However, because it will not be possible to tax income for a number of years, a 5 percent tax on the following exports might be considered: livestock, fish, frozen meat, hides and skins, and fruits and vegetables. Because of the severe environmental damage charcoal causes, it would be best to seek to prohibit the export of charcoal from Somalia, rather than to tax it. However, the alternative of levying an increasingly high rate of export tax on it for a transitional period might also be considered.

Sales Tax on Domestic Production of Goods and Services. For a considerable period there is not likely to be enough manufacturing or other value-added activity to justify a general value-added tax or sales tax on goods and services. However, consideration could be given to the levy of a 5 percent tax on sales by manufacturers of selected domestically produced goods and the services provided by luxury hotels. A tax on sales should be introduced on major domestic output of goods and services. This tax can later be transformed into a value-added tax whose base will also cover the SMEs.

Telecommunications. Levy a 5 to 10 percent tax on the total value of airtime sold by companies for use in cell phones, as well as charges for land lines and on the revenue received by the telephone companies from handling incoming international calls.

Remittances. Levy a tax at a low rate of 0.5 to 1 percent of the value of all remittances made through money exchange companies to individuals or businesses in Somalia. For amounts above \$1,000, the rate could be cut in half.

Offshore Fishing Rights. This has been an important source of revenue in the past and should be made an important source of revenue in the near future, along with a policy to limit the amount of fishing in offshore waters to avoid depleting the stock of fish. However, this is an area of possible conflict.

Tax on Departing Passengers on International Air Flights from Somalia. This could be levied at a rate of \$20 on foreigners and \$10 on Somalia passport holders. It should be considered an airport usage fee and should also apply to diplomats.

Passports and Visas. Once the new government has effectively restored law and order and has received some international recognition, it will be desirable to issue new passports to all Somali citizens who wish to obtain them. Passports could be issued at a price of US\$50. It is also recommended that Somalia issue visas at points of entry into the country. Non-Somali citizens could be charged a fee of about \$20 for a single entry visa and \$50 for a multiple entry visa.

Business Licenses. A dual system of issuing annual business licenses could be considered. The central government would issue licenses for financial institutions, telecommunications companies (including telephone, TV, and radio companies), airlines, large manufacturers, and firms engaged in the import and export trade. All other businesses with fixed premises would be issued licenses by local governments.

Motor Vehicle Licenses. Motor vehicle and driving licenses should also be issued as soon as the modalities for issuing them can be put in place.

24. The two most controversial suggestions for revenue sources given above are those relating to exports and remittances. In a fully developed tax system, there would generally be no tax on remittances or any other financial transactions. Instead the firms in the financial sector would be taxed on income. However, for a number of years it is unlikely that the new revenue administration will have the capacity to levy an effective income tax on businesses.

25. **Medium-term revenue measures.** Broadening the tax base should be the main medium- to long-term priority. Once a reasonably effective revenue administration is in place, it should be possible to do that without encountering a significant increase in tax evasion. In addition, consideration could be given to the introduction of a 5 percent excise duty on bottled water and carbonated drinks. A personal and corporate income tax should also be introduced in the medium or long term. In the past Somalia had in place quite extensive systems of business and personal income taxation. However, the administrative apparatus to effectively implement these taxes was always weak. Their introduction will require significant work in drafting legislation and putting trained specialized tax officials in place. Further work needs to be done in reforming tax systems in Somaliland and Puntland, and introducing revenue generation and mobilization measures, incentives and assurances in the South.

Monetary Policy Supported by Fiscal Framework

26. There is little room for monetary policy in Somalia as long as there is no central bank, no commercial banking system, and no stock of government securities. In the Country Economic Memorandum for Somalia, the World Bank estimated that the amount of currency in circulation was about \$52 million in 2001, when the exchange rate was 20,000 shillings to the dollar, and that the foreign currency in circulation, mainly US dollars, is about \$150 million to \$200 million. It is important to note that the total amount of foreign currency in the domestic economy is much more than the value of local currency. In a highly dollarized economy, the foreign currency in circulation cannot be directly influenced by the monetary authorities. As long as there is no, or little, bank credit outstanding, the monetary authority cannot influence interest rates by refinancing mechanisms nor can it influence the money supply by bank reserve requirements.

27. Although the monetary authorities can seek to alter the amount of local currency in circulation by buying or selling foreign currency, that is not likely to have much impact on the total value of domestic and foreign currency in circulation. Thus the fiscal policy will play the critical role in putting domestic currency into circulation. However, the central bank is likely to need to make gradual purchases of dollars in the foreign exchange market to put additional shilling currency into circulation to meet the increase in the demand for money, which will accompany the increase in economic activity, and to meet an objective of reasonable price stability in the price index for domestically produced goods and services. This purchase of dollars will also tend to inhibit the appreciation of the shilling relative to the dollar.

28. It would be desirable to give the central bank a significant degree of independence in carrying out its monetary policy function. However, until the capacity building targets are reached, a strong cooperation between the Ministry of Finance and the Central Bank is essential.

Foreign Exchange Policy

29. High dollarization implies losing flexibility in exchange rate policy as a mechanism to adjust to external shocks. However, high dollarization also provides considerable protection against exchange rate risks. International trade related transactions and large domestic transactions are settled entirely in foreign currency, while the Somali and *Somaliland* shillings

are used mainly for dealing with small- and medium-scale domestic transactions. As a result, in the case of exchange rate depreciation, the pass-through effect of higher import prices on inflation is limited because there is little impact on the prices of nontradables, which are settled in local currency.

30. In a highly dollarized economy the external credibility of the national currency is already compromised. However, a modest level of foreign currency reserves, along with a prudent fiscal policy, does help strengthen the domestic credibility of the national currency. Once the central bank prints local currency and starts putting it into circulation, the bank will gradually acquire a stock of foreign currency. It will then be in a position to provide short-term intrayear financing in either local currency or dollars to cover temporary budget deficits. A Somali central bank generally should not intervene in the foreign currency market, except to smooth out what are perceived to be disorderly market conditions.

31. The foreign exchange market in Somalia has very little overhead and is very efficient. However *Somaliland* provides for a special rate of 3,500 shillings per U.S. dollar compared with a market rate of 6,500, for the special purpose of calculating the local currency payments due from taxpayers. The tax is first calculated in dollar terms, and then the taxpayer is allowed to pay in local currency at a very favorable special official rate. This special rate for tax purposes serves no legitimate purpose and should be abolished.

Currency Issues and the Cost of Printing New Currency

32. The only local currency in circulation is the Somali 1,000 shilling note, which is presently worth about US7¢. This makes the currency highly inefficient as a means of payment. In addition, the storage and transport of the local currency is cumbersome. All of the current 1,000 shilling notes are similar in design to the notes produced by the pre-civil war government and have been produced for various businessmen. All of the notes have a date of either 1990 or 1996, but most have been printed more recently.

33. There is a need to introduce a new 10,000-shilling note. That would make it easier to count and transport money and carry out transactions. The current cost of producing the *Somaliland* note is about US6¢, and the cost of producing the Kenyan note is about US4.4¢. In addition, the existing 1,000-shilling note should be gradually replaced with a new note or coin. It would appear to be useful to introduce 500- and 1,000-shilling coins in Somalia. The quality of the coins should be modest so that the cost of production is kept low and there is no incentive to melt them for their metal content. Two important advantages of coins are that they are more difficult to counterfeit and that they last much longer in circulation than notes. It would also be desirable to change the value of the local currency by making 1 new shilling equal to 1,000 existing shillings. The new currency should be introduced after the new government has been widely accepted by the Somali people and is implementing an efficient budget policy. Box 1.2 presents the estimated cost of printing new currency.

Box 1.2. Estimating the Cost of Printing New Currency

To give some idea of the cost of issuing a new currency, the following assumptions could be made:

- 75 million new 10-shilling notes at a cost of \$0.06 each would cost a total of \$4.5 million (compared with a face value of \$52.5 million)
- 180 million 1-shilling coins at a cost of \$0.04 each would cost \$7.2 million (compared with a face value of \$12.9 million)
- 40 million ½ shilling coins at a cost of \$0.03 each would cost \$1.2 million (compared with a face value of \$1.4 million)

34. On the basis of the estimations in box 1.2, the total cost would be \$12.9 million to produce \$66.8 million worth of local currency, which would replace \$60 million of existing local currency, so the net cost would be \$6.1 million. That might be a realistic assumption of the cost for the first two years of the new currency. However in the subsequent years the seignorage is likely to be significantly positive. If it were assumed that in the next three years 45 million 10-shilling notes would be produced at a cost of \$2.7 million, with 30 million used to retire old notes and 15 million as a net addition to the money supply, the value of the 15 million net new notes would be \$10.5 million; thus, the net positive seignorage would be \$7.8 million. The important point to make here is that there would be a significant cost in the first two years of issuing a new currency, but after that, seignorage could be expected to cover much of the operating cost of the central bank. However in its first couple of years of operation the central bank will require either donor or budget assistance to meet both its infrastructure costs and its operating costs. It might be appropriate for the government to pay a commission of 1 or 2 percent of the value of all revenue receipts and expenditure payments for the. That would give the central bank a source of some revenue during this period.

35. One issue that will emerge for the new government is whether it should introduce a dual legal tender system, in which both the dollar and the Somali shilling are accepted for payments to the. In practice this will not be an important issue, except that for revenue collection purposes, the new government will probably wish to have most revenue payments made in US dollars. Because the new tax laws will wish to calculate most sources of revenue in US dollars, it would probably be preferable to recognize the dollar as legal tender, along with the local currency. Somalia is likely to remain a mainly cash-based economy for at least the medium term. Introducing notes and coins that make counterfeiting more difficult should increase the people's confidence in the local currency.

36. The introduction of higher denominations in some African countries (including pre-civil war Somalia) has led to significant inflation because it was used as a means to greatly increase the total value of local currency in circulation by deficit financing. However, it is important to realize and explain to the population that the introduction of a high-denomination note is not by itself something that will lead to inflation. When the new higher denomination of currency is substituted for low denominations so that the total value of local currency in circulation is unchanged, there is no inflationary effect.

37. In *Somaliland*, the same considerations discussed above would apply, including the advantages of issuing a higher denomination of local currency, low denomination coins, and redenomination of the currency.

External Debt Policy and Normalization of Relations

38. Although domestic and foreign government debt management is normally an important component of budget and macroeconomic policy, it is not likely to be important in

the first few years of the operation of the new government. The pre-civil war government of Somalia accumulated external debt of about \$2 billion, and with accrued interest arrears this increased to \$3.2 billion by the end of 2004. However, it is clear that the new government will have virtually no capacity to service any of this debt. In the short to medium term, while borrowing will not be possible, multilateral development agencies can still work with Somali authorities to help manage and use effectively the aid resources received from bilateral donors. To attract and sustain the necessary grant financing from bilateral donors for the recovery phase, Somali authorities should focus on security, transparency, accountability, and their capacity to carry out essential public functions. Beyond the medium term, when the need for additional net financial resources from multilateral institutions will be more pressing, a mechanism of handling the outstanding debt arrears to multilateral agencies will become a priority task.

39. For treatment of arrears under the Heavily Indebted Poor Countries (HIPC) Initiative, a normalization of relations with all creditors is essential because failure to do so could cause some creditors to refrain from taking action. The clearance of arrears is a first step toward restoring inflows of concessional resources and an important element in enabling a country to qualify for assistance under the initiative. Currently, Somalia remains at predecision point. Arrears toward multilateral development banks (MDBs) should be cleared, or an agreement reached for their clearance, before the country reaches its HIPC decision point. These agreements are reached in the context of an IMF upper tranche conditionality arrangement, normally a poverty reduction and growth facility (PRGF).

Gender Dimension of Macroeconomic Policy

40. Providing legal reform and stable macroeconomic policy supportive of private sector activity and economic growth will create an enabling environment for women. The sector that may benefit most is the agricultural sector because it will be possible to put agricultural land back into productive use. The small-trader sector, which is composed mainly of women, will also be a major beneficiary of improved law and order and economic growth. Macroeconomic policy, which includes strategies for facilitating access to labor markets for women, investing in women's human capital, and addressing inequalities in the public and private sector jobs, would bring opportunities for women to access resources. Thus a sustained growth accompanied by law and order will create opportunities for women to obtain new or better jobs. Macroeconomic policies need to focus on creating an enabling environment for women in all areas of economic activity as well as in the government. There is a need to form a small gender advisory unit in the government that would be responsible for providing technical expertise in designing, implementing, and monitoring strategies for women's development.

41. Gender-sensitive macroeconomic policy should include strategies for facilitating access to labor markets for women, investing in women's human capital, and addressing inequalities in the public and private sector jobs, all of which would enhance the ability of women to access resources. In regard to specific action plans, a gender-sensitive budget preparation process needs to be developed along with a more gender-sensitive civil service strategy. Currently, there are almost no women in senior positions in the civil service. This could be corrected by setting minimum quotas for women and creating career options for women. Access to resources could be improved by supporting the creation of women's entrepreneurship networks, and by facilitating women's access to credit through microfinance institutions. Finally, there is a need to collect gender-disaggregated data to assess women's needs and to help create action plans to empower Somali women.

Employment Creation

42. Building a long-term employment strategy should be the focus of the macroeconomic policy framework. This would involve the design of a labor-intensive public works program which would ideally include planned investment on rural infrastructure and sound environmental conditions for sustainable land-and coast-based livelihood development.

43. **i. Long-term strategy for growth and employment.** In the 1990s, nearly three quarters of African livelihoods were earned in the agricultural sector—a whole standard deviation above the level characteristic of other developing countries thirty years back.¹⁴ Yet the experiences of high performing Asian economies suggests that a central feature of modern economic development is a reallocation of factors of production from low-TFP (traditional) to high-TFP (modern) sectors. The intersectoral shift, whereby labor moves from agriculture to industry, is one of the most systematic correlates of rising per capita incomes.

44. Crop production and livestock sectors nevertheless do remain the major contributors of economic growth in Somalia. Besides triggering growth and employment through increased quality and production, and extension of existing markets for primary commodities such as livestock, fish, sesame or raisins or new markets in mining of gems, gold or coal, Somalia should focus on developing its almost non-existent manufacturing sector and explore possibilities in the growth of services. Manufacturing, such as processing of the primary export commodities, would generate further value added. Meat, fish, milk, hides and skins processing facilities, high-value honey plants, pasta plants, steam distillation plants for a new oil-extraction industry and other specialized processing plants would all serve the purpose of adding value to export commodities such as sesame, frankincense, myrrh, aloe vera, yeeb and gum Arabic, among others.¹⁵ Services would grow concurrently, especially through backward linkages from other expanding sectors. Demand for transport services, storage, banking and insurance as well as telecommunications will likely grow as manufacturing and agricultural activity expands.

45. **ii. Short-term income and employment generation options.** A short-term job creation strategy is essential for smooth and successful transition, especially in a post-conflict setting where it serves as means of stabilizing communities and keeping peace. Numerous ‘rapid employment’ schemes have been developed and implemented in other similar contexts.¹⁶ An opportunity for a short-term employment generation program could be considered in labor-intensive reconstruction and rehabilitation activities, mainly in infrastructure and agriculture sectors. In post-conflict countries, new jobs could also be created through community-based social and economic infrastructure rehabilitation projects, such as social investment fund programs that rehabilitate schools, roads, health clinics, and water supply networks, in accordance with priorities set by the local communities. Finally, microfinance institutions could be strengthened because they promote private sector development through small-scale investments and help vulnerable groups meet emergency needs and build assets.

46. In addition to specific employment-creation schemes, there is a strong need to develop a strategy for special groups and the vulnerable- women, youth, demobilized militia and the

¹⁴ O’Connell, Stephen A. and Benno J. Ndulu. 2000. “Africa’s Growth Experience: A Focus on Sources of Growth.”

¹⁵ Ideas extracted from the CEM section on “Prospects for Somalia’s Development.”

¹⁶ The following suggestions are mainly based on recommendations of the 2003 UN/WB Iraq Joint Needs Assessment.

returnees. Coupling labor-intensive programs with skills-development programs would help provide marketable skills for sustainable job markets.

Field Assessments and the Macroeconomic Policy Priorities

47. As a part of the JNA process, a group of experts have visited different regions and districts of Somalia to discuss with local communities their views on the priorities for reconstruction in areas ranging from infrastructure and the environment to macroeconomic policy and public resource use. Field assessments were undertaken in the form of questionnaires in remote as well as more accessible areas, expanding on the work done by technical experts who have previously visited the main cities and towns. By targeting various stakeholder groups, including women, youth, traditional and religious leaders, regional/district authorities, civil society, and business groups, the consultations aimed to create an opportunity for a wide-ranging set of actors to take an active role in improving their quality of life by defining a shared vision of their region's future. The field assessment presented a more comprehensive picture of local priorities in different regions (see annex 4 for a summary of priorities in four zones). According to the participants, macroeconomic priority in *Somaliland* is employment creation, whereas in *Puntland* and the South West Zone it is financial services, and finally in Benadir, it is the creation of institutions accountable for the economic policy and sustainable revenue sources.

B. ESTABLISHING ACCOUNTABLE BUDGETARY PROCESSES, PUBLIC FINANCE MANAGEMENT, AND REVENUE SYSTEMS

48. A transitional federal government has come into being, but has yet to implement a budget or provide government services. There are weak, yet functioning institutions in the two northern regions and a patchwork of ad hoc structures in the South-Central areas. In general, the decentralization of fiscal responsibility follows a pattern in line with the age of the system; with *Somaliland* is the most advanced, followed by *Puntland*, and then the South-Central region, which has no division of fiscal responsibility in the absence of any state authority.

49. The TFG lacks both financial resources and the staff capacity needed to effectively establish appropriate financial management systems for Somalia. It is seeking assistance from the international community to engage a reputable financial management agency to establish financial management systems based on a computerized system and best public sector practices for budgeting, accounting, and reporting. There is an urgent need to build efficient and sustainable financial management systems. The challenges at the federal level include lack of a functional budget, effective accounts and audit departments, and a macroeconomic policy unit at the Ministry of Finance.

50. There are a number of challenges in the current system that will need to be addressed in improving the public finance management (PFM) in *Somaliland*. The main challenge is the inappropriate budget preparation process, which would make it difficult to operate in an environment of increased funding, accompanied by a requirement for effective output monitoring and transparency. This is due to weaknesses in the public system, such as (a) the lack of full participation of all stakeholders, (b) lack of medium- and long-term planning, (c) inadequate budget analysis, (d) noncompliance with government regulation, and (e) inadequate transparency in horizontal allocation of district funds. Other challenges in *Somaliland* include use of inefficient manual accounting procedures with high error risk, inadequate coding structure, inconsistency in classification of data in cashbook, lack of adequately trained staff to operate modern computerized systems, low staff morale due to low

salaries, lack of computer equipment, and lack of a comprehensive and updated procedures manual.

51. In *Puntland*, a number of noncompliance weaknesses and other challenges exist in the current PFM and will need to be addressed in improving the systems. Similar to *Somaliland*, in *Puntland* the major challenge is noncompliance with budgetary controls. Budget limits are violated when instructions to do so are issued by senior government officials, who normally attribute such control violations to sensitive political considerations. Other challenges include inconsistency in entering payment stamps on paid vouchers; failure to record commitments in the vote book; inconsistencies in classification of data in cashbook; lack of evidence of reconciliation of cashbooks to the statements from the bank; nonparticipatory one-year budget with limited analysis; manual and high error risk accounting systems, and lack of adequate accounting and computer skills among the key budget and accounting staff.

52. Both *Somaliland* and *Puntland* have procurement systems that are generally adequate for procurement implementation under the prevailing economic conditions of the administrations. However, because of the deficiencies in the legal framework and institutional arrangements for procurement management and law enforcement, the current systems will not be suitable for handling large-scale activities.

Legal Framework

53. The area that made up the former Republic of Somalia is currently guided by three separate legal frameworks: the *Transitional Federal Charter* (2004), the *Somaliland Constitution* (2001), and the *Puntland Charter* (1998). All three include guidance on a decentralized system of governance, with significant devolution of power to the district level, particularly for the purpose of local service delivery. The strategy of the TFG is to aim at a bottom-up approach in which districts are formed before regions and states. It seems clear that the decentralized approach is a response to the widespread rejection of the centralized governance system of Somalia's last central government under Siad Barre. On this basis, there is a strong likelihood that the sentiment will continue to be at the core of governance debates and that the process will continue to materialize also in the south and central parts.

54. **The *Transitional Federal Charter*.** The charter, signed in February 2004, specifies that Somalia "shall have a decentralized system of administration based on federalism," and it outlines the main principles and building blocks for the envisaged governance structure. The key construct in this regard is the proposed four-tiered administrative hierarchy: new federal institutions, state governments (with regions forming into states according to their free will), regional administrations, and district administrations. The charter also directs the TFG to promote decentralization through establishing and promoting mechanisms for the decentralization of power and decision making, and it empowers the TFG to name a 13-member Federal Constitution Commission (FCC). The FCC will have the task of determining the details and guiding the process of how to transform Somalia's government into a federal government, developing legislation to guide the decentralization process, and making decisions on how many states, regions, and districts Somalia will consist of, and what relationship they will have with the federal government. The TFG has submitted an act for the formation of the FCC to the Council of Ministers and is awaiting its approval.

55. The charter provides further guidance on the structure of government by defining and identifying a proposed structure at the federal level, with formal division of powers between the executive, legislative, and judiciary. The charter articulates a division of functions and powers between the federal and state governments, but does not identify specific responsibilities for regions and districts.

56. It needs to be noted that there are already 42 TFG ministries, yet Schedule 1 of the charter only provides the federal government with core functions related to security, macroeconomic stability and trade, planning and monitoring, and foreign affairs, justifying a far smaller and more focused TFG.

57. **The Puntland Charter.** The charter, which was enacted in 1998, specifies *Puntland* is a temporary state that will be incorporated into Somalia as a federal state once a functional government is in place in Mogadishu. The state is managed by an elected president and supported by a three-tier structure of government consisting of the state executive, regional governors, and district councils. There are currently seven regions—an increase of three from 2004—each headed by a governor. The region, which is an administrative level funded through the budget of the Ministry of Local Government and Rural Development, performs mainly coordination, security, and political functions. Below the regional level the state is divided into 27 to 30 districts. Each district is led by a district council, which is chaired by a district commissioner/mayor. The district councils were originally appointed by the president, but a reform process is currently under way to have them elected. So far, seven districts have completed that process.

58. The framework for decentralized governance and service delivery is embedded in the 2003 Local Government Act, which provides a significant degree of devolved power to the districts, backed by revenue and expenditure assignments. It also outlines the districts' right to domestic and international borrowing, on previous approval from the state government.

59. Because of extremely limited fiscal capacity, the state government has had little involvement with service delivery responsibilities. It has been concerned largely with regulatory functions and some revenue collection. Appointments down to the district level are made centrally, but the districts have significant autonomy over their revenue sources.

60. **The Somaliland Constitution.** In contrast to the *Puntland* charter, the *Somaliland Constitution* makes no reference to eventual integration into a larger federal Somalia. In fact, the constitution was first established long before the *Puntland* and TFG charters, beginning with a charter in 1993 and finalizing the constitution in 2001.

