



DRAFT

SOMALI JOINT NEEDS ASSESSMENT

MACROECONOMIC POLICY FRAMEWORK AND DATA DEVELOPMENT CLUSTER REPORT

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

AfDB	African Development Bank
APD	Academy for Peace and Development
CBS	Central Bank of Somalia
CIRRs	Commercial Interest Reference Rates
CPI	Consumer Price Index
CRD	Centre for Research and Dialogue
CSC	Civil Service Commission
DFID	Department for International Development
EC	European Community
ECHO	European Commission Humanitarian Aid Office
FAO	Food and Agriculture Organization
FCC	Federal Constitution Commission
FDI	Foreign Direct Investment
FEWSNET	Famine Early Warning Systems Network
FMA	Financial Management Agency
FSAU	Food Security Analysis Unit
GDP	Gross Domestic Product
GFATM	The Global Fund to Fight AIDS, Tuberculosis and Malaria
GNP	Gross National Product
HESPI	Horn Economic & Social Policy Institute
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
HIPC	Heavily Indebted Poor Countries
ICRC	International Committee of the Red Cross
IDA	International Development Association
IDPs	Internally Displaced Persons
ILO	International Labour Organization
IMF	International Monetary Fund
IOM	International Organization for Migration

MDBs	Multilateral Development Banks
MDGs	Millennium Development Goals
MFI	Microfinance Institutions
NGO	Non-Governmental Organization
NPV	Net Present Value
OCHA	United Nations Office for the Coordination of Humanitarian Affairs
ODA	Official Development Assistance
OECD	Organization for Economic Cooperation and Development
PA	Procurement Agent
PDRC	Puntland Development and Research Centre
PFM	Public Finance Management
PPP	Purchasing Power Parity
PRGF	Poverty Reduction and Growth Facility
PSG	Puntland State Government
RDP	Reconstruction and Development Programme
REER	Real Effective Exchange Rate
SIMAD	Somali Institute of Management & Administration Development
SDR	Special Drawing Rights
SSA	Sub-Saharan Africa
TB	Tuberculosis
TF	Trust Fund
TFG	Transitional Federal Government
UNDP	United Nations Development Program
UNEP	United Nations Environment Programme
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
UNV	United Nations Volunteers
WB DECPG	World Bank Development Prospects Group
WDI	World Development Indicators
WFP	World Food Programme
WHO	World Health Organization

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FOREWORD

This draft cluster report is part of the technical work of the Somali Joint Needs Assessment and is being circulated in draft to seek comments and suggestions as part of a quality assurance review process. It is stressed that at this stage all six draft cluster reports are technical assessments and should not be thought of as a final output of the Somali Joint Needs Assessment. Prioritization is a two-part consultative process, first technical and second political, and this draft cluster report is primarily concerned with technical prioritization. Political prioritization will come in finalization of the integrated Reconstruction and Development Program (RDP) which runs from 2007 to 2001.

To ensure the highest possible quality of this cluster report we look forward to your comments and suggestions, with specific reference to the accuracy of information, the within-cluster prioritization of needs, and the suitability and feasibility of proposed actions to address these needs. To generate the best possible Reconstruction and Development Program it is important that Somali authorities and people, and developing partners, contribute to this review process. Guidelines for this quality assurance review have been issued separately.

This draft cluster report is the outcome of an exhaustive technical exercise involving extensive consultations with Somali stakeholders, ranging from civil society groups to national and local authorities and parliamentarians. It has been produced by an integrated team of Somali and other technical experts drawing on information from (a) existing sources, (b) consultation workshops, (c) selected field visits and meetings with a wide array of Somali groups and individuals, and (d) questionnaire-based fieldwork undertaken by Somali experts in all regions, to review priority needs and develop reconstruction and development proposals to address those needs. It responds to specific local needs by providing differentiated suggestions for South Central Somalia, Puntland and Somaliland. Moreover, it reflects the importance of three key cross-cutting issues – peace-building and conflict prevention, capacity building and institution development, and human rights and gender – by addressing them as an integral part of the proposed initiatives to achieve desired reconstruction and development objectives.

The team is now focusing on reviewing the full array of priority needs and proposed suggestions from all six cluster reports to prepare an integrated Reconstruction and Development Program (RDP). This RDP will present a proposed set of initiatives to address priority needs from among the wider set of needs. Clearly, not all needs can be addressed immediately or within the five year time frame of this RDP. Implementation capacity and likely resource availability will both be considered in developing RDP initiatives. But behind all this is the fundamental objective of supporting Somalis in deepening peace and reducing poverty as quickly as possible in a sustainable way.

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EXECUTIVE SUMMARY

1. **Context.** With a population of 7.7 million (1.7 million in *Somaliland*, 1.1 million in *Puntland*, and 4.9 in South Central Somalia), and an income per capita of \$226¹ (compared to an average of \$515 in Sub Sahara Africa²), 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 1988-90. 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 un-creditworthy 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 depositor's 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 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 have 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 remittances from the Diaspora that amount to at some US\$1 billion per annum today (71.4 percent of GNP) compared to an average of \$370 million in the 1980s and 1990s. There has been very little foreign investment in recent years. In terms of real sector activity, agriculture, specifically agro-pastoralism and crop production dominate GDP.

3. The incidence of poverty is very high, with 43 percent of the population living 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, while 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). 47.4 percent of the workforce age population is unemployed in Somalia (UNDP/WB, Somalia: Socio-Economic Survey, 2002).

4. **Objectives.** In terms of 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) re-establish 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 income in a household survey conducted in Somalia during 2002, unlike the expenditure-based household surveys conducted in other countries.

systems to secure such data as is 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 rising local revenues and development assistance which will be falling by the end of this five year program. 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 to 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 as soon as possible. In the medium term, such units should strengthen budgeting and policy making functions through on the job training.

7. **Mobilize public revenue.** While a number of donors are interested to provide 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. As this is a high priority, it is proposed that government put such a revenue system in place within the next 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, especially imports. 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. This suggests a relatively low import ad valorem import tax of 5-8 percent for most imported goods initially but then increased if necessary once it is operational. A few goods, luxuries and those 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 an 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 and there is no agreement with *Somaliland* or *Puntland* regarding their role vis-à-vis Federal Government revenue collections. As soon as possible, 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 is 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 within 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 but records are not accountable. 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, 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 well used for intended purposes, but also to rebuild public confidence. Moreover, this is essential for development partners to have the confidence in government that is 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 wont to be assured that their contributions are well used. 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, while *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 computerisation, software acquisition, accounting and training on financial management, procurement, and participatory budget preparation and monitoring systems. Actions to clarify modalities for inter-government 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 this involves building financial management capacity from scratch. In *Puntland* and *Somaliland* this involves building on existing capacity. For example, it needs to include actions to develop comprehensive procurement regulations, amend laws as needed, establish procurement units, train staff and produce standard bidding documents. Naturally, at each level of government it needs to reflect outcomes of the constitutional review process 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, while at the same time advise on the relationship between the federal, state, regional and local civil services, (c) establish the above mentioned 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 above mentioned 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 who currently have no 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. Moreover, while being focused on objective qualifications to establish a professional civil service, care will be needed to ensure equal access for women and to achieve a degree of gender balance.

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 right sizing 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 the physically disadvantaged/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 micro credit. 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 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. This involves efforts towards strengthening corporate governance and reinforcing property rights. Success with efforts to expand small scale and micro finance is most likely to come through focused local initiatives rather than attempt to build a nation-wide system.

17. While 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.** Due to 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 such as national income, balance of payments, and money supply do not exist for Somalia for almost two decades. Nor do the sort 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

there are inadequate information systems in Somalia as well as lack of trained staff and resources to collect economic and social data. 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 re-establishment of the Somali Statistical System will require new institutional structures.

The data development priorities in Somalia are launching of the population census, and further data collection exercise on social sector and macroeconomics data. The major statistical need dominating all others is the population census, since it is essential for socio and macroeconomic policy analysis, and 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 in order to ensure its implementability. Given the importance of human skills in the face of their erosion over the past two decades, 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 to \$515 in SSA⁵), 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, 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 un-creditworthy 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 depositor's money, led to a lack of public confidence in government and banks. The tax system was generally distortionary and cumbersome, and the tax administration was 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
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

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

⁵ WB World Development Indicators 2002.

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) 1/	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.

1/ 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 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 in trade and marketing; money transfer services; transport; communications; airlines; telecommunications; other services including construction and hotels; education and health; and fishery equipment, largely funded by the large remittances from the Diaspora. Remittances amount to at least US\$1 billion today, 71.4 percent of GNP, compared to \$370 million average in 1980s and 1990s. There has been very little foreign investment in recent years.

3. Remittances, the single largest source of foreign exchange and hard currency in Somalia, have strong positive impacts on the current account balance of the country. Remittance companies, in absence of commercial banks, have been the main mechanism to transfer money in and out of Somalia. Especially in times of economic depressions and external shocks, remittances have been extremely important to 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 increasingly remittances are also used to fund new organizations and development projects.⁶ Whether invested or consumed, remittances have important macroeconomic impacts, stimulating various sectors of the economy, creating positive multiplier effects.⁷ 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.⁸ One negative impact is that remittances might discourage job-seeking and keep unemployment high.

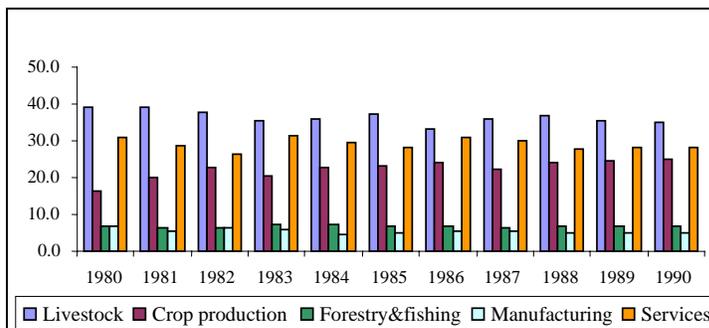
⁶ Hansen, Peter. “Migrant Remittances as a Development Tool: The Case of Somaliland.” Danish Institute for Development Studies (DIIS), Department of Migration Policy, Research and Communications, p.2

⁷ 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.

⁸ Adams, Richard, 2005. “Remittances and Poverty in Ghana.” Development Research Group (DECRG), World Bank.

4. In terms of real sector activity, agriculture, specifically agro-pastoralism and crop production dominate GDP. Due to 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, agricultural sector accounted for about 64 percent of total GDP (Figure 1.1). About 52 percent of this share was generated by the livestock sub-sector and some 37 percent by agricultural crops including fruits. The most prominent sub-sectors in services were trade and hotels, and transport and communications.

Figure 1.1: Sectoral Contribution to GDP (%)



While shares might remain similar to pre-1991 period, level of agricultural production is well under their peaks in mid-1980s, mainly due to continued insecurity, destruction of irrigation systems,

and absent or weak government. Camel and cattle population declined by about 8-10 percent, sheep and goat population went down about 15-20 percent, and the value of crop production is at 38 percent of 1989 levels. Livestock off-take (slaughters and exports), however, remains in the same range as during the late 1980s, suggesting a less negative impact on these sectors than on crop production. In all agriculture sub-sectors, including fishing, potential output is considerably higher than historical and current output. Contribution of manufacturing to GDP in the late 1980s was no more than 5 percent and it still remains low today.

5. Cross-border trade has been growing steadily over past 6 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. Prior to the civil war, livestock and livestock products accounted for 80 percent of exports; banana 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 have almost stopped in 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 imports value estimated between US\$30-50 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 MDGs.** The incidence of poverty is very high, with 43 percent of the population living below the extreme poverty line of \$1 per day at purchasing power parity

(PPP).⁹ Poverty in rural areas at 53 percent is higher than the average, while 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 receive 35.6 percent of the total income (UNDP, 2003). 47.4 percent of the workforce age population is unemployed in Somalia (UNDP/WB, Somalia: Socio-Economic Survey, 2002).

Table 1.3: Poverty Estimates, 2002

	Extreme Poverty		General Poverty	
	Share of	Average Per	Share of	Average Per
	Population	Capita Income	Population	Capita Income
	(%)	(\$ PPP)	(%)	(\$ 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) terms.

7. Recently, there has been a significant deterioration in the current food security situation mainly due to lack of access and availability 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 acute food and livelihood crisis. Preliminary estimates show that, in the worst case scenario of below normal *Gu'06* rains, this number could increase to 1.8 million between July and December 2006 – which poses the risk of a deepening humanitarian catastrophe (FSAU and FEWSNET).

8. Somalia is ranked 161 out 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 enrolment was only 20 percent in 2004 (Table 1.4), an improvement compared to the even lower enrolment rate of about 12 percent in 1988.¹⁰ Similarly, while under-five and maternal mortality rates are among the worst in the world at a staggering 22.4 percent and 11-16 per 1,000 live births, respectively, under five mortality is lower than before the start of the civil war.¹¹ 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, under five child malnutrition prevalence rates are higher (26 percent) than in Senegal (23 percent) and Kenya (20 percent), but are lower than in Ethiopia (47 percent), Eritrea (40 percent), Nigeria (29 percent) and Tanzania (29 percent).

Table 1.4: Millennium Development Goals

	Somalia	Somaliland	Puntland	South-Central

⁹ This poverty analysis is based on estimates of income in a household survey conducted in Somalia during 2002, unlike the expenditure-based household surveys conducted in other countries.

¹⁰ The old estimate is drawn from official statistics reported in the World Bank's 1991 Public Expenditure Review while the more recent estimates are produced by UNICEF from their nationwide surveys.

¹¹ A range estimate is used because the higher estimate is reported in the published UNDP Somalia Human Development Report, 2001 while the lower figure is reported in the draft UNDP MDG Report Somalia, 2004.

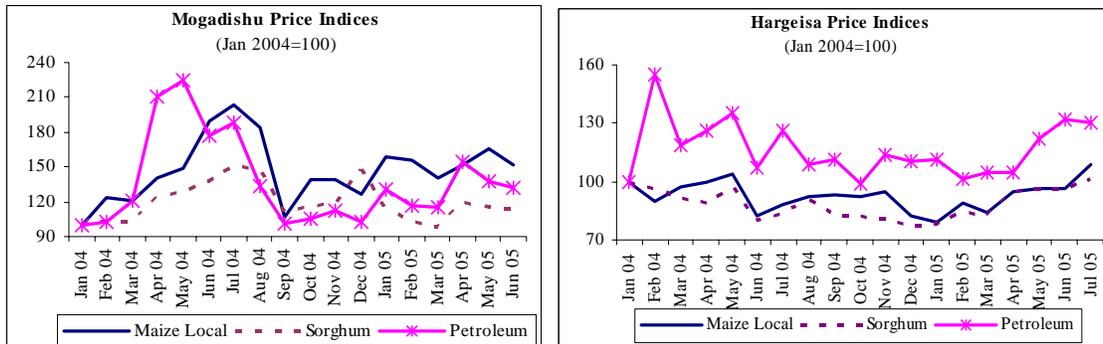
					Target for 2015
Eradicate extreme poverty and hunger					
Population living below \$1/day	43% (2002)	..	..	..	22%
Poverty gap ratio at \$1/day	18.3% (2002)	..	..	..	9%
Share of poorest quintile in national consumption	4.1% (2002)	..	..	..	2%
Children underweight for age (percent of children under 5)	26% (2000)	21% (1999)	26.8% (1999)	27.5% (1999)	13%
Achieve universal primary education					
Gross primary enrolment ratio (% of school age population)	22% (2005)	33% (2005)	24% (2005)	16% (2005)	100%
Youth literacy rate (% ages 15-24)	20% (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)	224 (1999)	188 (1999)	225 (1999)	231 (1999)	75
Infant mortality rate (per 1,000 live births)	133 (1999)	113 (1999)	133 (1999)	137 (1999)	44
One-year-olds immunized against measles (%)	40% (2004)	..	..	..
Improve maternal health					
Maternal mortality rate (per 100,000 live births)	1,100 (2002)	1,600 (2005)	..	..	275
Births attended by skilled health staff (%)	25% (2002)	27% (1999)	49.2 (1999)	27.6 (1999)	
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)	3% (2001)	..	..	..
HIV prevalence among 15-24 yr old pregnant women	..	1.4% (2004)	1% (2004)	0.9% (2000)	
Contraceptive prevalence (% of women ages 15-49)	7.9% (1999)	9.3% (1999)	8.3% (1999)	6.1% (1999)	
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% (2003)	..	..	..
Percentage of children under 5 treated with anti-malarials	19% (2001)	12% (1999)	27.6% (1999)	14.6% (1999)	
Ensure environmental sustainability; land, air and water					
Proportion of land area covered by forest	12% (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. (2000-02)	..	..	..
Proportion of population using solid fuels (%)	97% (2000)	..	..	..
Access to an improved water source (% of population)	29% (2002)	31.3% (1999)	25.9% (1999)	17.8% (1999)	64.5%
Access to improved sanitation (% of population)	25% (2002)	47.4% (1999)	41.5 (1999)	50.8 (1999)	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 available benefits of new technologies.
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 2004/05; 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 Seroprevalence Sentinel Sites, 2004.

9. **Inflation and exchange rate.** In the absence of a cohesive government for 15 years, inflation rose even further compared with pre-war years, due to substantial amounts of foreign-printed currency injected into the economy. Apart from the monetary expansion, the prices rose due to higher fuel prices and food insecurity. In South-Central Somalia, the Consumer Price Index (CPI) suggests inflation went up from 14.4 percent in 2002 to 16.4 percent in 2003. Recent inflation data based on Mogadishu consumer 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 average inflation of 8 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 percent between November 2005 and March 2006. Maize prices in Juba Region are now 214 percent higher than they were prior to the drought.¹²

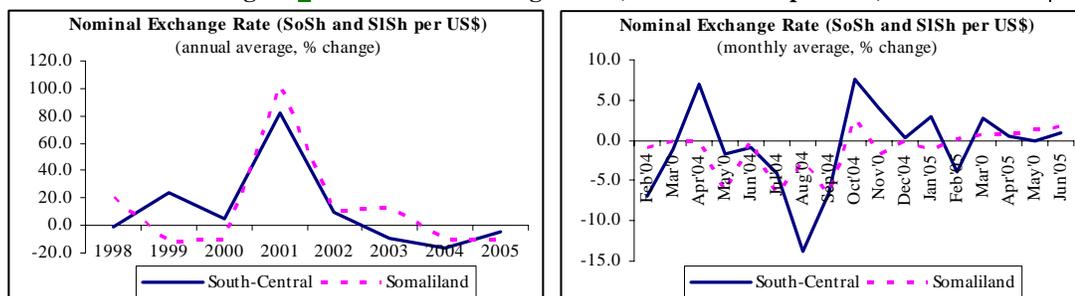
Figure 1.2: Price Indices



10. Money exchangers operate freely in the country and the system is becoming increasingly dollarized. Both the Somali and *Somaliland* Shilling have remained relatively stable since October 2004, at 14,500-15,600 SoSh/USD for the Somali Shilling, and at 5,900-6,400 SiSh/USD for the *Somaliland* Shilling (Figure 1.3).

¹² International prices for sorghum and maize are also rising. Sorghum prices rose 8.4 percent during the first quarter of 2006 compared with last quarter of 2005 due to 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 (SoSh and SISH 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 pre-war 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 that have fluctuated widely in recent years, but are currently around \$22 million for *Somaliland* and \$16 million for *Puntland*. Minimal allocations of expenditure are made for the provision of public goods such as infrastructure and social services. Compared to the pre-war period, deficit financing is limited to semi-voluntary loans from major business people that are repaid through tax exemptions rather than central bank inflationary financing.

12. In 2005, *Somaliland* had a budget of Sl.Sh. 133 billion (or \$22 million), with 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 \$ 22 million to development expenditures. The *Puntland* government had a budget of So.Sh. 281 billion (or \$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 \$20.0 million). Of this amount, 63.2 percent is allocated for salary and allowances, due to the enlargement of the civil service to about 11,000 as a result of absorption of demobilized militia. Only seven districts out of 23 are fiscally self-sufficient, with 9 districts that need a subsidy from the regional state government to cover half of their administrative costs and 7 districts entirely financed by the regional state administration.

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 SDR27 million (US\$33 million; 54 percent of quota) and no prospects for an agreement on an

economic program in sight, the Executive Board of the IMF declared Somalia ineligible to use Fund resources. The undrawn balance of IDA credits with the World Bank was also frozen.

14. From 1990 to 2006, as a result of significant arrears on past debt-servicing obligations, the lack of a fully functional national government, and the unstable security situation, Somalia neither borrowed nor serviced its public debt. Somalia's total external debt (public and publicly guaranteed) is estimated at USD 3.2 billion at the end of 2004, of which an estimated USD 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 NPV of the total debt stock is USD 2.9 billion. Somalia remains at pre-decision point for HIPC.

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

Creditor	Nominal Stock					NPV of total debt 2/
	Total		Arrears 1/			
	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
AfDB Group	126	3.9	37	21	57	102
Others	310	9.7	187	106	293	318
2. Bilaterals & 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.

1/ Includes principal and interest arrears as well as penalty charges.

2/ Calculated using end-2004 exchange rates and, as discount rates, currency-specific average CRRs from 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 \$120 million in 2003 (Annex Table A1).

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

- **Efforts to re-establish a governing structure, especially in South-Central Somalia, are at a nascent stage.** The Somali National Reconciliation Conference that began in October 2002 in Kenya led to representatives of 22 Somali groups establishing a 275-member Transitional Federal Parliament in August 2004, largely based on clan affiliation. In October 2004, the parliament elected Abdullahi Yussuf Ahmed, the former president of *Puntland*, as the interim president of the TFG. The following month, Mr. Yussuf selected Ali Mohammed Ghedi as Prime Minister, 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. Besides, 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 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 over 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 maintenance 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, primarily due to mismanagement eroded confidence in publicly owned financial institutions. Overall, Somali people still harbor suspicion and ambivalence towards public authorities.
- **An extremely poor investment climate.** In a post-conflict 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 TFG in addressing these constraints and in turn attracting foreign and domestic investment cannot be underestimated.
- **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 deterioration of human and physical capital. Overall productivity declined compared to pre-civil war times, causing a negative effect on economic growth. Today, there are critical gaps in both public and private sector provision of key goods where 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. In order 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. In order 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 Federal Government, the objective should be to ensure that there is no fiscal deficit, with no 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 budget deficits until a firm record of good fiscal management has been established.

19. However, there is likely to be a need for some intra year 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. It is unlikely to be feasible to sell government securities to the public 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 used by the *Puntland* government. It may be necessary to have the Central Bank inject or withdraw some money from circulation on a temporary basis, while trying not to interfere with achieving the price stability objective. Thus, it would appear to be desirable to establish a modest size fund in the central bank. This dollar fund could be used to temporarily lend money to the government, which would then use the money to cover a temporary budget deficit. By the end of the year, it should be fully repaid.

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. Based on this analysis it should make recommendations whether any intra year adjustments in revenue or expenditure policy appear necessary to meet the objective of no fiscal deficit.

Revenue Generation

21. **Short-term options.** While a number of donors are interested to provide budgetary support to the TFG 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 TFG 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 TFG will be to put in place a tax system and tax administration at the federal and local government levels. It will be desirable to put in place this revenue system within the first year.

22. It will be important to design a tax system, which is consistent with the basic objective of the TFG 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. Towards this 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 which 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 in order to keep the cost of collection low as well as to keep a low cost of compliance by businesses. Consistent with these principles, Box 1.1 presents the revenue generation options that could be considered for short term implementation.

Box 1.1: Short Term Revenue Generation Options for the TFG

Tax on Imports. The simplest and most efficient option would be to tax most imports at a uniform low ad valorem (percentage) rate of something like 5 or 8 percent, while a few specified goods, which are either luxuries or have harmful affects on health or the environment, are taxed at higher rates of 10 to 50 percent. The rates should be kept low enough so as not to provide a significant incentive to try to smuggle goods to avoid payment of duty or to seek to bribe customs officials to undervalue the goods. Some of the goods for which a higher rate of customs duty would be appropriate are: khat, cigarettes, petrol, diesel fuel, and motor vehicles.

Exports. It is the normal international practice not to tax exports, because it 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, since 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, fruit and vegetables. Because of the severe environmental damage it 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.

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 ½ 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 so as not to deplete 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. This should be considered an airport usage fee and also apply to diplomats.

Passports and Visas. Once the TFG 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 something like \$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.** In the medium-term it will be desirable to increase most of the indirect tax rates suggested for the short-term. Once a reasonably effective revenue administration is in place it should be possible to do this without encountering a significant increase in tax evasion. In addition, consideration could be given to the introduction of a 10 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. Somalia had in place quite extensive systems of taxation of business and personal income in the past. However, the administrative apparatus to effectively implement these taxes was always weak. Their introduction will require significant work in drafting legislation and putting in place trained specialized tax officials.

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. It is guesstimated that the total value of local currency in circulation in the areas of Somalia is about \$60 million (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 about 20,000 shillings to the dollar), and that the foreign currency in circulation, mainly US dollars, is about \$150-200 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. While the monetary authorities can seek to alter the amount of local currency in circulation by buying or selling foreign currency, this is not likely to have much impact on the total value of domestic and foreign currency in circulation. Thus the fiscal policy will play an important role by putting domestic currency into circulation or taking currency out of circulation. However, the central bank is likely to need to make gradual purchases of dollars in the foreign exchange market in order 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. After a record of fiscal prudence has been established, a modest annual level of domestic financing of budget deficits through printing money to make government payments, can probably serve as the main means of issuing currency.

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 for the Central Bank, 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 mainly used 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 as there is little impact on the prices of non-tradables, 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, it will gradually acquire a stock of foreign currency. It will then be in a position to provide short-term intra-year financing in either local currency or dollars to cover temporary budget deficits.

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 US dollar compared to 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.

32. A Somali Central Bank should generally not intervene in the foreign currency market, except to smooth out what are perceived to be disorderly market conditions. However, there are unlikely to be disorderly market conditions once the central bank is fully in control of the issuance of domestic currency. Improvements in security and law and order are likely to strengthen the value of the shilling because of an expectation of improved law and order. The increased donor aid that would follow would also tend to lead to an appreciation of the currency. While some appreciation of the shilling is almost inevitable, a rapid or significant appreciation of the shilling would probably be undesirable. It is likely to be appropriate for the central bank to issue local currency by purchasing dollars in the market, which will accommodate the increase in the demand for local currency and also contain the appreciation of the local currency, which otherwise might occur.

Currency Issues and the Cost of Printing New Currency

33. The only local currency in circulation is the Somali 1,000 shilling note, which is presently worth about US 7 cent. This makes the currency highly inefficient as 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.

34. There is a need to introduce a new 10,000 Shilling note. This would make it easier to count and transport money and carry out transactions. The current cost of producing the *Somaliland* note is about US 6 cents and the cost of producing the Kenyan note is about US 4.4 cents. 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 one 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 6 cents each would cost a total of \$4.5 million (compared to face value of \$52.5 million)
- 180 million 1 shilling coins at a cost of 4 cents each would cost \$7.2 million (compared to a face value of \$12.9 million)
- 40 million ½ shilling coins at a cost of 3 cents each would cost \$1.2 million (compared to a face value of \$1.4 million)

35. Based on the estimations in the box above, 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. This 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 in the next three years that 45 million 10 Shilling notes were to 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 Government. This would give the central bank a source of some revenue during this period.

36. One issue which will emerge for the TFG 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 Government. In practice this will not be an important issue, except that for revenue collection purposes, the TFG will probably wish to have most revenue payments made in US Dollars. Since 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. It should also be indicated that introducing notes and coins which make counterfeiting more difficult should increase the confidence of the people with regard to the local currency.

37. The introduction of higher denominations in some African countries (including pre-civil 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.

38. While the specific case of *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

39. While 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 TFG. The pre-civil war government of Somalia accumulated external debt of about \$2 billion, and with accrued interest arrears this has increased to \$3.2 billion by end 2004. However, it is clear that the TFG 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. In order 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.

40. For treatment of arrears under the Heavily Indebted Poor Countries (HIPC) Initiative, a normalization of relations with all creditors is essential as failure to do so could refrain some creditors from taking action. The clearance of arrears is a first step toward restoring inflows of concessional resources and an important element for a country to qualify for assistance under the Initiative. Currently, Somalia remains at pre-decision point. Arrears towards Multilateral Development Banks (MDBs) should be cleared, or an agreement be 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

41. 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, as it will be possible to put back into productive use agricultural land. In addition, women account for most of the small traders, and this sector will also be a major beneficiary of improved law and order and economic growth. Macroeconomic policy, that 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, would bring opportunities for women to access resources. Thus a sustained growth accompanied by law and order will create opportunities for women to get 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 the government. There is a need to form a small gender advisory unit within the government which would be responsible for providing technical expertise in designing, implementing and monitoring strategies for women development.

42. Gender sensitive macroeconomic policy needs to 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 terms of specific action plans, 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 within 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 creation of women's entrepreneurship networks. Finally, there is a need to collect gender-disaggregated data to assess women's needs and to help create action plans to empower the Somali women.

Field Assessments and the Macroeconomic Policy Priorities

43. 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 environment to macroeconomic policy and public resource use. Field assessments were undertaken in 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. 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 while in *Puntland* and South West Zone it is financial services, and finally in Benadir, it is creation of institutions accountable for the economic policy and sustainable revenue sources.

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

44. 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. Generally speaking, the decentralization of fiscal responsibility follows a pattern in line with the age of the system with *Somaliland* being 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.

45. The TFG lacks both financial resources and staff capacity to effectively establish appropriate financial management systems for Somalia, and 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. The challenges at the federal level are lack of a functional budget, effective accounts and audit departments, as well as a macroeconomic unit at the Ministry of Finance, which are required to jump start federal operations. There is an urgent need to build efficient and sustainable financial management system.

46. There are a number of challenges in the current system that will need to be addressed in improving the PFM in *Somaliland*. The main challenge is inappropriate budget preparation process, which would make it difficult to operate in an environment of increased funding, accompanied by requirement for effective output monitoring and transparency. This is due to weaknesses in the public system, such as (i) lack of full participation of all stakeholders; (ii) lack of medium and long term planning; (iii) inadequate budget analysis; (iv) non compliance with Government regulation; and (v) 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.

47. In *Puntland*, a number of non compliance weaknesses and other challenges exist in the current PFM and will need to be addressed in improving the systems. The major challenge is non compliance 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 votebook; inconsistencies in classification of data in cashbook; lack of evidence of reconciliation of cashbooks to the statements from the bank; non participatory 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.

48. 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 frame and institutional arrangements for procurement management and law enforcement, the current systems will obviously not be suitable for handling large-scale activities.

Legal Framework

49. The area of the former Republic of Somalia is currently guided by three separate legal frameworks: the Transitional Federal Charter (2004), *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, particular for the purpose of local service delivery. In all regions, there is a strong tendency towards decentralized service delivery. While this approach is most advanced in *Somaliland*, it will likely evolve in the same direction across *Puntland* and the remainder of Somalia, albeit at highly varying speeds. The strategy of the TFG seems to aim at a bottom-up approach where 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.

50. **The Transitional Federal Charter.** The Charter, signed in February 2004, specifies that Somalia "shall have a decentralized system of administration based on federalism," and 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 Transitional Federal Government (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), with the task of determining the details and guiding the process of how to transform Somalia's government into a federal one, developing legislation to guide the decentralization process, and making decisions on how many states, regions and districts Somalia will consist of, their borders and relationship with the federal government. The TFG has submitted an Act for the formation of the FCC to the Council of Ministers and is currently awaiting its approval.

51. The Charter further provides 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.

52. One contradiction between the language of the Charter and the current state of the TFG which must be addressed is the fact that there are already 42 TFG ministries, yet Schedule 1 of the Charter only provides the federal government with core functions related to security, macro stability and trade, planning and monitoring and foreign affairs, justifying a far smaller and more focused TFG.

53. **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 is an administrative level funded through the budget of the Ministry of Local Government and Rural Development, and performs mainly coordination, security and political functions. Below the regional level, the State is divided into 27-30 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 underway to have them elected. So far, seven districts have completed this process.

54. 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, upon prior approval from the state government.

55. Due to 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.

56. **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.

57. 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. Whereas 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.

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

59. Similar to the set-up in *Puntland*, regional governors are appointed by the Ministry of Interior in *Somaliland* 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, or perhaps ever.

60. **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 Chairman, a Deputy Chairman, a Permanent Secretary to the Board, and four other members (including the procuring entity of the tender in hand), and delineates the roles and responsibilities of the NTB and other Government entities in the management of the tendering process and decisions on award of Government contracts.

61. NTB is an autonomous entity in the Office of the President with the authority to:

- 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 S1Sh 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 sub-committee 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.

62. **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 outlines the responsibilities of other actors in public procurement processes and decisions and prescribes the procurement procedures to be followed by Government agencies.

63. The Tender Board is an autonomous entity which reports to the President. The Tender Board has seven members: a Chairman, a legal expert, and five representatives (at senior managerial level) from the Bank of *Puntland*, Ministry of Finance, Ministry of Public Works and Transport, Ministry of Trade and Industry, and the procuring entity. In addition, 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 TB to establish its internal regulations to be proposed by the Chairman and approved by the President.

64. 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.

65. *Puntland* has a law on Local Governments, which was 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 Chairman 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

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

maintenance. As the government has no present revenue collection capacity, the budget was presented to international donors. Although it is unclear how much of the budget has currently been funded, a number of donors are currently providing budgetary support to establish the Somali Government.

67. One of the clear challenges presented by the Federal Charter is the fact that it identifies a significant portion of revenue coming from sources which 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 TFG to show it has the support of the Somali people through collecting some of its own revenue.

68. **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 fails to take into account the need, priorities and participation of rights holders, particularly from 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 expenses¹³ 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. Most of the expenditures are committed to wages and salaries and the other recurrent expenditures and budget preparation is largely a mechanical exercise. 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.

69. In *Somaliland* central government, the Ministry of Finance (MoF) 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 & 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, on the other hand, are independent of the central government and their budgets are prepared by the District Executive Secretary and the Accountant, in consultation with user units. The District Budget is analyzed by heads and sub-heads, in the same way the Central Government Budget is analyzed.

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

71. **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 which 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 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

¹³ Also referred to as “Services”.

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.

72. **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 sources of income include telecommunication and postage, rural development charges, court charges, water income and fishing charges, among others. 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 Sub-Accountants in 8 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.

73. 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 Sub-Accountants to the Accountant General do not include collections by the Districts, as these are spent within 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. This includes: (i) 10 percent of the customs tax from the district; and ii) 12.5 percent of the total customs revenue that the Central Government collects from all the Districts.

74. 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 prepared and submitted to the Accountant General within the first 10 days of the close of the month. As in *Somaliland*, a part of the customs duties collected by Central Government is paid back to the Districts. This is 7 percent of all customs duties collected in *Puntland*. 2.5 percent of the 7 percent is paid to Bossaso and 4.5 percent of the 7 percent to the other 20 Districts of *Puntland*.

75. **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, while elected councils in *Puntland* went from zero to seven during the same time period. While 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.

76. 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. While 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.

77. **Matching Expenditure Assignments 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. Most district revenue is collected from immobile sources (i.e. markets etc), but capacity for revenue collection 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.

78. While the TFG Charter provides no specifics on the district level, the *Somaliland* and *Puntland* legal frameworks itemize a long list of functions which 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.

79. **Revenue Sharing and Transfers.** In addition to raising their own revenue, districts in *Somaliland* also receive funds from the state (Annex Table 1A). There are two mechanisms used:

1. *Shared revenue* – Districts which 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*.
2. *Intergovernmental transfer* - 12.5 percent of the total customs taxes collected by the Ministry of Finance (after the 10 percent deduction noted above) are redistributed among all districts (except for Berbera and Darbulakhare). The formula for redistribution is roughly aligned with the size of district expenditures.

80. 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 is collected on behalf of the Municipality of Bosaso, while 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 Service Delivery

81. The entire process of federating Somalia will be guided by the Federal Constitutional Commission (FCC). Given the broad range of tasks to be performed by the Commission, it is suggested that an FCC sub-committee be established to look specifically at the fiscal decentralization. It is expected that the sub-committee 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; and

- Establishing institutions and decision making processes that can support the federal structure and be responsible for establishing, implementing, and monitoring the allocation criteria.

82. **Service Delivery.** The responsibility of various levels of administration to collect revenue and provide services needs to be clearly defined. Once this 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 VAT, and customs revenue is far below capacity. With increased capacity to collect and manage 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.

83. **Contracting-out.** Rather than hiring staff to directly provide services, districts should follow the many successful models which have been developed in Somalia for contracting-out to NGOs or the private sector, or in facilitating and encouraging public-private partnerships (i.e. in water, electricity and garbage removal) as the most efficient means of service delivery.

84. **District Financial Management Capacity.** It is risky to provide funds to districts without a track record in managing larger amounts of money. In the absence of commercial banking in Somalia, donor funds will have to pay for local service delivery by directly contracting NGOs or the private sector.

85. **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 where staff and other resources are largely reserved for front-line service provision through devolved district governments which may contract private sector or NGO providers.

86. **Transitional Arrangements.** Each region of Somalia will need to be treated differently depending upon its own unique starting point. For example, while districts in the north are building their capacity to directly administer donor funding, an interim solution such as a semi-autonomous Social Fund, may be the best way to provide funds (i.e. block grants) to support district service delivery needs, but without the cumbersome financial management requirements.

87. **Outcome Targets for Service Delivery.** 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 this vision, a two-pronged approach should be adopted, focusing on the district and central levels respectively:¹⁴

1. At the federal level, specifically in areas without existing states – Focus on clarifying the levels of government and the associated roles and fiscal responsibilities.¹⁵

¹⁴ 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 already, federal government involvement in delivery should be avoided through the establishment of a lean federal structure and legally assigned functions matched by fiscal capacity

¹⁵ 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

2. 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 non-governmental actors during the transition period.

Establishing an Efficient and Sustainable Financial Management System

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

- **Operation of a 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 sub-heads;
- **Operation of a participatory, transparent and comprehensive budgeting system** with a multi-year perspective that ensures linkage of development policies to the expenditure framework and incorporates development associated recurrent costs.

Priority Initiatives

89. In line with the above mentioned two-pronged approach, 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 while a more targeted set of actions can be taken to improve the systems which are already operating in the North. The following actions should be pursued on the federal level:

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.

1. Provide technical assistance to the Federal Constitutional Commission 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.
 2. 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.
 3. Establish key federal functions to support the fiscal system, including capacity for policy formulation, financial management and monitoring
 4. Agree on modalities for intergovernmental transfers and applying a formula which is tied to appropriate criteria determining vertical and horizontal allocations, and establish institutional arrangements to support and operationalize the system
90. In parallel, the following actions should be pursued in the North within existing state structures and in the south-central region where and when appropriate:
1. Draw up state constitutions and appropriate local government acts where appropriate, to reflect the decisions on functions, assignments and institutional structures at the different government levels;
 2. Establish governments at different levels to reflect the constitutional requirements;
 3. Develop and agree on model for service delivery, including planning and budgeting, implementation, reporting mechanisms, and systems and practices of local public-private partnership;
 4. Assess the revenue collection capacity of district governments and invest in upgrading skills, technology, systems and procedures to increase revenue flows;
 5. Establish appropriate funding mechanisms to address the absence of any existing form of poverty targeting fiscal transfers in the northern states and south. The process of selecting, implementing and monitoring Fund recipients should be tied to the governance framework provided by elected district councils, where available;
 6. Set up the systems for public service management for the different levels of government and arrange personnel accordingly; and
 7. Facilitate dialogue in the north where further decentralization of state finances is being debated for district level service delivery.

Revenue Mobilization

91. 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* regarding their role 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 is established, under a separate tax administration law, with a policy to recruit staff on the basis of merit only.

92. 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. These units need to prepare preliminary local administrative budgets for 2007 and simplified local budgets for 2008. In the medium term, such 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 progressively would be in charge of tax revenue mobilization.

93. TFG needs to strengthen the capacity to raise revenue from import, export and other indirect taxation. 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*.