61. Setting the pace for the structures outlined in the *Puntland* and TFG charters, the *Somaliland Constitution* also elaborates a three-tiered system of state, region, and district. Although the regions and districts in *Puntland* come under the authority of the Ministry of Local Government, it is the Ministry of the Interior that has the power to create and dissolve regions and districts according to guidelines established in the constitution and the regions and districts law (law no: 20/2002). Currently there are 6 administrative regions (Hargeisa, Togdher, Sanag, Awdal, Sool, and Sahil) and 42 districts.

62. During the past couple of years, *Somaliland* has decentralized administrative power from the Ministry of the Interior to district councils. One constraint to the administrative autonomy of the district is the fact that the main executive officer in each district is still employed by the Ministry of the Interior. Currently, 24 of 42 districts have elected councils and have thus established their autonomy. The remaining 18 have their councilors nominated by the *Somaliland* government.

63. Similar to the setup in *Puntland*, in *Somaliland* regional governors are appointed by the Ministry of the Interior and have no political or financial autonomy. The Regions and Districts Law provides for the election of regional councils, but this institution has yet to emerge and seems unlikely to do so for the foreseeable future.

64. **Somaliland's procurement law** (the National Tenders Law no. 79/96) was enacted by parliament in 1996. The law creates a national tender board (NTB) of seven members: a chairperson, a deputy chairperson, a permanent secretary to the board, and four other members (including the procuring entity of the tender in hand), and it delineates the roles and responsibilities of the NTB and other government entities in the management of the tendering process and decisions on the award of government contracts.

65. NTB is an autonomous entity in the Office of the President with the authority to do the following:

- Review tender documents from procuring entities, administer the tendering process, award and sign (on behalf of the procuring entities) contracts for works and goods (including non-security-related military goods) exceeding Sl. Sh. 6 million, and forward a copy of the contract documents of the tender awarded to the respective procuring entity for the management of contract implementation.
- Monitor implementation of the contracts it awards.
- Appoint a technical subcommittee to assist the board in the technical aspects of the tenders and use the services of competent technical experts in the procurement process of large contracts for complex works and specialized equipment.

66. **Puntland's procurement system is based on two pieces of legislation** established by the administration in 1999 and 2000. In 2000, the parliament passed a law that created a tender board and outlined the responsibilities of other actors in public procurement processes and decisions and prescribed the procurement procedures to be followed by government agencies.

67. The tender board is an autonomous entity that reports to the president. The board has seven members: a chairperson; a legal expert; and five senior managerial-level representatives. The representatives are from the Bank of *Puntland*, Ministry of Finance, Ministry of Public Works and Transport, Ministry of Trade and Industry, and the procuring entity. The law allows the tender board to co-opt professional experts to assist the board in its deliberations. For decision making, a quorum of five tender board members is required. Furthermore, the law allows the board to establish its internal regulations to be proposed by the chairperson and approved by the president.

68. Procuring entities have the authority to award contracts not exceeding the equivalent of US\$5,000. The law requires procuring entities to award contracts, as far as practicable, on the basis of price comparison.

69. *Puntland* has a law on local governments enacted in 2003. The procurement arrangements for the local governments are not as elaborate as those for the central government agencies. All contracts under the district authorities are signed by the chairperson of the district council in the presence of the secretary to the council. The law empowers the district executive committee to approve contracts up to So. Sh. 100 million. Contracts exceeding So. Sh. 100 million require the approval of the district council. Contracts are to be awarded to the bidder with the lowest evaluated bid (taking into account both price and quality).

Budgetary Process

70. **Federal budget.** The TFG prepared its first budget in December 2005. The US\$150 million request sets out to establish government functions through paying salaries and allowances, reconstructing government infrastructure, and providing equipment and

maintenance. Because the government has no present revenue collection capacity, the budget was presented to international donors. A number of donors are now providing budgetary support to the Somali government.

71. One of the key challenges presented by the federal charter as it stands today is the fact that it identifies a significant portion of revenue coming from sources that are currently contributing to the revenue base in *Puntland*—most notably customs duty from the port of Bosaso. It seems likely that the continuation of external budget support eventually also will depend on the ability of the new government to show it has the support of the Somali people through collecting some of its own revenue.

72. **State budgets.** Ministries of Finance in both *Somaliland* and *Puntland* have been preparing budgets for several years now. The budgets are not properly classified, but functional in the sense that expenditures are aggregated from the various ministries and agencies of government. Current budget preparation processes fail to take into account the needs, priorities, and participation of rights holders, particularly women, minority, and low-income groups. Both budgets are coded and classified along similar expenditure heads, with the main ones being wages and salaries, operating expenses,¹⁷ and other general expenses (amounting to about 73 percent of the total budget in *Somaliland* and 83 percent in *Puntland*). On the revenue side, customs duties and indirect taxes account for about 90 percent of the total in both states, with “government service charges” making up the remainder of the rest. Budgets are not prepared through a consultative process, and most of the expenditures are committed to wages and salaries. Analysis of the *Puntland* budget showed that the budget increase from 2004 to 2005 was entirely due to increase in the size of the civil service and security forces.

73. In the *Somaliland* central government, the Ministry of Finance is responsible for preparing revenue projections and providing budget preparation guidelines to government ministries and agencies. The budget covers one financial year (annual budget) and is classified by heads (ministries and agencies) and subheads (expense types), in the same way the actual performance is analyzed. The budget is based on the preceding years’ budget, which is normally increased in line with expected revenue increases. The districts, however, are independent of the central government and their budgets are prepared by the district executive secretary and the accountant, in consultation with user units.

74. The budget preparation process in *Puntland* is the same as that observed in *Somaliland*; the central government budget is guided by the MoF, and the municipalities/local authorities independently prepare their own budgets. The one-year financial period, classification by heads and subheads, and rationalization and approval mechanisms are the same in both regions.

75. **District and regional budgets.** Local government administrations exist to a varying degree throughout Somalia. In South-Central areas, there is nevertheless far too little data available to describe the financial status of even the limited governance structures that do exist. There are governors and district commissioners that collect some revenue and provide limited services (mainly security). It can be assumed, however, that nearly all public services delivered are offered by nongovernmental organizations (NGOs) or the private sector and financed either by user fees or the donor community. One of the most intractable financial and governance problems facing districts in the South-Central region is the fact that resources are still highly contested by various factions, thereby making it difficult to manage them through future district councils.

¹⁷ Also referred to as “services.”

76. **Revenue control procedures.** The main source of revenue for the central government of *Somaliland* is customs duty, which forms 87.5 percent of revenue estimates for 2006. Other major sources of income include telecommunication and postage, rural development charges, court charges, water income and fishing charges. The accountant general is responsible for control of all official receipts. On receipt of the collections, the cashier issues a collector's receipt. The funds are banked intact in the central government account in the nearest branch of the Bank of *Somaliland*. The accountant general is supported by subaccountants in eight stations in the six regions of *Somaliland* who maintain revenue accounting records. Receipts are recorded in a cashbook analyzed by revenue subheads. On a monthly basis a revenue report is prepared and forwarded to the accountant general.

77. In the *Somaliland* districts, the process of recording, including use of official receipts and cashbooks, maintained by the district accountant, is the same as in the central government. The monthly revenue reports submitted by subaccountants to the accountant general do not include collections by the districts because these are spent in the respective districts and are not submitted to the central government. However, part of the funds collected by the central government from the districts is returned to them. That includes (a) 10 percent of the customs tax from the district and (b) 12.5 percent of the total customs revenue that the central government collects from all the districts.

78. In *Puntland*, the main source of revenue for the government is customs duty, which forms 73.3 percent of revenue estimates for 2006. Government service charges contribute 11.2 percent of the revenue estimates. The other sources of revenue include indirect taxes, transfers, government property charges, and income taxes. Revenue accounting records are maintained in the regional accounting offices, and a monthly revenue report is prepared and submitted to the accountant general in the first 10 days after the close of the month. As in *Somaliland*, a part of the customs duties collected by the central government is paid back to the districts. The proportion is 7 percent of all customs duties collected in *Puntland*; 2.5 percent of the 7 percent is paid to Bosaso and 4.5 percent of the 7 percent to the other 20 districts of *Puntland*.

79. **Devolution.** Both *Somaliland* and *Puntland* are proceeding with the devolution of financial and administrative responsibility to elected district councils. From 2004 to 2006, the number of elected district councils in *Somaliland* increased to 24, whereas the number of elected councils in *Puntland* rose from 0 to 7 during the same time period. Although this shift will increase the fiscal and administrative autonomy of the districts, it will also mean that district councils will need to strengthen their ability to perform a range of new functions, including budget planning and prioritization, financial accountability, and revenue generation.

80. Although the districts have been granted autonomy in determining the size and composition of their establishments, they are constrained by the use of the central government pay and grading structure and the fact that their budgets are forwarded through the Ministry of Interior (*Somaliland*) and Ministry of Local Government and Rural Development (*Puntland*) to parliament for approval. Although it is unlikely that the parliament has yet to exert any significant influence on district budgeting, ministries do often provide guidance (and sometimes instructions) to districts in the use of their funds. There are also signs that the devolution of responsibility in the North could be followed by further decentralization of state resources.

81. **Matching expenditure allocation with revenue.** Currently, most districts are under great fiscal stress and face significant challenges in finding the resources to pay for their legally mandated responsibilities. Revenue collection capacity is limited and is barely

sufficient to pay for salaries and wages, operating expenses, security, and some sanitation. Besides, oversized district staffing places a burden on local revenue.

82. Although the *TFG Charter* provides no specifics on the district level, the *Somaliland* and *Puntland* legal frameworks itemize a long list of functions that district councils are expected to fulfill. On the revenue side, district councils are given broad latitude to establish their own revenue base, including the choice of instruments and rates, as long as these do not interfere with state revenue collection. In practice, few of the assigned revenue sources are being collected, due to lack of capacity and political control, and districts are for the most part resorting to applying different mixes of local revenue sources, with mixed results.

83. **Revenue sharing and transfers.** In addition to raising their own revenue, districts in *Somaliland* also receive funds from the state (annex 1). Two mechanisms are used:

- *Shared revenue*—Districts that possess customs collection points receive 10 percent of customs taxes collected in their districts. Funds are deposited in a separate account at the local office of the Bank of *Somaliland*.
- *Intergovernmental transfer*—Of the total customs taxes collected by the Ministry of Finance (after the 10 percent deduction noted above), 12.5 percent are redistributed among all districts (except for Berbera and Darbulakhare). The formula for redistribution is roughly aligned with the size of district expenditures.

84. No transfer system exists in *Puntland* although a series of different surcharges are placed on top of regular customs duty at the Bosaso Port. Of these, 2.5 percent are collected on behalf of the municipality of Bosaso, and another 3.5 percent is collected for the Ministry of Local Government and Rural Development to finance the process of electing district councils. Preliminary analysis showed that the surcharges are “off-budget,” and it is unclear whether the funds collected in fact reach the intended recipient.

Prioritization and Outcome Targets

Establishing the Federal System for Economic Management

85. The entire process of federating Somalia is guided by the FCC. Given the broad range of tasks to be performed by the commission, it is suggested that an FCC subcommittee be established to look specifically at the fiscal decentralization. It is expected that the subcommittee would perform the following broad functions:

- Defining a preliminary perspective on the relative spheres of each level of government, and deciding on the manner in which local government will be constituted
- Assigning specific revenue sources and expenditure responsibilities to the different levels of government
- Agreeing on the structure of intergovernmental transfers between the center and state, commensurate with assigned responsibilities
- Establishing institutions and decision-making processes that can support the federal structure and be responsible for establishing, implementing, and monitoring the allocation criteria

86. **The vision for a highly decentralized system.** The vision is contribution to democratic development, poverty reduction, and sustainable peace through establishing a highly decentralized system for service delivery, with districts bearing the primary

responsibility for responding to citizen needs. To reach that vision, a two-pronged approach should be adopted, focusing on the district and central levels.¹⁸

- At the federal level, specifically in areas without existing states, focus on clarifying the levels of government and the associated roles and fiscal responsibilities.¹⁹
- At the district level,
 - *In areas with existing states*, focus on strengthening district capacity for service delivery through fiscal decentralization and enhanced district capacity for financial management, revenue collection, contracting-out, and other key functional areas.
 - *In areas without existing states*, focus on establishing and expanding district capacity for service delivery while recognizing that most services will be delivered by nongovernmental actors during the transition period.

87. **Service delivery.** The responsibility of various levels of administration to collect revenue and provide services needs to be clearly defined. Once that has been done, the existing revenue base at the district level can be increased through supporting institutions and structures, building core capacities, developing structures for monitoring and accountability, and establishing a financial management system. Currently, little property and income tax is collected, nor is the value added tax (VAT), and customs revenue is far below capacity. With increased capacity to collect and manage their own revenues, the districts can attain the significant degree of autonomy outlined in the charters and take a leading role in delivering community services on the ground.

88. **Contracting out.** Rather than hiring staff to directly provide services, districts should follow the many successful models for contracting out to NGOs or the private sector or for facilitating and encouraging public-private partnerships (i.e., in water, electricity, and garbage removal) as the most efficient means of service delivery. On the other hand, if districts have legitimate political leadership recognized by the state and the region, and if they establish a track record of good financial management, service delivery should be done by local administrations. In this case, it is critical to strengthen administrative and institutional capacity for successful fiscal decentralization.

89. **Revenue collection capacity.** There is significant scope for increased revenue collection and service delivery at the district level, supported by an emerging commitment to a decentralization framework in which the federal and state authorities will have mainly policy and regulatory functions and in which staff and other resources are reserved mainly for frontline service provision through devolved district governments that may contract out to private sector or NGO providers.

90. **Transitional arrangements.** Each region of Somalia will need to be treated differently depending on its own unique starting point. For example, although districts in the

¹⁸ This strategy could be supported by developing criteria for levels of access to services that could guide the RDP implementation and additional domestic and external efforts. As mentioned previously, federal government involvement in delivery should be avoided through the establishment of a lean federal structure and legally assigned functions matched by fiscal capacity.

¹⁹ Creation of a “raison d’être” for the TFG. Given that the TFG has no present revenue source and thus depends on more or less voluntary transfers from the lower levels of governments to be able to perform its intended functions, it will have to prove its value as a national government. This can most likely be done through providing a stable and secure environment and the reintroduction of Somalia to the international market. Efforts should nevertheless be resisted to establish a large federal structure with specific functions and involvement in local-level functions.

North are building their capacity to directly administer donor funding, an interim solution such as a semiautonomous social fund may be the best way to provide funds (i.e., block grants) to support district service delivery needs through a good financial management system.

Establishing an Efficient and Sustainable Financial Management System

91. The government needs an efficient and sustainable financial management system that provides relevant, accurate, and reliable financial information to management in each of the decentralized levels, to the central government, and to other stakeholders in a timely manner. To operationalize the system, the right capacity of staff and other operating resources is needed at all levels of the financial management process. Priority outcome targets for Somalia include the following:

- **Computerized accounting and reporting system** that has the capability to analyze data and generate periodic reports by defined programs and activities
- **Comprehensive financial policies and procedures manual** written in a simple step-by-step format that is easy to follow and includes accounting policies and controls, computer interfaces, accounting structure, and accounting forms
- **Efficient budgetary control system** operating in a computerized environment with budget holders accessing budget balances on a user need basis
- **Adequately trained accounting staff** able to operate computerized financial management systems
- **Timely generation of accurate and reliable financial reports** showing budget versus actual in a manner that supports output monitoring without hindering required cost controls by heads and subheads
- **Comprehensive budgeting system** with a multiyear perspective that ensures linkage of development policies to the expenditure framework and incorporates development associated recurrent costs

Priority Initiatives

92. In line with the two-pronged approach mentioned above, actions will need to be taken on two different levels. A broad set of institutional arrangements will need to be gradually put in place at the federal level, and a more targeted set of actions can be taken to improve the systems that are already operating in the North. The following actions should be pursued on the federal level:

- Provide technical assistance to the FCC on the implications and choices for intergovernmental fiscal relations in the federal structure. This assistance should emphasize the need for continuity in fiscal systems between the existing structures in the North and new structures in the South.
- Conduct a comprehensive assessment of local government capacities and needs, including financial management systems in the South-Central region, and present options for how to support transition to a federal system.
- Establish key federal functions to support the fiscal system, including capacity for policy formulation, financial management, and monitoring.

- Agree on modalities for intergovernmental transfers and application of a formula tied to appropriate criteria determining vertical and horizontal allocations, and establish institutional arrangements to support and operationalize the system.

93. In parallel, the following actions should be pursued in the North within existing state structures, and in the South-Central region there might be sufficiently established administrative structures:

- Draw up state constitutions and local government acts where appropriate to reflect the decisions on functions, assignments, and institutional structures at the different government levels.
- Establish governments at different levels to reflect the constitutional requirements.
- Develop and agree on a model for service delivery, including planning and budgeting, implementation, reporting mechanisms, and systems and practices of local public-private partnership.
- Assess the revenue collection capacity of district governments, and invest in upgrading skills, technology, systems, and procedures to increase revenue flows.
- Establish appropriate funding mechanisms to address the absence of any existing form of poverty, targeting fiscal transfers in the northern states and the South. The process of selecting, implementing, and monitoring Fund recipients should be tied to the governance framework provided by elected district councils, where available.
- Set up the systems for public service management for the different levels of government, and arrange personnel accordingly.
- Facilitate dialogue in the North where further decentralization of state finances is being debated for district-level service delivery.

Revenue Mobilization

94. Currently no federal government tax administration exists nor is there any federal institution established to administer taxes. At the same time there is no agreement with *Somaliland* or *Puntland* about their roles vis-à-vis federal government revenue collections. In the short term, laws need to be enacted governing federal tax administration and the establishment of lean and well-paid independent customs and domestic tax revenue departments. The need for transparency and accountability requires that a lean, separate, well-paid revenue administration agency be established, under a separate tax administration law, with a policy to recruit staff on the basis of merit only. A simple tax procedure code should be developed to this effect, covering filing and payment procedures based on self-assessment principles, collection enforcement and audit powers, dispute resolution procedures and penalty and interest regime.

95. There are no local administrative structures in Somalia for revenue mobilization. A few district administrations levy licenses, charges, and fees and provide some services, but records are not accountable. Therefore, in the short term, some viable minimal local administrative units need to be established and some staff recruited. Also staff training in computers, record keeping, simple revenue collecting procedures, and simple accounting and budgeting should be initiated. The units that are established need to prepare preliminary local administrative budgets during the first year of the RDP, and simplified local budgets for the subsequent year. In the medium term, these units should strengthen financial planning, budgeting, and accounting functions through on-the-job training. Thus lean local

administration would be in place providing social services jointly with donors and NGOs and also would be progressively in charge of tax revenue mobilization.

96. The new government will need to strengthen its capacity to raise revenue through an efficient taxation system. In the short and medium term, the total tax revenue would be raised through efficient collection, extending the tax base, and lowering the tax rates, thus encouraging compliance for tax payments and thereby generating more revenue. *Somaliland* and *Puntland* would strengthen their fiscal relations with the local administrative units. In the short and medium term, harmonized roles and functions between these states and the economically viable local administrative units or districts would be established. These would be translated into specific expenditure responsibilities and revenue sources that would support the decentralized services of the local administrative units. Similarly, the viable local administrative units in South-Central Somalia would also emulate the decentralized expenditure responsibilities and revenue sources adopted by *Somaliland* and *Puntland*.

97. Recommendations for priority initiatives for procurement can be analyzed under short- and long-term interventions.

Short-Term Interventions

98. **Hire a procurement agent (PA).** In consultation with the new government and authorities of the functioning administrations, the administrator of a possible Trust Fund (TF), referred to hereinafter as “the TF administrator,” will hire a procurement agent to assist the government and state administrations in the implementation of the TF-funded procurement. A team of the PA, comprising a manager and adequate staff with the right skills mix, will work with each administration and the federal government. The PA may sign, together with the TF administrator, a separate contract with each authority, for example, federal government, *Somaliland*, and *Puntland*.

99. The PA’s responsibilities under each political authority will be, among others, to jointly do the following:

- Prepare annual procurement plans with the beneficiary public entities.
- Manage the procurement process at all stages with procurement units of the beneficiary entities.
- Award contracts with the central tender board.
- Manage implementation of contracts with the beneficiary entities including acceptance of deliveries of goods and completion of services and authorization of payments to contractors.
- Use standard bidding documents/forms for administering the procurement process and awarding contracts, approved by the TF financiers.
- Train the staff of the procurement units, tender committees, and central tender committees. To ensure that the PA meets this obligation, the contract should provide an incentive and a monitorable indicator for achieving this objective.

100. In each beneficiary administration, the TF financiers and the authority of the administrations will create a complaints review office to which aggrieved bidders may present their complaints.

101. **Improve the procurement systems in Somaliland and Puntland.** In the short term, *Somaliland* and *Puntland* are to be assisted in the following:

- Developing comprehensive procurement regulations that (a) define clearly the procurement procedures and the roles and responsibilities in procurement implementation decisions and (b) establish procurement units and tender committees in the public organizations, managed by teams selected from existing public servants, including women and minorities
- Training staff procurement units, tender committees, and central tender board
- Producing standard bidding documents/forms
- Amending current laws with the aim of changing the responsibilities of the central tenders from administering the procurement process and awarding contracts to (a) approving recommendations by tender committees of procuring entities for award of contracts exceeding a set threshold, (b) approving requests from procuring entities for procurement of goods and services through procedures other than open competition, (c) conducting random audits on the procurement procedures of contracts that are not subject to its approval, and (d) recommending punitive measures against culprits of irregular procurement decisions or corrupt practices

102. **Assist the new government in establishing procurement regulations.** Because of the uncertainty about the form of national government that may emerge after the transition period comes to an end, it may be more appropriate to provide government with the necessary technical assistance in formulating two sets of procurement regulations for procuring goods and services to be implemented (a) at the national level and (b) at the regional level by the regions that have no administrations at the moment. It might be appropriate to allow the self-governing regions to produce their own regulations based on the existing legislation and recommended amendments. An important aspect of the procurement regulations at the federal level will be to provide equal opportunities to companies from all over Somalia. This has to be particularly specified in the procurement legislation. It may, otherwise, be a potential area for conflicts.

Long-Term Interventions

103. **Establishment of national procurement system.** Assist the national authorities that may be formed after TFG in formulating a comprehensive procurement legal framework that is based on the procurement principles of economy, efficiency, transparency, fair competition among eligible bidders, and accountability, together with the procurement regulations.

Implementation and Monitoring Arrangements

104. Among key outcomes to be monitored are the number of elected district councils, levels and effectiveness of transfers, gradual increase in total value invested in service delivery in selected districts and localities, degree of civil society involvement in district planning, implementation and provision of services, and general level of access to services. In addition, targets will include the accountability of budgeting procedures, pay adequacy and management of the wage bill at the district level, and number of decentralized public servants in comparison with international practice.

105. The proposed strategies for implementing the priority public financial management tasks are as follows:

- **Outsource the design and implementation of the computerized financial management systems** to a financial management agency (FMA). That should include procurement and setup of the computerized systems, documentation of the financial management policies and procedures, and operation of the systems in the first two years (subject to review). This approach will ensure immediate existence of adequate financial management capacity as the local capacity is developed and will emphasize transfer of skills and knowledge as the FMA provides on-the-job training to staff.
- **Adopt a phased approach in establishment of the systems.** Phase 1 will cover the accountant general's office and 20 pilot regional accounting locations. Phase 2 will cover the remaining accounting locations. Selection of pilot locations will be done in a consultative manner to ensure balance and promotion of peace as the capacities are enhanced.
- **Training.** Contract a certified computer trainer to provide training on software packages. Following the training on basic computer skills, the FMA and the certified vendor of the accounting software should train the accountants on the financial policies and procedures and the computerized accounting systems. The FMA should provide on-the-job training during the contract period.