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

Short-Term Interventions

95. **Hire a Procurement Agent (PA).** In consultation with TFG and authorities of the functioning administrations, the administrator of the proposed Trust Fund (TF), referred to hereinafter as “the TF Administrator” will hire a procurement agent to assist TFG and regional administrations in the implementation of the TF- funded procurement. A team of the procurement agent, comprising a manager and adequate staff with the right skills mix will work with each administration and TFG. The PA may sign together with the TF Administrator a separate contract with each authority, e.g. TFG, *Somaliland* and *Puntland*.

96. The PA’s responsibilities under each political authority will be among others to jointly:

- Prepare annual procurement plans with the beneficiary public entities;
- Manage the procurement process at all stages with procurement units of 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 administration of the procurement process and award of contracts, approved by the TF financiers; and

- 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.

97. In each beneficiary administration, the TF financiers, and the authority of the administrations will create a Complaints Review Office where aggrieved bidders may present their complaints.

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

- Development of comprehensive Procurement Regulations that (i) define more clearly, among others, the procurement procedures, and roles and responsibilities in procurement implementation decisions, (ii) establish procurement units and tender committees in the public organizations, managed by teams selected from the existing public servants, including women and minorities;
- Training of staff procurement units, tender committees, and Central Tender Board;
- Production of standard bidding documents/forms;
- Amendments of the current laws with the aim of changing the responsibilities of the Central Tenders from administering the procurement process and awarding contracts to (i) approving recommendations by Tender Committees of procuring entities for award of contracts exceeding a set threshold, (ii) approving requests from procuring entities for procurement of goods and services through procedures other than open competition; (iii) conducting random audits on the procurement procedures of contracts that are not subject to its approval; and (iv) recommending punitive measures against culprits of irregular procurement decisions or corrupt practices, and forwarding its recommendations to the appropriate authorities.

99. **Assist TFG in the establishment of procurement regulations.** Because of the uncertainty of the form of a national Government that may emerge after the tenure of TFG comes to an end, it could be more appropriate to provide TFG the necessary in the formulation of two sets of procurement regulations for procurement of goods and services to be implemented (i) at the national level; and (ii) 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 legislations 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. This may, otherwise, be a potential area for conflicts.

Long-Term Interventions

100. **Establishment of national procurement system.** Assist the national authorities that may be formed after TFG in the formulation of 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

101. Among key outcomes to be monitored is the number of elected district councils, levels and effectiveness of transfers, gradual increase in total value invested in service delivery in selected districts localities, number 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.

102. The proposed strategies for implementation of the priority public financial management tasks are as follows:

1. **Outsource the design and implementation of the computerized financial management systems** to a Financial Management Agency (FMA). This should include procurement and set up 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 emphasis transfer of skills and knowledge as the FMA provides on the job training to staff.

2. **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.
3. **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.

103. The PFM monitoring systems should include:

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 terms of 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

104. The TFG now consists of 275 members of Parliament and drawn from them 84 ministers and deputy ministers, plus 5 ministers of State. 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. Some staff work for the TFG on a voluntary basis. Almost all the budget is provided by donors; the rest in the form of loans from the private sector.

105. The TFG has taken the first steps toward setting up a civil service. A six person Civil Service Task Force was established by a Presidential decree of 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.

106. 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 four 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 Civil Service Commission 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. 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, reducing staffing level by about 2,000.

107. Public administration at 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: of Interior & Security (there is also a ministry of the same name), and of the President's Office. Although an exercise was conducted around 3 years ago to define the functions of each ministry and to standardize their structures, the proposal was not implemented and each ministry determines its own internal structures. In some cases this has led to a proliferation in the number of departments, with staffing sizes which would generally not be considered as operationally viable. For instance, the Ministry of Local Government & Rural Development has 65 staff and 10 departments, which, after discounting its DGs and regional staff, means an average of less than 6 staff per department.

Staffing

108. The Civil Service Structures Study makes proposals regarding the size of the civil services on the basis of population, GDP and what it refers to as "structures criterion," in each case using standards from a number of other African countries. 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.¹⁶ The target

¹⁶ In each case "civil servant" for the comparator countries does not include frontline service providers such as teachers and nurses.

becomes 32,000 assuming that 7 percent of the TFG wage bill will be spent on civil service salaries.¹⁷

109. Using the “structural criterion,” the report develops the following options:

110. 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 (The population of *Somaliland* is 1.7 million and *Puntland* 1.1 million). 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. One part of the country will have to be brought up to the same level administratively as the other two. The objective of the proposals is to establish what might be called a balanced, federal state in a country where at the moment there are emerging government structures in two parts of the country and no formation at all in the rest.

111. 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 Report on Somalia Public Sector Issues of May, 2005 (Box 1.3).

Box 1.3: Confederate, Asymmetric State

Under such a state not all parts of the nation would be structured the same. For example, Catalonia is given a measure of independence not accorded to other regions in Spain. 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 upon *Somaliland* and *Puntland*, unlike South-Central, already having operating governments. The federal government would have a similar relationship to the two regional states as Switzerland’s federal government does to its provinces but 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 the spending priorities. The federal government would be responsible for legal frameworks, 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 leave it up to lower levels of government to decide upon 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, since 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 upon 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. This would mean that at the district, and perhaps regional level, there would be no asymmetry.

¹⁷ However, in this case “wage bill” for the comparator countries do include frontline service providers.

112. In *Somaliland*, central government employs 5,559 staff. 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 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; two women are ministers or vice ministers; one of the 40 directors-general is a woman; there are seven female directors out of 420. Almost all the women are in very “subordinate” jobs, such as cleaners and clerical workers. 66 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 3750 following the 2001-2002 restructuring, but is now on a rising trend.

113. *Puntland* currently pays salaries to an estimated total of over 10,000 people, comprising approximately 8,000 police and militias 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

114. The report on civil service recruitment prepared by POWER in 2005, based upon models from India, Kenya and Britain, proposed professionally based recruitment characterized by equal opportunity, affirmative action, advertising posts, transparent selection, meritocracy, upward mobility, compulsory retirement and succession planning. A CSC for the TFG is proposed (it is being formed) and director of human resources in each ministry and region.

115. Somali Institute of Management & 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:

- A) The regional mean (for this part of Africa) with 6000 civil servants
- B) 75% of the regional mean with 4500 civil servants
- C) 50% of the regional mean with 6000 civil servants
- D) The mean of *Puntland* and *Somaliland* with 6000 civil servants
- E) The mean of NGOs and the Private sector in Somalia with 6000 civil servants
- F) 50% of the mean of NGOs and the Private sector in Somalia with 6000 civil servants
- G) 50% of the regional mean with 5000 civil servants

116. The study made the following assumptions when generating the data on salaries and the 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 in the second year, 7¹/₂ percent during the third year, 5 percent during the fourth year, and 2 percent during the fifth year (the point at which it will stabilize).

- 3 A 4-band salary (A, B, C, and D) structure where 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 The following percentage distribution of the number of civil service employees into bands:
 - Band A: 8%
 - Band B: 14%
 - Band C: 56%
 - Band D: 22%

117. The scenarios are summarized in the two tables below:

Table 1.6: A Combined (Annual Salary + Annual Cost of Employment) Comparison of Options
(US Dollars)

OPTION	BASIS	#CS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTAL
A	Regional Mean	6000	20,487,436	22,536,180	24,226,393	25,437,713	25,946,467	118,634,189
B	75% of Regional Mean	4500	11,991,604	13,190,764	14,180,072	14,889,075	15,186,857	69,438,372
C	50% of Regional Mean	6000	14,011,951	15,413,146	16,569,132	17,397,589	17,745,540	81,137,358
D	Puntland & Somaliland Mean	6000	7,655,340	8,420,874	9,052,440	9,505,062	9,695,163	44,328,878
E	NGO & Private Sector Mean	6000	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	6000	20,079,120	22,087,032	23,743,559	24,930,737	25,429,352	116,269,801
G	50% of Regional Mean	5000	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 Dollars)

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

118. Lowest salaries in band A are the ones that are based upon current salaries in *Puntland* and *Somaliland* (scenario D). A number of allowances, including housing and medical, are to be added to this basic pay.

119. The report concludes: “OPTION G offers a scenario that suits the TFG’s current 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 6000 to 5000 during the transition period can be justified.”

120. Based upon 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).

121. In *Somaliland*, salaries range from an average of 120,000 Sl.Sh (\$20)¹⁸ a month for grade D to an average of 326,000 Sl.Sh (\$54.3) for grade A. Taking account of 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 286,000 Sl.Sh (\$47.7) in grade D to 725,000 Sl.Sh ((\$ 120) in grade A. This would more than double the wage bill from 14 billion Sl.Sh to 31 billion Sl.Sh. 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 294,000 Sl.Sh (\$49) at the bottom of D to 1,543,000 Sl.Sh. (\$ 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.

122. In *Puntland*, civil service salaries range from So.Sh. 2.5M¹⁹ (\$ 172) for a Director General (the senior civil servant in a ministry) to So.Sh. 600k (\$ 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%)²⁰. The major increase in staff is due to an addition of 200 teachers proposed to be hired in 2006²¹. The total budget wage bill for 2006 is So.Sh. 190,753 million (USD 13.2 million), up from So.Sh. 178,845 million (USD 12.3 million) in 2004. Thus, the share of the wage bill has gone up from 58% in 2004 to 63.6% in 2006. The share of the security establishment has fallen from about 75% of the wage bill in 2004 to about 70% in 2006.

123. 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

124. The main immediate challenges for the TFG 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 gradually building up the role of

¹⁸ Based on US\$ 1 = Sl. Sh. 6000

¹⁹ Based on (USD 1 = So. Sh. 14,500)

²⁰ This does not include the uniformed services which reportedly employ 8000-8500 personnel.

²¹ There is large (unexplained) decrease in the number in the Presidency.

the TFG and meeting the service delivery needs of the poor in the south who have no 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.

125. In *Somaliland*, the major challenges are summarized in the CSC's Five Years Action Plan for *Somaliland* Civil Service Reform Program for 2006-2010, January 2006. These challenges include: i) overstaffing relative to available resources; ii) poor collection of revenue; iii) fraud, corruption and nepotism; iv) low pay; and v) too many low level staff, 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 pulled together a wide range of stakeholders and informants from within and outside the public sector. Another challenge is that, Article 14 of *Somaliland* Civil Service Law, pronouncing that any candidate to the civil service employment should be physically fit, discriminates against people with disability from access to civil service positions. There are also wide gender disparities in representation of women and minorities in the civil service.

126. Challenges in *Puntland* include: i) professionalizing the civil service and inculcating a culture of client focus; ii) attracting competent managers into the civil service; and iii) changing the public's perception of the civil service. Besides, Ministries do not generally develop legislation in their field of operation and lack the capacity to do so. Most current legislation dates from pre-1991, since the *Puntland* Constitution states that the laws of pre-war Somalia shall be adopted, except in cases where this 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 & Sports, *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 all ministries adhere to existing regulations on such procedures 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.

127. Retrenchment and downsizing in *Puntland* and *Somaliland* government structures have to be carried out in wide consultation and transparency. This is an area that may lead to tensions in government, and also poses the risk of a conflict between clans.

Priorities

128. To build early confidence, the TFG will have to develop rapidly its own capacity to act. In addition to parliamentary and judicial staff, four sets of civil servants are needed immediately²²:

1. A 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 support the leadership in the transition and thereafter. An effective decision-making process must also be established at the center. The president and

²² These same four immediate priorities are identified in the SIMAD Civil Service Terms and Conditions Report.

cabinet should have access to professional advice in making those key early decisions (and all later ones);

2. A civil service commission to assist in staffing the federal civil service along professional lines, while at the same time respecting political necessities, and to advise on the relationship between the federal and regional state civil services;
3. An expenditure management and financial accountability system so that budgets can be prepared, executed and accounted for in an effective and transparent manner; and
4. A federal revenue agency that can advise on how to source revenue for the new government, in the immediate and longer term.

129. 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. 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 on women and people with disabilities for equal access to civil service jobs. Care and caution to be given to the recruitment process bearing in mind that in the past the staff was hired on clan affiliation basis, thus to avoid any further discrimination/marginalization against minority groups members and women. Mechanisms need to put in place to monitor the implementation of human rights/gender principles.

130. An experience from other post-conflict countries is that it is unrealistic to rely on the national budget to pay the salaries of the high quality staff needed to re-establish 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 sustained from the national budget. 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 a common pool, rather than on an individual basis, as was the case at first in Sierra Leone.

131. 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 all local governments. The principal objectives of the second phase are to improve performance by building the capacity of staff.

132. Priorities in *Puntland* include:

- Functional review of federal government at various levels – to include functions of *Puntland* State Government (PSG). This should cover probable changes as a result of the establishment of the TFG including roles and functions of individual ministries & agencies, staffing, and salaries;
- Civil Service Reform – implement the recommendations of the review;
- Capacity development of civil servants - implementation of the training plan, in partnership with existing training providers;

- Gender equity – targeted initiatives in training women for promotion in civil service; in genderising policy-making, M&E systems; and regulation to combat discriminatory practices against women that comply with international human rights principles;
- Creation of an enabling environment for business – streamline bureaucratic processes, establish transparent tendering and related processes; and
- Increased public revenue collection – in order to gain public acceptance, increased revenue collection should be accompanied by enhanced service provision and a public awareness campaign.

D. ESTABLISHING CENTRAL BANK AND STRENGTHENING FINANCIAL SERVICES

Rebuilding a Financial System

133. **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.

134. **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 cash basis and only the remittance companies providing some 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 towards overall economic growth.

135. **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 re-establish the following:

- Commercial banks and non-bank financial institutions which 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; and
- 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.

136. **This task, however, should not be underestimated.** Post-conflict 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. Establishing a central bank is one of the areas with potential risk for conflict. This issue needs to be addressed with sensitivity until a political settlement is reached between the TFG and regional authorities.

137. **Somalia faces many challenges in the absence of a functioning formal banking system.** As in most conflict affected countries, the informal financial market in Somalia is largely organized around the money exchange dealers and their ability to transfer funds into and outside the country through informal 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 remains highly constrained unless a functioning banking system is developed to provide financial resources and other supporting banking services to underpin these investments.

138. The establishment of a full fledged commercial banking is a high financial sector priority. Reinvigorating the financial sector is a critical step towards setting Somalia on the road to sustained self-sufficiency, the creation of economic opportunities, and ultimately the reduction of poverty in the country.

Assessment of Priority Needs and Policy Options for Initiatives

139. While 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.

140. Restoring a financial system in a country afflicted by conflict is a challenging task. In a complex post-conflict 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 where 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 multi-billion dollar deposits world-wide. 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 tenants 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

141. The financial sector development efforts should focus on attracting sound and credible commercial banks. It is essential that public awareness is raised on the licensing and prudential requirements in order to attract desirable private investors.

142. 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. However, it is unlikely that there will be immediate interest in purchasing such assets. 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 temporarily, can be corporatised into a separate viable state-owned financial institution.

143. 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.

144. 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 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 not only to be based on sound financial basis and track record, but furthermore be founded on transparent procedures to avoid clan nepotism and corruption. A proper monitoring system needs to be put in place for this, and a feedback mechanism to the legislature that can ensure full transparency in the process.

145. 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:

- Meetings with key members of the Somali government to ascertain the level of interest and support;
- Discussions with prospective partners in order to ascertain interest and commitment;
- Awareness raising amongst the private sector on banking and international best practices, as well as licensing and prudential requirements;
- Discussions among interested parties to ascertain feasibility of the concept; and

- Solicitation of Expressions of Interest from multinational commercial banks to assume strategic management.

146. Positioning the bank and others that emerge to provide commercially viable banking services will require improving the business environment and 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.

147. 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 in the following areas; Legal and regulatory advice on (i) the entry requirements of new banks, and the necessary supervision and regulatory oversight of the same; (ii) the separation of the central banking functions of the regional central banks from their commercial banking operations, and; (iii) the development of banking infrastructure for payments and clearing system.

Central Banking

148. A strong legal and regulatory framework enforced by an equally strong central bank is important but not a short term priority. Current fragmented regional financial systems in Somalia complicate the essentialness of establishing as priority a central bank, and necessitate consideration -for establishing basic functions of a central bank- in 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 where years of conflict erode basic civil rights. These weaknesses will need to be addressed as sustainable financial sector growth and stability requires a framework based on strong creditor rights. It will be important to ensure broad consultative processes among all stakeholders in setting up the regulatory framework. This will serve as a confidence building measure, and thus further enhance the government's legitimacy.

149. **Somalia's legal and regulatory framework is virtually non-existent.** 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 which are common in other conflict affected countries, Somalia also suffers the unique complication of having within its borders, entities operating as central banks for specific regions.

- *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. However, the lack of trust and confidence in the public financial services has generally resulted in a limited use of the services offered by both institutions. Private citizens use their accounts in the regional banks primarily for accumulating taxes they owe to the regional governments. 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.

- *The two banks do not perform many of the typical central bank functions.* For instance, they do not conduct monetary policy, do not, in effect, supervise banks, nor do they provide or supervise an efficient payment system. Furthermore, the central banks would not even be in a position to offer lender-of-last resort facilities for illiquid but solvent banks had there been any. Significantly, there is no evidence to suggest that either bank has the wherewithal to act autonomously against clear rules of public accountability. There is an absence of well-defined operational objectives such as achieving and maintaining price stability. Addressing these weaknesses is crucial to any meaningful reform of the financial sector.

150. In this regard, 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.

151. Once there is agreement on the two issues listed above, then the following 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 prior to 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 since the expected applicants are likely to serve the same markets. This 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* is in principle agreed to operate as a branch of the national central bank.

152. 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 within 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.

153. The steps to be taken toward re-establishing a central bank and a rudimentary financial system in a post-conflict economy are grouped into four phases. The timeframe for these time periods vary depending on local circumstances. These stages may be identified as: i) the diagnostic phase; ii) the institution-building phase; iii) the two-tier banking system phase; and iv) the exit phase. Somalia is preparing itself for the institution-building phase.

154. **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

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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 functions, 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 of 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 health 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.
- Due to the lack of confidence in the banking system, significant savings are held outside the formal financial system.
- Through the informal 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.
- No clearing and settlement system is in operation inside the country.

155. **The Institution-Building Phase.** The starting base for financial sector reforms in Somalia is extremely low. Ordinarily, re-establishing a national payments system would be a priority in a post-conflict 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.

156. Prompt settlement of government obligations such as salaries, pensions, etc., is not only important in its own right, but also for lending credibility to 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 a mechanism for getting this done 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 and fully re-establish its domestic payment capacity. Box 1.5 presents responsibilities of the Central Bank of Somalia.

Box 15: Responsibilities of a Central Bank

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 CBS focuses 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 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 is 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 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 regarding 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 upon.
- All licensed financial institutions would be under the regulation and supervision of 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 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.

157. **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 regarding 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 troubled pasts.

158. Based on decisions made regarding 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.

159. **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.

160. 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.

161. It would be important to train local staff for middle-and senior-ranking positions as 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

162. 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.

163. In Somalia, as is the case in many developing countries, the provision of funds through directed and subsidized credits by development-finance institutions has 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.

164. In Somalia, the real challenge lies first in attracting credible banks to enter the market. To this end, initially introducing modest criteria for entry of banks in terms of capital and 'fit and proper' requirements should help. Furthermore, accommodating some of the Somali money transmitters as 'narrow' banks could be considered. While 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.

165. While the banking sector is likely to remain the largest component of the financial system for some time after the end of sustained conflict, there is also a need to 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.

166. 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 investments, and currency exchange operations, or service the wealthier communities and expatriates in the post-conflict territory. It would, therefore, be essential to promote the establishment also of non-bank financial institutions, as a means of channelling financial services to rural or deprived areas or lower income segments and women.

167. 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.

168. **Microfinance.** Somalia's development needs would demand building of an inclusive financial system so that savings and credit facilities are available to the lower income segments of the population and micro and small businesses. The microfinance sector in Somalia is perhaps comparable to the situation in other post-conflict countries, only that there are two microfinance institutions (MFIs) that have been in operation for more than seven years now, albeit not on 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 less than 10,000 active clients with an outstanding credit portfolio of under \$1million. Obviously, the sector is very small, and generally speaking, 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, based on loans granted at one of the MFIs recently, more than two-thirds of the borrowers were women.

169. 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 10-16 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. IDPs, demobilised militia) of the population.

170. 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 to facilitate the development of the microfinance industry.

171. **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 post-disaster areas is challenging as recipients will expect grants from the government and the international donor community. It is therefore essential that a clear distinction is 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. While 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 is adopted. The chosen financial program(s), for example, venture capital and microfinance must be ones 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

172. **Due to 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, money supply have not existed for Somalia for almost two decades²³.

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

174. In the absence of a Statistics Institute and supporting infrastructure, **some of the statistical data on Somalia is 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, including all regions. There has been a growing awareness among the development partners, in particular the World Bank, of the need to monitor socio-economic recovery and economic development based on accurate statistics.

²³ There are no reliable estimates on national accounts, balance of payments and money supply at regional or national level since the civil war. Limited data exist for two food grain crops, no other production data available. There are no estimates of livestock and livestock products, fisheries, and other primary products. Besides, there is no data available to reflect the size and composition of informal sector. On the other hand, consumer prices and exchange rate data are regularly collected from selected markets. Total export and import data from major ports are collected in physical quantities. However, there is no data on the size of transit trade.

175. **There has been hardly any 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. In order to address this issue in the absence of national institutions, the United Nations Development Office for Somalia (UNDOS) had established an inter-agency Statistical Working Group (SWG) for Somalia in 1996, consisting of major data producers and users to promote a common approach and coordination to 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 1999 to 2002. In 2004, UNDP set up a UN inter agency 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.

176. **A Technical Coordinating Group on Statistics (TCG) was set up by UNDP in 2004** to implement the Somalia Watching Brief Program supported by UNDP and World Bank. The TCG consists of the Director Generals and Directors of 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 to promote collection and compilation of data for planning and policy purposes. Other major partners involved in statistical data collection include UNICEF, WHO, WFP, FAO, FSAU and FEWS. Annex Table 1B provides summary details of the past and ongoing data collection efforts by various agencies.

177. **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 an overlap in data collection which lacks consistency. Often, surveys are carried out in peaceful areas; therefore, survey results are not representing the majority of population. The scope, methodology, coverage, assumptions and limitations of the surveys are seldom documented and the results are not generally validated. The accuracy and comparability of the results are questionable due to limited coverage. Currently, there is no coordinated strategy for data dissemination and sharing efforts, UN agencies are utilizing *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	<ul style="list-style-type: none"> • Local capacity is limited to support 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	<ul style="list-style-type: none"> • 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. 		Somalia Watching Brief Program supported by UNDP and World Bank.

Statistical institutions, legislation and staffing	<ul style="list-style-type: none"> • Weak state statistical institutions; • No national and district statistical institutions; • No statistical law; • Low level of skills, wages and productivity of current staff. 	Absence or weak presence of major multilateral institutions in Somalia.	There are a number of regional and global initiatives to support statistical capacity building.
Access to information technologies	Outdated technology and low level of ICT integration.		UN Theme Group on statistics.
Statistical development	<ul style="list-style-type: none"> • Limited resources for statistical development; • Lack of a strategic plan. 	Inadequate access to global statistical networks.	Somalia Watching Brief Program supported by UNDP and 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

178. **The re-establishment 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 which would include 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.

179. **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. This 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.

180. **The data development priorities in Somalia are launching of the population census, and further data collection exercise on social sector and macroeconomics data.** The major statistical need dominating all others is the population census, since 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.

181. **Data on social sector.** The statistical system in Somalia needs to aim to have achieved 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.

182. **Data for macroeconomic policy decisions.** In order to carry out macro-economic 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 is 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 to making projections of government revenue. It will probably take a number of years to create the production data which would be the main component of the national income accounts. If a tax is levied on all remittance inflows, this will provide information on the total value of remittance inflows on a monthly basis. It should also be possible to establish mechanisms to track donor and NGO inflows on a monthly or quarterly basis.

183. **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 initiatives need to be carried out by a central statistical agency (Medium-Term Plan for Statistical data Collection and Capacity Building for Somalia, UNDP Report 2004).

184. **National/local needs and priorities.** Due to the federal governance structure, there is a high demand for geographically disaggregated statistics; as well as statistics by gender, social and vulnerable segments. Since 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.

185. **Coordination between data producers and users.** The current capacity for data collection among various development partners need 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.

186. **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 with adequate training and supervision, incorporating comparable reporting formats and timely dissemination.

187. **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 within 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, which have introduced best practices in data development, could be encouraged.

188. **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 governments to monitor the progress towards MDGs and poverty reduction.

Proposed Initiatives

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

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

190. **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 state level, State Statistical Departments (SSDs) will be the responsible body to coordinate and manage 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.

191. 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: 1. National Accounts and Economic Statistics; 2. Demographics and Social Statistics; 3. Survey/Census, Data Processing, Web site and Publication; and 4. Administration and Finance.

192. 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:

i) Director General	1
ii) Directors	4
iii) Heads of sections	18
iv) Professionals	36
v) Support staff	46

193. **State Statistical Departments.** 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 them the field survey and collection of the data. Each SSD will initially employ 10 skilled staff, which will expand to 20 during the five year period. It will be headed by a director who will be assisted by two heads of sections (namely Coordination/Supervision, and Data Processing/Training) and 7 middle level technicians.

194. **Statistical Units in the Federal and State Line Ministries.** Statistical units with staff seconded from NSO or SSDs will be established in the federal and state line ministries with the responsibility to administer data collection related to their sector activities. A minimum of 11 statistical units will be established for the federal line ministries²⁴ and a lower number for the states' line ministries. Each will hire 2-3 trained staff for the first year, which will grow marginally to the fifth year. The units of the line ministries will be under the planning departments of the concerned ministries.

195. **Local/District Statistical Offices (DSOs)** will be established in all large districts or group of small districts. These offices will mainly collect data delegated to them by the SSDs under their supervision. The district statistical offices will be staffed by 3-4 middle level technicians.

²⁴ These Ministries include Finance, Energy and Water, Livestock, Fisheries, Crop Production, Labor, Crime and Migration, Transport and Telecommunication, and Central Bank.

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2. RESULTS-BASED MATRIX

Macroeconomic Policy Framework Results Matrix – TFG

Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
<p>i. 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 Ministry of Finance	<ul style="list-style-type: none"> • Establish core Ministry of Finance • Hire staff for basic functions of MoF • Provide training to staff • Prepare budget for 2007 • Prepare budget for 2008 • Put in place procedures for collecting revenue and making government payments. <p>Costing:</p> <ul style="list-style-type: none"> • Physical infrastructure: \$0.4 • Technology: \$0.4 • Vehicles: \$0.2 • Staff costs: \$ 0.7 • Technical assistance: \$0.7 	<ul style="list-style-type: none"> • Monitor implementation of 2008 budget. • Prepare budget for 2009. <p>Costing:</p> <ul style="list-style-type: none"> • Physical infrastructure: \$0.2 • Technology: \$0.2 • Vehicles: \$0.2 • Staff costs: \$ 0.9 • Technical assistance: \$0.4 	<ul style="list-style-type: none"> • Separate macroeconomic policy department from budget department. • Hire additional staff. <p>Costing:</p> <ul style="list-style-type: none"> • Physical infrastructure: \$1.0 • Technology: \$0.9 • Vehicles: \$0.3 • Staff costs: \$ 3.7 • Technical assistance: \$0.9
Revenue Collection. Put in place broad based 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.	<ul style="list-style-type: none"> • Raise customs duty rates. • Expand sales taxes. • Enact laws on personal and corporate income taxes.
Fiscal Deficit. Ensure that Federal Government expenditure is kept in line	No Federal Government budget in place.	• No willingness of the general public to hold government	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 – TFG

Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
with revenue, so domestic deficit financing is limited.		securities. • Low revenue base mainly now in the hands of “State” administrations.			revenue collection), • Consider issuing government securities to private sector.
<p>ii. 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 Puntland or Somaliland as to their role with regard to collection of Federal Government revenue.	<p>Enact law governing tax administration. Establish revenue administrative agency Recruit staff and provide necessary training. Start collecting import duties at stage of export from Kenya and Dubai and at the additional ports and airports.</p> <p>Costing: • Physical infrastructure: \$0.7 • Technology: \$0.4 • Vehicles: \$0.2 • Staff costs: 0.8 • Technical assistance including training: \$0.7</p>	<p>Start collecting taxes on the items covered by tax laws passed in 2007.</p> <p>Costing: • Physical infrastructure: \$0.2 • Technology: \$0.2 • Vehicles: \$0.2 • Staff costs: \$ 1.0 • Technical assistance: \$0.4</p>	<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 costs: \$ 3.9 • Technical assistance: \$0.9</p>
iii. Employment Strategy	No strategies available		<p>Develop employment creation strategies.</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</p>	<p>Implement employment creation strategies.</p> <p>Special programs for women and youth continued.</p>

Macroeconomic Policy Framework Results Matrix – TFG

Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
			and minorities representation. Special employment programs and credit facilities for women established. Special employment programs targeting youth developed. Emergency rehabilitation and micro-projects funds for returnee localities developed.	other underrepresented groups. Special programs for women and youth continued. Emergency rehabilitation and micro-projects funds for returnee localities continued.	Emergency rehabilitation and micro-projects funds for returnee localities continued.
			Costing: \$ 2 million	Costing: \$ 2 million	Costing: \$ 7 million
Total Costing: \$ 33.7 million			Total Costing: \$ 7.2 million	Total Costing: \$ 5.9 million	Total Costing: \$ 20.6 million

Costing: \$ 11 million

Comment [W1]: Sibel, I don't know whether this is sufficient, depends on how extensive the rapid employment creation programs will be. But we can always raise this.

Macroeconomic Policy Framework Results Matrix – Somaliland

Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
i. Government Expenditure Ensure that Regional and Local Government expenditure is kept in line	- Modest deficits - Regional and local governments on cash budgets	- No willingness of the general public to hold government securities - Low revenue base	- 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 – Somaliland

Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
with revenue, so domestic deficit financing is limited. Costing: \$ 5.55 m			Costing: \$ 1.2 m	Costing: \$ 1 m	revenue collection) Costing: \$ 3.4 m
ii. Tax Administration Capacity to administer customs duties, domestic sales tax, and personal and corporate income taxes. Costing: 5.8	- 90% of tax collected comes from customs duties and indirect taxes; “government service charges” make up the remainder	No law governing tax administration.	- Enact law governing tax administration. - Establish revenue administrative agency - Recruit staff and provide necessary training Costing: \$ 1.4 m	Start collecting taxes on the items covered by tax laws passed in 2007. Costing: \$ 1 m	Develop administration capacity and regulations for collecting income tax on wage earners and corporations Costing: \$ 3.4 m
iii. Employment Strategy	No strategies available		Develop employment creation strategies. Hire staff in public offices taking into consideration women and minorities representation. Special employment programs and credit facilities for women established. Special employment programs targeting youth developed.	Implement employment creation strategies. Support participatory process in public services that includes women and other underrepresented groups. Special programs for women and youth continued. Emergency rehabilitation and micro-projects funds for returnee localities continued.	Implement employment creation strategies. Special programs for women and youth continued. Emergency rehabilitation and micro-projects funds for returnee localities continued.

Macroeconomic Policy Framework Results Matrix – Somaliland					
Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
			Emergency rehabilitation and micro-projects funds for returnee localities developed.		
Costing: \$ 6 million			Costing: \$ 1 million	Costing: \$ 1 million	Costing: \$ 4 million
Total Costing: \$ 17.4 million			Total Costing: \$ 3.6 million	Total Costing: \$ 2.95 million	Total Costing: \$ 10.8 million

Comment [W2]: Sibel, I don't know whether this is sufficient, depends on how extensive the rapid employment creation programs will be. But we can always raise this.

Macroeconomic Policy Framework Results Matrix – Puntland					
Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
i. Government Expenditure Ensure that Federal, State, Regional and Local Government expenditure is kept in line with revenue, so domestic deficit financing is limited.	- Significant deficit financing funded by direct borrowing from business people	- No willingness of the general public to hold government securities. - Low revenue base	- 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.
Costing: \$ 5.55 m			Costing: \$ 1.2 m	Costing: \$ 1 m	Costing: \$ 3.4 m
ii. Tax Administration Capacity to administer customs duties,	- 90% of tax collected comes from customs duties and indirect taxes;	No law governing federal tax	Enact law governing tax administration.	Start collecting taxes on the items covered by	Develop administration capacity and regulations for

Macroeconomic Policy Framework Results Matrix – Puntland

Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
Costing: \$ 6 million			Costing: \$ 1 million	Costing: \$ 1 million	Costing: \$ 4 million
Total Costing: \$ 17.4 million			Total Costing: \$ 3.6 million	Total Costing: \$ 2.95 million	Total Costing: \$ 10.8 million

Comment [W3]: Sibel, I don't know whether this is sufficient, depends on how extensive the rapid employment creation programs will be. But we can always raise this.

Public Financial Management Results Matrix – TFG

Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
<p>i. PFM System and Institutions. Establish sound and transparent public financial management systems.</p> <p>a) Establish simple and user friendly comprehensive financial management policies and procedures based on computerized systems.</p> <p>Costing: US\$3.65 (Two years FMA support including software and establishment of accounting systems)</p>	No systems	No systems	<p>a) Contract a Financial Management Agent (FMA) to assist in the establishment and operation of suitable computerized financial systems for the first 2 years.</p> <p>b) Acquire computers, printers, power backups and computer accessories for phase 1 implementation at the Centre/Accountant General's office.</p> <p>c) FMA to define requirements and</p>	<p>a) Acquire software license, computers, printers, power backups and computer accessories for phase 2 implementation in the accounting locations in the regions.</p> <p>b) Implement computerized accounting systems in the accounting locations in the regions.</p> <p>c) Implement financial management policies and procedures.</p>	<p>Operate computerized systems and generate periodic and annual financial reports for informed decision making.</p> <p>Costing: Software maintenance: US\$0.01</p>

Public Financial Management Results Matrix – TFG

Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
			design computerized systems, identify suitable software package, procure the software, implement the systems and operate the systems. d) FMA to prepare simple user friendly financial management policies and procedures based on the computerized systems and incorporating accounting controls, forms and accounting structure. Costing US\$: FMA FMS & support: US\$1.56 Computer&software: US\$0.34 Vehicles: US\$0.15	Costing: FMA FMS &support: US\$1.39 Computer&software: US\$0.2	
ii. Capacity Building. Accountants equipped with basic computer skills on Microsoft excel and word. Accountants equipped with relevant skills to operate the computerized	Accounts staff not yet in place. To be appointed.		Contract a Microsoft Certified Trainer to provide Microsoft excel and word training to Accountants. Provide Microsoft excel and word training to Accountants.	Self training on Microsoft Excel and word	Self training on Microsoft Excel and word Monitor and provide on the Job training

Public Financial Management Results Matrix – TFG

Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
accounting systems. Costing: US\$0.08 (Training)			Provide training on the appropriate financial management systems to Accountants at the centre/Accountant General's office. Costing: Training in FMS &MS Office:\$0.08		
iii. Budget Preparation Process. Participatory, transparent, comprehensive and gender sensitive budget preparation process with a multi-year perspective and proper classification. (NB Budget preparation costed under MoF)	Lack of Adequate budget preparation experience.		Introduce and effectively operate a participatory, transparent and comprehensive budget preparation process, and effectively implement budgetary control. Support recurrent and development budget allocation to ministries responsible for gender and human rights issues.	Operate appropriate budget preparation process and provide guidance as appropriate.	Operate appropriate budget preparation process and provide guidance as appropriate.
iv. Monitoring and Reporting. Appropriate periodical progress reporting showing actual versus budgeted, and variance by defined programs/activities, heads and subheads.	No formal financial progress reporting		Develop appropriate accounting structure and progress reports showing actual versus budget, and variance by defined program/activities, heads and subheads.	Operate financial management systems and generate appropriate progress reports. Costing: \$0.06	Operate financial management systems and generate appropriate progress reports. Costing US\$0.09

Public Financial Management Results Matrix – TFG

Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
			Costing: US\$0.28 (Photocopier, stationery)		
Total Costing: \$ 4.01 million			Total Costing: \$ 2.26 million	Total Costing: \$ 1.65 million	Total Costing: \$ 0.1 million

Public Financial Management Results Matrix - Somaliland

Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
			<p>i. PFM System and Institutions. Establish sound and transparent public financial management systems.</p> <p>a) Establish simple and user friendly comprehensive financial management policies and procedures based on the computerized systems.</p> <p>Costing: US\$2.92 (Two years FMA support including software and establishment of accounting systems)</p>	Manual accounting and reporting systems which are duplicative, inefficient and subject to high data input and processing error risk.	Financial regulations of 1961 (and amendments) inadequate under enhanced and computerized environment.

Public Financial Management Results Matrix - Somaliland

Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
			software, implement the systems and operate the systems in the Accountant General's Office. d) FMA to prepare simple user friendly financial management policies and procedures based on the computerized systems and incorporating accounting controls, forms and accounting structure. Costing US\$: FMA FMS & support \$1.23 Computer & software \$0.32 Vehicles \$0.12		
ii. Capacity Building. Accountants equipped with basic computer skills on Microsoft excel and word. Accountants equipped with relevant skills to operate the computerized accounting systems. Costing:	Inadequate skills to operate basic computer systems. Inadequate accounting skills among staff.		Contract a Microsoft Certified Trainer to provide Microsoft office training to Accountants. Provide Microsoft excel and word training to Accountants. Provide training on the improved financial	Self training on Microsoft Excel and word	Self training on Microsoft Excel and word Monitor and provide on the Job training

Public Financial Management Results Matrix - Somaliland

Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
US\$0.06 (Training FMS &MS Office)			management Costing US\$ Training FMS & MS Office \$0.06		
iii. Budget Preparation Process. Participatory, transparent, comprehensive and gender sensitive budget preparation process with a multi-year perspective and proper classification. (NB:Budget preparation costed under MoF section)	Inappropriate non-participatory and gender neutral budget preparation process with limited perspective and classification.		Introduce and effectively operate a participatory, transparent and comprehensive budget preparation process, and effectively implement budgetary control. Support recurrent and development budget allocation to ministries responsible for gender and human rights issues.	Operate improved budget preparation process and provide guidance as appropriate.	Operate improved budget preparation process and provide guidance as appropriate.
iv. Monitoring and Reporting. Improved periodical progress reporting showing actual versus budgeted, and variance by defined programs/activities, heads and subheads. Costing: US\$0.25 (Photocopier, stationery)	Financial reports classified by heads and subheads, which is inadequate for output monitoring.		Develop appropriate accounting structure and progress reports showing actual versus budget, 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: \$ 0.1million

Public Financial Management Results Matrix - Somaliland

Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
			million	million	million

Public Financial Management Results Matrix - Puntland

Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
			<p>i. PFM System and Institutions. Establish sound and transparent public financial management systems.</p> <p>a) Establish simple and user friendly comprehensive financial management policies and procedures based on the computerized systems.</p> <p>Costing: US\$2.88 (Two years FMA support including software and establishment of accounting systems)</p>	<p>Manual accounting and reporting systems which 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>

Public Financial Management Results Matrix - Puntland

Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
			<p>d) 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 US\$: FMA FMS & support \$1.23 Computer & software \$0.30 Vehicles \$0.12</p>		
<p>ii. 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: US\$0.06 (Training FMS & Excel)</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 & MS</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>

Public Financial Management Results Matrix - Puntland

Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
			Office:\$0.06		
<p>iii. Budget Preparation Process. Participatory, transparent, comprehensive and gender sensitive budget preparation process with a multi-year perspective and proper classification.</p> <p>(See MoF section for costing in Budget preparation)</p>	Inappropriate non-participatory and gender neutral budget preparation process with limited perspective and classification.		Introduce and effectively operate a participatory, transparent and comprehensive budget preparation process, and effectively implement budgetary control. Support recurrent and development budget allocation to ministries responsible for gender and human rights issues.	Operate improved budget preparation process and provide guidance as appropriate.	Operate improved budget preparation process and provide guidance as appropriate.
<p>iv. Monitoring and Reporting. Improved periodical progress reporting showing actual versus budgeted, and variance by defined programs/activities, heads and subheads.</p> <p>Costing: US\$0.25 (Photocopiers, stationery)</p>	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 million			Total Costing: \$ 1.82 million	Total Costing: \$ 1.27 million	Total Costing: \$ 0.1 million