106. The PFM monitoring systems should include the following:

1. Review of the adequacy of the established financial management systems
2. Review of agreed financial reports submitted quarterly
3. Joint stakeholder field review conducted annually to cover:
 - Adequacy of the budget preparation process in regard to key indicators such as degree of participation, timeliness, outturn and variance explanations, comprehensiveness, and transparency
 - Timeliness in submission of annual accounts and completion of independent auditor's report
 - Adequacy and effectiveness of the systems and periodic reporting

C. ESTABLISHING CIVIL SERVICE INSTITUTIONS

Current Status, Challenges, and Opportunities

107. The TFG now consists of 275 members of parliament; 84 ministers and deputy ministers plus 5 ministers of state are drawn from them. The government is based in South-Central Somalia rather than in Nairobi as was the case last year. Parliament met in Somalia for the first time in February 2006, in Baidoa. There is still fighting in some parts of Somalia. Ministers have not established civil servants. Almost all of the budget is provided by donors; the rest is in the form of loans from the private sector.

108. The TFG has taken the first steps toward setting up a civil service. A six-person civil service task force was established by presidential decree in January 2006. The mandate of the task force includes carrying out the preparatory steps required for the constitution of a civil service commission (CSC). The task force has drafted its own internal regulations and is revising the 1980 Civil Service Law.

109. In *Somaliland*, the executive branch of government is led by a directly elected president. *Somaliland* has 40 ministries and agencies, 6 regions, and 42 districts. There are also 4 autonomous public agencies, including the Port Authority, the central bank, and water and electricity authorities. The districts, including the municipalities, manage their own staff although the CSC of *Somaliland* acts in an advisory capacity. The legislative branch of government consists of a House of Elders and a directly elected House of Representatives. There are about 90 judges in the judicial branch. The CSC advises the president on matters of policy; is responsible for recruitment, promotions, and discipline; examines and interviews candidates for vacant positions and promotion; advertises vacancies; and prepares and supervises the implementation of rules and regulations on the civil service. The CSC is also responsible for reviewing structures and functions of central government ministries. Achievements to date include establishing a screening system for all staff, applying the system to all ministry and agency staff, and reducing the staffing level by about 2,000.

110. Public administration at the state level in *Puntland* comprises 14 ministries, each headed by a minister and either one or two vice ministers. In addition, there are two state ministers for Ministry of Interior and Security, and the President’s Office. Although an exercise was conducted in 2003 to define the functions of each ministry and to standardize their structures, the proposal was not implemented; each ministry determines its own internal structures. In some cases that has led to a proliferation in the number of departments, with staffing sizes that would generally not be considered as operationally viable. For instance, the Ministry of Local Government and Rural Development has 65 staff and 10 departments, which, after discounting its DGs and regional staff, means an average of fewer than 6 staff per department.

Staffing

111. The Civil Service Structures Study makes proposals concerning the size of the civil services on the basis of population, GDP, and what it refers to as “structures criterion.” On a population basis, the report has the size of the civil service ranging from 42,000 (at 200 citizens per civil servant) to 85,000, at an African average for civil servants as a proportion of the population.²⁰ The target becomes 32,000 assuming that 7 percent of the TFG wage bill will be spent on civil service salaries.²¹

112. Using the “structures criterion,” the report develops the following options:

• Federal civil service with 42 ministries (as now)	11,028
• Or clustering support for ministries	9,283
• Or mergers and abolition	9,815
• Semiautonomous agencies	1,258
• States	22,836
• Regions	108
• Districts	13,624

²⁰ In each case “civil servant” for the comparator countries does not include frontline service providers such as teachers and nurses.

²¹ However, in this case “wage bill” for the comparator countries does include frontline service providers.

113. Such a civil service seems out of line with the sizes of the civil services in the North. *Somaliland* has 5,559 and *Puntland* about 2,200 civil servants, including frontline service providers. Both plan to reduce staffing by eliminating unnecessary jobs and unqualified staff. The report's structural and staffing proposals should be regarded as a long-term goal. The South-Central part of the country will have to be brought up to the same level administratively as the Northern states. The objective of the proposals is to establish what might be called a balanced federal state in a country in which, at the moment, there are emerging government structures in two parts of the country and no formation at all in the rest.

114. It will be important to plot a course from the current situation to the ideal laid out in the report. However, for many years, administrative solutions and associated donor support will have to be asymmetric, in line with Somalia being in fact an asymmetric state. Such a state is described as one of the options in the background paper on Somalia Public Sector Issues of the Somalia Country Economic Memorandum, May 2005 (box 1.3).

Box 1.3. Confederate, Asymmetric State

Under a confederate, asymmetric state not all parts of the nation would be structured the same. For example, in Spain Catalonia is given a measure of independence not accorded to other regions in the country. Scotland, Ireland, and Wales have their own assemblies, each with different powers, but England does not. The case for such a solution in Somalia would be based on the fact that *Somaliland* and *Puntland*, unlike South-Central, already have operating governments. The federal government would have a relationship to the two regional states similar to that of Switzerland's federal government to its provinces, but it would have a more active role in running the South, as if it were the regional state government there. The regional states would be able to raise most of their own revenue, as they do now, and decide on spending priorities. The federal government would be responsible for legal framework, foreign affairs, macroeconomic policy, and defense for the whole of the country. The federal government would for example decide which taxes could be levied but would leave it up to lower levels of government to decide on the rates, as do the cantons in Switzerland. There would be a single central bank. The main instrument of economic policy in the hands of the federal government would be monetary policy because most revenue would be raised at lower levels of government, as in Switzerland. If the Swiss model were followed, each level of government would raise direct taxes, with the lower levels depending somewhat on user charges, and the federal government depending on a new tax, VAT, but also able to raise direct taxes. Responsibility for service provision would be assumed by the lowest level able to provide those services efficiently. This would tend to be the district/municipal level. It would be possible for districts to join together to provide services characterized by scale economies. This district focus for service delivery would apply to all parts of Somalia, not just the regional states. That would mean that at the district, and perhaps regional, level there would be no asymmetry.

115. In *Somaliland*, the central government employs 5,559 staff. Of these, 37 percent are in education, and 18 percent in health. Finance is the next largest ministry with 6 percent. There are four grades, A (most senior), B, C, and D. About 60 percent of the staff do not have a secondary education, a further 35 percent have a secondary education, and about 5 percent are graduates. Women make up 27 percent of the civil service; 2 women are ministers or vice ministers; 1 of the 40 directors-general is a woman, and 7 of the 420 directors are female. Almost all the women are in very "subordinate" jobs, such as cleaning and clerical work. Sixty-six percent of staff work in the regional offices of central government agencies or in schools and hospitals. There are about 3,500 staff in local government, almost 900 of which work for the municipality of Hargeisa and 305 for the municipality of Berbera. There are about 15,000 military, who are progressively being disarmed and demobilized. Staffing was reduced to 3,750 following the 2001–2002 restructuring, but is now on a rising trend.

116. *Puntland* currently pays salaries to a staff estimated to total more than 10,000, including approximately 8,000 police and militia and between 2,100 and 2,300 civil servants (government figures from different sources vary on the exact numbers). The three largest ministries are health (419 staff), finance (412) and education (206).

Salaries

117. The report on civil service recruitment prepared by POWER in 2005, proposed professionally based recruitment characterized by equal opportunity, affirmative action, advertising of posts, transparent selection, meritocracy, upward mobility, compulsory retirement, and succession planning. A CSC for the government is proposed (it is being formed) as well as a director of human resources in each ministry and region.

118. The Somali Institute of Management and Administration Development (SIMAD) prepared a report on civil service terms and conditions that presents human resource management practices around the world. Seven salary options were proposed for the federal government:

- A. The regional mean (for this part of Africa) with 6,000 civil servants
- B. 75 percent of the regional mean with 4,500 civil servants
- C. 50 percent of the regional mean with 6,000 civil servants
- D. The mean of *Puntland* and *Somaliland* with 6,000 civil servants
- E. The mean of NGOs and the private sector in Somalia with 6,000 civil servants
- F. 50 percent of the mean of NGOs and the private sector in Somalia with 6,000 civil servants
- G. 50 percent of the regional mean with 5,000 civil servants

119. The study made the following assumptions when generating the data on salaries and salary scales:

- 1 The civil service will grow to a total of 6,000 and remain constant during the transition period.
- 2 The wage bill will grow at the rate of 10 percent during the second year, 7.5 percent in the third year, 5 percent in the fourth year, and 2 percent in the fifth year (the point at which it will stabilize).
- 3 A four-band salary (A, B, C, and D) structure will be used in which A is the highest and D is the lowest. This structure was recommended by various informants throughout the study. Furthermore, some regions of Somalia currently use a similar structure.
- 4 Civil service employees will be distributed into bands according to the following percentages:
 - Band A: 8 percent
 - Band B: 14 percent
 - Band C: 56 percent
 - Band D: 22 percent

120. The proposed scenarios by SIMAD are summarized in tables 1.6 and 1.7.

Table 1.6. Combined (annual salary + annual cost of employment) Comparison of Options
(US\$)

OPTION	Basis	#CS	Year 1	Year 2	Year 3	Year 4	Year 5	Total
A	Regional mean	6,000	20,487,436	22,536,180	24,226,393	25,437,713	25,946,467	118,634,189
B	75% of regional mean	4,500	11,991,604	13,190,764	14,180,072	14,889,075	15,186,857	69,438,372
C	50% of regional mean	6,000	14,011,951	15,413,146	16,569,132	17,397,589	17,745,540	81,137,358
D	<i>Puntland & Somaliland</i> mean	6,000	7,655,340	8,420,874	9,052,440	9,505,062	9,695,163	44,328,878
E	NGO & private sector mean	6,000	37,307,040	41,037,744	44,115,575	46,321,354	47,247,781	216,029,493
F	50% of NGO & private sector mean	6,000	20,079,120	22,087,032	23,743,559	24,930,737	25,429,352	116,269,801
G	50% of regional mean	5,000	9,724,431	10,696,874	11,499,140	12,074,097	12,315,579	56,310,120

Note: #CS = number of civil servants

Table 1.7. Highest/Lowest Annual/Monthly Salaries
(US\$)

Option	Highest Annual (band A)	Monthly (band A)	Lowest annual (band D)	Monthly (band D)	Difference annual	Difference monthly
A	9,072.00	756.00	493.00	41.08	8,579.00	714.92
B	6,804.00	567.00	370.00	30.83	6,434.00	536.17
C	4,536.00	378.00	185.00	15.42	4,351.00	362.58
D	1,586.00	132.17	630.00	52.50	956.00	79.67
E	16,050.00	1,337.50	500.00	41.67	15,550.00	1,295.83
F	8,025.00	668.75	250.00	20.83	7,775.00	647.92
G	4,536.00	378.00	185.00	15.42	4,351.00	362.58

121. Lowest salaries in band A are the ones that are based on current salaries in *Puntland* and *Somaliland* (scenario D). The report concludes that “Option G offers a scenario that suits the federal government’s immediate resource constraints. The costed plan for Year 1 is within the proposed TFG budget. Also, the growth of the wage bill over the five-year transition period seems reasonable, assuming that the reduction of the number of civil servants from 6,000 to 5,000 during the transition period can be justified.” On the basis of an immediate need of 210 staff and a medium-term need of 2,000, the Civil Service Task Force is proposing monthly salaries ranging from a \$155 minimum wage to a maximum of \$1,910 (for the chief justice and governor of the central bank).

122. However, the federal government should carefully set the minimum wage level taking into consideration current living standards in the country, because if the salaries are set too low this can cause corruption and ineffectual civil service. It would be useful to make a comparison with private sector salaries for people with similar qualifications. Public sector wages for all but high grades should be less than public sector wages for comparable work

(i.e., 70-80 percent of the private sector wage) since the public sector jobs have some stability to them and usually some additional benefits. On the other hand, although in the early postconflict period it will be necessary to pay high salaries to attract the top professionals, the federal government will need a medium-term pay strategy that will address incentive issues in the national budget framework. As in other low-income countries, it is likely that salary surveys will show that the lower grades and perhaps even those at the very top are paid as well as they would be outside the civil service, perhaps even more, the salaries of key technical and professional staff will be found to be lagging behind the growing private-, donor-, and NGO-sector salaries. Studies throughout low-income countries have shown that it is impossible to pay high salaries to civil servants and at the same time keep the wage bill down to a level (i.e. 7 to 8 per cent of GDP or 40 per cent of recurrent expenditure) that leaves enough funding for "other recurrent expenses" to meet even modest service delivery objectives.

123. In *Somaliland*, salaries range from an average of Sl. Sh. 120,000 (\$20)²² a month for grade D to an average of Sl. Sh. 326,000 (\$54.3) for grade A. Taking into account a 115 percent devaluation of the currency and a 10 percent increase in domestic costs since the last increase in pay, the CSC has proposed a higher "stop-gap" pay scale ranging from averages of Sl. Sh. 286,000 (\$47.7) in grade D to Sl. Sh. 725,000 (\$120) in grade A. That would more than double the wage bill from Sl. Sh. 14 billion to Sl. Sh. 31 billion. The CSC has proposed what it calls a "permanent" pay scale that would increase salaries still more and make it easier to attract and retain the better-qualified staff. On this scale, salaries would range from Sl. Sh. 294,000 (\$49) at the bottom of grade D to Sl. Sh. 1,543,000 (\$257) at the top of grade A. The compression ratio (the ratio of the highest to the lowest salary) is low by the standard now aimed at in many African countries: 5:1.

124. In *Puntland*, civil service salaries range from So. Sh. 2.5 million²³ (\$172) for a director general (the senior civil servant in a ministry) to So. Sh. 600,000 (\$41) for a secretary. Civil servants in senior positions are also entitled to allowances. Including non-civil servants, 2,516 persons are on the government's payroll in 2006, up from 2,320 in 2004 (an increase of 8 percent).²⁴ The major increase in staff is due to an addition of 200 teachers proposed to be hired in 2006. The total budget wage bill for 2006 is So. Sh. 190,753 million (US\$13.2 million), up from So. Sh. 178,845 million (US\$12.3 million) in 2004. Thus, the share of the wage bill has gone up from 58 percent in 2004 to 63.6 percent in 2006. The share of the security establishment has fallen from about 75 percent of the wage bill in 2004 to about 70 percent in 2006.

125. The state government has experienced repeated difficulties in recent years in making civil service salary payments on time, as evidenced by the president of *Puntland's* recent announcement that from January 2006 all civil service salaries of So. Sh. 800,000 and above would be subject to a 15 percent pay cut with immediate effect. At the same time the element in ministries' budgets for recurrent costs was reduced by 30 percent.

Challenges

126. The main immediate challenges for the government are to hire a small number of professional staff to help the president and his ministers prepare plans to implement the charter progressively over a period of years and to find national sources of revenue to support the government in its federal role. A longer-term challenge is to gradually build up the role of the government and meet the service delivery needs of the poor in the South, who have no

²² Based on US\$1 = Sl. Sh. 6,000

²³ Based on US\$1 = So. Sh. 14,500

²⁴ This does not include the uniformed services, which reportedly employ 8,000–8,500 personnel.

formally functioning government. The recruitment of government and public sector staff can be a potentially important source of conflict. Recruitment will require transparent and consistent policies applied across government and the NGO/aid sector.

127. In *Somaliland*, the major challenges are summarized in the CSC's Five Years Action Plan for the *Somaliland* Civil Service Reform Program for 2006–2010. These challenges include (a) overstaffing relative to available resources; (b) poor collection of revenue; (c) fraud, corruption, and nepotism; (d) low pay; and (e) too many low-level staff and too few senior- and professional-level staff. In addition, the civil service does not have many staff qualified to prepare legislation. Many new laws and regulations have been prepared, but usually with help from outside the civil service. For example, for the recent review of pensions legislation, the CSC brought together a wide range of stakeholders and informants from within and outside the public sector. Another challenge is that article 14 of the *Somaliland* Civil Service Law, which pronounces that any candidate to the civil service employment should be physically fit, discriminates against people with disabilities by denying them access to civil service positions. There are also wide gender disparities in the representation of women and minorities in the civil service.

128. Challenges in *Puntland* include (a) professionalizing the civil service and inculcating a culture of client focus, (b) attracting competent managers into the civil service, and (c) changing the public's perception of the civil service. Besides, ministries do not generally develop legislation in their fields of operation and lack the capacity to do so. Most current legislation dates from pre-1991 because the *Puntland* Constitution states that the laws of prewar Somalia shall be adopted, except in cases in which that would be contrary to *Puntland's* own interests or would lead to a return to dictatorship. Other challenges include civil service policies and gender issues. At present, the Ministry of Labor, Youth, and Sports, of *Puntland* state government, does not possess the capacity to plan and execute policy in this field, lacking the skills and basic equipment to carry out the tasks effectively. The ministry has recently been trying to ensure that all ministries adhere to existing regulations on procedures such as recruitment, but appears to lack the influence to enforce regulations. The ministry does not have disaggregated figures by gender for civil servants. However, hardly any women hold senior civil service posts or have been appointed to high political office. There is only one female minister, at Women's Affairs, and no women vice ministers or DGs.

129. The number of staff in ministries in both Somaliland and Puntland are quite large given the type of services rendered. Retrenchment and downsizing in *Puntland* and *Somaliland* government structures have to be carried out accompanied by wide consultation and transparency. This is an area that may lead to tensions in government, and it also poses the risk of a conflict between clans.

Priorities

130. To build early confidence, the government will have to rapidly develop its own capacity to act. In addition to parliamentary and judicial staff, four sets of civil servants are needed immediately.²⁵

1. **Policy management and advisory unit** for the president, prime minister, and cabinet. This unit would manage the flow of policy ideas to the leadership, review policy proposals from a professional and political point of view, and generally

²⁵ These same four immediate priorities are identified in the *SIMAD Civil Service Terms and Conditions Report*.

support the leadership in the transition and thereafter. An effective decision-making process must also be established at the center. The president and cabinet should have access to professional advice in making those key early decisions (and all later ones).

2. **Civil service commission.** The commission would assist in staffing the federal civil service along professional lines, while respecting political necessities, and would advise on the relationship between the federal and regional state civil services.
3. **Expenditure management and financial accountability system.** The system would ensure that budget would be prepared, executed, and accounted for in an effective and transparent manner.
4. **Federal revenue agency.** This agency can advise on how to source revenue for the new government in the immediate and the longer term.

131. Directors and key staff with experience in policy analysis, human resources management, public finance, and revenue mobilization should be appointed in the next few months. It will prove easier to attract qualified staff from the diaspora if international salaries are paid to these key staff. Appointing senior staff from diaspora needs to be done sensitively, as this can be a source of tension. It is important to note that the salary gap should not be kept too high between diaspora staff and qualified and senior local servants. In the early months and even years, it may prove necessary to hire experienced foreign consultants to fill key line positions. In addition, there is a need for adoption of regulations assuring equal access to civil service jobs for both genders. Care and caution must be given to the recruitment process to avoid any further discrimination/marginalization against minority group members and women, bearing in mind that in the past the staff was hired on a clan affiliation basis. Mechanisms need to be put in place to monitor the implementation of human rights and gender principles.

132. An experience from other postconflict countries is that it is unrealistic to rely on the national budget to pay the salaries of the high-quality staff needed to reestablish government and the public service. In such situations it is common for salaries of top staff to be funded by donors. For example, donors are paying the salaries of the top 100 or so civil servants in Sierra Leone at levels that could not possibly be covered by the national budget in early years of the reconstruction. Donors are initially funding the whole of the personnel budget in Afghanistan. Donor support for the salaries of key staff has been proposed under the UNDP Somalia Emergency Budget Support Project. It is probably best if salary support is given by the donors through the national budget, or at least through a common pool, rather than on an individual basis, as was the case at first in Sierra Leone.

133. In *Somaliland*, the CSC Action Plan for Civil Service Reform, 2006–2010, represents the second phase of a longer-term reform program. Under the first phase, rightsizing and rationalization was largely completed. There will be modest additional rightsizing in central government as well as rightsizing in all local governments. The principal objective of the second phase is to improve performance by building the capacity of staff.

134. Priorities in *Puntland* include the following:

- Functional review of federal government at various levels. Review roles and functions of individual ministries, staffing, and salaries.
- Civil service reform. Implement the recommendations of the review process.

- Capacity development for civil servants. Implement the training plan, in partnership with existing training providers.
- Gender equity. Carry out targeted initiatives in training women for promotion in civil service and in genderizing policy making, implement M&E systems, and propose regulation to combat discriminatory practices against women that comply with international human rights principles.
- Creation of an enabling environment for business. Streamline bureaucratic processes and establish transparent tendering and related processes.
- Increased public revenue collection. Increase revenue collection and accompany that with enhanced service provision and a public awareness campaign.

D. ESTABLISHING THE CENTRAL BANK AND STRENGTHENING FINANCIAL SERVICES

Rebuilding a Financial System

Achieving the high rates of growth necessary to reduce poverty significantly will require increased mobilization of domestic and foreign savings to support higher rates of private sector investment. Mobilizing savings implies a broadening and deepening of financial markets, institutions, and products, particularly long-term project finance. It also means supporting the creation of banks and non-bank financial institutions offering a range of products and services that compete with or complement those traditionally provided by banks.

135. **Collapse of the financial system.** In January 1991, all state institutions that provided financial services and regulated them collapsed, including the central bank of Somalia and the entire banking system. Some semblance of a central banking authority has evolved in *Somaliland* and *Puntland*. The two regional banks established in both northern regions have several branches and offer very limited commercial banking services in deposit accounts and trade finance. However, their primary function remains that of treasurer of their respective regional governments. No banking institutions currently exist in South and Central Somalia.

136. **The mistrust in government-owned banks runs deep** since the collapse of the only commercial bank in 1989. Private citizens use their accounts in the two regional banks primarily for accumulating taxes they owe to the regional governments. Overall, in all Somali regions, the economy functions without commercial banks, with most small transactions conducted on a cash basis and the remittance companies providing efficient form of payment services. Given the current state of the financial sector, Somalia will fail to attract the level of private sector investment that is necessary to alleviate poverty, create economic opportunities, generate employment, and contribute toward overall economic growth.

137. **Rebuilding a financial system after a period of sustained conflict is a challenging task.** Managing the expectations of government, the private sector, and the public is complicated by the evolving assumptions made about the likely direction of the political process and the resulting state structure. But it can be done. Somalia, like other conflict-afflicted countries can reestablish the following:

- Commercial banks and non-bank financial institutions that are sound, efficient, and competitive

- Commercial banks and non-bank financial institutions, instruments, and services that meet the needs of the government, NGOs, businesses, and households in both rural and urban communities
- Financial infrastructure that is based on modern information technology and telecommunications
- An autonomous central bank that is equipped to carry out its monetary and financial sector regulatory and supervisory responsibilities in the medium to long term

138. **This task, however, should not be underestimated.** Postconflict financial sector reforms are beset with several challenges, including the failure of legal and regulatory structures; the complete disruption of international and domestic payments systems; the virtual cessation of all lending activities within the country; significantly reduced deposit taking activities; and a stoppage of most international correspondent banking relationships, particularly in the absence of a unified government structure.