Civil Service Results Matrix – TFG and South Central

Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
<p>i. Professionalization. Staff professionalized, new staff meeting at least minimal qualifications for job.</p> <p>Costing: \$0.03 million</p>	Human capacity low. Skill base low.			Competitive selection process developed and carried out. Costing: \$ 0.011 million	Process completed Costing: \$ 0.019 million
<p>ii. Right-Sizing. Federal and local government right-sized.</p> <p>Costing: \$0.05 million</p>	TFG now consists of 275 members of Parliament			Surplus staff eliminated in selected districts with help of CSC, pay scales reviewed. Costing: \$ 0.0175 million	Right-sizing process extended to other districts. Costing: \$ 0.0325 million
<p>iii. Civil Service Commission (CSC) established and institutionally strengthened.</p> <p>Costing: \$0.25 million</p>	CSC non-existent but a six person Civil Service task force established in January 2006.	While the quality of staff in the civil service is low, there is no plan for developing the skills of staff.		Personnel management training and survey of civil servants carried out. Costing: \$ 0.0875 million	Survey finalized and human resources development strategy prepared. Costing: \$ 0.1625 million
<p>iv. CSI premises built.</p> <p>Costing: \$0.5 million</p>	No premises.				Construction of new premises initiated. Costing: \$ 0.5 million
<p>v. Capacity Building. Capacity built at CSI, role of women and minorities enhanced.</p> <p>Costing: \$0.32 million</p>	CSI entirely dependent on donor and government funds, no fees for service. Most women in low-skill jobs.		Capacity enhancement for 35 women and 20 minority members with potential to be directors. Costing: \$ 0.03 million	Training of trainers under way. Capacity enhancement process for women continues, awareness campaign launched.	Process continued leading to greater sustainability. Costing: \$ 0.215 million

Civil Service Results Matrix – TFG and South Central					
Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
				Costing: 0.075 million	
vi. Pensions and Pay Reform carried out. Costing: \$0.18 million	No pension fund in 45 years.			Pensions law reviewed. Technical assistance on establishing viable fund and pensions administration contracted, plan prepared. Pay reform report prepared. Costing: \$ 0.07 million	Pensions fund and administrative arrangements approved by cabinet and parliament. Preferred pay policy approved by cabinet. Costing: \$ 0.11 million
Total Costing: \$ 1.33 million			Total Costing: \$ 0.03 million	Total Costing: \$0.26 million	Total Costing: \$ 1.04 million

Civil Service Results Matrix – Somaliland					
Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
i. Professionalization Staff to have at least minimal qualifications for jobs. Outcome will be better with qualified female and male staff able to deliver	Many staff are not qualified for their jobs. Most have not even completed secondary education. Situation has most			Staff will be interviewed by a panel and those approved placed in jobs	Process will be completed

Civil Service Results Matrix – Somaliland

Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
better services. Costing: \$0.03	serious impact at senior levels			Costing: \$ 0.011 million	Costing: \$ 0.019 million
ii. Local government rightsizing Budgetarily viable and effective district councils Costing: \$0.05	Many districts have more staff then they need to provide the few services they are responsible for. Particularly so in big municipalities.			CSC will assist A and B districts to eliminate surplus staff and review pay scales Costing: \$ 0.0175 million	Process will be extended to other districts. Costing: \$ 0.0325 million
iii. CSC institution building; and human resource planning and development CSC staff better able to manage the civil service Prepare a human resource development plan. Outcome: better qualified staff delivering better services Costing: \$0.25	Most CS staff have not been trained in personnel management; all experience has been on-the-job.	While the quality of staff in the civil service is low, there is no plan for developing the skills of staff.		Training for two staff in personnel management; training for rest of staff at CSI Carry out survey of civil servants Costing: \$ 0.0875 million	Finalize survey and prepare human resources development strategy Costing: \$ 0.1625 million
iv. CSI premises Build new premises in CSC site in center of Hargeisa. Outcome: more attractive and effective training center leading to more, better trained staff	CSI is renting premises from the University some distance from its main clientele in central government				Construction begins

Civil Service Results Matrix – Somaliland

Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
Costing: \$0.5					Costing: \$ 0.5 million
<p>v. CSI capacity building; and enhancing the role of women and enlarging minority groups and people with disabilities participation</p> <p>Build the capacity of CSI staff, widen range of courses, and become for financially sustainable. Outcome better qualified staff in private and public sectors</p> <p>Empower female civil servants successfully to apply for DG and Directors' positions. Outcome: more women, people with disabilities and minority groups in senior positions.</p> <p>Costing: \$0.32</p>	<p>CSI entirely dependent on donor and government funds. No fees for services.</p> <p>Very few senior staff are women. Most women in low-skill jobs. Women are about one quarter of the staff in the civil service. Minority groups are almost absent in civil service positions.</p>		<p>Study tour to Ethiopia's Civil Service College and Management Development Center.</p> <p>Capacity enhancement for 35 women and 20 minority members with potential to be directors.</p> <p>Costing: \$ 0.03 million</p>	<p>Training of trainers. Widening range of courses, including longer term courses leading to certification.</p> <p>Continue process as well as conduct awareness campaign.</p> <p>Costing: \$ 0.08 million</p>	<p>Continue process leading to greater sustainability</p> <p>Costing: \$ 0.21 million</p>
<p>vi. Pensions and pay reform</p> <p>Establish a viable pensions fund. Outcome: retirees paid pensions; retirements clear way for promotions from below.</p>	<p>No one benefited from pensions fund for 45 years. New law has been drafted.</p> <p>A "stop-gap" increase in salaries has been proposed</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>Prepare pay reform report that will develop</p>	<p>Fund and administrative arrangements approved by Cabinet and Parliament.</p> <p>Cabinet to approve preferred pay policy. Develop and adopt gender responsive pay policy.</p>

Civil Service Results Matrix – Somaliland

Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
<p>Introduce sustainable pay scales that will be attractive to top professionals yet also provide a living wage for lower level staff. Make sure that the wage bill does not absorb too much to the recurrent budget. Outcome: professional staff can be hired, motivated and retained.</p> <p>Costing: \$0.18</p>	<p>but not yet implemented. A more permanent solution to the incentive problem has also been proposed. Difficult to hire and retain professional staff.</p>		<p>Costing: \$ 0.02 million</p>	<p>policy scenarios on pay levels and differentials and staffing levels. Include resources to address child care and maternity leave.</p> <p>Costing: \$ 0.05million</p>	<p>Costing: \$ 0.11 million</p>
<p>vii. Redirection program for retrenched staff Introduce program to retrain retrenched staff. Outcome: Retrenched staff will have skills needed to regain employment</p> <p>Costing: \$0.3</p>	<p>Some staff will lose job as a result of restructuring and pay reform</p>		<p>Program has been prepared</p> <p>Costing: \$ 0.03 million</p>	<p>Implement retraining program</p> <p>Costing: \$ 0.075 million</p>	<p>Continue implementation</p> <p>Costing: \$ 0.195 million</p>
<p>Total Costing: \$ 1.63 million</p>			<p>Total Costing: \$ 0.08 million</p>	<p>Total Costing: \$ 0.32 million</p>	<p>Total Costing: \$ 1.23 million</p>

Civil Service Results Matrix –Puntland

Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
<p>i. Professionalization</p> <p>1. New entrants to civil service to meet minimal qualifications for job.</p> <p>2. Staff in key positions to possess basic competencies for position held.</p> <p>3. Staff to be given appropriate job-related training before being promoted.</p> <p>4. Future managers to be identified and to complete core training in public administration.</p> <p>5. Greater representation of women and minorities.</p> <p>6. A more efficient and better motivated civil service.</p> <p>Costing: \$0.42</p>	<p>As a result of the disruption to education caused by the period of civil disorder and its aftermath, significant numbers of civil servants never completed secondary education nor, in some cases, primary education. In addition, practically no staff, including senior managers at department director and director general positions, have received any professional training specific to their jobs. Reportedly, high levels of absenteeism are symptomatic of widespread demotivation within the service. Currently women and minority groups are limited to low wage and skill levels.</p>		<ul style="list-style-type: none"> • Accelerated training needs assessment of State level civil service conducted • Partner training institutions identified and capacity- built • Training started in 1-2 priority areas. • Job descriptions for core posts developed & adopted • Standardized recruitment procedures to be implemented • Survey of existing civil servant qualifications conducted, to include recommendations on retraining, retrenchment, redeployment • 3-Year civil service training plan drafted • Job-related training in priority areas continues • Induction course for new entrants to civil service developed & piloted 	<ul style="list-style-type: none"> • Succession planning exercise conducted • Training plan adopted by PSG • Job-related training in priority areas continues • Performance appraisal & merit increments introduced 	<ul style="list-style-type: none"> • 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 administration and other key areas developed • Promotion system dependant upon competencies implemented

Civil Service Results Matrix –Puntland					
Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
			Costing: \$ 0.04 million	Costing: \$ 0.1 million	Costing: \$ 0.28 million
ii. Local government rightsizing Budgetarily viable and effective district and municipal councils Costing: \$0.03	Some municipalities have more staff than needed for the services they are responsible for.		<ul style="list-style-type: none"> Based on findings of Review of Roles & Functions of levels of Federal Government [see TFG priorities], staffing levels reviewed by councils Costing: \$ 0.03 million		
iii. CSC institution building 1. Creation of a CSC independent from State government, linked to Federal CSC. 2. 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.		<ul style="list-style-type: none"> 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 within region Costing: \$ 0.07 million		
iv. Human resource planning and development; and enhancing the role of women and enlarging minority participation 1. Human resource	No plan yet developed, although the 5-Year Development Plan currently in process may include		<ul style="list-style-type: none"> Based on findings of Review of Roles & Functions of levels of Federal Government [see TFG priorities], proposal on structure 	<ul style="list-style-type: none"> Structure & staff establishment adopted by PSG Human resources development strategy developed and adopted 	<ul style="list-style-type: none"> Regular M& E of human resources development conducted M&E system on gender issues continues

Civil Service Results Matrix –Puntland					
Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
<p>development plan introduced</p> <p>2. A more efficient civil service.</p> <p>3. Empower female civil servants successfully to apply for DG and Directors' positions.</p> <p>4. More women in senior positions.</p> <p>Costing: \$0.26</p>	<p>overview.</p> <p>Very few women hold senior positions of responsibility. No data are available on numbers or positions held by female civil servants. Minority groups are almost absent in civil service positions.</p>		<p>& staff establishment drafted</p> <ul style="list-style-type: none"> • Training for two staff in human resource planning • Minimum quotas for women on training courses agreed by PSG and implemented • Gender & civil service strategy developed • Gender & civil service strategy developed • Conduct public awareness campaign • Gender issues included in policy-making, including human resource planning, recruitment and M & E systems • Gender and human rights based approaches infused into all civil service training <p>Costing: \$ 0.03 million</p>	<p>by PSG</p> <ul style="list-style-type: none"> • Selected women fast-tracked into supervisory & management positions • Gender & civil service strategy adopted by PSG • M & E system on gender issues implemented <p>Costing: \$ 0.075 million</p>	<p>Costing: \$ 0.155 million</p>
v. Pension and pay reform	No pensions are		<ul style="list-style-type: none"> • In conjunction with 		

Civil Service Results Matrix –Puntland

Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
<p>1. Viable pensions fund established</p> <p>2. Retirees paid pensions</p> <p>3. Retirements clear way for promotions from below.</p> <p>4. Introduce budgetarily sustainable pay scales that will be attractive to top professionals yet also provide a living wage for lower level staff.</p> <p>5. Make sure that the wage bill does not absorb too much of the recurrent budget.</p> <p>6. Professional staff can be hired, motivated and retained</p> <p>Costing: \$0.09</p>	<p>provided to civil servants</p> <p>The civil service is unable to hire and retain sufficient high-calibre managers and other senior staff.</p>		<p>federal scheme, establish a viable fund.</p> <ul style="list-style-type: none"> • In conjunction with federal level, prepare pay reform report that will develop policy scenarios on pay levels and differentials, and staffing levels. <p>Costing: \$ 0.09 million</p>		
<p>vi. Retraining for retrenched staff</p> <p>1. Introduce program to retrain retrenched staff. 2. 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>			<ul style="list-style-type: none"> • Retraining programme designed & implemented <p>Costing: \$ 0.08 million</p>	
<p>vii. Policy-making capacity and inter-ministerial cooperation</p> <p>Enhance opportunities for cooperation</p>	<p>There is a lack of information sharing and cooperation between PSG ministries</p>		<ul style="list-style-type: none"> • Assessment of policy-making requirements at State level conducted • Questions on 	<ul style="list-style-type: none"> • Technical support in legislation made available to PSG 	

Civil Service Results Matrix –Puntland					
Target Outcomes for 2011	Baseline (2006)	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
Costing: \$0.54			cooperation included in Training Needs Assessment [see Professionalization] • Opportunities for cooperation & information sharing created through enhanced ICTs & facilities Costing: \$ 0.189 million	Costing: \$ 0.351 million	
viii. Enabling environment for business Costing: \$0.02	A perception exists amongst private sector that bureaucratic processes are excessively complicated and lengthy		• Survey of State government procedures relating to private sector conducted Costing: \$ 0.005 million	• Recommendations of Survey adopted and implemented Costing: \$ 0.015 million	
Total Costing: \$ 1.51 million			Total Costing: \$ 0.45 million	Total Costing: \$ 0.62 million	Total Costing: \$ 0.44 million

Decentralization, Intergovernmental Fiscal Relations And Service Delivery Results Matrix - TFG					
Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
<p>i. 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 which is tied to poverty reduction goals and the principle of subsidiarity</p> <p>Costing: \$0.8</p>	<p>- Charter outlines broad guiding principles to ensure that delivery is done at district level, but is vague and many assignments overlap transfer systems exist in Somaliland, but clear constraints to operating this</p> <p>- Local government law needed</p>	<p>- Capacity constraints and extremely limited scope for federal and local revenue makes operationalization challenging</p>	<ul style="list-style-type: none"> • FCC established, with sub-committee for fiscal decentralization fully operational, and awareness raising events implemented • Initial mapping of state and district level capacity needs • Initial policy draft on assignments prepared and discussed <p>Costing: \$ 0.08 million</p>	<ul style="list-style-type: none"> • Expenditure and revenue assignments agreed to and new law passed by parliament • Capacity needs at state and district level mapped out, staff identified and training activities initiated • Transfer criteria designed based on assignments, with system and procedures for targeted transfers • Tied block grants for service delivery piloted in two more advanced districts <p>Costing: \$ 0.16 million</p>	<ul style="list-style-type: none"> • Pilot transfers expanded to an increased number of diverse districts • Transfers to districts across Somalia progressively rolled-out based on districts' preparedness <p>Costing: \$ 0.56 million</p>
<p>ii. 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</p>	<p>- Two local government laws exist in the northern regions of Somaliland and Puntland.</p> <p>- No such laws exist in South Central Somalia.</p>	<p>- New laws in S-C region are dependent upon successful adoption of a new federal Constitution</p>	<ul style="list-style-type: none"> • Awareness raised among district councils concerning new changes 	<ul style="list-style-type: none"> • Awareness raising campaign initiated to inform district councils of rights and responsibilities 	<ul style="list-style-type: none"> • TFG Constitution in place, and local government laws drafted in line with existing laws in northern states • Laws refined as needed

Decentralization, Intergovernmental Fiscal Relations And Service Delivery Results Matrix - TFG					
Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
current legal frameworks Costing: \$0.3			Costing: \$ 0.03 million	Costing: \$ 0.06 million	Costing: \$ 0.21 million
iii. 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. Allow higher salary payments for qualified staff and increased resources for service delivery. Costing: \$0.46	- Limited or no knowledge of staffing of local governments in large part of the country apart from northern regions of Somaliland and Puntland.	- Unclear recruitment procedures and responsibilities. - Expectations among former civil servants to return to service across Somalia. - Risk of transitional systems becoming permanent	<ul style="list-style-type: none"> • Civil Service Commission established, and working with districts to conduct functional reviews of existing staff and capacity, define needs and recommend actions to rectify shortfalls and inefficiencies • Staffing needs in new districts assessed and training initiated Costing: \$ 0.05 million	<ul style="list-style-type: none"> • Job re-training in pilot districts initiated • Work with CSC continued in additional districts • Staffing in new districts reviewed, changes recommended Costing: \$ 0.1million	<ul style="list-style-type: none"> • Staff downsizing initiated in districts where staff are prepared for departure • Additional re-training in districts rolled-out Costing: \$ 0.31 million
iv. Functional Capacities at Local Level Strengthened. Strengthen financial planning, budgeting and accountability functions of district councils and financial management staff. Costing:	- Larger districts in Somaliland with ad hoc training - No significant training provided elsewhere.	- Ministries in Somaliland and Puntland still exert significant fiscal control over districts. - Very limited availability of training institutions. - Low level of education among targeted participants.	<ul style="list-style-type: none"> • National policy and curriculum for certifying district financial managers developed • Budget planning and execution capacity at district level established and staff identified 	<ul style="list-style-type: none"> • Training institutions accredited to carry out training; training courses initiated • Policies and procedures developed to ensure transparency in use of funds • District budgets linked to fed-eral – closed accounts 	<ul style="list-style-type: none"> • All district financial managers certified by 2011, advanced and refresher courses available at accredited training institutes • Transparent transfer mechanism and monitoring capacity developed at federal level

Decentralization, Intergovernmental Fiscal Relations And Service Delivery Results Matrix - TFG					
Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
\$1.2			Costing: \$ 0.12 million	provided for 2007 budgets Costing: \$ 0.24 million	Costing: \$ 0.84 million
<p>v. District Revenue Increased. Increase district revenue through establishment of an effective and equitable system for setting and collecting revenue</p> <p>Costing: \$1.5 million</p>	<p>- Somaliland and Puntland employ a diverse mix of revenue sources and collection approaches to varying degrees of success</p> <p>- No formal means of revenue collection in S-C</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 S-C region</p>	<ul style="list-style-type: none"> • Stock-taking of all revenue sources employed by districts carried out and success rates determined • Review of tax collection potential including vertical and horizontal imbalances undertaken, • Workshops among districts to discuss revenue collection issues and prioritize needs set up • Temporary measures for getting resources to lower levels designed to allow distribution of first tranche <p>Costing: \$ 0.15 million</p>	<ul style="list-style-type: none"> • FCC decision made on revenue assignments • Training modules developed and delivered to address priority collection needs • Procurement of materials and equipment needed to strengthen collection ability • Revenue authority in place to guide the process <p>Costing: \$ 0.3 million</p>	<ul style="list-style-type: none"> • Build capacity to utilize new systems and support evolving revenue collection needs <p>Costing: \$ 1.05 million</p>
<p>vi. Data Availability Improved. Increase the availability of data on district finances in order to strengthen their capacity to more successfully engage in financial planning.</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>	<ul style="list-style-type: none"> • Somali researchers contracted to work with relevant ministries on report formats and production of reports <p>Costing: \$ 0.03 million</p>	<ul style="list-style-type: none"> • Reports produced on a periodic basis and trends discussed with districts and ministries <p>Costing: \$ 0.06 million</p>	<ul style="list-style-type: none"> • Institutionalize production of reports in relevant ministries, research institutes or local government association <p>Costing: \$ 0.21 million</p>

Decentralization, Intergovernmental Fiscal Relations And Service Delivery Results Matrix - TFG					
Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
Costing: \$0.3 million					
Total Costing: \$ 4.56 million			Total Costing: \$ 0.46 million	Total Costing: \$ 0.92 million	Total Costing: \$ 3.18 million