139. **Somalia faces many challenges in the absence of a functioning formal banking system.** As in most conflict-affected countries, the financial market in Somalia is organized largely around the money exchange dealers and their ability to transfer funds into and outside the country through networks. Although impressive, these service providers do not provide the full range of financial services required for dynamic private sector-led growth. Consequently, private sector-led growth will remain highly constrained unless a functioning banking system is developed to provide financial resources and other supporting banking services.

140. The establishment of a full-fledged commercial banking system is a high financial sector priority. Reinvigorating the financial sector is a critical step toward setting Somalia on the road to sustained self-sufficiency, creating economic opportunities, and ultimately reducing poverty in the country.

Assessment of Priority Needs and Policy Options for Initiatives

141. Although the initial absence of a role for monetary policy lessens the urgency for establishing the full array of central bank functions, there is an urgent need to strengthen the payments system and to provide banking services to government. Hence, updating the central bank and financial services legislation is a priority along with these limited central banking functions. Developing a capacity for monetary policy can wait until the latter part of the reconstruction and development program as can the introduction of new and larger-denomination local currency notes.

142. In a complex, postconflict country like Somalia, the chosen strategy will—by necessity—have to be opportunistically evolutionary and reactionary. For example, in proposing a development strategy for developing the banking sector in Somalia, it is important to bear in mind the emerging interest in Islamic banking and finance practices. Somalia is one of many countries in which Islamic banks and other financial institutions, when they are established, are expected to take an interest in financial transactions based on the principles of Islamic finance laid down in the Qur'an and the Prophet's traditions of 14 centuries ago. Islamic banking, based on the Qur'anic prohibition of charging interest, has moved from a theoretical concept to embrace more than 100 banks operating in 40 countries with multibillion dollar deposits worldwide. Islamic banking is widely regarded as the fastest growing sector in the Middle Eastern financial services market. Therefore, the proposed legal and institutional framework will need to take into account Islamic finance tenets and integrate them into the financial regulation, supervision, and financial intermediation process. The

changing dynamics in Somalia preclude a rigid ex ante financial sector strategy. Recognizing that the financial sector in Somalia has varying levels of development and capacity for reform, reformers need to bear in mind that sustainable financial reforms have a long maturity period.

Commercial Banking

143. The financial sector development efforts should focus on attracting sound and credible commercial banks. It is essential that public awareness be raised on the licensing and prudential requirements needed to attract desirable private investors. To avoid the potential source of conflict, commercial banks licensing criteria need not only be based on sound financial basis and track record, but furthermore be founded on transparent and equitable procedures to avoid clan nepotism and corruption. A proper monitoring system needs to be put in place, and a feed-back mechanism to the legislative that can ensure full transparency in the process.

144. Soon after the reform process commences, financial regulators need to take stock of the existing state-owned financial institutions and quickly make a decision on which institutions or branches of institutions will be liquidated or disposed off. The assets of banks earmarked for liquidation need to be accounted for and systems put in place for their transparent disposal. In Somalia, the only state-owned commercial banking services are those owned and operated by the Bank of *Somaliland* and the State Bank of *Puntland*. Best corporate governance practice recommends that the commercial banking operations should be separated from the central banking functions (supervision and regulatory oversight) of the central bank. This should be considered as part of restructuring the central bank. The commercial banking assets can be liquidated, privatized, or can temporarily be corporatized into a separate viable state-owned financial institution.

145. Until the commercial activities are separated from the central banking functions, the government should focus on strengthening corporate governance structures through a variety of options, including guidelines for the appointment and dismissal of managers and board members, new organizational structures, revised credit policy and controls, new procedures for credit-risk evaluation, and enhanced asset/liability and treasury-management techniques.

146. Initial discussions have begun in connection with the establishment of a full fledged commercial banking operation in Somalia. Many of the remittance companies have expressed an interest in investing in such a bank. However, they have equally expressed concern about their lack of operational capacity and experience in venturing into commercial banking. And indeed, in addition to the lack of capacity there are other risks associated with the entry of commercial banks into Somalia, such as lack of capital, weak management, anticipated low profitability as a result of the lack of trust in commercial banks, restrictive approach on the number of bank licenses, and political interference in the licensing process. The licensing of commercial banks is a possible source of conflict. The criteria need to be based on a sound financial basis and track record, and they also must be founded on transparent procedures to avoid clan nepotism and corruption. A proper monitoring system needs to be put in place for this as well as a feedback mechanism to the legislature that can ensure full transparency in the process.

147. Despite the challenges listed above, there is a real and urgent need for banking services, and every effort should be encouraged to facilitate the entry of full-fledged banks into the country. Achieving the entry of good banks, however, is challenging. Initial steps necessary for evaluating the establishment of a commercial bank must include the following:

- Discussions with prospective partners to ascertain interest and commitment

- Awareness raising among the private sector on banking and international good practices, as well as licensing and prudential requirements
- Discussions among interested parties to ascertain feasibility of the concept
- Solicitation of expressions of interest from multinational commercial banks to assume strategic management

148. Positioning the bank and others that emerge to provide commercially viable banking services will require improving the regulatory framework to increase the perceived creditworthiness of clients, using technology to lower transaction costs and improve transfer mechanisms, introducing new products and risk-reduction techniques, and encouraging the use of agency arrangements to leverage scarce or expensive infrastructure and to create flexibility and mobility in service provision.

149. Importantly, intermediate technical assistance will be required should the government move ahead to actively facilitate the entry of new banks into Somalia and build the necessary banking infrastructure to support the development of a viable and self-sustaining banking system. At the least, experts and advisors will be needed immediately for legal and regulatory advice on (a) the entry requirements of new banks and the necessary supervision and regulatory oversight of the same, (b) the separation of the central banking functions of the regional central banks from their commercial banking operations, and (c) the development of banking infrastructure for payments and clearing system.

Central Banking

150. A strong legal and regulatory framework enforced by an equally strong central bank is important, but it is not a short-term priority. The current fragmented regional financial systems in Somalia complicate the essentialness of establishing a central bank in the short term, and they necessitate assigning the establishment of the basic functions of a central bank to the last phase of the reconstruction plan. Weaknesses in the legal and judicial framework governing commercial contracts and their enforcement and the slow and biased court system are common in conflict-affected countries in which years of conflict erode basic civil rights. These weaknesses will need to be addressed because sustainable financial sector growth and stability require a framework based on strong creditor rights.

151. **Somalia's legal and regulatory framework is virtually nonexistent.** Although the TFG has appointed a governor, the central bank has not yet been established, and the banking supervision function will need to be developed from scratch. The current banking law and supervision regulations are inadequate. A new banking law setting the foundation for an autonomous central bank has been drafted, but it is yet to be enacted into law by the recently established parliament. Bank supervisors, once identified, will need to be trained in basic banking supervision and risk management skills. Further, in addition to the problems listed here that are common in other conflict-affected countries, Somalia also has the unique complication of having within its borders, entities operating as central banks for specific regions.

152. There are two banks performing both central and commercial banking functions on a limited, almost defunct, level. Both the Bank of Somaliland and the State Bank of Puntland provide limited commercial banking services—deposit-taking facilities primarily. The primary function of both banks remains as the treasurer of these governments. Still, by offering banking services they are in an undesirable conflict of interest with their central bank and banking supervisory activities.

153. During the final stages of the RDP, there will be a need for political decisions that must precede the commencement of central bank reforms.

- There will need to be agreement on the location of the proposed central bank.
- There will need to be agreement on the desired and expected strength of the federal regulatory structure of the central bank.

154. Once there is agreement on the two issues listed above, then technical assistance program for legal and regulatory reforms can commence. With no progress on these issues, especially the second issue, then suboptimal transitional reform options will need to be considered. Essentially this would entail parallel reforms in each region aimed at achieving technical harmony or financial legislation, policies, and procedures before attaining political harmony of state independence—a more expensive, but still achievable prospect. For example, officials from *Somaliland*, *Puntland*, and the TFG Central Bank can agree in principle to harmonize their respective prudential regulations because the expected applicants are likely to serve the same markets. That done, it would be possible in the interim to proceed with capacity-building programs before discussions on the final political structures are concluded. The bank in *Puntland* has in principle agreed to operate as a branch of the national central bank.

155. In the medium term, the overall objectives would be to rebuild capacity for formulating and implementing monetary and exchange rate policies and to restore functioning banking and payment systems in an appropriate institutional framework. Through these actions, the foundations will have been laid for a sound monetary and financial system, which is critical for promoting economic recovery.

156. The steps to be taken toward reestablishing a central bank and a rudimentary financial system in a postconflict economy are grouped into four phases. The time frame for these time periods vary depending on local circumstances. The stages may be identified as the (a) diagnostic phase, (b) institution-building phase, (c) two-tier banking system phase, and (d) exit phase. Somalia is preparing itself for the institution-building phase.

157. **The diagnostic phase.** A number of studies and activities have been undertaken recently by the UNDP and the World Bank that provide sufficient information on the state of the financial sector to support the preparation of a comprehensive financial sector needs assessment. Box 1.4 presents the key findings of the work to date.

Box 1.4. Key Findings of the Diagnostic Phase

Financial Sector Legislation

- New central banking and commercial banking legislation need to be prepared and adopted. The current banking law and supervision regulations are inadequate. A new banking law setting the foundation for an autonomous supervision function, and subsequently the drafting of prudential regulations, needs to be enacted as soon as the rebuilding of the financial sector commences. Priorities are regulations on licensing of banks and prudential norms.
- New regulatory provisions for licensing banks and non-bank financial institutions need to be prepared and adopted.
- New currency provisions need to be developed and adopted as a transitional measure to stabilize the monetary system in the country.

Banking Supervision

- The banking supervision function needs to be developed from scratch. Banking supervision according to international standards is not being conducted.
- There is virtually no capacity for modern banking supervision, risk management, or accounting according to international standards. Banking supervision staff at both central banks, together with other staff in other departments, will need to be trained in basic banking economics accounting standards and risk assessment.
- Banking supervision will need to assess the current status of the banking and non-banking sectors and design a strategy to address identified weaknesses. The objective should be to redress the weaknesses as soon as possible, so that banks and non-bank financial institutions meet minimum international prudential standards or surrender their licenses.

National Payment System

- Somalia is essentially a cash society.
- There is no common platform for international or domestic payments between existing financial institutions.
- Cash and payment orders are the only meaningful payment instruments widely used in the economy.
- Because of the lack of confidence in the banking system, significant savings are held outside the financial system.
- Through the current money transfer system, the Somali remittance companies provide an energetic and competitive alternative to the formalized payment systems via the central bank and formal banks.

158. **The institution-building phase.** The starting base for financial sector reforms in Somalia is extremely low. Ordinarily, reestablishing a national payments system would be a priority in a postconflict country. In Somalia, this may not be the case given the extensive nature of the remittance sector. Instead, the challenges will be making decisions and reaching agreement on the legal tender and the exchange rate regime.

159. Prompt settlement of government obligations such as salaries and pensions is important not only in its own right, but also in that it increases the credibility of the central government and its central bank. Such credibility is crucial for supporting the government's other political objectives. The central bank will need to agree on a mechanism for accomplishing this efficiently through a combination of its own branch network and the organized remittance sector in the first instance, and commercial banks later. In the face of limited resources, it is not advisable for the central bank to try to fully reestablish its domestic payment capacity. Box 1.5 presents responsibilities of the Central Bank of Somalia.

Box 1.5. Responsibilities of the Central Bank of Somalia

In the medium term, the interim government needs an institution that can serve as its fiscal agent and its banker, to provide payments, storage, and safekeeping services and to manage financial assets and reserves at home and abroad. In the first instance it is recommended that the Central Bank of Somalia (CBS) focus on the following responsibilities:

- Act as banker to the Ministry of Finance and provide financial advice at its request.
- Act as fiscal agent of the Ministry of Finance and other public authorities.
- Publish foreign market exchange rates on a daily basis.
- Prepare banking legislation and prudential regulations.
- Train local staff.
- Maintain a depository for safekeeping of currency.
- Ensure adequate supply of banknotes of the legal tender for settlement of cash transactions.
- Provide temporary payment and storage services to the Treasury and other public authorities.
- Open or reactivate accounts abroad.

During the second stage of the institution-building phase, with progress on the political process, the principal objectives of the central bank will be to foster an efficient and safe system for domestic payments and foster the liquidity, solvency, and efficient functioning of a stable market-based banking system, focusing on monetary policy, payment services, banking operations, services for the government, supervisory activities, and sundry tasks.

At this phase of the reform process, special effort should be made to ensure that only safe and sound banks are licensed and allowed to operate in the system. Bank licensing policies and procedures are an important aspect of the development of the financial sector. The design, development, and implementation of effective entry regulations contribute significantly to the structure and quality of the banking sector.

To reduce political interference, it is recommended that an independent supervisory authority be responsible for bank licensing. Generally, best practice requires that the licensing process set out in the banking laws verify at least the sufficiency of a bank's initial capital, the suitability of its major shareholders and management, and the transparency of its corporate and organization structure. The Core Principles for Effective Banking Supervision issued in September 1997, by the Basel Committee on Banking Supervision (BCBS)—the global standard setter—recognize the importance of the licensing process in Principle 3, which states that the following:

“The licensing authority must have the right to set criteria and reject applications for establishments that do not meet the standards set. The licensing process should consist of an assessment of the bank’s ownership structure, directors and senior management, its operating plan and internal controls, and its projected financial condition, including its capital base. Where the proposed owner or parent organization is a foreign bank, the prior consent of its home country should be obtained.”

During this phase of the recovery period, the economy will require functioning institutions for financial intermediation and the reestablishment of a banking system to restore public confidence. It is important to bear in mind the following key points on legislation for the financial sector:

- The new legislation should stipulate that institutions with “fit and proper” owners and managers, sufficient capital, and viable business plans would not be denied banking licenses.
- The banking legislation should apply only to institutions taking deposits from the general public. The operations of the banks should be based solely on commercial considerations. State ownership and influence on banks’ lending decisions should be restricted. Rules on bank insolvency should be elaborated on.
- All licensed financial institutions would be under the regulation and supervision of the Central Bank of Somalia and, by agreement, the state-level central banks. They would be required to comply with prudential rules and banking regulations issued by the central bank, all of which should be in compliance with the Basel Core Principles.
- Supervision is not the only instrument for ensuring the financial soundness of a bank. It would be equally important that the institution’s internal governance is sound and that the bank is transparent in its reporting and disclosure to the market of its performance.

160. **The two-tier banking system phase.** At this stage, the objective would be the establishment of a traditional two-tier banking system. In Somalia, the exact functions of the central bank would depend on the outcome of decisions on the legal tender and exchange rate regime. It would be important to ensure that whatever decision is made, the exchange rate

regime should help to maintain monetary stability in the face of major shifts in policy often experienced in economies with a troubled past.

161. Based on decisions made on legal tender and exchange rate regime, a review of the central bank legislation may also be necessary. The objective should be, among other things, to bring strong provisions for central bank autonomy and accountability.

162. **The exit phase.** In the final stage, progress in restoring normal conditions should be sufficient to indicate that exceptional technical assistance provided by donors could be phased out.

163. Among the many important factors leading to such a situation, advancement in capacity building would be crucial. Technical assistance should in all areas contain a pronounced training component aimed at strengthening core activities in financial operations. Training programs should be formulated and implemented at all phases with the aim of building critical capacities in the monetary policy, payments, banking operations, and supervisory tasks.

164. It would be important to train local staff for middle- and senior-ranking positions because increased mobility of highly skilled staff would most likely result in a chronic shortage of critical skills. Any selection process should ensure that equal opportunity is given to the participation of appropriately qualified women, national minorities, and physically disabled persons.

Access to Financial Services

165. Fundamentally, the urgency for financial sector reforms in Somalia is driven by the commonplace complaint about the inability of the private sector to access formal financial services. Cost is not even an issue, as there are simply no formal services available at the moment.

166. In Somalia, as is the case in many developing countries, the provision of funds through directed and subsidized credits by development-finance institutions contributed to the failure of many financial sector programs, even before the commencement of conflict. Still the pressure for government directed credit will be immense.

167. In Somalia, the real challenge lies first in attracting credible banks to enter the market. For that purpose, initially introducing modest criteria concerning capital and “fit and proper” requirements for the entry of banks should help. Furthermore, accommodating some of the Somali money transmitters as “narrow” banks could be considered. Commercial banks are likely to serve the upper segments of the population and private sector; developing a sustainable microfinance sector would ensure that a more inclusive financial sector is built for the long run.

168. The banking sector is likely to remain the largest component of the financial system for some time after the end of sustained conflict. But there is a need to also develop alternative financial institutions that broaden and deepen the financial sector, including microfinance institutions, leasing companies, commercial credit companies, credit unions, factoring companies, insurance companies, and pension and provident funds and, in the longer term, to develop debt and equity markets. Banks are notoriously inept at expanding services to rural communities, particularly those afflicted by conflict. The establishment of a broad range of instruments into which savers can deposit their funds and through which companies and consumers can obtain access to capital and credit will spur economic recovery.

169. Newly licensed banks might not be able or willing to extend services, particularly lending services, outside major urban centers. For commercial reasons, the banks may initially focus primarily on trade financing, foreign direct investment, and currency exchange operations or service the wealthier communities and expatriates in the postconflict territory. It would, therefore, be essential to also promote the establishment of non-bank financial institutions as a means of channeling financial services to rural or deprived areas or to lower-income segments and women.

170. **Microfinance.** Somalia's development needs would demand building an inclusive financial system so that savings and credit facilities would be available to the lower-income segments of the population and to micro and small businesses. The microfinance sector in Somalia is perhaps comparable with the situation in other postconflict countries, except that there are two microfinance institutions (MFIs) that have been in operation for more than seven years now, albeit not on a commercial basis. Otherwise, most microfinance activity is focused on relief and reintegration through a number of NGO microfinance programs or projects. In total, these organizations probably account for fewer than 10,000 active clients with an outstanding credit portfolio of under \$1 million. Obviously, the sector is very small and, in general, characterized by very poor outreach, unacceptable repayment rates, and unsustainable operations. Moreover, the long period of conflict in Somalia has led to people's reliance on grants. More positively, more than half of the active clients at the two MFIs are women. In fact, on the basis of loans granted at one of the MFIs recently, more than two-thirds of the borrowers were women.

171. To successfully develop the microfinance sector on a sustainable basis, the needs of the economically active poor must be well understood, and demand-driven products need to be developed to increase customer base. Moreover, the interest rates (or service charges) of 10 to 16 percent currently charged by the two MFIs need to be reviewed to reflect more commercial rates of return. Appropriate business support services should be made available to micro and small entrepreneurs and vulnerable segments (i.e., internally displaced persons [IDPs], demobilized militia) of the population.

172. In the early stages of developing the microfinance sector, the essential need for capacity building of both individuals and new or existing MFIs is massive. So is the need for donor funding to support the capacity building and infrastructure requirements to enable MFIs to grow profitably and achieve sustainability. Perhaps, efforts could be focused on developing one or two sustainable MFIs with private sector management and capital supported by technical assistance from donors. In the short to medium term, the government should look to introduce a national microfinance policy.

173. **Short- to medium-term options.** In addition to microfinance, over the short and medium term, the following options may be considered:

- *Short term (up to 18 months):* Creating channels for the delivery of sustainable credit programs in postdisaster areas is challenging because recipients will expect grants from the government and the international donor community. It is therefore essential that a clear distinction be made between emergency grant-based programs aimed at restoring basic living conditions and longer-term financial resources aimed at restoring income-generating livelihoods. In the short term public finance might be used to bridge the gaps in financing. Public financial assistance programs must complement rather than compete with private financing that could be available on commercial terms from other sources. Although in the immediate aftermath of establishing a functioning government, grants, not loans, may be provided to

entrepreneurs, later in the recovery period funds to entrepreneurs should shift to mainly loan-based products.

- *Medium to long term (18 months to 5 years)*: In the absence of data on the financial requirements of the Somali business community, it is recommended that in the medium to long term a multiple-client approach be adopted. The chosen financial program(s), for example, venture capital and microfinance, must be programs that are applicable to banks and non-bank financial institutions to ensure maximum geographical coverage. Options for providing financial resources to firms include a business development fund, long-term development fund, SME risk fund, credit lines and guarantee schemes, remittance companies, and microfinance.

E. STRENGTHENING DATA DEVELOPMENT

Current Status, Challenges, and Opportunities

174. **Because of the absence of formal statistical systems in Somalia, data collection has remained fragmented and incomplete.** The absence of government and related institutions and the prevailing conflict situation have constrained the collection and compilation of statistics. Some of the basic macroeconomic statistics, such as national income, balance of payments, and money supply, have not existed for Somalia for almost two decades.²⁶

175. **It is crucial to have reliable statistics for decision making in policy formulation, planning, and budgeting.** Statistics also play a central role in supporting the implementation of policies, in particular, monitoring and evaluation, which in turn support transparency and accountability. The challenge is that there are inadequate information systems in Somalia as well as a lack of trained staff and resources to collect economic and social data.

176. In the absence of a Statistics Institute and supporting infrastructure, **some of the statistical data on Somalia are currently being collected and disseminated by a diverse number of UN agencies and NGOs** and, to a limited extent, by Somali administrations. However, there are still critical data gaps, in all regions. There has been a growing awareness among development partners, in particular the World Bank, of the need to monitor socioeconomic recovery and economic development based on accurate statistics.

177. **There has been almost no formal mechanism to validate the accuracy and reliability of the available data,** whether they are generated from functioning administrations, primary surveys, or other secondary sources. To address this issue in the absence of national institutions, the United Nations Development Office for Somalia (UNDOS) had established an interagency statistical working group (SWG) for Somalia in 1996, consisting of major data producers and users to promote a common approach to and coordination of data collection activities of the international agencies. However, the SWG ceased to exist when UNDOS' term expired in 1999 as a UNDP project, and there was no formal mechanism available to replace UNDOS for coordinating statistical activities during

²⁶ There are no reliable estimates on national accounts, balance of payments, and money supply at the regional or national level since the civil war. Limited data exist for two food grain crops; no other production data are available. There are no estimates of livestock and livestock products, fisheries, and other primary products. Besides, there are no data available to reflect the size and composition of the informal sector. Consumer prices and exchange rate data, however, are regularly collected from selected markets. Total export and import data from major ports are collected in physical quantities. However, there are no data on the size of the transit trade.

the 1999–2002 period. In 2004, UNDP set up a UN interagency theme group on statistics with limited membership and scope. This group currently reviews all major data collection efforts of UN agencies and also provides statistical advisory services.

178. **A technical coordinating group (TCG) on statistics was set up by UNDP in 2004** to implement the Somalia Watching Brief Program supported by UNDP and the World Bank. The TCG consists of the director generals and directors of the Department of Statistics of the Ministries of Planning in the three Somali administrations. The group supports the participation of statistical offices in data collection and statistical capacity building initiatives of the international and regional agencies, while enabling these administrations to harmonize their respective work plans and statistical procedures. Currently, the Somalia Watching Brief Program has been playing a key role in promoting the collection and compilation of data for planning and policy purposes. Other major partners involved in statistical data collection include United Nations Children’s Fund (UNICEF), World Health Organization (WHO), World Food Programme (WFP), Food and agriculture Organization (FAO), FSAU, and Famine Early Warning System (FEWS). Annex table 2 provides summary details of the past and ongoing data collection efforts by various agencies.

179. **There are challenges for the current data collection and dissemination efforts.** Without the overall supervision and coordination of a national statistical office, there is a risk of inconsistency in data collection efforts. Besides, surveys are carried out in peaceful areas; therefore, survey results are not representative of all of the population. The scope, methodology, coverage, assumptions, and limitations of the surveys are seldom documented, and the results generally are not validated. The accuracy and comparability of the results are questionable because of limited coverage. Currently, there is no coordinated strategy for data dissemination and sharing efforts; UN agencies are using *DevInfo* (sponsored by UNICEF) to monitor MDGs for Somalia. Table 1.8 presents current challenges and opportunities for data development.

Table 1.8. Data Development in Somalia: Current Status, Challenges, and Opportunities

	Current status	Challenges	Opportunities
Data collection and analysis	Local capacity is limited to supporting statistical data collection and analysis Lack of reliable and disaggregated baseline data Lack of managerial and technical human resources Lack of in-house training facilities	Prevailing conflict conditions discourages data collection efforts	Growing regional awareness on the need for reliable data for policy making and planning purposes
Monitoring, coordination, and dissemination	Lack of statistical standards and quality control No systems to validate statistical results Limited coordination and data dissemination No dialogue between data users and producers	Absence of monitoring and coordination mechanisms	Somalia Watching Brief Program supported by UNDP and World Bank
Statistical institutions,	Weak state statistical institutions	Absence or weak presence of major multilateral institutions	A number of regional and global initiatives

legislation, and staffing	No national and district statistical institutions No statistical law Low level of skills, wages, and productivity of current staff	in Somalia	that are available to support statistical capacity building
Access to information technologies	Outdated technology and low level of ICT integration	Inadequate financial resources to upgrade IT	UN Theme Group on statistics
Statistical development	Limited resources for statistical development Lack of a strategic plan	Inadequate access to global statistical networks	Somalia Watching Brief Program supported by UNDP and the World Bank

Source: Selected results of a SWOT analysis undertaken by a group of professionals engaged in statistical capacity building, data collection, and analysis.

Overall Strategy for Data Development

180. **The reestablishment of the Somali Statistical System will require new institutional structures.** There is a need to design and implement national strategy for data development in Somalia that would include a strong partnership of data producers and users. This would be the principal instrument for achieving the objectives of the framework, building on the past and existing statistical framework as well as on current initiatives.

181. **Statistical act.** Somalia did not have a clear and up-to-date statistical act even before the civil war. The Central Statistical Department was using the act that was put in place in the mid-1950s. This was revised several times to include some specific legal requirements. That includes the Census Act of 1974/05, which was required for the implementation of the 1975 Census of Population and Livestock and the 1986 Census Act. Data legislation in Somalia will have to be enacted to ensure that it is up-to-date. This legislation should support and facilitate statistical operations by establishing proper structures.

182. **The data development priorities in Somalia are the launching of the population census and the further data collection exercise on social sector and macroeconomics data.** The major statistical need dominating all others is the population census; it is essential for socio- and macroeconomic policy analysis and leads almost all further data collection activities, such as household surveys. Given the importance of human capital and its erosion, there is a need for data on population and social indicators by gender to design effective investments in people.

183. **Data on the social sector.** The statistical system in Somalia should aim to achieve an overall improvement in the quality and timeliness of statistical information on social sectors. Improved access to, and use of, qualitative and quantitative information are critical for planning, monitoring, and evaluation purposes. To achieve a social statistical system providing reliable and comparable gender-disaggregated data for all regions, with particular respect to the MDGs, statistical information strategy needs to address further data generation and institution capacity.

184. **Data for macroeconomic policy decisions.** To carry out macroeconomic policy, it is crucial to have data on consumer prices, exchange rate, national income accounts, and trade. It is also critical to have data on inflows into the country through remittance companies, foreign NGOs, and foreign donors. At present, in *Somaliland* and *Puntland* the only data available are

data for the exchange rate, limited data on market prices, and data on the volume of imports and exports by product categories. The value of imports and exports by major product categories is not calculated; however this information will be important in making projections of government revenue. It will probably take a number of years to create the production data that would be the main component of the national income accounts. If a tax is levied on all remittance inflows, information on the total value of remittance inflows on a monthly basis would be provided. It should also be possible to establish mechanisms to track donor and NGO inflows on a monthly or quarterly basis.

185. **To increase the quality of data obtained,** data collection efforts in Somalia need to be coordinated in the context of an integrated national statistical system. The data collection supervision need to be carried out by a central statistical agency with the regional statistical agencies vested with collection duties (*Medium-Term Plan for Statistical Data Collection and Capacity Building for Somalia, UNDP Report 2004*).

186. **National/local needs and priorities.** As a result of the federal governance structure, there is a high demand for geographically disaggregated statistics, as well as statistics by gender, social, and vulnerable segments. Because reliable data are scarce for most sectors, it is necessary to prioritize and sequence the data collection consistent with reconstruction and development needs and priorities, monitoring requirements, and resource constraints.

187. **Coordination between data producers and users.** The current capacity for data collection among various development partners needs to be progressively transferred to the Somali statistical institutions. Constructive dialogue between data users and producers could play a major role in identifying the scope, coverage, and priorities.

188. **Administrative reporting systems in Somaliland and Puntland.** Administrative reporting systems exist, though with weak capacity, within many of the public agencies of *Somaliland* and *Puntland*. However, these systems need to be strengthened and streamlined by providing adequate training and supervision, incorporating comparable reporting formats and timely dissemination.

189. **Statistical capacity building.** Shortage of skilled human resources is one of the major constraints in developing functional statistical systems in Somalia. There is a need for on-the-job training for the current staff. In addition, internship programs for college graduates with statistical training could be provided to meet the growing demand for enumerators, data processors, and analysts in the public and private sector. As a medium-term strategy, universities could be supported to introduce certificate, diploma, and degree programs in statistics by in-house and distance learning. Further, medium-term partnerships with other countries that have introduced best practices in data development could be encouraged.

190. **MDG/poverty monitoring.** MDG and poverty monitoring necessitates reliable and disaggregated baseline data and their periodic updating. Somalia will have to set up appropriate and adequate systems at various levels of government to monitor the progress toward MDGs and poverty reduction.

Proposed Initiatives

191. **Somalia could benefit from international initiatives for statistical capacity building** by (a) adherence to key internationally agreed standards, methods, and good practice as promoted by the UN Statistical Commission; (b) partnership in Statistics for Development in 21st Century (PARIS21); (c) partnership in International Comparison Program for Africa (ICP-Africa) and other initiatives of the Economic Commission for Africa and African

Development Bank; and (d) subscription to IMF's General Data Dissemination Standards (GDDS) and other similar initiatives.

192. **Proposed organizational structure of the National Statistical Office.** A three-tier statistical institution is proposed to undertake statistical data collection and analysis. The National Statistical Office (NSO) will be the apex technical and coordinating institution. At the state level, state statistical departments (SSDs) will be the responsible bodies for coordinating and managing the data collection. The fieldwork will be carried out by statistical offices to be established at the local/district level under the technical and administrative directive of the state statistical departments. The NSO is envisaged to provide advice and policy guidance to the statistical offices.

193. The NSO will be composed of four departments with a number of sections. The NSO will be headed by a director general to be assisted by four directors of the departments and other technical staff. The four departments are the following: National Accounts and Economic Statistics; Census and Social Statistics; Data Processing; Web Site; Publication; and Administration and Finance.

194. The departments and their sections will be led by professionals to be assisted by trained and skilled staff. The NSO is proposed to have 59 professionals/skilled staff as shown below:

- Director general 1
- Directors 4
- Heads of sections 18
- Professionals 36
- Support staff 46

195. **State statistical departments (SSDs).** Statistical departments similar to those of *Somaliland* and *Puntland* will be established in all states. These state departments will plan and guide the collection of data under the administration of the NSO. The SSDs will establish local/district statistical offices and will delegate to them the field survey and collection of the data. Each SSD will initially employ a staff of 10 skilled workers, which will expand to 20 during the five-year period. Each SSD will be headed by a director, who will be assisted by 2 heads of sections (namely, coordination/supervision and data processing/training) and 7 middle-level technicians.

196. **Statistical units in the federal and state line ministries.** Statistical units composed of NSO or SSDs staff will be established in the federal and state line ministries with the responsibility of administering data collection related to their sector activities. A minimum of 11 statistical units will be established for the federal line ministries²⁷ and a lower number for the states' line ministries. Each will hire two to three trained staff for the first year; the staff will grow marginally until the fifth year. The units of the line ministries will be under the planning departments of the concerned ministries.

197. **Local/district statistical offices (DSOs)** will be established in all large districts or groups of small districts. These offices will collect mainly data delegated to them by the SSDs under their supervision. The district statistical offices will be staffed by three to four middle-level technicians.

²⁷ These ministries include finance, energy and water, livestock, fisheries, crop production, labor, crime and migration, transport and telecommunication, and the central bank.

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Macroeconomic Policy Framework
Results Matrix—Federal Govern[...]

RESULTS-BASED MATRIX

Macroeconomic Policy Framework Results Matrix—<i>Federal Government</i>			
Target outcomes	Baseline	Constraints to	Key actions and intermediate outcomes (all costs are in US\$ millions)

			Year I	Year II	Year III - V
<p>1. Ministry of Finance. Establish effective MoF functions covering budgeting, treasury functions, and macroeconomic and tax policy.</p> <p>Costing \$11.1</p>	No Ministry of Finance staff or facilities	Need to hire and train staff in basic functions of the Ministry of Finance	<p>Establish core Ministry of Finance (MoF).</p> <p>Hire staff for basic functions of MoF.</p> <p>Provide training to staff.</p> <p>Prepare budget for Year I.</p> <p>Prepare budget for Year II.</p> <p>Put in place procedures for collecting revenue and making government payments.</p> <p>Costing Physical infrastructure: \$0.4 Technology: \$0.4 Vehicles: \$0.2 Staff: \$0.7 Technical assistance: \$0.7</p>	<p>Monitor implementation of Year II budget.</p> <p>Prepare budget for Year III.</p> <p>Costing Physical infrastructure: \$0.2 Technology: \$0.2 Vehicles: \$0.2 Staff: \$0.9 Technical assistance: \$0.4</p>	<p>Separate macroeconomic policy department from budget department.</p> <p>Hire additional staff.</p> <p>Costing Physical infrastructure: \$1.0 Technology: \$0.9 Vehicles: \$0.3 Staff: \$3.7 Technical assistance: \$0.9</p>
Revenue collection. Put in place broad-based, all-inclusive and participatory system of revenue to progressively finance an expanding share of public expenditure.	Old tax laws and agreements	No legal system to support revenue collection	Enact tax laws covering agreed revenue areas (e.g. customs, fishing rights).	Enact laws on additional tax areas, such as sales tax on selected goods and services.	<p>Raise customs duty rates.</p> <p>Expand sales taxes.</p> <p>Enact laws on personal and corporate income taxes.</p>

Macroeconomic Policy Framework Results Matrix— <i>Federal Government</i>					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
Fiscal deficit. Ensure that federal government expenditure is kept in line with revenue, so domestic deficit financing is limited.	No federal government budget in place	No willingness of the general public to hold government securities Low revenue base now mainly in the hands of state administrations	No resort to deficit financing	No resort to deficit financing	Modest levels of budget deficit (no more than 10 percent of revenue collection) Consider issuing government securities to private sector.
<p>2. Tax administration. Capacity to administer customs duties, domestic sales tax, and personal and corporate income taxes</p> <p>Costing \$11.6</p>	No federal government tax administration	No law governing federal tax administration No agreement with <i>Puntland</i> or <i>Somaliland</i> as to their role in the collection of federal government revenue	<p>Enact law governing tax administration.</p> <p>Establish revenue administrative agency.</p> <p>Recruit staff and provide necessary training.</p> <p>Start collecting import duties at stage of export from Kenya and Dubai and at additional ports and airports.</p> <p>Costing Physical infrastructure: \$0.7 Technology: \$0.4 Vehicles: \$0.2 Staff: \$0.8 Technical assistance including training: \$0.7</p>	Start collecting taxes on items covered by tax laws passed in Year I.	<p>Develop administration capacity and regulations for collecting income tax on wage earners and corporations.</p> <p>Costing Physical infrastructure: \$1.0 Technology: \$0.7 Vehicles: \$0.3 Staff: \$3.9 Technical assistance: \$0.9</p>
3. Employment strategy	No strategies available		Develop employment	Implement employment	Implement employment

Macroeconomic Policy Framework Results Matrix—Federal Government					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
and policy.			<p>creation strategies through a consultative process.</p> <p>Hire staff in public offices taking into consideration women and minorities representation.</p> <p>Special employment programs and credit facilities for women established</p> <p>Special employment programs targeting youth developed</p> <p>Emergency rehabilitation and microprojects funds for returnee localities developed</p>	<p>creation strategies.</p> <p>Support participatory process in public services that includes women and other underrepresented groups.</p> <p>Special programs for women and youth continued</p> <p>Emergency rehabilitation and microprojects funds for returnee localities continued</p>	<p>creation strategies.</p> <p>Special programs for women and youth continued</p> <p>Emergency rehabilitation and microprojects funds for returnee localities continued</p>
Costing \$11.0			Costing \$2.0	Costing \$2.0	Costing \$7.0
Total costing \$33.7			Total costing \$7.2	Total costing \$5.9	Total costing \$20.6

Macroeconomic Policy Framework Results Matrix—Somaliland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
<p>1. Government expenditure. Ensure that regional and local government expenditure is kept in line with revenue so that domestic deficit financing is limited.</p> <p>Costing \$5.6</p>	<p>Modest deficits</p> <p>Regional and local governments on cash budgets</p>	<p>No willingness of the general public to hold government securities</p> <p>Low revenue base</p>	<p>No resort to deficit financing</p> <p>Costing \$1.2</p>	<p>No resort to deficit financing</p> <p>Costing \$1.0</p>	<p>Modest levels of budget deficit (no more than 10 percent of revenue collection)</p> <p>Costing \$3.4</p>
<p>2. Tax administration. Capacity to administer customs duties, domestic sales tax, and personal and corporate income taxes</p> <p>Costing \$5.8</p>	<p>90 percent of tax collected comes from customs duties and indirect taxes; “government service charges” make up the rest.</p>	<p>No law governing tax administration</p>	<p>Enact law governing tax administration.</p> <p>Establish revenue administrative agency.</p> <p>Recruit staff, and provide necessary training.</p> <p>Costing \$1.4</p>	<p>Start collecting taxes on items covered by tax laws passed in Year I.</p> <p>Costing \$1.0</p>	<p>Develop administration capacity and regulations for collecting income tax on wage earners and corporations.</p> <p>Costing \$3.4</p>
<p>3. Employment strategy and policy.</p>	<p>Interim strategy available from Ministry of Labor.</p>		<p>Develop employment creation strategies through a consultative process.</p> <p>Hire staff in public offices taking into consideration women</p>	<p>Implement employment creation strategies.</p> <p>Support participatory process in public services that includes women and other underrepresented groups.</p>	<p>Implement employment creation strategies.</p> <p>Special programs for women and youth continued</p> <p>Emergency rehabilitation and microprojects funds for</p>

Macroeconomic Policy Framework Results Matrix—Somaliland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
			and minorities representation. Special employment programs and credit facilities for women established Special employment programs targeting youth developed Emergency rehabilitation and microprojects funds for returnee localities developed	Special programs for women and youth continued Emergency rehabilitation and microprojects funds for returnee localities continued	returnee localities continued
Costing \$6.0			Costing \$1.0	Costing \$1.0	Costing \$4.0
Total costing \$17.4			Total costing \$3.6	Total costing \$3.0	Total costing \$10.8

Macroeconomic Policy Framework Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
1. Government expenditure.	Significant deficit financing funded by direct	No willingness of the general public to hold	No resort to deficit financing	No resort to deficit financing	Modest levels of budget deficit (no more than 10 percent of

Macroeconomic Policy Framework Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
Ensure that federal, state, regional, and local government expenditure is kept in line with revenue, so that domestic deficit financing is limited. Costing \$5.6	borrowing from businesspeople	government securities Low revenue base	 Costing \$1.2	 Costing \$1.0	revenue collection) Consider issuing government securities to private sector. Costing \$3.4
2. Tax administration. Capacity to administer customs duties, domestic sales tax, and personal and corporate income taxes Costing \$5.8	90 percent of tax collected comes from customs duties and indirect taxes; “government service charges” make up the rest.	No law governing federal tax administration No agreement with <i>Puntland</i> or <i>Somaliland</i> as to their roles in the collection of federal government revenue	Enact law governing tax administration. Establish revenue administrative agency. Recruit staff, and provide necessary training. Costing \$1.4	Start collecting taxes on the items covered by tax laws passed in Year I. Costing \$1.0	Develop administration capacity and regulations for collecting income tax on wage earners and corporations. Costing \$3.4
3 Employment strategy and policy.	No strategies available		Develop employment creation strategies through a consultative process. Hire staff in public offices taking into consideration women and minorities representation. Special employment	Implement employment creation strategies. Support participatory process in public services that includes women and other underrepresented groups.	Implement employment creation strategies. Special programs for women and youth continued Emergency rehabilitation and microprojects funds for returnee localities continued

Macroeconomic Policy Framework Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
			<p>programs and credit facilities for women established</p> <p>Special employment programs targeting youth developed</p> <p>Emergency rehabilitation and microprojects funds for returnee localities developed</p>	<p>Special programs for women and youth continued</p> <p>Emergency rehabilitation and microprojects funds for returnee localities continued</p>	
Costing \$6.0			Costing \$1.0	Costing \$1.0	Costing \$4.0
Total costing \$17.4			Total costing \$3.6	Total costing \$3.0	Total costing \$10.8

Public Financial Management Results Matrix—Federal Government					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
<p>1. PFM System and institutions. Establishment of sound and transparent public financial management systems</p>	No systems		Contract a financial management agent (FMA) to assist in the establishment and operation of suitable computerized financial systems for the first 2	Acquire software license, computers, printers, power backups, and computer accessories for phase 2 implementation in the accounting locations in the regions.	Operate computerized systems and generate periodic and annual financial reports for informed decision making.

Public Financial Management Results Matrix—Federal Government					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
<p>Establishment of simple, user-friendly comprehensive financial management policies and procedures based on computerized systems</p> <p>Costing \$3.65 (2 years of FMA support)</p>			<p>years.</p> <p>Acquire computers, printers, power backups, and computer accessories for phase 1 implementation at the Center/Accountant General's Office.</p> <p>Contract FMA to define requirements and design computerized systems, identify suitable software package, procure the software, and implement and operate the systems.</p> <p>Contract FMA to prepare simple user-friendly financial management policies and procedures based on the computerized systems and incorporating accounting controls, forms, and accounting structure.</p> <p>Costing FMA FMS and support: \$1.56</p>	<p>Implement computerized accounting systems in the accounting locations in the regions.</p> <p>Implement financial management policies and procedures.</p> <p>Costing FMA FMS and support: \$1.39</p>	<p>Costing Software maintenance: \$0.01</p>

Public Financial Management Results Matrix—Federal Government					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
including software and establishment of accounting systems)			Computer and software: \$0.34 Vehicles: \$0.15	Computer and software: \$0.2	
<p>2. Capacity building. Accountants equipped with basic computer skills on Microsoft Excel and Word</p> <p>Accountants equipped with relevant skills to operate the computerized accounting systems</p> <p>Costing Training: \$0.08</p>	Accounts staff not yet in place. To be appointed.		<p>Contract a Microsoft certified trainer to provide Microsoft Excel and Word training to accountants.</p> <p>Provide Microsoft Excel and Word training to accountants.</p> <p>Provide training on the appropriate financial management systems to accountants at the Center/Accountant General's Office.</p> <p>Costing Training in FMS & MS Office: \$0.08</p>	Self-training on Microsoft Excel and Word	<p>Self-training on Microsoft Excel and Word</p> <p>Monitor and provide on-the-job training.</p>
<p>3. Budget preparation process. Participatory, transparent, comprehensive, and gender-sensitive budget preparation process with a multiyear perspective and proper classification.</p>	Lack of adequate budget preparation experience		<p>Introduce and effectively operate a participatory, transparent, and comprehensive budget preparation process and effectively implement budgetary control.</p> <p>Support recurrent and development budget</p>	Operate appropriate budget preparation process, and provide guidance as appropriate.	Operate appropriate budget preparation process, and provide guidance as appropriate.

Public Financial Management Results Matrix—Federal Government					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
			allocation to ministries responsible for gender and human rights issues.		
4. Monitoring and reporting. Appropriate budget reporting showing actual versus budgeted, and variance by defined programs/activities, heads, and subheads Costing Budget monitoring: \$0.28	No formal financial progress reporting		Develop appropriate accounting structure and progress reports showing actual versus budgeted, and variance by defined program/activities, heads, and subheads. Costing \$0.13	Operate financial management systems, and generate appropriate progress reports. Costing \$0.06	Operate financial management systems, and generate appropriate progress reports. Costing \$0.09
Total costing \$4.01			Total costing \$2.26	Total costing \$1.65	Total costing \$0.1

Public Financial Management Results Matrix—Somaliland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
1. PFM System and institutions. Establish sound and transparent public financial management	Manual accounting and reporting systems that are duplicative, inefficient, and subject to high data input and	Financial regulations of 1961 (and amendments) inadequate under enhanced and computerized	Contract a financial management agent (FMA) to assist in the establishment and operation of improved	Acquire software license, computers, printers, power backups, and computer accessories for phase 2 implementation	Operate computerized systems, and generate periodic and annual financial reports for informed decision making.