Decentralization, Intergovernmental Fiscal Relations And Service Delivery Results Matrix – Somaliland					
Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
<p>i. 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 Somaliland with ad hoc training	- Ministries still exert significant fiscal control over districts - Very limited availability of training institutions; low level of education among targeted participants.	<ul style="list-style-type: none"> Curriculum developed for certifying district financial managers <p>Costing: \$ 0.06 million</p>	<ul style="list-style-type: none"> Training institutions accredited to begin offering training and begin training Policies and procedures developed to ensure transparency in use of funds <p>Costing: \$ 0.12 million</p>	<ul style="list-style-type: none"> All district financial managers certified by 2011, advanced and refresher courses available at accredited training institutes Transparent transfer mechanism and monitoring capacity developed at federal level <p>Costing: \$ 0.42 million</p>
<p>ii. Targeting of Transfers Improved. Improve new targeting of intergovernmental transfers by applying a formula which is tied to poverty reduction goals.</p>	- Simple transfer formula exists, which does not apply poverty or other outcome-oriented targeting criteria.	- Simple system in Somaliland is unclear and difficult to administer; - Limited access to poverty data for targeting	<ul style="list-style-type: none"> New criteria, system and procedures for targeted transfers designed and agreed to Tied block grants for service delivery piloted in more advanced districts 	<ul style="list-style-type: none"> Pilot transfers expanded to an increased number of districts 	<ul style="list-style-type: none"> Transfer system fully implemented and reviewed

Decentralization, Intergovernmental Fiscal Relations And Service Delivery Results Matrix – Somaliland					
Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
Costing: \$0.18			Costing: \$ 0.02million	Costing: \$ 0.04 million	Costing: \$ 0.12 million
iii. Lean and Efficient Staffing. Reduce the level of district government staff, taking into consideration quotas for women, in order to allow higher salary payments for qualified staff and increased resources for service delivery. Costing: \$0.2	- Most large districts in Somaliland have up to twice as many staff as they need - Policy underway to decentralize service delivery staff	- Significant resistance on the part of staff due to a lack of alternative job opportunities	<ul style="list-style-type: none"> • Civil Service Commission finalized current decentralization push, and working with districts to conduct functional reviews and recommend “rightsizing” based on initial feedback Costing: \$ 0.02 million	<ul style="list-style-type: none"> • Job-retraining initiated in pilot districts • Work with CSC continued in additional districts • Staffing reviewed in new districts, changes recommended Costing: \$ 0.04 million	<ul style="list-style-type: none"> • Staff downsizing initiated in districts where staff are prepared for departure; • Additional re-training in districts rolled-out Costing: \$ 0.14 million
iv. 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 Costing: \$0.4	- Revenue collection centralized but employing a diverse mix of revenue sources and collection approaches to 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	<ul style="list-style-type: none"> • 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 among districts to discuss revenue collection issues and prioritize needs set up • Temporary measures for getting resources to 	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • 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 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
			lower levels designed to allow distribution of first tranche Costing: \$ 0.04 million	Costing: \$ 0.08 million	Costing: \$ 0.28 million
v. Data Availability Improved. Increase the availability of data on district finances in order to strengthen their 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 limited capacity to collect relevant data	- Ministries are reluctant and lack capacity to compile reports and make them available	<ul style="list-style-type: none"> Somali researchers to work with relevant ministries on report formats and production of reports Costing: \$ 0.01 million	<ul style="list-style-type: none"> Reports produced on a periodic basis and trends discussed with districts and ministries Costing: \$ 0.02 million	<ul style="list-style-type: none"> Production of reports institutionalized in relevant ministries, research institutes or local government association Costing: \$ 0.07 million
Total Costing: \$ 1.48 million			Total Costing: \$ 0.15 million	Total Costing: \$ 0.3 million	Total Costing: \$ 1.03 million

Decentralization, Intergovernmental Fiscal Relations And Service Delivery Results Matrix - Puntland					
Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
i. Expenditure and Revenue Assignments. Clarify expenditure and revenue assignments, establish system for intergovernmental transfers based on appropriate criteria	- 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	- Limited access to poverty data for targeting - Limited capacity to budget and report at district level	<ul style="list-style-type: none"> Revised expenditure and revenue assignments agreed on, local government laws amended, awareness raised among district councils of new changes Criteria, system and 	<ul style="list-style-type: none"> Pilot transfers expanded to an increased number of districts Awareness raising campaign continued to inform district councils of rights and responsibilities 	<ul style="list-style-type: none"> Transfer system fully implemented and reviewed

Decentralization, Intergovernmental Fiscal Relations And Service Delivery Results Matrix - Puntland					
Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
<p>tied to poverty reduction goals, and clarify existing legal framework</p> <p>Costing: \$0.2</p>	<p>other outcome-oriented targeting criteria.</p>		<p>procedures for targeted transfers based on revised law designed and agreed to</p> <ul style="list-style-type: none"> • Tied block grants for service delivery piloted in one or two districts <p>Costing: \$ 0.02 million</p>	<p>Costing: \$ 0.04 million</p>	<p>Costing: \$ 0.14 million</p>
<p>ii. 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, who approve 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 entirely controlled by central government</p> <p>- Very limited availability of training institutions</p> <p>- Low level of education among targeted participants</p>	<ul style="list-style-type: none"> • Current capacity at district level assessed, and needs identified • Curriculum for certifying district financial managers developed • Training activities initiated for a limited amount of staff <p>Costing: \$ 0.06 million</p>	<ul style="list-style-type: none"> • Training activities scaled-up • Policies and procedures developed to ensure transparency in use of funds <p>Costing: \$ 0.12 million</p>	<ul style="list-style-type: none"> • All district financial managers certified by 2011, advanced and refresher courses available at accredited training institutes • Transparent transfer mechanism and monitoring capacity developed at federal level <p>Costing: \$ 0.42 million</p>
<p>iii. District Revenue Increased. Increase district revenue through establishing an effective and equitable system for setting and collecting revenue</p>	<p>- 95% of revenue collected through trade tax, primarily from the Bossaso port</p> <p>- Diverse mix of revenue collection approaches to 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>	<ul style="list-style-type: none"> • Stocktaking of all revenue sources employed by districts undertaken and success rates determined • Review of tax collection potential finalized, including vertical and horizontal imbalances 	<ul style="list-style-type: none"> • Revenue authority restructured and resized with clearly defined mandate • New taxation law approved • Training modules developed and delivered to address priority collection 	<ul style="list-style-type: none"> • Capacity to utilize new systems built and evolving revenue collection needs attended to

Decentralization, Intergovernmental Fiscal Relations And Service Delivery Results Matrix - Puntland					
Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
			<ul style="list-style-type: none"> Workshops among districts to discuss revenue collection issues and prioritize needs set up Temporary measures for getting resources to lower levels designed so that first tranche can be distributed Costing: \$ 0.04 million	needs <ul style="list-style-type: none"> Procurement of materials and equipment needed to strengthen collection ability Costing: \$ 0.08 million	Costing: \$ 0.28 million
Costing: \$0.4			<ul style="list-style-type: none"> Somali researchers contracted to work with relevant ministries on report formats and production of reports Costing: \$ 0.01 million	<ul style="list-style-type: none"> Reports produced on a periodic basis and trends discussed with districts and ministries Costing: \$ 0.02 million	<ul style="list-style-type: none"> Production of reports institutionalized in relevant ministries, research institutes or local government associations Costing: \$ 0.07 million
Costing: \$0.1	- Relevant ministries collect data, but do not produce reports - Data limited to annual budgets and monthly financial reports	- Ministries reluctant and lack capacity to compile reports and make them available	Total Costing: \$ 0.13 million	Total Costing: \$ 0.26 million	Total Costing: \$ 0.91 million
Total Costing: \$ 1.3 million					

Procurement Results Matrix – TFG & South Central					
Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
i. Procurement law and regulations. A	- No federal procurement regulations	No federal procurement regulatory framework	- Hire a consulting firm for one year to produce (i) federal	- Enact and enforce the federal procurement law	

federal procurement law and procurement regulations in place at the federal government level	or standard procurement documents - No procurement law in regions outside Puntland and Somaliland	including standard bidding documents	procurement law; (ii) federal procurement regulations; (iii) standard bidding documents and (iv) procurement training program (both short- and long-term)		
ii. Procurement Institutions. Tender Committee and Procurement Authority at Federal Level and in all public entities, Federal procurement oversight authority, Federal procurement complaints review boards	-No Central Tender Board and Procurement Authority at Federal Level to administer procurement process and award contracts; - No Federal Procurement Complaints Board	-No procurement policy entity -Weak capacity for enforcement of laws or fighting corruption	- Create Federal-level Procurement Authority - Establish Central Tender Board - Establish Federal procurement complaints review boards	- Procurement units in place in line ministries	- All institutions fully established and functional
iii. Capacity Building. Strong procurement capacity developed.	- No procurement capacity -Weak capacity of local private sector agents to undertake large scale contracts	- No public institutions 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	- Recruit procurement unit 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	- Continue training 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
Costing: \$ 2.85 million			Costing: \$ 0.25 million	Costing: \$0.55 million	Costing: \$2.05 million

Procurement Results Matrix – Somaliland

Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
i. Procurement law and regulations. State procurement laws and procurement	- Procurement law in place in <i>Somaliland</i> - No procurement regulations or standard		- Hire a consulting firm for one year to (i) revise procurement laws; (ii) produce procurement regulations; (iii)	- Amend existing procurement law, and publish procurement regulations	

regulations in place	procurement documents		produce standard bidding documents; and (iv) develop a procurement training program (both short- and long-term)		
ii. 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 - Ministerial tender committees with limited powers for administering procurement process and awarding contracts	- No procurement policy entity(ies); - Low capacity for enforcement of laws or fighting corruption		- Elevate central tender board to a procurement oversight authority - Strengthen existing ministerial tender committees - Create procurement units in public entities	- All institutions fully established and functional
iii. 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
Costing: \$ 1.425 million			Costing: \$ 0.125 million	Costing: \$0.275 million	Costing: \$1.025 million

Procurement Results Matrix – Puntland					
Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-11
i. 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 (i) revise procurement laws; (ii) produce procurement regulations; (iii) produce standard bidding documents; and (iv) develop a procurement training program	- Amend existing procurement law, and publish procurement regulations	

			(both short- and long-term)		
ii. 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
iii. 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
Costing: \$ 1.425 million			Costing: \$ 0.125 million	Costing: \$0.275 million	Costing: \$1.025 million

Financial Sector Development Results Matrix – TFG

Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
i. Central Banking: an autonomous central bank that is fully equipped to carry out its monetary and financial sector regulatory and supervisory responsibilities Costing:	<ul style="list-style-type: none"> No Federal Central Bank 	<ul style="list-style-type: none"> Nascent Federal governing structure. Unresolved political status of Somaliland. Lack of legislative framework for central bank. 	<ul style="list-style-type: none"> Commence capacity building for licensing and supervision of banks and money transmitters. 	<ul style="list-style-type: none"> Enact Central Bank law. Pass prudential regulations. Design interim payments system. <p>Costing:</p> <ul style="list-style-type: none"> Staff costs: \$0.25 million Technical assistance: \$0.3 million 	<ul style="list-style-type: none"> Commence physical rebuilding of central banks. Assume basic monetary and supervision functions. Expand monetary and supervisory responsibility. Restructure existing regional central banks in Somaliland and Puntland to exit from commercial banking.

Financial Sector Development Results Matrix – TFG					
Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
\$8.85 million					<ul style="list-style-type: none"> Undertake currency reforms <p>Costing:</p> <ul style="list-style-type: none"> Seed Capital: \$2.5 million Physical infrastructure: \$0.25 million Technology: \$0.25 million Technical assistance: \$0.3 million Domestic currency reforms: \$5 million
Redenominate Local Currency and have at least 3 denominations in circulation	Only one local currency denomination of 1000 shilling (worth US7 cents), 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.
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.
ii. Commercial Banking: Private financial institutions that are sound, efficient, and competitive Costing:	<ul style="list-style-type: none"> One private commercial bank registered by regional authorities in Puntland 	<ul style="list-style-type: none"> Lack of legislative framework for commercial banks. Low public confidence in public institutions. 	<ul style="list-style-type: none"> Enact Commercial Bank law. Pass prudential licensing regulations. Commence monthly performance reporting of commercial banks and 	<ul style="list-style-type: none"> Conduct annual on-site inspection of each new bank. Develop international accounting and auditing standards. <p>Costing:</p>	<ul style="list-style-type: none"> Encourage rural expansion of private financial institutions that are sound, efficient and competitive.

\$0.25 million			money transmitters.	<ul style="list-style-type: none"> • Technical assistance: \$0.25 million 	
<p>iii. 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</p> <p>Costing: \$4.0 million</p>	<ul style="list-style-type: none"> • No national access to finance program for commercial enterprises 	<ul style="list-style-type: none"> • Public discomfort with interest rate. • Public expectation of public/donor grants. 	<ul style="list-style-type: none"> • Encourage banks to lend to private sector. • Pass prudential licensing regulations for non-bank financial institutions. • Commence capacity building of existing MFIs and/or development of new MFIs • Provide financial sector related training and business development services. <p>Costing:</p> <ul style="list-style-type: none"> • Technical assistance: \$0.5 million 	<ul style="list-style-type: none"> • Small Business Development Fund. • Credit lines and Guarantees schemes. • Prepare National Microfinance Policy. <p>Costing:</p> <ul style="list-style-type: none"> • Loan funding: \$1.5 million • Technical assistance: \$0.5 million 	<ul style="list-style-type: none"> • Broaden and deepen the financial sector with a wider range of financial services and products. • Introduce licensing and prudential regulations for microfinance. • Develop legal and regulatory framework for insurance sector. • Support women's entrepreneurship networks to enable access to resources. <p>Costing:</p> <ul style="list-style-type: none"> • Technical assistance: \$1.5 million
Total Costing for Financial Sector Development: \$13.1 million			\$0.5 million	\$2.8 million	\$9.8 million

Financial Sector Development Results Matrix – Somaliland					
Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
<p>i. Central Banking</p> <p>Costing: \$ 4.425 million</p>	Regional central bank.	<ul style="list-style-type: none"> • Nascent Federal governing structure. • Unresolved political status of Somaliland. • Lack of legislative framework for central bank. 	Capacity building for nationally coordinated licensing and supervision of banks and money transmitters commenced.	<p>Nationally coordinated prudential regulations for regional central bank designed and implemented.</p> <p>Costing: \$ 0.275 million</p>	Existing regional central bank restructured to exit from commercial banking. Nationally coordinated Monetary and supervisory responsibility expanded. Costing: \$ 4.15 million
<p>ii. Commercial Banking</p>	No commercial banks.	<ul style="list-style-type: none"> • Lack of legislative 	Nationally coordinated commercial bank law enacted	Annual on-site inspection of new banks conducted. International	Rural expansion of private financial institutions that are

Costing: \$ 0.125 million		framework for commercial banks. • Low public confidence in public institutions.	and commercial banks established. Prudential licensing regulations enforced. Monthly performance reporting of commercial banks and money transmitters commenced.	auditing and accounting standards implemented. Costing: \$ 0.125 million	sound, efficient and competitive encouraged.
iii. Access to Finance Costing: \$2 million	No access to finance program for commercial enterprises.	• 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. Costing: \$ 0.25 million	Small Business Development Fund established. Credit lines and Guarantees schemes developed. Regional microfinance policy developed. Costing: \$ 1 million	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. Costing: \$ 0.75 million
Total Costing for Financial Sector Development: \$ 6.55 million			Total Costing: \$ 0.25 million	Total Costing: \$ 1.4 million	Total Costing: \$ 4.9 million

Financial Sector Development Results Matrix – Puntland					
Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
i. Central Banking Costing: \$ 4.425 million	Regional central bank.	• Nascent Federal governing structure. • Unresolved political status of Somaliland. • 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 million	Existing regional central bank restructured to exit from commercial banking. Nationally coordinated Monetary and supervisory responsibility expanded. Costing: \$ 4.15 million
ii. Commercial	One private commercial	• Lack of legislative	Nationally coordinated	Annual on-site inspection of new	Rural expansion of private

Banking Costing: \$ 0.125 million	bank registered by regional authorities.	framework for commercial banks. • Low public confidence in public institutions.	commercial bank law enacted and commercial banks established. Prudential licensing regulations enforced. Monthly performance reporting of commercial banks and money transmitters commenced.	banks conducted. International auditing and accounting standards implemented. Costing: \$ 0.125 million	financial institutions that are sound, efficient and competitive encouraged.
iii. Access to Finance Costing: \$2 million	No access to finance program for commercial enterprises.	• 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. Costing: \$ 0.25 million	Small Business Development Fund established. Credit lines and Guarantees schemes developed. Regional microfinance policy developed. Costing: \$ 1 million	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. Costing: \$ 0.75 million
Total Costing for Financial Sector Development: \$ 6.55 million			Total Costing: \$ 0.25 million	Total Costing: \$ 1.4 million	Total Costing: \$ 4.9 million

Data Development Results Matrix- TFG and South Central

Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
i. Improved Federal Statistical Program Costing: \$13.1	- Statistical delivery system has practically disappeared - All statistical records, data processing equipment and documents have been	- Lack of statistics collection entity and funding for data collection - Lack of coordination and institutional conflict	-Develop a draft Statistical Act - Allocate budget for statistical activities - Hire qualified statisticians - Re-establish data collection system - Collect monthly exchange rate	- Statistical Act approved by parliament - Statistical work program developed - Establish basic statistical physical infrastructure - Data processing together with	- A coherent & consistent federal statistical system is in place - Increased use of statistics in evidence-based decision-making, planning and budgeting

	ransacked and destroyed - No data for national accounts is collected - Limited data on trade, prices, financial inflows exists - Data on exchange rates exists and some data on donor aid and NGO inflows		data, data on remittance and inflows from donors and foreign NGOs Costing: \$3.2	required staff in place - Start collecting import and export data by major products - Collect data on net increases in local currency issued by the CB Costing: \$4.8	- Statistical system is fully operational - Data on national income accounts and poverty is collected Costing: \$5.1
ii. Census Costing: \$10.9			- Preparation of the census initiated Costing: \$0.9	- Census under way Costing: \$4.9	- Census conducted and results are finalized Costing: \$5.1
iii. Capacity Building Costing: \$3.6			- Procurement for modern data processing instruments completed Costing: \$0.67	- Procured equipment installed - Training of staff in technical issues and IT skills under way Costing: \$1.46	- Statistical infrastructure improved. - Staff training under way Costing: \$1.48
iv. 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 TFG Costing: \$27.6			\$4.77	\$11.16	\$11.68

Data Development Results Matrix – Somaliland

Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
<p>i. Improved Regional Statistical Program</p> <p>Costing: \$3.3</p>	<ul style="list-style-type: none"> - At the central level there is a statistical department under the Ministry of Planning - Regional proposed but no qualified staff exist - Weak institutional capacity to undertake national statistical initiatives (census, HH Surveys) - Data system, collection, analysis and publication of statistics practically stopped by 1989 	<ul style="list-style-type: none"> - Dependency on piecemeal donor funding - Inadequate knowledge management - Lack of coordination and institutional conflict 	<ul style="list-style-type: none"> - Develop a draft Statistical Act - Allocate budget for statistical activities - Hire qualified statisticians - Re-establish data collection system <p>Costing: \$0.8</p>	<ul style="list-style-type: none"> - Statistical Act approved by parliament - Statistical work program developed - Establish basic statistical physical infrastructure - Data processing together with required staff in place - Basic macroeconomic, financial and fiscal data are collected, compiled and published - Basic social data (health, education, water and sanitation) are collected, compiled and published <p>Costing: \$1.2</p>	<ul style="list-style-type: none"> - A coherent & consistent national statistical system is in place - Increased use of statistics in evidence-based decision-making, planning and budgeting - Statistical system is fully operational <p>Costing: \$1.3</p>
<p>ii. Census</p> <p>Costing: \$2.7</p>			<ul style="list-style-type: none"> - Preparation of the census initiated <p>Costing: \$0.2</p>	<ul style="list-style-type: none"> - Census under way <p>Costing: \$1.2</p>	<ul style="list-style-type: none"> - Census conducted and results are finalized <p>Costing: \$1.3</p>
<p>iii. Capacity Building</p> <p>Costing: \$0.9</p>			<ul style="list-style-type: none"> - Procurement for modern data processing instruments completed <p>Costing: \$0.17</p>	<ul style="list-style-type: none"> - Procured equipment installed - Training of staff in technical issues and IT skills under way <p>Costing: \$0.36</p>	<ul style="list-style-type: none"> - Statistical infrastructure improved. - Staff training under way <p>Costing: \$0.38</p>
<p>iv. Data for Macroeconomic Policy</p>	<ul style="list-style-type: none"> No data for national accounts, and limited data on trade, prices, financial inflows. 	<ul style="list-style-type: none"> Lack of statistics collection entity and funding for data collection 	<ul style="list-style-type: none"> Collect monthly exchange rate data, data on remittances and inflows from donors and foreign NGOs 	<ul style="list-style-type: none"> - Start collecting import and export data by major products. - Start collecting gender 	<ul style="list-style-type: none"> - Collect data on national income accounts, - Start collecting data on

	There is a lack of gender disaggregated data. There are statistics on exchange rates, and some data on donor aid and NGO inflows.			disaggregated data. - Collect data on net increases in local currency issued by the Central Bank.	poverty.
Total Somaliland Costing: \$6.9			\$1.17	\$2.76	\$2.98

Data Development Results Matrix – Puntland					
Target Outcomes for 2011	Baseline 2006	Constraints to Achieving Outcomes by 2011	Key Actions and Intermediate Outcomes (all costs are in USD million)		
			2007	2008	2009-2011
i. Improved Regional Statistical Program Costing: \$3.3	- At the central level there is a statistical department under the Ministry of Planning - Regional proposed but no qualified staff exist - Weak institutional capacity to undertake national statistical initiatives (census, HH Surveys) - Data system, collection, analysis and publication of statistics practically stopped by 1989	- Dependency on piecemeal donor funding - Inadequate knowledge management - Lack of coordination and institutional conflict	-Develop a draft Statistical Act - Allocate budget for statistical activities - Hire qualified statisticians - Re-establish data collection system Costing: \$0.8	- Statistical Act approved by parliament - Statistical work program developed - Establish basic statistical physical infrastructure - Data processing together with required staff in place - Basic macroeconomic, financial and fiscal data are collected, compiled and published - Basic social data (health, education, water and sanitation) are collected, compiled and published Costing: \$1.2	- A coherent & consistent national statistical system is in place - Increased use of statistics in evidence-based decision-making, planning and budgeting - Statistical system is fully operational Costing: \$1.3

ii. Census Costing: \$2.7			- Preparation of the census initiated Costing: \$0.2	- Census under way Costing: \$1.2	- Census conducted and results are finalized Costing: \$1.3
iii. Capacity Building Costing: \$0.9			- Procurement for modern data processing instruments completed Costing: \$0.17	- Procured equipment installed - Training of staff in technical issues and IT skills under way Costing: \$0.36	- Statistical infrastructure improved. - Staff training under way Costing: \$0.38
iv. 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 Puntland Costing: \$6.9			\$1.17	\$2.76	\$2.98
Grand Total: \$34.5			\$ 5.94	\$13.92	\$14.66

3. ARRANGEMENTS FOR RESULTS MONITORING & REPORTING

JNARDP Period Outcome Indicators	Target Values				Data Collection and Reporting		
	Baseline	2007	2008	2009-2011	Frequency and Reports	Data Collection Instrument/Method	Responsibility Data Collector
1. Macroeconomic Policy							
TFG							
1) Ministry of Finance (MoF), covering budgeting, treasury, macroeconomic and tax policy.	No MoF staff or facilities.	Staff hired, trained, 2007 and 2008 budget prepared.	2008 budget monitored.	Macroeconomic policy department separate from budget department			
2) Broad-based revenue system.	Old tax laws and agreements.	Tax law enacted detailing agreed initial revenue areas.	Tax law enacted on additional revenue areas.	Customs duty rates raised, sales taxes expanded, law on personal and corporate income taxes enacted.			
3) Limited fiscal deficits.	No federal budget.	No resort to deficit financing.	No resort to deficit financing.	Modest levels of government deficit.			
4) Tax administration.	No tax administration.	Revenue administrative agency in place, staff hired.	Taxes collected on items covered by 2007 tax law.	Capacity and regulations for collecting income taxes developed.			
Somaliland							
1) Limited fiscal deficits.	Modest deficits. Regional and local governments on cash budgets.	No resort to deficit financing.	No resort to deficit financing.	Modest levels of government deficit.			
2) Improved tax administration.	Most taxes come from customs duties and indirect taxes.	Enact tax law, establish tax administration, hire staff.	Taxes collected on items covered by 2007 tax law.	Capacity and regulations for collecting income taxes developed.			
Puntland							
1) Limited fiscal deficits.	Significant deficit financing funded by borrowing from businessmen.	No resort to deficit financing.	No resort to deficit financing.	Modest levels of government deficit.			

2) Improved tax administration.	Most taxes come from customs duties and indirect taxes.	Enact tax law, establish tax administration, hire staff.	Taxes collected on items covered by 2007 tax law.	Capacity and regulations for collecting income taxes developed.			
2. Public Financial Management							
TFG							
1) FMA contracted to design, select, procure, implement and operate financial management systems for first 2 years.	No financial management staff.	Financial Management Agent (FMA) contracted for first two years and operationalized.	FMA continues operations.		FMA contracted in year 1	Contract signed with FMA.	
2) Computerized accounting and reporting systems.	No systems.	FMA assisted creation of computerized accounting and reporting system.	Software acquired. Computerized system implemented in regional accounting locations.	Computerized system operated. Periodic and annual financial reports created.	Quarterly reporting (formats to be agreed).	Reports generated from computerized systems.	
3) Simple and comprehensive financial management policies and procedures Manual, based on the computerized systems	Non-existent regulations.	FMA assisted preparation of simple, user friendly financial management policies and procedures based on the computerized systems.	New financial management policies and procedures implemented.		Simple and user friendly comprehensive financial management policies and procedures Manual. To be completed after systems establishment in year 1.	Policies and Procedures manual	
4) Certified Microsoft Trainer contracted to train Accountants on basic computer skills- Microsoft excel and word.	Staff lack basic computer skills.	Microsoft certified trainer contracted.			Microsoft Certified Trainer contracted in year 1.	Contract signed with Microsoft Certified Trainer	
5) Accountants equipped with basic computer skills- Microsoft excel and word.	Staff lack basic computer skills.	Training provided by trainer.	Self training on Microsoft Excel and Word.	Self training on Microsoft Excel and Word.	Staff trained on Microsoft excel and word in year 1 and training report prepared.	Training report	
6) Accountants equipped with relevant skills to operate the computerized accounting systems.	Staff lack adequate accounting systems skills.	Training provided on the improved computerized accounting and reporting systems.			Staff trained on accounting systems in two phases: Phase 1 comprising Accountant General's office and 20 regional accounting locations in year 1, and Phase 2 comprising the remaining regional accounting locations in year2. Training report prepared.	Training report.	
7) Participatory, transparent, comprehensive and gender sensitive budget preparation process with a multi-year perspective and proper classification.	Lack of adequate budget preparation experience.	Budget preparation process introduced and effectively operated, budgetary controls effectively implemented.	Budget preparation process operated and guidance offered as appropriate.	Budget preparation process operated and guidance offered as appropriate.	Agreed multi-year budgets (eg.3-year rolling); budgeting process review reports done once a year.	Budget Review report Annual gender audit reports.	

8) Improved periodical progress reporting showing actual versus budget, and variance by defined programs/activities and subheads.	No formal financial progress reporting.	Appropriate accounting structure and progress reports developed.	Financial management systems operated and progress reports generated.	Financial management systems operated and progress reports generated.	System operating and reports generated in agreed formats.	Periodical and annual reports	
Somaliland							
1) FMA contracted to design, select, procure, implement and operate financial management systems for first 2 years.	Inadequate staff capacity to establish systems.	Financial Management Agent (FMA) contracted for first two years and operationalized.	FMA continues operations.		FMA contracted in year 1	Contract signed with FMA.	
2) Computerized accounting and reporting systems.	Inadequate manual accounting and reporting systems.	FMA assisted creation of computerized accounting and reporting system.	Software acquired. Computerized system implemented in regional accounting locations.	Computerized system operated. Periodic and annual financial reports created.	Quarterly reporting (formats to be agreed).	Reports generated from computerized systems.	
3) Simple and comprehensive financial management policies and procedures Manual, based on the computerized systems	1961 financial regulations.	FMA assisted preparation of simple, user friendly financial management policies and procedures based on the computerized systems.	New financial management policies and procedures implemented.		Simple and user friendly comprehensive financial management policies and procedures Manual. To be completed after systems establishment in year 1.	Policies and Procedures manual	
4) Certified Microsoft Trainer contracted to train Accountants on basic computer skills- Microsoft excel and word.	Staff lack basic computer skills.	Microsoft certified trainer contracted.			Microsoft Certified Trainer contracted in year 1.	Contract signed with Microsoft Certified Trainer	
5) Accountants equipped with basic computer skills- Microsoft excel and word.	Staff lack basic computer skills.	Training provided by trainer.	Self training on Microsoft Excel and Word.	Self training on Microsoft Excel and Word.	Staff trained on Microsoft excel and word in year 1 and training report prepared.	Training report	
6) Accountants equipped with relevant skills to operate the computerized accounting systems.	Staff lack adequate accounting systems skills.	Training provided on the improved computerized accounting and reporting systems.			Staff trained on accounting systems in two phases: Phase 1 comprising Accountant General's office and 20 regional accounting locations in year 1, and Phase 2 comprising the remaining regional accounting locations in year2. Training report prepared.	Training report.	
7) Participatory, transparent, comprehensive and gender sensitive budget preparation process with a multi-year perspective and proper classification.	Annual non-participatory budget.	Budget preparation process introduced and effectively operated, budgetary controls effectively implemented	Budget preparation process operated and guidance offered as appropriate.	Budget preparation process operated and guidance offered as appropriate.	Agreed multi-year budgets (eg.3-year rolling); budgeting process review reports done once a year.	Budget Review report Annual gender audit reports.	

8) Improved periodical progress reporting showing actual versus budget, and variance by defined programs/activities and subheads.	Coding only by heads and sub-heads	Appropriate accounting structure and progress reports developed.	Financial management systems operated and progress reports generated.	Financial management systems operated and progress reports generated.	System operating and reports generated in agreed formats.	Periodical and annual reports	
Puntland							
1) FMA contracted to design, select, procure, implement and operate financial management systems for first 2 years.	Inadequate staff capacity to establish systems.	Financial Management Agent (FMA) contracted for first two years and operationalized.	FMA continues operations.		FMA contracted in year 1	Contract signed with FMA.	
2) Computerized accounting and reporting systems.	Inadequate manual systems.	FMA assisted creation of computerized accounting and reporting system.	Software acquired. Computerized system implemented in regional accounting locations.	Computerized system operated. Periodic and annual financial reports created.	Quarterly reporting (formats to be agreed).	Reports generated from computerized systems.	
3) Simple and comprehensive financial management policies and procedures Manual, based on the computerized systems	1961 financial regulations.	FMA assisted preparation of simple, user friendly financial management policies and procedures based on the computerized systems.	New financial management policies and procedures implemented.		Simple and user friendly comprehensive financial management policies and procedures Manual. To be completed after systems establishment in year 1.	Policies and Procedures manual	
4) Certified Microsoft Trainer contracted to train Accountants on basic computer skills- Microsoft excel and word.	Staff lack basic computer skills.	Microsoft certified trainer contracted.			Microsoft Certified Trainer contracted in year 1.	Contract signed with Microsoft Certified Trainer	
5) Accountants equipped with basic computer skills- Microsoft excel and word.	Staff lack basic computer skills.	Training provided by trainer.	Self training on Microsoft Excel and Word.	Self training on Microsoft Excel and Word.	Staff trained on Microsoft excel and word in year 1 and training report prepared.	Training report	
6) Accountants equipped with relevant skills to operate the computerized accounting systems.	Staff lack adequate accounting systems skills.	Training provided on the improved computerized accounting and reporting systems.			Staff trained on accounting systems in two phases: Phase 1 comprising Accountant General's office and 20 regional accounting locations in year 1, and Phase 2 comprising the remaining regional accounting locations in year2. Training report prepared.	Training report.	
7) Participatory, transparent, comprehensive and gender sensitive budget preparation process with a multi-year perspective and proper classification.	Annual non-participatory budget.	Budget preparation process introduced and effectively operated, budgetary controls effectively implemented	Budget preparation process operated and guidance offered as appropriate.	Budget preparation process operated and guidance offered as appropriate.	Agreed multi-year budgets (eg.3-year rolling); budgeting process review reports done once a year.	Budget Review report Annual gender audit reports.	

8) Improved periodical progress reporting showing actual versus budget, and variance by defined programs/activities and subheads.	Coding only by heads and sub-heads	Appropriate accounting structure and progress reports developed.	Financial management systems operated and progress reports generated.	Financial management systems operated and progress reports generated.	System operating and reports generated in agreed formats.	Periodical and annual reports	
3. Civil Service							
TFG and South Central							
1) Staff professionalized, new staff meeting at least minimal qualifications for job.	Human capacity low. Skill base low.		Competitive selection process developed and carried out.	Process completed			
2) Federal and local government right-sized.	TFG now consists of 275 members of Parliament		Surplus staff eliminated in selected districts with help of CSC, pay scales reviewed.	Right-sizing process extended to other districts.			
3) Civil Service Commission (CSC) established and institutionally strengthened.	CSI non-existent but a six person Civil Service task force established in January 2006.		Personnel management training and survey of civil servants carried out.	Survey finalized and human resources development strategy prepared.			
4) CSI premises built.	No premises.			Construction of new premises initiated.			
5) Capacity built at CSI, role of women and minorities enhanced.	CSI entirely dependent on donor and government funds, no fees for service. Most women in low-skill jobs.	Capacity enhancement for 35 women and 20 minority members with potential to be directors.	Training of trainers under way. Capacity enhancement process for women continues, awareness campaign launched.	Process continued leading to greater sustainability.			
6) Pensions and Pay Reform carried out.	No pension fund in 45 years.		Pensions law reviewed. Technical assistance on establishing viable fund and pensions administration contracted, plan prepared. Pay reform report prepared.	Pensions fund and administrative arrangements approved by cabinet and parliament. Preferred pay policy approved by cabinet.			
Somaliland							
1) Staff professionalized, meeting at least minimal qualifications for job.	Many staff not qualified for their jobs.		Staff interviewed and those approved placed in jobs.	Process completed.			
2) Local government right-sized.	Many districts have more staff than they need.		Surplus staff eliminated in selected districts with help of CSC, pay scales reviewed.	Right-sizing process extended to other districts.			

3) CSC institutionally strengthened.	Most CSI staff not trained in personnel management.		Personnel management training and survey if civil servants carried out.	Survey finalized and human resources development strategy prepared.			
4) CSI premises built.	CSI renting premises from U of Hargeisa.			Contrustion of new premises in center of Hargeisa initiated.			
5) Capacity built at CSI, role of women and minorities enhanced.	CSI entirely dependent on donor and government funds, no fees for service. Most women in low-skill jobs.	Capacity enhancement for 35 women and 20 minority members with potential to be directors.	Training of trainers under way. Capacity enhancement process for women continues, awareness campaing launched.	Process continued leading to greater sustainability.			
6) Pensions and Pay Reform carried out.	No pension fund in 45 years. New law drafted. "Stop Gap" increase in salaries proposed but not implemented.	"Stop Gap" increase in salaries implemented.	Pensions law reviewed. Technical assistance on establishing viable fund and pensions administration contracted, plan prepared. Pay reform report prepared.	Pensions fund and administrative arrangements approved by cabinet and parliament. Preferred pay policy approved by cabinet.			
7) Retrenched staff redirected.	Some staff will lose jobs as a result of restructuring and pay reform.	Program prepared.	Retraining program implemented.	Implementation continued.			
Puntland							
1) Staff professionalized, meeting at least minimal qualificatins for job.	Many staff not qualified for their jobs.	Training needs assessment conducted. Training started in 1-2 priority areas. Standardized recruitment procedures implemented. 3-year civil service training plan drafted.	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 continued. Regular impact studies of job-related training conducted. Certificate, diploma and/or degree courses in public administration and other key areas developed.			
2) Local government right-sized.	Many districts have more staff than they need.	Based on findings of roles&functions of levels of TFG, staffing levels reviewed by councils.					
3) CSC institutionally strengthened.	No CSC exists.	CSC office established, with clear reporting lines to FCSC. Training for two staff in personnel management offered. Appropriate training for remaining staff.					

5) Capacity built at CSI, role of women and minorities enhanced.	No human resource development plan. Very few women in senior positions. Minority groups almost absent in civil service.	Proposal on structure and staff establishment drafted. Training for two staff in human resource planning carried out. Gender and civil service strategy developed.	Structure and staff establishment adopted by PSG. Human resources development strategy developed and adopted by PSG. M&E system on gender issues implemented.	Regular M&E of human resources development conducted. M&E system on gender issues continued.			
6) Pensions and Pay Reform carried out.	No pensions provided to civil servants. Civil service unable to hire and retain high-calibre managers and other senior staff.	Viable fund established, in conjunction with federal scheme. Pay reform report prepared.					
7) Retrenched staff retrained.	Some staff will lose jobs as a result of restructuring and pay reform.		Retraining program designed and implemented.				
8) Inter-ministerial cooperation enhanced.	Lack of information sharing and cooperation between PSG ministries.	Opportunities for cooperation and information sharing created through enhanced ICTs and facilities.	Technical support in legislation made available to PSG.				
9) Bureaucratic environment made more business friendly.	Private sector perceives bureaucratic processes as exceedingly complicated and lengthy.	Survey of government procedures relating to private sector conducted.	Recommendations of survey adopted and implemented.				