Public Financial Management Results Matrix—Somaliland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
<p>systems.</p> <p>Establish simple, user-friendly comprehensive financial management policies and procedures based on the computerized systems.</p>	processing error risk	environment	<p>and suitable computerized financial systems for the first 2 years.</p> <p>Acquire computers, printers, power backups, and computer accessories for phase 1-implementation at the Accountant General's Office.</p> <p>Contract an FMA to define requirements and design computerized systems, identify suitable software package, procure the software, implement the systems, and operate the systems in the Accountant General's Office.</p> <p>Contract an FMA to prepare simple, user-friendly financial management policies and procedures based on the computerized systems and incorporating accounting controls, forms, and accounting</p>	<p>in the regional accounting locations.</p> <p>Implement computerized accounting systems in the regional accounting locations.</p> <p>Implement financial management policies and procedures.</p>	

Public Financial Management Results Matrix—Somaliland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
<p>Costing \$2.92 (2 years FMA support including software and establishment of accounting systems)</p>			<p>structure.</p> <p>Costing FMA FMS and support: \$1.23 Computer and software: \$0.32 Vehicles: \$0.12</p>	<p>Costing FMA FMS and support: \$1.06 Computer and software: \$0.18</p>	<p>Costing Software maintenance: \$0.01</p>
<p>2. Capacity building. Accountants equipped with basic computer skills on Microsoft Excel and Word</p> <p>Accountants equipped with relevant skills to operate the computerized accounting systems</p> <p>Costing Training in FMS and MS Office: \$0.06</p>	<p>Inadequate skills to operate basic computer systems</p> <p>Inadequate accounting skills among staff</p>		<p>Contract a Microsoft certified trainer to provide Microsoft Office training to accountants.</p> <p>Provide Microsoft Excel and Word training to accountants.</p> <p>Provide training on the improved financial management</p> <p>Costing Training in FMS and MS Office: \$0.06</p>	<p>Self-training on Microsoft Excel and Word</p>	<p>Self-training on Microsoft Excel and Word</p> <p>Monitor and provide on-the-job training</p>
<p>3. Budget preparation process. Participatory, transparent, comprehensive, and gender-sensitive budget preparation process with a multiyear perspective and proper classification.</p>	<p>Inappropriate, nonparticipatory, and gender-neutral budget preparation process with limited perspective and classification.</p>		<p>Introduce and effectively operate a participatory, transparent, and comprehensive budget preparation process, and effectively implement budgetary</p>	<p>Operate improved budget preparation process, and provide guidance as appropriate.</p>	<p>Operate improved budget preparation process, and provide guidance as appropriate.</p>

Public Financial Management Results Matrix—Somaliland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
			control. Support recurrent and development budget allocation to ministries responsible for gender and human rights issues.		
4. Monitoring and reporting. Improved budget reporting showing actual versus budgeted, and variance by defined programs/activities, heads, and subheads Costing Budget monitoring: \$0.25	Financial reports classified by heads and subheads, which is inadequate for output monitoring		Develop appropriate accounting structure and progress reports showing actual versus budgeted, and variance by defined program/activities, heads, and subheads. Costing \$0.11	Operate financial management systems, and generate appropriate progress reports. Costing \$0.05	Operate financial management systems, and generate appropriate progress reports. Costing \$0.09
Total costing \$3.23			Total costing \$1.84	Total costing \$1.29	Total costing \$0.1

Public Financial Management Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V

Public Financial Management Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
<p>1. PFM System and institutions. Sound, transparent public financial management systems established</p> <p>Establishment of simple, user-friendly, comprehensive financial management policies and procedures based on the computerized systems</p>	<p>Manual accounting and reporting systems that are duplicative, inefficient, and subject to high data input and processing error risk</p>	<p>Financial regulations of 1961 (and amendments) inadequate under enhanced and computerized environment</p>	<p>Contract an FMA to assist in the establishment and operation of improved and suitable computerized financial systems for the first 2 years.</p> <p>Acquire computers, printers, power backups, and computer accessories for phase I-implementation at the Accountant General's Office.</p> <p>Contract FMA to define requirements and design computerized systems, identify suitable software package, procure the software, implement the systems, and operate the systems in the Accountant General's Office.</p> <p>Contract an FMA to prepare simple, user-friendly financial management policies and procedures based on the computerized</p>	<p>Acquire software license, computers, printers, power backups, and computer accessories for phase 2 implementation in the regional accounting locations.</p> <p>Implement computerized accounting systems in regional accounting locations.</p> <p>Implement financial management policies and procedures.</p>	<p>Operate computerized systems, and generate periodic and annual financial reports for informed decision making.</p>

Public Financial Management Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
<p>Costing 2 years of FMA support including software and establishment of accounting systems: \$2.88</p>			<p>systems and incorporating accounting controls, forms, and accounting structure.</p> <p>Costing FMA FMS and support: \$1.23 Computer and software: \$0.30 Vehicles: \$0.12</p>	<p>Costing FMA FMS and support: \$1.06 Computer and software: \$0.16</p>	<p>Costing Software maintenance: \$0.01</p>
<p>2. Capacity building. Accountants equipped with basic computer skills on Microsoft Excel and Word</p> <p>Accountants equipped with relevant skills to operate the computerized accounting systems</p> <p>Costing Training in FMS and Excel: \$0.06</p>	<p>Inadequate skills to operate basic computer systems</p> <p>Inadequate accounting skills among staff</p>		<p>Contract a Microsoft certified trainer to provide Microsoft Excel and Word training to accountants.</p> <p>Provide Microsoft Excel and Word training to accountants.</p> <p>Provide training on the improved financial management systems.</p> <p>Costing Training in FMS and MS Office: \$0.06</p>	<p>Self-training on Microsoft Excel and Word</p>	<p>Self training on Microsoft Excel and Word</p> <p>Monitor and provide on-the-job training.</p>
<p>3. Budget preparation process. Participatory, transparent, comprehensive, and</p>	<p>Inappropriate, nonparticipatory, and gender-neutral budget preparation process</p>		<p>Introduce and effectively operate a participatory, transparent, and</p>	<p>Operate improved budget preparation process, and provide guidance as appropriate.</p>	<p>Operate improved budget preparation process, and provide guidance as appropriate.</p>

Public Financial Management Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
gender-sensitive budget preparation process with a multiyear perspective and proper classification (See MoF section for costing in budget preparation.)	with limited perspective and classification		comprehensive budget preparation process and effectively implement budgetary control. Support recurrent and development budget allocation to ministries responsible for gender and human rights issues.		
4. Monitoring and reporting. Improved budget reporting showing actual versus budgeted, and variance by defined programs/activities, heads, and subheads Costing Budget monitoring: \$0.25	Financial reports classified by heads and subheads, which is inadequate for output monitoring		Develop appropriate accounting structure and progress reports showing actual versus budgeted, and variance by defined program/activities, heads and subheads. Costing \$0.11	Operate financial management systems, and generate appropriate progress reports. Costing \$0.05	Operate financial management systems, and generate appropriate progress reports. Costing \$0.09
Total costing \$3.19			Total costing \$1.82	Total costing \$1.27	Total costing \$0.1

Civil Service Results Matrix–Federal Government					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
1. Professionalization. Staff professionalized, with new staff meeting at least minimal qualifications for job. Costing \$0.03	Human capacity low Skill base low			Competitive selection process developed and carried out Costing \$0.011	Process completed Costing \$0.019
2. Rightsizing. Federal and local government rightsized Costing \$0.05	TFG now consists of 275 members of parliament			Surplus staff eliminated in selected districts with help of CSC; pay scales reviewed Costing \$0.0175	Rightsizing process extended to other districts Costing \$0.0325
3. Civil Service Commission (CSC). CSC established and institutionally strengthened Costing \$0.25	CSC nonexistent but a six-person civil service task force established in January 2006	Although the quality of the staff in the civil service is low, there is no plan for developing the skills of the staff.		Personnel management training and survey of civil servants carried out Costing \$0.0875	Survey finalized, and human resources development strategy prepared Costing \$0.1625
4. CSI premises. Premises built Costing \$0.5	No premises				Construction of new premises initiated Costing \$0.5
5. Capacity building.	CSI entirely dependent		Capacity enhancement	Training of trainers under	Process continued, leading to

Civil Service Results Matrix–Federal Government					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
Capacity built at CSI, and role of women and minorities enhanced Costing \$0.32	on donor and government funds; no fees for service Most women in low-skill jobs		for 35 women and 20 minority members with potential to be directors Costing \$0.03	way Capacity enhancement process for women continues; awareness campaign launched Costing 0.075	greater sustainability Costing \$0.215
6. Pensions and pay reform. Pensions and pay reform carried out Costing \$0.18	No pension fund in 45 years			Pension law reviewed Technical assistance on establishing viable fund and pensions administration contracted; plan prepared Pay reform report prepared Costing \$0.07	Pension fund and administrative arrangements approved by cabinet and parliament Preferred pay policy approved by cabinet Costing \$0.11
Total costing \$1.33			Total costing \$0.03	Total costing \$0.26	Total costing \$1.04

Civil Service Results Matrix—Somaliland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
<p>1. Professionalization. Staff to have at least minimal qualifications for jobs</p> <p>Outcome will be better-qualified female and male staff able to deliver better services.</p> <p>Costing \$0.03</p>	<p>Many staff are not qualified for their jobs.</p> <p>Most have not even completed secondary education.</p> <p>Situation has most serious impact at senior levels.</p>			<p>Staff will be interviewed by a panel, and those approved will be placed in jobs.</p> <p>Costing \$0.011</p>	<p>Process will be completed.</p> <p>Costing \$0.019</p>
<p>2. Local government rightsizing. Budgetarily viable and effective district councils</p> <p>Costing \$0.05</p>	<p>Many districts have more staff than they need to provide the few services they are responsible for, particularly so in big municipalities.</p>	<p>Possible tension when staff are reduced/ replaced.</p>		<p>CSC will assist A and B districts to eliminate surplus staff and review pay scales.</p> <p>Costing \$0.0175</p>	<p>Process will be extended to other districts.</p> <p>Costing \$0.0325</p>
<p>3. CSC institution building and human resource planning and development.</p> <p>CSC staff better able to manage the civil service</p> <p>Preparation of a human resource development plan to result in better-qualified staff delivering better services</p>	<p>Most CS staff have not been trained in personnel management; all experience has been on-the-job.</p>	<p>Although the quality of staff in the civil service is low, there is no plan for developing the skills of the staff.</p>		<p>Training for two staff in personnel management; training for rest of staff at CSI</p> <p>Carry out survey of civil servants.</p>	<p>Finalize survey, and prepare human resource development strategy.</p>

Civil Service Results Matrix—Somaliland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
Costing \$0.25				Costing \$0.0875	Costing \$0.1625
4. CSI premises. New premises built in CSC site in center of Hargeisa. A more attractive and effective training center will lead to more, better-trained staff. Costing \$0.5	CSI is renting premises from a university some distance from its main clientele in central government.				Construction begins Costing \$0.5
5. CSI capacity building; enhancing the role of women and enlarging participation of minority groups and people with disabilities. Build the capacity of CSI staff, widen range of courses, and become more financially sustainable. Outcome: better qualified staff in private and public sectors Empower female civil servants to apply successfully for DG and directors' positions. Outcome: more women, people with disabilities, and minority groups in senior positions	CSI dependent entirely on donor and government funds No fees for services. Very few senior staff are women. Most women in are low-skill jobs. Women are about one-quarter of the staff in the civil service. Minority groups are almost absent in civil service positions.		Study tour to Ethiopia's Civil Service College and Management Development Center Capacity enhancement for 35 women and 20 minority members with potential to be directors	Training of trainers Widening range of courses, including longer-term courses leading to certification Continue process as well as conduct awareness campaign.	Continue process, leading to greater sustainability

Civil Service Results Matrix—Somaliland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
Costing \$0.32			Costing \$0.03	Costing \$0.08	Costing \$0.21
<p>6. Pensions and pay reform. Establish a viable pensions fund. Outcome: retirees paid pensions; retirements clear way for promotions from below</p> <p>Introduce sustainable pay scales that will be attractive to top professionals yet also provide a living wage for lower-level staff.</p> <p>Make sure that the wage bill does not absorb too much of the recurrent budget. Outcome: professional staff can be hired, motivated, and retained.</p> <p>Costing \$0.18</p>	<p>No one benefited from pension fund for 45 years.</p> <p>New law has been drafted.</p> <p>A “stop-gap” increase in salaries has been proposed, but not yet implemented.</p> <p>A more permanent solution to the incentive problem has also been proposed.</p> <p>Difficult to hire and retain professional staff</p>		<p>Implement the “stop-gap” pay increase.</p> <p>Review pensions law. Consultancy on establishing a viable fund and setting up the pensions administration.</p> <p>Costing \$0.02</p>	<p>Prepare pay reform report that will develop policy scenarios on pay levels and differentials and staffing levels.</p> <p>Include resources to address child care and maternity leave.</p> <p>Costing \$0.05</p>	<p>Fund and administrative arrangements approved by cabinet and parliament.</p> <p>Cabinet to approve preferred pay policy.</p> <p>Develop and adopt gender-responsive pay policy.</p> <p>Costing \$0.11</p>
<p>7. Redirection program for retrenched staff. Introduce program to retrain</p>	Some staff will lose their jobs as a result of restructuring and pay		Program has been prepared.	Implement retraining program.	Continue implementation.

Civil Service Results Matrix—Somaliland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
retrenched staff. Outcome: retrenched staff will have skills needed to regain employment. Costing: \$0.3	reform.		Costing \$0.03	Costing \$0.075	Costing \$0.195
Total costing \$1.63			Total costing \$0.08	Total costing \$0.32	Total costing \$1.23

Civil Service Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
I. Professionalization. New entrants to civil service to meet minimal qualifications for job Staff in key positions to possess basic competencies for position held Staff to be given appropriate job-related training before being promoted	As a result of the disruption to education caused by the period of civil disorder and its aftermath, significant numbers of civil servants did not complete secondary education nor, in some cases, primary education. In addition, almost none of the		Accelerated training needs assessment of state-level civil service conducted Partner training institutions identified and capacity built Training started in 1–2 priority areas	Succession planning exercise conducted Training plan adopted by PSG Job-related training in priority areas continues Performance appraisal and merit increments introduced	Job-related training in priority areas continues Regular impact studies of job-related training conducted In partnership with external training institutions, certificate, diploma and/or degree courses in public

Civil Service Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
<p>Future managers to be identified and will complete core training in public administration</p> <p>Greater representation of women and minorities</p> <p>A more efficient and better-motivated civil service</p> <p>Costing \$0.42</p>	<p>staff, including senior managers at department director and director general positions, have received any professional training specific to their jobs.</p> <p>Reportedly, high levels of absenteeism are symptomatic of widespread demotivation within the service.</p> <p>Currently women and minority groups are limited to low wage and skill levels.</p>		<p>Job descriptions for core posts developed and adopted</p> <p>Standardized recruitment procedures to be implemented</p> <p>Survey of existing civil servant qualifications conducted, to include recommendations on retraining, retrenchment, redeployment</p> <p>3-year civil service training plan drafted</p> <p>Job-related training in priority areas continues</p> <p>Induction course for new entrants to civil service developed and piloted</p> <p>Costing \$0.04</p>	<p>Costing \$0.1</p>	<p>administration and other key areas developed</p> <p>Promotion system dependent on competencies implemented</p> <p>Costing \$0.28</p>
2. Local government rightsizing.	Some municipalities have more staff than	Possible tension when staff are reduced/	On the basis of findings of the review of roles and		

Civil Service Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
Budgetarily viable and effective district and municipal councils Costing \$0.03	needed for the services they are responsible for.	replaced.	functions of levels of federal government, staffing levels reviewed by councils Costing \$0.03		
3. CSC institution building. Creation of a CSC independent from state government, linked to federal CSC CSC staff possessing basic competencies to carry out mandate Costing \$0.07	No CSC exists. Civil service issues are the responsibility of MOLYS, which lacks the capacity to coordinate and to ensure adherence to existing regulations.		CSC office at PSG established, with clear reporting lines to FCSC Training for two staff in personnel management; appropriate job-related training for rest of staff in region Costing \$0.07		
4. Human resource planning and development; and enhancing the role of women and enlarging minority participation. Human resource development plan introduced A more efficient civil service Empower female civil servants to apply successfully for DG and	No plan yet developed, although the 5-Year Development Plan currently in process may include overview Very few women hold senior positions of responsibility. No data are available on numbers or		On the basis of findings of the review of roles and functions of levels of federal government, proposal on structure and staff establishment drafted Training for two staff in human resource planning Minimum quotas for	Structure and staff establishment adopted by PSG Human resources development strategy developed and adopted by PSG Selected women fast-tracked into supervisory and management positions	Regular M&E of human resources development conducted M&E system on gender issues continues

Civil Service Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
<p>directors' positions.</p> <p>More women in senior positions</p> <p>Costing \$0.26</p>	<p>positions held by female civil servants.</p> <p>Minority groups are almost absent in civil service positions.</p>		<p>women for training courses are agreed to by PSG and are implemented.</p> <p>Gender and civil service strategy developed</p> <p>Conduct public awareness campaign.</p> <p>Gender issues included in policy making, including human resource planning, recruitment, and M&E systems</p> <p>Gender- and human rights-based approaches infused into all civil service training</p> <p>Costing \$0.03</p>	<p>Gender and civil service strategy adopted by PSG</p> <p>M&E system on gender issues implemented</p> <p>Costing \$0.075</p>	<p>Costing \$0.155</p>
<p>5. Pension and pay reform.</p> <p>Viable pension fund established</p> <p>Retirees paid pensions</p>	<p>No pensions are provided to civil servants.</p> <p>The civil service is</p>		<p>In conjunction with federal scheme, establish a viable fund.</p> <p>In conjunction with</p>		

Civil Service Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
<p>Retirements clear way for promotions from below.</p> <p>Introduce budgetarily sustainable pay scales that will be attractive to top professionals yet also provide a living wage for lower-level staff.</p> <p>Make sure that the wage bill does not absorb too much of the recurrent budget.</p> <p>Professional staff can be hired, motivated, and retained.</p> <p>Costing \$0.09</p>	<p>unable to hire and retain sufficient high-caliber managers and other senior staff.</p>		<p>federal level, prepare pay reform report that will develop policy scenarios on pay levels and differentials and on staffing levels.</p> <p>Costing \$0.09</p>		
<p>6. Retraining for retrenched staff.</p> <p>Introduce program to retrain retrenched staff.</p> <p>Retrenched staff will have skills needed to regain employment.</p> <p>Costing \$0.08</p>	<p>Some staff may lose jobs as a result of restructuring and pay reform.</p>			<p>Retraining program designed and implemented</p> <p>Costing \$0.08</p>	
<p>7. Policy-making capacity and interministerial cooperation.</p>	<p>There is a lack of information sharing and</p>		<p>Assessment of policy-making requirements at</p>	<p>Technical support in legislation made available to</p>	

Civil Service Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
Enhance opportunities for cooperation. Costing \$0.54	cooperation between PSG ministries.		state level conducted Questions on cooperation included in Training Needs Assessment (see professionalization) Opportunities for cooperation and information sharing created through enhanced ICTs and facilities Costing \$0.189	PSG Costing \$0.351	
8. Enabling environment for business. Costing \$0.02	A perception exists in the private sector that bureaucratic processes are excessively complicated and lengthy.		Survey of state government procedures relating to private sector conducted Costing \$0.005	Recommendations of survey adopted and implemented Costing \$0.015	
Total costing \$1.51			Total costing \$0.45	Total costing \$0.62	Total costing \$0.44

Decentralization, Intergovernmental Fiscal Relations, and Service Delivery Results Matrix—Federal Government					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
<p>1. Expenditure and revenue assignments. Agree on and operationalize expenditure and revenue assignments across levels of government, and develop policy for targeting of intergovernmental transfers by applying a formula that is tied to poverty reduction goals and the principle of subsidiarity.</p> <p>Costing \$0.8</p>	<p>The charter outlines broad guiding principles to ensure that delivery is done at district level, but is vague and many assignments overlap.</p> <p>Transfer systems exist in <i>Somaliland</i>, but there are constraints to operating these systems.</p> <p>Local government law needed.</p>	<p>Capacity constraints and extremely limited scope for federal and local revenue makes operationalization challenging.</p>	<p>FCC established, with subcommittee for fiscal decentralization fully operational and awareness raising events implemented</p> <p>Initial mapping of state- and district-level capacity needs</p> <p>Initial policy draft on assignments prepared and discussed</p> <p>Costing \$0.08</p>	<p>Expenditure and revenue assignments agreed to and new law passed by parliament</p> <p>Capacity needs at state and district level mapped out, staff identified, and training activities initiated</p> <p>Transfer criteria designed based on assignments, with system and procedures for targeted transfers</p> <p>Tied block grants for service delivery piloted in two more advanced districts</p> <p>Costing \$0.16</p>	<p>Pilot transfers expanded to an increased number of diverse districts</p> <p>Transfers to districts across Somalia progressively rolled out based on districts' preparedness</p> <p>Costing \$0.56</p>
<p>2. Local budget legislature created. Develop and pass local government laws incorporating expenditure responsibilities of district governments and revenue sources that would adequately support the decentralized local service delivery envisioned in the current legal framework.</p> <p>Costing \$0.3</p>	<p>Two local government laws exist in the northern regions of <i>Somaliland</i> and <i>Puntland</i>.</p> <p>No such laws exist in South-Central Somalia.</p>	<p>New laws in South-Central region are dependent on successful adoption of a new federal constitution.</p>	<p>Awareness raised among district councils concerning new changes</p> <p>Costing \$0.03</p>	<p>Awareness raising campaign initiated to inform district councils of rights and responsibilities</p> <p>Costing \$0.06</p>	<p>TFG Constitution in place, and local government laws drafted in line with existing laws in northern states</p> <p>Laws refined as needed</p> <p>Costing \$0.21</p>

Decentralization, Intergovernmental Fiscal Relations, and Service Delivery Results Matrix—Federal Government					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
<p>3. Staffing capacity improved. Ensure that capacity needs at district level are addressed and that recruitment is undertaken where needed, adhering to principles of lean structure and taking into consideration quotas for women.</p> <p>Allow higher salary payments for qualified staff and increased resources for service delivery.</p> <p>Costing \$0.46</p>	<p>Limited or no knowledge of staffing of local governments in large part of the country apart from northern regions of <i>Somaliland</i> and <i>Puntland</i></p>	<p>Unclear recruitment procedures and responsibilities</p> <p>Expectations among former civil servants to return to service across Somalia</p> <p>Risk of transitional systems becoming permanent</p>	<p>Civil Service Commission established, working with districts to conduct functional reviews of existing staff and capacity, define needs, and recommend actions to rectify shortfalls and inefficiencies</p> <p>Staffing needs in new districts assessed and training initiated</p> <p>Costing \$0.05</p>	<p>Job retraining in pilot districts initiated</p> <p>Work with CSC continued in additional districts</p> <p>Staffing in new districts reviewed, and changes recommended</p> <p>Costing \$0.1</p>	<p>Staff downsizing initiated in districts in which staff are prepared for departure</p> <p>Additional retraining in districts rolled out</p> <p>Costing \$0.31</p>
<p>4. Functional capacities at local level strengthened. Strengthen financial planning, budgeting, and accountability functions of district councils and financial management staff.</p> <p>Costing</p>	<p>Larger districts in <i>Somaliland</i> with ad hoc training</p> <p>No significant training provided elsewhere</p>	<p>Ministries in <i>Somaliland</i> and <i>Puntland</i> still exert significant fiscal control over districts.</p> <p>Very limited availability of training institutions</p> <p>Low level of education among targeted participants</p>	<p>National policy and curriculum for certifying district financial managers developed</p> <p>Budget planning and execution capacity at district level established, and staff identified</p> <p>Costing</p>	<p>Training institutions accredited to carry out training; training courses initiated</p> <p>Policies and procedures developed to ensure transparency in use of funds</p> <p>District budgets linked to federal—closed accounts provided for Year I budget</p> <p>Costing</p>	<p>All district financial managers certified by Year V; advanced and refresher courses available at accredited training institutes</p> <p>Transparent transfer mechanism and monitoring capacity developed at federal level</p> <p>Costing</p>