4. Financial Sector

TFG

1) Central Banking	No federal central bank. Only one local currency denomination creating inefficiencies in small and medium-size transactions. No mechanism for monetary policy other than direct injection/withdrawal of currency.	Capacity building for licensing and supervision of banks and money transmitters commenced.	Central Bank law enacted. Prudential regulations passed. Interim payments system designed. New 10 shilling note and 1/2 and 1 shilling coins introduced. Reserve requirements with Central Bank started.	Physical re-construction of central bank commenced. Basic monetary and supervisory functions assumed. Monetary and supervisory responsibility expanded. Currency reforms undertaken. Amount of local currency in circulation increased. Limited amount of treasury securities issued to financial institutions and general public.	Quarterly Central Bank Reports.	List of capacity building activities (i.e. physical rebuilding of infrastructure, establishing core and support departments, expanding monetary and supervisory responsibilities, and implementing currency reforms)/Report. List of administrative and operations legislation and passed legislation/Report.	Governors Office
2) Commercial Banking	No commercial banks.	Commercial bank law enacted and commercial banks established. Prudential licensing regulations passed. Monthly performance reporting of commercial banks and money transmitters commenced.	Annual on-site inspection of new banks conducted. International auditing and accounting standards implemented.	Rural expansion of private financial institutions that are sound, efficient and competitive encouraged.	Quarterly Supervision Reports	List of capacity building activities (i.e. passing licensing regulations, preparing monthly performance reports, conducting annual on-site inspections, developing international accounting and auditing standards)/Report. List of prudential drafted and passed legislation/Report.	Supervision Depa
3) Access to Finance	No national access to finance program for commercial enterprises.	Commercial banks encouraged to lend to private sector. Prudential licensing regulations passed 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. National 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.	Quarterly Supervision Reports	List of capacity building activities (i.e. passing licensing for non-bank financial institutions, preparing monthly industry performance reports, preparing a microfinance policy)/Report. List of NBFIs regulations and policies/Report.	Supervision Depa
Somaliland							

1) Central Banking	Regional 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.	Existing regional central bank restructured to exit from commercial banking. Nationally coordinated Monetary and supervisory responsibility expanded.	Quarterly Central Bank Reports.	List of capacity building activities (i.e. physical rebuilding of infrastructure, establishing core and support departments, expanding monetary and supervisory responsibilities, and implementing currency reforms)/Report. List of administrative and operations legislation and passed legislation/Report.	Governors Office
2) Commercial Banking	No commercial banks.	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.	Rural expansion of private financial institutions that are sound, efficient and competitive encouraged.	Quarterly Supervision Reports	List of capacity building activities (i.e. passing licensing regulations, preparing monthly performance reports, conducting annual on-site inspections, developing international accounting and auditing standards)/Report. List of prudential drafted and passed legislation/Report.	Supervision Depa
3) Access to Finance	No access to finance program for commercial enterprises.	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.	Quarterly Supervision Reports	List of capacity building activities (i.e. passing licensing for non-bank financial institutions, preparing monthly industry performance reports, preparing a microfinance policy)/Report. List of NBFIs regulations and policies/Report.	Supervision Depa
Puntland							
1) Central Banking	Regional 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.	Existing regional central bank restructured to exit from commercial banking. Nationally coordinated Monetary and supervisory responsibility expanded.	Quarterly Central Bank Reports.	List of capacity building activities (i.e. physical rebuilding of infrastructure, establishing core and support departments, expanding monetary and supervisory responsibilities, and implementing currency reforms)/Report. List of administrative and operations legislation and passed legislation/Report.	Governors Office

1) Commercial Banking	One private commercial bank registered by regional authorities.	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.	Rural expansion of private financial institutions that are sound, efficient and competitive encouraged.	Quarterly Supervision Reports	List of capacity building activities (i.e. passing licensing regulations, preparing monthly performance reports, conducting annual on-site inspections, developing international accounting and auditing standards)/Report. List of prudential drafted and passed legislation/Report.	Supervision Depa
2) Access to Finance	No access to finance program for commercial enterprises.	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.	Quarterly Supervision Reports	List of capacity building activities (i.e. passing licensing for non-bank financial institutions, preparing monthly industry performance reports, preparing a microfinance policy)/Report. List of NBFIs regulations and policies/Report.	Supervision Depa

5. Decentralization

TFG

1) Expenditure and revenue assignments across levels of government and policy for targeting of intergovernmental transfers.	Federal Charter outlines broad principles calling for district-level service delivery, but remains vague.	FCC established, with sub-committees fully operational. Awareness-raising events implemented. Initial mapping of state and district level capacity needs carried out. Initial policy draft on assignments prepared and discussed.	Expenditure and revenue assignments agreed to and new law passed by parliament. Capacity needs at state and district level mapped out, staff identified and training activities initiated. Transfer criteria designed, with system and procedures for targeted transfers. Tied block grants for service delivery piloted in two more advanced districts.	Pilot transfers expanded to an increased number of diverse districts. Transfers to districts across Somalia progressively rolled out based on districts' preparedness.			
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2) Local government laws incorporating expenditure responsibilities of district governments and revenue sources.	Two local government laws exist in the northern regions of Somaliland and Puntland. No such law exists in S-C.	Awareness raised among district councils concerning new changes.	Awareness raising campaign initiated to inform district councils of rights and responsibilities.	TFG constitution in place and local government laws drafted in line with existing laws in northern states. Laws refined as needed.			
3) Capacity needs at district level addressed, including recruitment needs, higher salaries for qualified staff, increased resources for service delivery and employment of women.	Limited or no knowledge of staffing of local governments in large part of the country apart from northern regions of Somaliland and Puntland.	CSC established and working with districts to conduct functional reviews of existing staff and capacity, define needs and recommend actions to rectify shortfalls and inefficiencies. Staffing needs in new districts assessed and training initiated.	Job re-training in pilot districts initiated. Work with CSC continued in additional districts. Staffing in new districts reviewed, changes recommended.	Staff downsizing initiated in districts where staff are prepared for departure. Additional re-training in districts rolled-out.			
4) Financial planning, budgeting and accountability functions of district councils and financial management staff strengthened.	Larger districts in Somaliland with ad-hoc training. No significant training provided elsewhere.	National policy and curriculum for certifying district financial managers developed. Budget planning and execution capacity at district level established and staff identified.	Training institutions accredited to carry out training. Training courses initiated. Policies and procedures developed to ensure transparency in the use of funds. District budgets linked to federal budget.	All district financial managers certified by 2011. Advanced and refresher courses available. Transparent transfer mechanism and monitoring capacity developed at federal level.			
5) District revenue increased through establishment of effective and equitable revenue system.	Somaliland and Puntland employ a diverse mix of revenue sources and collection approaches to varying degrees of success. No formal means of revenue collection in S-C.	Stock-taking of all revenue sources employed by districts carried out and success rates determined. Review of tax collection potential including vertical and horizontal imbalances undertaken. Workshops among districts to discuss revenue collection issues and prioritize needs set up.	FCC decision made on revenue assignments. Training modules developed and delivered to address priority collection needs. Procurement of materials and equipment needed to strengthen collection ability undertaken. Revenue authority in place to guide the process.	Capacity to build new systems built and evolving revenue collection needs supported.			

6) Availability of data on district finances improved.	Relevant ministries collect data but do not produce reports. Data limited to annual budgets and monthly financial reports.	Somali researchers contracted to work with relevant ministries on report formats and production reports.	Reports produced on a periodic basis and trends discussed with districts and ministries.	Production of reports institutionalized in relevant ministries, research institutes or local government association.			
Somaliland							
1) Financial planning, budgeting and accountability of district councils and financial management staff strengthened.	Larger districts in Somaliland with ad-hoc training.	Curriculum developed for certifying district financial managers.	Training institutions accredited to carry out training. Training courses initiated. Policies and procedures developed to ensure transparency in the use of funds.	All district financial managers certified by 2011. Advanced and refresher courses available. Transparent transfer mechanism and monitoring capacity developed at federal level.			
2) Targeting of intergovernmental transfers improved by applying a formula which is tied to poverty reduction goals.	Simple transfer formula exists which does not apply poverty or other outcome-oriented targeting criteria.	New criteria, system and procedures for targeted transfers designed and agreed to. Tied block grants for service delivery piloted in more advanced districts.	Pilot transfers expanded to an increased number of districts.	Transfer system fully implemented and reviewed.			
3) District government staff reduced, taking into consideration quotas for women, higher salary payments for qualified staff and increased resources for service delivery.	Most large districts in Somaliland have up to twice as many staff as they need. Policy underway to decentralize service delivery staff.	Current decentralization push in CSC finalized. Functional reviews conducted on behalf of CSC and districts, rightsizing recommended based on initial feedback.	Job-retraining initiated in pilot districts. Work with CSC continued in additional districts. Staffing reviewed in new districts, changes recommended.	Staff downsizing initiated in districts where staff are prepared for departure. Additional re-training in districts rolled-out.			
4) District revenue generating capacity increased through establishment of an effective and equitable revenue system.	Revenue collection centralized but employing a diverse mix of revenue sources and collection approaches to varying degrees of success.	Stock-taking of all revenue sources employed by districts carried out and success rates determined. Review of tax collection potential including vertical and horizontal imbalances undertaken. Workshops among districts to discuss revenue collection issues and needs prioritization set up.	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 carried out.	Capacity to utilize new systems built and evolving revenue collection needs supported.			

5) Availability of data on district finances improved.	Relevant ministries collect data but do not produce reports. Data limited to annual budgets and monthly financial reports. CBS limited capacity to collect relevant data.	Somali researchers contracted to work with relevant ministries on report formats and production reports.	Reports produced on a periodic basis and trends discussed with districts and ministries.	Production of reports institutionalized in relevant ministries, research institutes or local government association.			
Puntland							
1) Expenditure and revenue assignments clarified, system for intergovernmental transfers established.	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.	Revised expenditure and revenue assignments agreed on. Local government laws amended. Criteria, systems and procedures for targeted transfers based on revised law designed and agreed to. Awareness raised among district councils of new changes. Tied block grants for service delivery piloted in one or two districts.	Pilot transfers expanded to an increased number of districts. Awareness raising campaign continued to inform district councils of rights and responsibilities.	Transfer system fully implemented and reviewed.			
2) Financial planning, budgeting and accountability functions of district councils and financial management staff strengthened.	Budgets controlled by MOF, who approve district budget. No closed accounts or reporting back. Limited capacity for public financial management, and no significant training provided.	Current capacity at district level assessed and needs identified. Curriculum for certifying district financial managers developed. Training activities initiated for a limited amount of staff.	Training activities scaled-up. Policies and procedures developed to ensure transparency in use of funds.	All district financial managers certified by 2011. Advanced and refresher courses offered. Transparent transfer mechanism and monitoring capacity developed at federal level.			

3) District revenue increased through establishment of effective and equitable revenue system.	95% of revenue collected through trade tax, primarily from the Bossaso Port. Diverse mix of revenue collection approaches to varying degrees of success.	Stock-taking of all revenue sources employed by districts carried out and success rates determined. Review of tax collection potential including vertical and horizontal imbalances undertaken. Workshops among districts to discuss revenue collection issues and prioritize needs set up.	Revenue authority restructured and resized with clearly defined mandate. New taxation law approved. Training modules developed and delivered to address priority collection needs. Procurement of materials and equipment needed to strengthen collection ability set up.	Capacity to utilize new systems built and evolving revenue collection needs supported.			
4) Availability of data on district finances improved.	Relevant ministries collect data but do not produce reports. Data limited to annual budgets and monthly financial reports. CBS limited capacity to collect relevant data.	Somali researchers contracted to work with relevant ministries on report formats and production reports.	Reports produced on a periodic basis and trends discussed with districts and ministries.	Production of reports institutionalized in relevant ministries, research institutes or local government association.			

6. Procurement

TFG and South Central							
1) Federal procurement law and procurement regulations.	No federal procurement regulations or standard procurement documents. No procurement law in regions outside Puntland and Somaliland.	Consulting firm hired for one year to produce (i) federal procurement law; (ii) federal procurement regulations; (iii) standard bidding documents and (iv) procurement training program (both short- and long-term).	Federal procurement law enacted and enforced.				
2) Tender committee, federal procurement authority and federal complaints review boards.	No central tender board and procurement authority, no federal procurement complaints board.	Federal-level procurement authority created. Central tender board established. Federal procurement complaints review boards established.					

3) Strong procurement capacity.	No procurement capacity. Weak capacity of local private sector agents to undertake large scale contracts.	Procurement unit staff recruited. Short-term training program for procurement institutions carried out. Procurement agent with procurement teams hired to support TFG for 3-4 years in the implementation of procurement activities under the Trust Fund.	Training of government staff continued. On-the-job training of staff of procurement institutions including the procurement oversight authorities by the procurement agent teams.				
Somaliland							
1) State procurement laws and procurement regulations in place.	Procurement law in place. No procurement regulations or standard procurement documents.	Consulting firm hired for one year to (i) revise state procurement law; (ii) produce state procurement regulations; (iii) produce standard bidding documents and (iv) develop procurement training program (both short- and long-term).	Relevant procurement law amended and enforced. Procurement regulations published.				
2) Tender committee, procurement units, and state procurement complaints review boards.	Central tender board for administering procurement process and awarding contracts exists. Ministerial tender committees with limited powers for administering procurement process and awarding contracts.		Central tender board elevated to a procurement oversight authority. Existing ministerial tender committees strengthened. Procurement units created in public entities.				
3) Strong procurement capacity.	Low procurement capacity. Weak capacity of local private sector agents to undertake large scale contracts.	Procurement unit staff recruited. Short-term training program for procurement institutions carried out. Procurement agent with procurement teams hired to support TFG for 3-4 years in the implementation of procurement activities under the Trust Fund.	Training of government staff continued. On-the-job training of staff of procurement institutions including the procurement oversight authorities by the procurement agent teams.				
Puntland							

1) State procurement laws and procurement regulations in place.	Procurement law in place. No procurement regulations or standard procurement documents.	Consulting firm hired for one year to (i) revise state procurement law; (ii) produce state procurement regulations; (iii) produce standard bidding documents and (iv) develop procurement training program (both short- and long-term).	Relevant procurement law amended and enforced. Procurement regulations published.				
2) Tender committee, procurement units, and 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.		Central tender board elevated to a procurement oversight authority. Central tender board created. State procurement complaints review boards established.				
3) Strong procurement capacity.	Low procurement capacity. Weak capacity of local private sector agents to undertake large scale contracts.	Procurement unit staff recruited. Short-term training program for procurement institutions carried out. Procurement agent with procurement teams hired to support TFG for 3-4 years in the implementation of procurement activities under the Trust Fund.	Training of government staff continued. On-the-job training of staff of procurement institutions including the procurement oversight authorities by the procurement agent teams.				
7. Data Development							
TFG and South Central							

1) Improved Federal Statistical Program.	Statistical delivery system practically disappeared. All statistical records, data processing equipment and documents ransacked and destroyed. No data for national counts collected. Limited data on trade, prices, financial inflows. Data on exchange rates exists and some data on donor aid and NGO inflows.	Draft Statistical Act developed. Budget for statistical activities allocated. Qualified statisticians hired. Data collection system re-established. Collect monthly exchange rate data, data on remittance and inflows from donors and foreign NGOs.	Statistical Act approved by parliament. Statistical work program developed. Basic statistical physical infrastructure created. Data processing together with required staff in place. Import and export data by major products collected. Data on net increases in local currency issued by the CB collected.	A coherent & consistent federal statistical system in place. Use of statistics in evidence-based decision-making, planning and budgeting increased. Statistical system fully operational. Data on national income accounts and poverty collected.			
2) Census.		Preparation of the census of population and housing initiated.	Census of population and livestock under way.	Census conducted and results finalized.			
3) Capacity Building		Procurement for modern data processing instruments completed.	Procured equipment installed. Training of staff in technical issues and IT skills under way.	Statistical infrastructure improved. Staff training under way.			
Somaliland							
1) Improved Regional Statistical Program	At the central level there is a statistical department under the Ministry of Planning. No qualified staff exist. Weak institutional capacity to undertake national statistical initiatives (census, HH Surveys). Data system, collection, analysis confined to publication of national accounts statistics.	Draft Statistical Act developed. Budget for statistical activities allocated. Qualified statisticians hired. Data collection system re-established.	Statistical Act approved by parliament. Statistical work program developed. Basic statistical physical infrastructure established. Data processing together with required staff in place. Basic macroeconomic, financial and fiscal data collected, compiled and published. Basic social data (health, education, water and sanitation) collected, compiled and published.	A coherent & consistent national statistical system is in place. Increased use of statistics in evidence-based decision-making, planning and budgeting. Statistical system fully operational.			

2) Regional Census		Preparation of the census of population and housing initiated.	Census of population and livestock under way.	Census conducted and results finalized.			
3) Capacity Building		Procurement for modern data processing instruments completed.	Procured equipment installed. Training of staff in technical issues and IT skills under way.	Statistical infrastructure improved. Staff training under way.			
Puntland							
1) Improved Regional Statistical Program	At the central level there is a statistical department under the Ministry of Planning. No qualified staff exist. Weak institutional capacity to undertake national statistical initiatives (census, HH Surveys). Data system, collection, analysis confined to publication of national accounts statistics.	Draft Statistical Act developed. Budget for statistical activities allocated. Qualified statisticians hired. Data collection system re-established.	Statistical Act approved by parliament. Statistical work program developed. Basic statistical physical infrastructure established. Data processing together with required staff in place. Basic macroeconomic, financial and fiscal data collected, compiled and published. Basic social data (health, education, water and sanitation) collected, compiled and published.	A coherent & consistent national statistical system is in place. Increased use of statistics in evidence-based decision-making, planning and budgeting. Statistical system fully operational.			
2) Regional Census		Preparation of the census of population and housing initiated.	Census of population and livestock under way.	Census conducted and results finalized.			
3) Capacity Building		Procurement for modern data processing instruments completed.	Procured equipment installed. Training of staff in technical issues and IT skills under way.	Statistical infrastructure improved. Staff training under way.			

ANNEXES

Annex 1: District Revenue and Expenditure, 2005
(Million Somaliland Shilling)

	Category A Gebiley	Category B Oodweyne	Category C Sheekh Xasan Geele	Category D Lughaya
Revenue Categories				
Tax categories:				
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 USD Millions	0.5508	0.2038	0.0417	0.0118
Expenditure Categories				
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 USD Thousands	0.5508	0.2038	0.0417	0.0118

Annex 2: Agencies Leading Data Collection in Somalia

Lead Agency	Data	Type	Source / Coverage	Frequency	Availability
APD	Socio-economic	Sample survey, assessments	Somaliland		2004-2005
CARE	Early warning indicators	Monitoring	District (24)	Monthly	> 1998
CRD	Socio-economic	Sample survey, assessments	South central		2004-2005
FAO	Water and Land Information System	Monitoring	Primary/secondary; national, regional, districts		
	Vegetation (NDV Index)	Monitoring	Satellite images	Every 10 days	> 1981
FEWS	Early warning indicators	Monitoring	District (24)	Monthly	> 1998
	Rainfall	Monitoring	10 stations, satellite imagery		
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	
ICRC	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	2004-2005
PDRC	Socio-economic	Sample survey, assessments	Puntland		2004-2005
UNDP	Population estimates and projections	Planning	National/regional/urban and non urban, 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 one survey	2004
	Socio-economic (Demographic, housing, employment, income, health facilities, water sources, education facilities, communication, participation of women in household decision making, environmental concerns)	Primary survey	National, urban, non-urban and gender disaggregated through sample survey covering all regions of Somalia	Only one survey	2002
	Demographic and socio-economic data at settlement levels	Primary survey	Nine Somali regions through census	Only one survey	1995-1998, 2004
	Number of Fishermen, fishing fleet, fish production	Assessment	Somaliland, Puntland, South and Central Somalia	Only one assessment	2004/2005
	Poverty, vulnerability and governance Indicators	Primary survey	Somalia (census covering all settlements)	Only one survey	2005/2006

Annex 2: Agencies Leading Data Collection in Somalia

Lead Agency	Data	Type	Source / Coverage	Frequency	Availability
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, diseases 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+
UNFPA	Quick count of population at district level	Primary survey	3-4 districts to establish census methodology	Only one 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, diseases 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, Socio-economic	Survey	Nutrition survey	Monthly	> 1998
WFP	Gender	Survey	Gender baseline survey	Planned	
	Nutrition	Survey	School feeding survey	Pilot	
	Early warning indicators	Monitoring	District (24)	Monthly	> 1998
WHO	Demographic with UNDP		Settlement / District		2000 to 2005
	Number and type of health facilities and personnel, diseases cases		Regional		2000, 2001
	Health, Nutrition, Demographic	Monitoring	Health Information System	Monthly	

Note: Most of the data collection undertaken by these administrations are 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	2001	2002	2003		2004
	Actual Expenditure	Actual Expenditure	Actual Expenditure	Pledges	Actual Expenditure	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 the Macroeconomic Policy Priorities

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 environment to macroeconomic policy and public resource use. Field assessments were undertaken in 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. As regards 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 the licensing fees. Civil service reform ranks one the highest on 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 environment for Foreign Direct Investment (FDI). According to the Somaliland participants, other priorities include participation in the budgetary process, establishing decentralized tax collection, reducing poverty through human development.

Status of Women. According to the participants, limited budget allocation and lack of women development programs are the main obstacles in empowering Somaliland women. Key activity necessary 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, respondents see as most important priority the establishment of financial institutions and trade regulations. Among institutions that should have the responsibility to formulate, implement and monitor economic policies, according to the Puntland participants, the priority should be establishment of Ministry of Finance, Ministry of Planning and the banking sector. Revenue generation should be based on taxation and public finance. Civil service appointments should be first and foremost 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 development needs to be increased.

South-West Zone. The analysis on 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. 50 people participated in the assessment workshop. On the institutional side, majority of participants believed 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 livestock sector is the economic priority, followed by agriculture, health and water. On the criteria of hiring the civil service, communities believed that the individual merit should be applied to all those jobs that require formal education background. In terms of public budget, 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 predominantly practiced by women. Responsibility of providing service delivery needs to be entirely vested with the district institutions. 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 Benadir Zone is based on questionnaires filled by 52 representatives of the local stakeholders. Participants believe that the economic policy of the country should be decided at the federal level, and municipalities are better placed for service delivery. The group identified NGOs and other civil society groups as one of the primary service providers. Participants suggested that the regional government should have the primary role in budgetary process, but that other stakeholders should also contribute. The most critical support needed to help women in Benadir zone is commercial loans.