Decentralization, Intergovernmental Fiscal Relations, and Service Delivery Results Matrix—Federal Government					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
\$1.2			\$0.12	\$0.24	\$0.84
<p>5. District revenue increased. Increase district revenue through establishment of an effective and equitable system for setting and collecting revenue.</p> <p>Costing \$1.5</p>	<p><i>Somaliland</i> and <i>Puntland</i> employ a diverse mix of revenue sources and collection approaches with varying degrees of success.</p> <p>No formal means of revenue collection in South-Central Somalia</p>	<p>Limited ability of poor population to pay increased taxes and fees</p> <p>Limited capacity of district staff to collect</p> <p>Conflict over authority to collect revenue, especially in the South-Central region</p>	<p>Stocktaking of all revenue sources employed by districts carried out, and success rates determined</p> <p>Review of tax collection potential, including vertical and horizontal imbalances, undertaken</p> <p>Workshops set up among districts to discuss revenue collection issues and prioritize needs</p> <p>Temporary measures for getting resources to lower levels designed to allow distribution of first tranche</p> <p>Costing \$0.15</p>	<p>FCC decision made on revenue assignments</p> <p>Training modules developed and delivered to address priority collection needs</p> <p>Procurement of materials and equipment needed to strengthen collection ability</p> <p>Revenue authority in place to guide the process</p> <p>Costing \$0.3</p>	<p>Build capacity to utilize new systems, and support evolving revenue collection needs.</p> <p>Costing \$1.05</p>
<p>6. Data availability improved. Increase the availability of data on district finances to strengthen capacity to engage in financial planning more successfully.</p> <p>Costing \$0.3</p>	<p>Relevant ministries collect data but do not produce reports.</p> <p>Data limited to annual budgets and monthly financial reports</p>	<p>Ministries are reluctant and lack capacity to compile reports and make them available.</p>	<p>Somali researchers contracted to work with relevant ministries on report formats and production of reports</p> <p>Costing \$0.03</p>	<p>Reports produced on a periodic basis, and trends discussed with districts and ministries</p> <p>Costing \$0.06</p>	<p>Institutionalize production of reports in relevant ministries, research institutes, or local government association</p> <p>Costing \$0.21</p>

Decentralization, Intergovernmental Fiscal Relations, and Service Delivery Results Matrix—<i>Federal Government</i>					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
Total costing \$4.56			Total costing \$0.46	Total costing \$0.92	Total costing \$3.18

Decentralization, Intergovernmental Fiscal Relations, and Service Delivery Results Matrix—<i>Somaliland</i>					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
<p>1. Functional capacities at local level strengthened. Strengthen financial planning, budgeting, and accountability functions of district councils and financial management staff.</p> <p>Costing \$0.6</p>	Larger districts in <i>Somaliland</i> with ad hoc training	<p>Ministries still exert significant fiscal control over districts.</p> <p>Very limited availability of training institutions; low level of education among targeted participants</p>	Curriculum developed for certifying district financial managers	<p>Training institutions accredited to begin offering and providing training</p> <p>Policies and procedures developed to ensure transparency in use of funds</p> <p>Transparent transfer mechanism and monitoring capacity developed at federal level</p> <p>Costing \$0.12</p>	<p>All district financial managers certified by Year V; advanced and refresher courses available at accredited training institutes</p> <p>Costing \$0.42</p>
<p>2. Targeting of transfers improved. Improve new targeting of intergovernmental transfers by applying a formula that is tied to poverty reduction goals.</p>	Simple transfer formula exists that does not apply poverty or other outcome-oriented targeting criteria.	<p>Simple system in <i>Somaliland</i> is unclear and difficult to administer.</p> <p>Limited access to</p>	<p>New criteria, system, and procedures for targeted transfers designed and agreed to</p> <p>Tied block grants for service</p>	Pilot transfers expanded to an increased number of districts	Transfer system fully implemented and reviewed

Decentralization, Intergovernmental Fiscal Relations, and Service Delivery Results Matrix—Somaliland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
Costing \$0.18		poverty data for targeting	delivery piloted in more advanced districts Costing \$0.02	Costing \$0.04	Costing \$0.12
3. Lean and efficient staffing. Taking into consideration quotas for women, reduce the level of district government staff to allow higher salary payments for qualified staff and increased resources for service delivery.	Most large districts in <i>Somaliland</i> have up to twice as many staff as they need. Policy under way to decentralize service delivery staff	Significant resistance on the part of staff due to a lack of alternative job opportunities	Civil Service Commission finalized current decentralization push and is working with districts to conduct functional reviews and recommend rightsizing based on initial feedback. Costing \$0.02	Job-retraining initiated in pilot districts Work with CSC continued in additional districts Staffing reviewed in new districts; changes recommended Costing \$0.04	Staff downsizing initiated in districts in which staff are prepared for departure Additional retraining in districts rolled out Costing \$0.14
4. District revenue increased. Increase district revenue generating capacity through establishment of an effective and equitable system for setting and collecting revenue and decentralizing adequate staff.	Revenue collection centralized but employing a diverse mix of revenue sources and collection approaches with varying degrees of success	Limited ability of poor population to pay increased taxes and fees No mapping of property or reporting of income, and limited capacity of district staff to collect	Stocktaking of all revenue sources employed by districts undertaken, and success rates determined Review of tax collection potential, including vertical and horizontal imbalances, carried out Workshops set up among districts to discuss revenue collection issues and prioritize needs	New taxation law finalized and approved Revenue authority redesigned, and capacity needs identified; training modules developed and delivered to address priority collection needs Procurement of materials and equipment needed to strengthen collection ability	Capacity to utilize new systems built, and evolving revenue collection needs attended to

Decentralization, Intergovernmental Fiscal Relations, and Service Delivery Results Matrix—Somaliland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
Costing \$0.4			Temporary measures for getting resources to lower levels designed to allow distribution of first tranche Costing \$0.04	Costing \$0.08	Costing \$0.28
5. Data availability improved. Increase the availability of data on district finances to strengthen capacity to more successfully engage in financial planning. Costing \$0.1	Relevant ministries collect data, but do not produce reports. Data limited to annual budgets and monthly financial reports CBS has limited capacity to collect relevant data.	Ministries are reluctant and lack capacity to compile reports and make them available.	Somali researchers to work with relevant ministries on report formats and production of reports Costing \$0.01	Reports produced on a periodic basis and trends discussed with districts and ministries Costing \$0.02	Production of reports institutionalized in relevant ministries, research institutes, or local government association Costing \$0.07
Total costing \$1.48			Total costing \$0.15	Total costing \$0.3	Total costing \$1.03

Decentralization, Intergovernmental Fiscal Relations, and Service Delivery Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V

Decentralization, Intergovernmental Fiscal Relations, and Service Delivery Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
<p>1. Expenditure and revenue assignments. Clarify expenditure and revenue assignments, establish system for intergovernmental transfers based on appropriate criteria tied to poverty reduction goals, and clarify existing legal framework.</p> <p>Costing \$0.2</p>	<p>Some basic transfer system exists in theory, based on surcharges at the Bossaso port, but there is no reporting on this system, and its workings remain unclear. The system is not based on poverty- or other outcome-oriented targeting criteria.</p>	<p>Limited access to poverty data for targeting</p> <p>Limited capacity to budget and report at district level</p>	<p>Revised expenditure and revenue assignments agreed on, local government laws amended, awareness of new changes raised among district councils</p> <p>Criteria, system, and procedures for targeted transfers based on revised law designed and agreed to</p> <p>Tied block grants for service delivery piloted in one or two districts</p> <p>Costing \$0.02</p>	<p>Pilot transfers expanded to an increased number of districts</p> <p>Awareness raising campaign continued to inform district councils of rights and responsibilities</p> <p>Costing \$0.04</p>	<p>Transfer system fully implemented and reviewed</p> <p>Costing \$0.14</p>
<p>2. Functional capacities at local level strengthened. Strengthen financial planning, budgeting, and accountability functions of district councils and financial management staff.</p> <p>Costing \$0.6</p>	<p>Budgets controlled by MoF, which approves district budget</p> <p>No closed accounts or reporting back</p> <p>Limited capacity for public financial management, and no significant training provided</p>	<p>District budgets controlled entirely by central government</p> <p>Very limited availability of training institutions</p> <p>Low level of education among targeted participants</p>	<p>Current capacity at district level assessed, and needs identified</p> <p>Curriculum for certifying district financial managers developed</p> <p>Training activities initiated for a limited number of staff</p> <p>Costing \$0.06</p>	<p>Training activities scaled up</p> <p>Policies and procedures developed to ensure transparency in use of funds</p> <p>Costing \$0.12</p>	<p>All district financial managers certified by Year V, advanced and refresher courses available at accredited training institutes</p> <p>Transparent transfer mechanism and monitoring capacity developed at federal level</p> <p>Costing \$0.42</p>

Decentralization, Intergovernmental Fiscal Relations, and Service Delivery Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
<p>3. District revenue increased. Increase district revenue by establishing an effective and equitable system for setting and collecting revenue.</p> <p>Costing \$0.4</p>	<p>95 percent of revenue collected through trade tax, primarily from the Bossaso port</p> <p>Diverse mix of revenue collection approaches with varying degrees of success</p>	<p>Limited ability of poor population to pay increased taxes and fees</p> <p>Limited capacity of district staff to collect</p> <p>Conflict over authority to collect revenue</p>	<p>Stocktaking of all revenue sources employed by districts undertaken, and success rates determined</p> <p>Review of tax collection potential finalized, including vertical and horizontal imbalances</p> <p>Workshops set up among districts to discuss revenue collection issues and prioritize needs</p> <p>Temporary measures for getting resources to lower levels designed so that first tranche can be distributed</p> <p>Costing \$0.04</p>	<p>Revenue authority restructured and resized with clearly defined mandate</p> <p>New taxation law approved</p> <p>Training modules developed and delivered to address priority collection needs</p> <p>Procurement of materials and equipment needed to strengthen collection ability</p> <p>Costing \$0.08</p>	<p>Capacity to use new systems built, and evolving revenue collection needs attended to</p> <p>Costing \$0.28</p>
<p>4. Data availability improved. Increase the availability of data on district finances to strengthen capacity to more successfully engage in financial planning.</p> <p>Costing \$0.1</p>	<p>Relevant ministries collect data, but do not produce reports.</p> <p>Data limited to annual budgets and monthly financial reports</p>	<p>Ministries reluctant and lack capacity to compile reports and make them available</p>	<p>Somali researchers contracted to work with relevant ministries on report formats and production of reports</p> <p>Costing \$0.01</p>	<p>Reports produced on a periodic basis, and trends discussed with districts and ministries</p> <p>Costing \$0.02</p>	<p>Production of reports institutionalized in relevant ministries, research institutes, or local government associations</p> <p>Costing \$0.07</p>

Decentralization, Intergovernmental Fiscal Relations, and Service Delivery Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
Total costing \$1.3			Total costing \$0.13	Total costing \$0.26	Total costing \$0.91

Procurement Results Matrix—Federal Government					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
<p>1. Procurement law and regulations. A federal procurement law and procurement regulations in place at the federal government level</p>	<p>No federal procurement regulations or standard procurement documents</p> <p>No procurement law in regions outside <i>Puntland</i> and <i>Somaliland</i></p>	<p>No federal procurement regulatory framework including standard bidding documents</p>	<p>Hire a consulting firm for one year to produce (1) federal procurement law; (2) federal procurement regulations; (3) standard bidding documents, and (4) procurement training program (both short and long term).</p>	<p>Enact and enforce the federal procurement law.</p>	
<p>2. Procurement institutions. Tender committee and procurement authority at federal level and in all public entities, federal procurement oversight authority, federal procurement complaints review boards</p>	<p>No central tender board and procurement authority at federal level to administer procurement process and award contracts;</p> <p>No federal procurement complaints board</p>	<p>No procurement policy entity</p> <p>Weak capacity for enforcement of laws or fighting corruption</p>	<p>Create federal-level procurement authority.</p> <p>Establish central tender board.</p> <p>Establish federal procurement complaints review boards.</p>	<p>Procurement units in place in line ministries</p>	<p>All institutions fully established and functional</p>
<p>3. Capacity building. Strong</p>	No procurement	No public institutions	Recruit procurement unit	Continue training	Training of government

procurement capacity developed	capacity Weak capacity of local private sector agents to undertake large-scale contracts	or public servants No or limited number of contractors, suppliers of large equipment No banking system for facilitation of payments to foreign contractors and suppliers	staff. Carry out short-term training program for procurement institutions. Hire a procurement agent with procurement teams to support TFG for 3–4 years in the implementation of procurement activities under the Trust Fund.	government staff. On-the-job training of staff of procurement institutions including the procurement oversight authorities by the procurement agent teams	staff continued On-the-job training of staff of procurement institutions including the procurement oversight authorities by the procurement agent teams
Total costing \$2.85			Total costing \$0.25	Total costing \$0.55	Total costing 2.05

Procurement Results Matrix—Somaliland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
1. Procurement law and regulations. State procurement laws and procurement regulations in place	Procurement law in place in <i>Somaliland</i> No procurement regulations or standard procurement documents		Hire a consulting firm for one year to (a) revise procurement laws, (b) produce procurement regulations, (c) produce standard bidding documents, and (d) develop a procurement training program (both short- and long-term)	Amend existing procurement law, and publish procurement regulations.	
2. Procurement institutions. A tender committee and procurement unit in all public entities; state procurement complaints review boards	Central tender board for administering procurement process and awarding contracts exists	No procurement policy entity(ies) Low capacity for enforcement of laws or		Elevate central tender board to a procurement oversight authority. Strengthen existing	All institutions fully established and functional

	Ministerial tender committees with limited powers for administering procurement process and awarding contracts	fighting corruption		ministerial tender committees. Create procurement units in public entities.	
3. Capacity building. Strong procurement capacity developed	Low procurement capacity Weak capacity of local private sector agents to undertake large-scale contracts	Low wages of civil service Limited number of contractors and suppliers of large equipment Extremely weak banking system for facilitation of payments to foreign contractors and suppliers	Recruit procurement unit staff. Carry out short-term training program for procurement institutions. Hire a procurement agent with procurement teams to support the state in the implementation of procurement activities under the Trust Fund.	Continue training local government staff. On-the-job training of staff of procurement institutions including the procurement oversight authorities by the procurement agent teams	Training of government staff continued On-the-job training of staff of procurement institutions including the procurement oversight authorities by the procurement agent teams
Total costing \$1.425			Total costing \$0.125	Total costing \$0.275	Total costing \$1.025

Procurement Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
1. Procurement law and regulations. State procurement laws and procurement regulations in place	Procurement law in place in <i>Somaliland</i> No procurement regulations or standard procurement		Hire a consulting firm for 1 year to (a) revise procurement laws, (b) produce procurement regulations, (c) produce standard bidding	Amend existing procurement law, and publish procurement regulations.	

	documents		documents, and (d) develop a procurement training program (both short- and long-term)		
2. Procurement institutions. A tender committee and procurement unit in all public entities; state procurement complaints review boards	Central tender board for administering procurement process and awarding contracts No ministerial tender committees for administering procurement process and awarding contracts	No procurement policy entity(ies) Weak capacity for enforcement of laws or fighting corruption		Elevate central tender board to a procurement oversight authority. Create ministerial tender committees. Create procurement units in public entities.	All institutions fully established and functional
3. Capacity building. Strong procurement capacity developed	Low procurement capacity Weak capacity of local private sector agents to undertake large-scale contracts	Low wages of civil service Limited number of contractors and suppliers of large equipment Extremely weak banking system for facilitation of payments to foreign contractors and suppliers	Recruit procurement unit staff. Carry out short-term training program for procurement institutions. Hire a procurement agent with procurement teams to support the state in the implementation of procurement activities under the Trust Fund.	Continue training local government staff. On-the-job training of staff of procurement institutions including the procurement oversight authorities by the procurement agent teams	Training of government staff continued On-the-job training of staff of procurement institutions, including the procurement oversight authorities by the procurement agent teams
Total costing \$1.425			Total costing \$0.125	Total costing \$0.275	Total costing \$1.025

Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
<p>1. Central banking. An autonomous central bank that is fully equipped to carry out its monetary and financial sector regulatory and supervisory responsibilities</p> <p>Costing \$8.85</p>	No federal central bank	<p>Nascent federal governing structure</p> <p>Unresolved political status of <i>Somaliland</i></p> <p>Lack of legislative framework for central bank</p>	Commence capacity building for licensing and supervising banks and money transmitters.	<p>Enact central bank law.</p> <p>Pass prudential regulations.</p> <p>Design interim payments system.</p> <p>Costing Staff: \$0.25 Technical assistance: \$0.3</p>	<p>Commence physical rebuilding of central banks.</p> <p>Assume basic monetary and supervision functions.</p> <p>Expand monetary and supervisory responsibility.</p> <p>Restructure existing regional central banks in <i>Somaliland</i> and <i>Puntland</i> to exit from commercial banking.</p> <p>Undertake currency reforms</p> <p>Costing Seed capital: \$2.5 Physical infrastructure: \$0.25 Technology: \$0.25 Technical assistance: \$0.3 Domestic currency reforms: \$5</p>
<p>Redenominate local currency, and have at least 3 denominations in circulation.</p>	Only one local currency denomination of 1,000 shillings (worth US7¢), leading to serious inefficiencies in making small- and medium-size transactions.	Effective government widely supported by the population needs to be in place to ensure acceptance of new local currency.	Government establishes law and order and a central bank.	Introduce new 10-shilling note (equal to 10,000 old Somali shillings) and ½ and 1 shilling coins.	Increase amount of local currency in circulation in line with growth in economic activity, and gain significant seignorage from increasing currency outstanding..

Financial Sector Development Results Matrix—Federal Government					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
Conduct monetary policy to maintain price stability.	There are no commercial banks with deposits and loans and no treasury securities. Hence, no mechanisms through which to pursue monetary policy, other than the direct injection/withdrawal of local currency.	No commercial banks and public distrust of both commercial banks and government	Some commercial banks established	Reserve requirements with central bank are started.	Limited amount of Treasury securities issued to financial institutions and general public
2. Commercial banking. Private financial institutions that are sound, efficient, and competitive Costing \$0.25	One private commercial bank registered by regional authorities in <i>Puntland</i>	Lack of legislative framework for commercial banks Low public confidence in public institutions	Enact commercial bank law. Pass prudential licensing regulations. Commence monthly performance reporting of commercial banks and money transmitters.	Conduct annual on-site inspection of each new bank. Develop international accounting and auditing standards. Costing Technical assistance: \$0.25	Encourage rural expansion of private financial institutions that are sound, efficient, and competitive.
3. Access to finance. Financial institutions, instruments, and services that meet the needs of the government, NGOs, businesses, women, and households in both rural and urban communities	No national access to finance program for commercial enterprises	Public discomfort with interest rate Public expectation of public/donor grants	Encourage banks to lend to private sector. Pass prudential licensing regulations for non-bank financial institutions. Commence capacity building of existing MFIs and/or	Small business development fund Credit lines and guarantees schemes Prepare national microfinance policy.	Broaden and deepen the financial sector with a wider range of financial services and products. Introduce licensing and prudential regulations for microfinance.

Financial Sector Development Results Matrix—<i>Federal Government</i>					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
Costing \$4.0			development of new MFIs. Provide financial sector–related training and business development services. Costing Technical assistance: \$0.5	Costing Loan funding: \$1.5 Technical assistance: \$0.5	Develop legal and regulatory framework for insurance sector. Support women’s entrepreneurship networks to enable access to resources. Costing Technical assistance: \$1.5
Total costing \$13.1			Total costing \$0.5	Total costing \$2.8	Total costing \$9.8

Financial Sector Development Results Matrix—<i>Somaliland</i>					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
1. Central banking. Costing	Regional central bank	Nascent federal governing structure Unresolved political status of <i>Somaliland</i> Lack of legislative framework for central bank	Capacity building for nationally coordinated licensing and supervision of banks and money transmitters commenced	Nationally coordinated prudential regulations for regional central bank designed and implemented Costing	Existing regional central bank restructured to exit from commercial banking Nationally coordinated monetary and supervisory responsibility expanded Costing

Financial Sector Development Results Matrix—Somaliland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
\$4.425				\$0.275	\$4.15
2. Commercial banking. Costing \$0.125	No commercial banks	Lack of legislative framework for commercial banks Low public confidence in public institutions	Nationally coordinated commercial bank law enacted, and commercial banks established Prudential licensing regulations enforced Monthly performance reporting of commercial banks and money transmitters commenced	Annual on-site inspection of new banks conducted International auditing and accounting standards implemented Costing \$0.125	Rural expansion of private financial institutions that are sound, efficient, and competitive encouraged
3. Access to finance.	No access to finance program for commercial enterprises Women in particular have limited access to finance	Public discomfort with interest rate Public expectation of public/donor grants	Commercial banks encouraged to lend to private sector Prudential licensing regulations enforced for non-bank financial institutions Capacity building of existing MFIs and/or development of new MFIs Financial sector-related training and business development services provided	Small business development fund established Credit lines and guarantees schemes developed Regional microfinance policy developed	Financial sector broadened and deepened with a wider range of financial services and products Licensing and prudential regulations for microfinance introduced Legal and regulatory framework for insurance sector developed Women's entrepreneurship networks to enable access to resources supported

Financial Sector Development Results Matrix—Somaliland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
Costing \$2.0			Costing \$0.25	Costing \$1.0	Costing \$0.75
Total costing \$6.55			Total costing \$0.25	Total costing \$1.4	Total costing \$4.9

Financial Sector Development Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
1. Central banking. Costing \$4.425	Regional central bank	Nascent federal governing structure Unresolved political status of <i>Somaliland</i> Lack of legislative framework for central bank	Capacity building for nationally coordinated licensing and supervision of banks and money transmitters commenced	Nationally coordinated prudential regulations for regional central bank designed and implemented Costing \$0.275	Existing regional central bank restructured to exit from commercial banking Nationally coordinated monetary and supervisory responsibility expanded Costing \$4.15
2. Commercial banking.	One private commercial bank registered by regional authorities	Lack of legislative framework for commercial banks	Nationally coordinated commercial bank law enacted, and commercial banks established	Annual on-site inspection of new banks conducted International auditing and	Rural expansion of private financial institutions that are sound, efficient, and competitive

Financial Sector Development Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
Costing \$0.125		Low public confidence in public institutions	Prudential licensing regulations enforced Monthly performance reporting of commercial banks and money transmitters commenced	accounting standards implemented Costing \$0.125	encouraged
3. Access to finance. Costing \$2.0	No access to finance program for commercial enterprises Women in particular have limited access to finance	Public discomfort with interest rate Public expectation of public/donor grants	Commercial banks encouraged to lend to private sector Prudential licensing regulations enforced for non-bank financial institutions Capacity building of existing MFIs and/or development of new MFIs Financial sector-related training and business development services provided	Small business development fund established Credit lines and guarantees schemes developed Regional microfinance policy developed	Financial sector broadened and deepened with a wider range of financial services and products Licensing and prudential regulations for microfinance introduced Legal and regulatory framework for insurance sector developed Women's entrepreneurship network to enable access to resources supported Costing \$0.75

Financial Sector Development Results Matrix—<i>Puntland</i>					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
Total costing \$6.55			Total costing \$0.25	Total costing \$1.4	Total costing \$4.9

Data Development Results Matrix—<i>Federal Government</i>					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
1. Improved federal statistical program.	<p>Statistical delivery system has practically disappeared</p> <p>All statistical records, data processing equipment, and documents have been ransacked and destroyed</p> <p>No data for national accounts are collected</p> <p>Limited data on trade, prices, financial inflows exist</p> <p>Data on exchange rates and some data</p>	<p>Lack of statistics collection entity and funding for data collection</p> <p>Lack of coordination, and institutional conflict</p>	<p>Develop a draft statistical act</p> <p>Allocate budget for statistical activities</p> <p>Hire qualified statisticians</p> <p>Reestablish data collection system</p> <p>Collect monthly exchange rate data, data on remittances and inflows from donors and foreign NGOs</p>	<p>Statistical Act approved by parliament</p> <p>Statistical work program developed</p> <p>Establish basic statistical physical infrastructure</p> <p>Data processing together with required staff in place</p> <p>Begin collecting import and export data by major products</p> <p>Collect data on net increases in local currency issued by the CB</p>	<p>A coherent and consistent federal statistical system is in place</p> <p>Increased use of statistics in evidence-based decision making, planning, and budgeting</p> <p>Statistical system is fully operational</p> <p>Data on national income accounts and poverty are collected</p>

Costing \$13.1	on donor aid and NGO inflows exist		Costing \$3.2	Costing \$4.8	Costing \$5.1
2. Census. Costing \$10.9			Preparation of the census initiated Costing \$0.9	Census under way Costing \$4.9	Census conducted, and results finalized Costing \$5.1
3. Capacity building. Costing \$3.7			Procurement for modern data processing instruments completed Costing \$0.7	Procured equipment installed Training of staff in technical issues and IT skills under way Costing \$1.5	Statistical infrastructure improved Staff training under way Costing \$1.5
4. Data for macroeconomic policy.	No data for national accounts, and limited data on trade, prices, financial inflows There is a lack of gender disaggregated data. There are statistics on exchange rates and some data on donor aid and NGO inflows.	Lack of statistics collection entity and funding for data collection	Collect monthly exchange rate data, data on remittances and inflows from donors and foreign NGOs	Start collecting import and export data by major products. Start collecting gender disaggregated data. Collect data on net increases in local currency issued by the central bank.	Collect data on national income accounts. Start collecting data on poverty.
Total costing \$27.7			Total costing \$4.8	Total costing \$11.2	Total costing \$11.7

Data Development Results Matrix—Somaliland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
1. Improved regional statistical program.	<p>At the central level there is a statistical department under the Ministry of Planning</p> <p>Regional proposed but no qualified staff exist</p> <p>Weak institutional capacity to undertake national statistical initiatives (census, HH surveys)</p> <p>Data system, collection, analysis, and publication of statistics practically stopped by 1989</p>	<p>Dependency on piecemeal donor funding</p> <p>Inadequate knowledge management</p> <p>Lack of coordination, and institutional conflict</p>	<p>Develop a draft statistical act</p> <p>Allocate budget for statistical activities</p> <p>Hire qualified statisticians</p> <p>Reestablish data collection system</p>	<p>Statistical act approved by parliament</p> <p>Statistical work program developed</p> <p>Establish basic statistical physical infrastructure</p> <p>Data processing together with required staff in place</p> <p>Basic macroeconomic, financial, and fiscal data are collected, compiled, and published</p> <p>Basic social data (health, education, water, and sanitation) are collected, compiled, and published</p>	<p>A coherent and consistent national statistical system is in place</p> <p>Increased use of statistics in evidence-based decision making, planning, and budgeting</p> <p>Statistical system is fully operational</p>
Costing \$3.3			Costing \$0.8	Costing \$1.2	Costing \$1.3
2. Census.			Preparation of the census initiated	Census under way	Census conducted, and results finalized
Costing \$2.7			Costing \$0.2	Costing \$1.2	Costing \$1.3
3. Capacity building.			Procurement for modern data processing instruments completed	Procured equipment installed	Statistical infrastructure improved

				Training of staff in technical issues and IT skills under way	Staff training under way
Costing \$1.0			Costing \$0.2	Costing \$0.4	Costing \$0.4
4. Data for macroeconomic policy.	No data for national accounts, and limited data on trade, prices, financial inflows There is a lack of gender disaggregated data There are statistics on exchange rates and some data on donor aid and NGO inflows	Lack of statistics collection entity and funding for data collection	Collect monthly exchange rate data, data on remittances and inflows from donors and foreign NGOs	Start collecting import and export data by major products Start collecting gender disaggregated data Collect data on net increases in local currency issued by the central bank	Collect data on national income accounts Start collecting data on poverty
Total costing \$7.0			Total costing \$1.2	Total costing \$2.8	Total costing \$3.0

Data Development Results Matrix—Puntland					
Target outcomes for Year V	Baseline 2006	Constraints to achieving outcomes by Year V	Key actions and intermediate outcomes (all costs are in US\$ millions)		
			Year I	Year II	Year III - V
1. Improved regional statistical program.	At the central level there is a statistical department under the Ministry of Planning Regional proposed but no qualified staff exist	Dependency on piecemeal donor funding Inadequate knowledge management	Develop a draft statistical act Allocate budget for statistical activities Hire qualified statisticians Reestablish data collection	Statistical act approved by parliament Statistical work program developed Establish basic statistical physical infrastructure	A coherent and consistent national statistical system is in place Increased use of statistics in evidence-based decision making,

<p>Costing \$3.3</p>	<p>Weak institutional capacity to undertake national statistical initiatives (census, HH Surveys)</p> <p>Data system, collection, analysis, and publication of statistics practically stopped by 1989</p>	<p>Lack of coordination, and institutional conflict</p>	<p>system</p> <p>Costing \$0.8</p>	<p>Data processing together with required staff in place</p> <p>Basic macroeconomic, financial, and fiscal data are collected, compiled, and published</p> <p>Basic social data (health, education, water, and sanitation) are collected, compiled, and published</p> <p>Costing \$1.2</p>	<p>planning, and budgeting</p> <p>Statistical system is fully operational</p> <p>Costing \$1.3</p>
<p>2. Census.</p> <p>Costing \$2.7</p>			<p>Preparation of the census initiated</p> <p>Costing \$0.2</p>	<p>Census under way</p> <p>Costing \$1.2</p>	<p>Census conducted, and results finalized</p> <p>Costing \$1.3</p>
<p>3. Capacity building.</p> <p>Costing \$1.0</p>			<p>Procurement for modern data processing instruments completed</p> <p>Costing \$0.2</p>	<p>Procured equipment installed</p> <p>Training of staff in technical issues and IT skills under way</p> <p>Costing \$0.4</p>	<p>Statistical infrastructure improved.</p> <p>Staff training under way</p> <p>Costing \$0.4</p>
<p>4. Data for macroeconomic policy.</p>	<p>No data for national accounts and limited data on trade, prices, financial inflows</p> <p>There is a lack of gender disaggregated data</p> <p>There are statistics on</p>	<p>Lack of statistics collection entity and funding for data collection</p>	<p>Collect monthly exchange rate data and data on remittances and inflows from donors and foreign NGOs</p>	<p>Start collecting import and export data by major products</p> <p>Start collecting gender disaggregated data</p> <p>Collect data on net increases in local currency issued by the central bank</p>	<p>Collect data on national income accounts</p> <p>Start collecting data on poverty</p>

	exchange rates and some data on donor aid and NGO inflows				
Total costing \$7.0			Total costing \$1.2	Total costing \$2.8	Total costing \$3.0

Costing Summary by Activities and Regions

	Year I	Year II	Year III - V	Total
Macroeconomic Policy Framework				
Federal Government	7.2	5.9	20.6	33.7
Somaliland	3.6	3.0	10.8	17.4
Puntland	3.6	3.0	10.8	17.4
Public Financial Management				
Federal Government	2.3	1.7	0.1	4.0
Somaliland	1.8	1.3	0.1	3.2
Puntland	1.8	1.3	0.1	3.2

Civil Service				
Federal Government	0.03	0.3	1.0	1.3
Somaliland	0.1	0.3	1.2	1.6
Puntland	0.5	0.6	0.4	1.5
Decentralization, Intergovernmental Fiscal Relations, and Service Delivery				
Federal Government	0.5	0.9	3.2	4.6
Somaliland	0.2	0.3	1.0	1.5
Puntland	0.1	0.3	0.9	1.3
Procurement				
Federal Government	0.3	0.6	2.1	2.9
Somaliland	0.1	0.3	1.0	1.4
Puntland	0.1	0.3	1.0	1.4
Financial Sector Development				
Federal Government	0.5	2.8	9.8	13.1
Somaliland	0.3	1.4	4.9	6.6
Puntland	0.3	1.4	4.9	6.6
Data Development				
Federal Government	4.8	11.2	11.7	27.7
Somaliland	1.2	2.8	3.0	7.0
Puntland	1.2	2.8	3.0	7.0
Grant Total	30.3	42.3	91.7	164.3

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ANNEXES

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Annex 1. District Revenue and Expenditure, 2005

(million Somaliland shillings)

	Category A Gebiley	Category B Oodweyne	Category C Sheekh Xasan Geele	Category D Lughaya
Revenue category				
Tax category				
Goods	2,538.2	950.5	125.0	58.0
Of which				
10% transfer	1,933.0	36.0	15.0	0
12.5% transfer	300.0	120.0	58.0	40.0
Land	242.3	156.0	42.0	0.0
License	92.0	16.0	11.0	5.0
Market	381.5	70.2	15.0	2.0
Agricultural production	24.0	11.0	12.0	0.0
Registration	5.0	2.3	15.0	0.0
Investments	0.0	0.0	25.0	0.0
Budget support	0.0	0.0	0.0	0.0
Unexpected revenue	22.0	17.0	5.0	6.0
Cash	0.0	0.0	0.0	0.0
Total revenue	3,305.0	1,223.0	250.0	71.0
In US\$ millions	0.5508	0.2038	0.0417	0.0118
Expenditure category				
Wages and allowance	751.0	256.0	80.0	30.0
Pensions/liability	15.0	11.0	0.0	0.0
Maintenance	180.0	188.0	21.0	4.0
Fuel	315.0	201.0	22.0	13.0
Administrative costs	769.3	272.0	46.0	10.0
Health services	8.0	12.0	1.5	3.0
Investment capital cost	505.0	158.0	9.5	3.0
Counterpart fund for dev. projects	0.0	6.5	0.0	0.0
Welfare	92.0	15.5	6.0	6.0
Humanitarian assistance	227.7	20.0	3.0	0.0
Other assistance	62.5	10.0	0.0	0.0
Police	68.5	44.0	10.0	0.0
Political stability	303.0	15.0	41.0	0.0
Contingency	8.0	14.0	10.0	2.0
Repayment of loans	3,305.0	20.0	30.0	0.0
Cash balance	0.0	0.0	0.0	0.0
Reserve	0.0	0.0	0.0	0.0
Total expenditure	3,305.0	1,223.0	250.0	71.0
In US\$ millions	0.5508	0.2038	0.0417	0.0118

Annex 2. Agencies Leading Data Collection in Somalia

Lead agency	Data	Type	Source/coverage	Frequency	Availability
Academy for Peace and Development	Socioeconomic	Sample survey, assessments	Somaliland		2004–5
CARE	Early warning indicators	Monitoring	District (24)	Monthly	> 1998
Centre for Research and Dialogue (CRD)	Socioeconomic	Sample survey, assessments	South Central		2004–5
Food and Agriculture Organization (FAO)	Water and Land Information System	Monitoring	Primary/secondary; national, regional, districts		
	Vegetation (NDV index)	Monitoring	Satellite images	Every 10 days	> 1981
Famine Early Warning System (FEWS)	Early warning indicators	Monitoring	District (24)	Monthly	> 1998
	Rainfall	Monitoring	10 stations, satellite imagery		
Food Security Analysis Unit (FSAU)	Crop production	Monitoring	District/regional		> 1982 (excluding 1993–98)
	Regional/district population under livelihood crisis	Monitoring	District/regional		> 1998
	Livelihood baseline data	Monitoring	Food economy zones (22)	Monthly	> 1998
	Vegetation (NDV index)	Monitoring	Satellite images	Every 10 days	> 1981
	Market prices (30 items) with FEWS	Monitoring	36 markets	Weekly	> 1998
	Health, nutrition, demographic	Monitoring	Health information system	Monthly	
International Committee of the Red Cross	Early warning indicators	Monitoring	District (24)	Monthly	> 1998
Ministries of Finance	Public finance	Administrative data	Somaliland, Puntland	Annual	2004
Municipalities	Municipal finance	Administrative data	Hargeisa, Bosasso, Burao, Boroma	Annual	2004–5
Puntland Development and Research Centre (PDRC)	Socioeconomic	Sample survey, assessments	Puntland		2004–5
United Nations Development Program (UNDP)	Population estimates and projections	Planning	National/regional/urban and nonurban and by gender	Yearly	1995–2015
	Reproductive health statistics (mother and child health care, fertility, prevalence of FGM, awareness on HIV/AIDS)	Primary survey	Sample survey/Somalia	Only 1 survey	2004
	Socioeconomic (demographic, housing, employment, income, health facilities, water sources, education facilities, communication, participation of women in household decision making, environmental concerns)	Primary survey	National, urban, nonurban, and gender disaggregated through sample survey covering all regions of Somalia	Only 1 survey	2002

Annex 2. Agencies Leading Data Collection in Somalia

Lead agency	Data	Type	Source/coverage	Frequency	Availability
	Demographic and socioeconomic data at settlement levels	Primary survey	9 Somali regions through census	Only 1 survey	1995–98, 2004
	Number of fishermen, fishing fleet, fish production	Assessment	Somaliland, Puntland, South and Central Somalia	Only 1 assessment	2004/2005
	Poverty, vulnerability, and governance indicators	Primary survey	Somalia (census covering all settlements)	Only 1 survey	2005/2006
UNDP/airport authorities	Flights, passenger, and cargo	Administrative data	Major airports	Daily	2004 +
UNDP/line ministries	Electricity generation, generator capacity, and prices	Administrative data	Somaliland, Puntland, South and Central Somalia	Quarterly/semi-annual	2004 +
	Number and type of health facilities and personnel, disease cases	Administrative data	Somaliland, Puntland, South and Central Somalia	Quarterly/semi-annual	2004+
	Number of schools, students, and teachers by gender	Administrative data	Somaliland, Puntland, South and Central Somalia	Quarterly/semi-annual	2004 +
UNDP/line ministries/STA	Telecommunication	Administrative data and survey	Somaliland, Puntland, South and Central Somalia	Quarterly/semi-annual	2004+
UNDP/ministries of national planning	Consumer prices (110 items)	Administrative data	Mogadishu, Hargeisa, Bosasso, Garowe	Weekly	2004 +
UNDP/ministries of planning	Exchange rates	Administrative data	Somaliland, Puntland, South and Central Somalia	Daily	2004 +
UNDP/port authorities	Trade (export and import through major ports)	Administrative data	Somaliland, Puntland, South and Central Somalia	Daily	2004+
United Nations Population Fund (UNFPA)	Quick count of population at district level	Primary survey	3–4 districts to establish census methodology	Only 1 survey	2005/2006
UNICEF	HIV/AIDS	Survey	HIV/AIDS KAP survey		2003, 2004
	Maternal and child health care, malnutrition and education, knowledge on HIV/AIDS, water and sanitation	Survey	MICS		2000, 2005
	Number and type of health facilities and personnel, disease cases	Survey	EPI + polio coverage survey	Yearly	
	Primary education (schools, students, and teachers by gender)	Survey	Primary school survey	Yearly	> 1997
	Social	Survey	Child protection survey		
	Water	Monitoring	Water sources		
	Health, nutrition, demographic	Monitoring	Health information system	Monthly	
	Early warning indicators	Monitoring	District (24)	Monthly	> 1998
	Nutrition, health, socioeconomic	Survey	Nutrition survey	Monthly	> 1998
World Food Programme (WFP)	Gender	Survey	Gender baseline survey	Planned	
	Nutrition	Survey	School feeding survey	Pilot	
	Early warning indicators	Monitoring	District (24)	Monthly	> 1998
World Health	Demographic with UNDP		Settlement/district		2000–5

Annex 2. Agencies Leading Data Collection in Somalia

Lead agency	Data	Type	Source/coverage	Frequency	Availability
Organization (WHO)	Number and type of health facilities and personnel, disease cases		Regional		2000, 2001
	Health, nutrition, demographic	Monitoring	Health information system	Monthly	

Note: Most of the data collection undertaken by these administrations is supported by WB and UNDP under the Somalia Watching Brief and LICUS (Low-Income Countries Under Stress) Projects.

Annex 3. Donor Contributions, 2000–2004
(US\$)

	2000 Actual expenditure	2001 Actual expenditure	2002 Actual expenditure	2003 Pledges	Actual expenditure	2004 Pledges
Australia	3,000	...	5,000	5,000	...	389,415
Belgium	700,000	...	1,500,000	1,450,893	1,132,193	1,200,000
Canada	78,600	895,800	1,716,622	2,029,331	...	2,077,093
Denmark	4,394,100	2,849,800	4,587,411	6,966,292	...	4,583,517
EC	44,560,500	21,082,109	37,661,830	120,647,321	24,566,979	16,074,074
ECHO	...	2,039,300	4,250,000	10,044,643	12,400,794	11,296,296
Egypt	...	1,000,000	1,000,000	1,600,000	...	...
FAO	...	974,800	348,100	658,000	670,000	12,788,441
Finland	703,200	842,000	1,089,991	1,459,376	1,614,322	2,211,107
France	...	...	71,447	76,200	...	...
Germany	1,411,500	585,400	2,130,744	1,778,000	1,682,000	2,248,823
GFATM	...	...	...	13,982,511	...	7,325,197
ILO	...	1,500,000	1,408,579	1,014,281	1,014,281	1,824,725
IOM	...	9,100	722,238	...	...	...
Italy	21,041,100	19,133,800	9,583,039	17,850,435	19,745,667	7,777,778
Japan	3,125,700	8,107,900	6,438,300	1,072,680	1,600,000	2,900,000
Netherlands	5,171,700	3,212,700	4,548,000	3,631,000	4,482,716	5,903,838
NGO	...	...	20,631,176	8,542,969	...	7,638,859
Norway	3,717,200	4,729,254	8,300,000	8,971,783	...	13,736,817
OCHA	...	979,800	...	468,500	...	1,152,963
Sweden	4,136,800	5,403,700	5,403,700	6,633,092	...	10,578,750
Switzerland	1,234,300	...	839,538	521,221	521,221	735,267
UNDP	...	8,515,800	4,751,362	4,678,188	...	4,578,569
UNEP	...	N/A	682,715	19,750	...	...
UNESCO	...	920,000	1,241,323	320,000	...	...
UNFPA	...	...	200,000	622,207	...	...
UN-HABITAT	...	...	...	215,000	1,148,797	9,358,902
UNHCR	...	1,733,500	6,803,616	5,777,228	5,777,248	6,273,223
UNICEF	...	15,797,800	4,327,000	6,623,278	...	8,215,714
UNIFEM	...	...	146,451	151,365	...	...
UK	2,556,000	4,000,100	2,832,000	6,431,349	3,680,261	22,898,675
UNOPS	...	434,100	...	...	...	...
UNV	...	...	32,000	65,000	65,000	65,000
USA	25,779,600	25,359,100	31,765,683	29,569,167	29,569,167	28,210,167
WFP	...	3,641,400	2,205,322	1,184,071	8,300,000	22,415,197
WHO	...	3,808,000	...	4,934,826	...	5,771,589
World Bank	...	...	522,684	1,609,443	1,609,443	2,072,420
WSP	...	1,267,500	...	...	...	...
Total	118,613,300	138,822,763	167,745,871	271,604,400	119,580,089	222,302,416

Source: Somalia Aid Coordination Body (SACB).

Annex 4. Field Assessments and Macroeconomic Policy Priorities

As a part of the Joint Needs Assessment process, a group of experts visited different regions and districts of Somalia to discuss with local communities their views on the priorities for reconstruction in areas ranging from infrastructure and environment to macroeconomic policy and public resource use. Field assessments were undertaken in the form of questionnaires in remote as well as more accessible areas, expanding on the work done by technical experts who have previously visited the main cities and towns. By targeting various stakeholder groups, including women, youth, traditional and religious leaders, regional/district authorities, civil society, and business groups, the aim of the consultations was to create an opportunity for a wide-ranging set of actors to take an active role in improving their quality of life by defining a shared vision of their region's future.

Somaliland. The assessment on macroeconomic policy priorities is based on 122 responses from participants in four *Somaliland* districts (Awdal, Sahal, Hargeisa, and Todgheer). According to most participants, the first priority in policy formulation at the central level is macroeconomic stability, specifically economic growth, price stability, and employment creation. In regard to sources of public revenue, called-for priority actions comprise setting up well-administered land registration fees; improving collection of customs duties, inland revenues, and property fees; and upgrading licensing fees. Civil service reform ranks among the highest on the list of priority actions, including clarification of responsibilities for civil servants, proper recruitment, and appropriate human resources policy. In the area of microfinance, most people highlighted the necessity to provide financial services to the poor and the removal of financial constraints such as physical collateral. Another priority in the area of private sector development is trade liberalization, followed by creating an environment for foreign direct investment. According to *Somaliland* participants, other priorities include participating in the budgetary process, establishing decentralized tax collection, and reducing poverty through human development.

Status of Women. According to participants, limited budget allocation and lack of development programs for women are the main obstacles to empowering *Somaliland* women. A key activity needed to achieve gender-sensitive policies is to allocate development budget to the Ministry of Family Affairs.

Puntland. The assessment is based on responses from 121 participants in regions of Mudugh, Nugaal, Sanaag, Bari, Sool, and Karkaar. After law and order, the establishment of financial institutions and trade regulations are seen as the most important priority by respondents. According to *Puntland* participants, the Ministry of Finance, and the Ministry of Planning should have the responsibility to formulate, implement, and monitor economic policies. Revenue generation should be based on taxation and public finance. Civil service appointments should be based on individual merit. To create an environment conducive to private development, tax incentives should be offered, private ownership should be better protected, and laws and regulations should be put into effect. Central authorities should be involved in preparing the budget, and public resources should be transferred to programs aimed at poverty reduction. Budget allocation for women's development needs to be increased.

South-West Zone. The analysis on the South West zone is based on perspectives of the communities consulted in various districts (rural, nomadic, and urban) in the regions of

Bay, Bakool, and Lower Shabelle. Fifty people participated in the assessment workshop. On the institutional side, the majority of participants believe that local authorities should have the responsibility to formulate, implement, and monitor economic policies, and about a quarter of the participants suggested that the federal government should have that responsibility. Development of the livestock sector is the economic priority, followed by agriculture, health, and water. On the criteria of hiring the civil service, communities believe that individual merit should be applied to all those jobs that require a formal education background. In regard to public budget, the majority of participants suggested that regional authorities should fully participate in budget formulation. Resources should be allocated according to national priorities with consideration of specific local needs. Budget should be allocated to support economic activities practiced predominantly by women. The responsibility of providing service delivery should be entirely vested with the district institutions. The relationship between regional authorities and federal government in resource allocation and management should be based on the principles of consultation and coordination.

Benadir Zone. The assessment on economic priorities for the Benadir zone is based on questionnaires filled out by 52 representatives of local stakeholders. Participants believe that the economic policy of the country should be decided at the federal level and that municipalities are better placed for service delivery. The group identified nongovernmental organizations and other civil society groups as among the primary service providers. Participants suggested that the regional government should have the primary role in the budgetary process, but that other stakeholders should also contribute. The most critical support needed to help women in the Benadir zone is commercial loans.