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The Somaliland Economic Conference on Growth & Unemployment, Poverty & Inflation and Budget Policy Hargeisa, 29 January 2014

1. DEFINITIONS

Term / Abbreviation	Meaning
Consumer Price Index (CPI)	A measure of the average change over time in the prices of a market basket of consumer goods and services.
Gini Coefficient	A measure of inequality. The higher the percentage the more unequal the distribution.
Gross Domestic Product (GDP)	The value of all final goods and services produced domestically in one year.
Gross Domestic Product per capita	Gross domestic product divided by the total number of people in the economy.
Gross Fixed Capital Formation	A signal of how much of the new value in an economy is invested rather than consumed.
Poor	Someone who lives on less than 184,000 SL.Sh per month in urban areas or 163,000 SL.Sh per month in rural areas.

2. KEY FINDINGS

Growth¹ & Unemployment

- In 2012, Somaliland's GDP is estimated to have been **\$1.4 billion** (current US\$ prices)².
- In 2012, Somaliland's GDP per capita is estimated to have been **\$347** (current US\$ prices).
- Somaliland's GDP per capita ranks approximately 4th lowest in the World, ahead of Malawi, Democratic Republic of the Congo and Burundi.
- The largest sectors that comprise GDP are: 30% livestock industry; 20% wholesale and retail trade (includes a lot of the informal sector³); 8% crops and 6% property.
- Somaliland is a very open economy (i.e. it trades a lot):
 - The import and export ratio is the 45th highest in the World
 - Trade taxes account for over half of all domestic revenue

¹ Based on initial GDP analysis undertaken by the World Bank throughout 2013, to be updated as data improves and further data becomes available.

² GDP based on a 4 million population estimate, if a population estimate of 3.5 million is used instead the total GDP and per capita figures would be about 5% lower.

³ The part of the economy that is not taxed or monitored by Government.

- In 2012, Somaliland's trade deficit was approximately \$496 million, which was financed through a combination of remittances and external aid.
- Somaliland has very low levels of investment, ranked 180th in the World for Gross Fixed Capital Formation.
- There is high unemployment, with employment to population ratios much below the Sub-Saharan African average⁴.

Poverty⁵ & Inflation

- Initial estimates suggest that poverty in urban areas of Somaliland is 29%, similar to poverty in urban areas in Ethiopia (26%) and that rural poverty is 38% in Somaliland, which is higher than in Ethiopia (30%).
- Although urban households are better off than rural households, inequality is similar in urban Somaliland and in rural Somaliland. Somaliland has an urban Gini coefficient of 43% and a rural Gini coefficient of 46%.
- Income inequality is quite high, much higher than Ethiopia and similar to levels recorded during the last household survey in Kenya in 2005.
- Other non-income dimensions of wellbeing tell a similar story of Somaliland comparing well to its neighbors on some indicators, but facing challenges in equitable service provision which cause it to fall behind on a number of measures. Without intervention Somaliland will fall further behind in future years.
- Although literacy rates in Somaliland are higher than in Ethiopia, primary and secondary enrollment rates are much lower which suggests that Somaliland's literacy rates will become comparatively worse in future years.
- Disparities in enrollment in between boys and girls and between urban and rural areas suggests that the gender gap in literacy rates and the rural-urban gap in literacy rates will remain unless otherwise addressed.
- Access to health services in urban areas compares well to other countries in the region, but in rural areas (a) most births are at home and, as a result, are not attended by a skilled attendant, and (b) there are much higher birth rates than in urban areas.
- The majority of household food consumption is purchased, even in rural areas, and as a result inflation poses a major challenge to the wellbeing of households.
- Prices of major goods have been volatile over the last five years, but rose a lot in 2008 and 2012.
- Data on household consumption patterns can be used to generate a CPI that reflects the price increases faced by the average household in Somaliland. A weighted CPI can be quite different from a CPI that does not take household spending patterns into account.

Budget Policy

- Somaliland has experienced a remarkable process of state-building, including demobilization, development of institutions, establishment of a security force, printing of a new currency and commencement of basic services.
- Historical low levels of domestic revenue have only been able to sustain core Government functions and maintain peace and stability

⁴ ILO Labour Force Survey, 2012.

⁵ Findings based on the Somaliland Household Survey 2013 – a representative sample of Somaliland households.

- The security sector receives about half of all domestic expenditure
- Domestic revenue as a percentage of GDP in Somaliland (7.2% in 2012) is extremely low when compared to other low income states, (the average for Sub-Saharan Africa is approximately 23%).
- A lack of investment in social services, has taken a huge toll on human development.
 - Mothers are more likely to die giving birth, and babies more likely to die before their 1st birthday, in Somaliland than in neighbouring Ethiopia or Djibouti.
 - Only about 50% of 6-13 years olds go to primary school in Somaliland, in stark contrast to 87% in neighboring Ethiopia⁶.
- The Government has taken recent, commendable, strides in strengthening budgeting and planning, enhancing revenue, investing more and coordinating external resources.
- In 2012, establishment of the Budget Policy Committee (BPC) transformed the budget preparation process and in 2013, the National Planning Commission undertook a critical prioritization process of the NDP 2012-16.
- In recent years there has been unprecedented progress in domestic revenue generation, allowing the Budget Policy Committee to ring-fence 10-13% of the growing budget for investment activities.
- Establishment of the Somaliland Development Fund (SDF) has enabled Government to exercise greater control over external resources.
- Reform of key sectors – telecommunications, remittances and banking – is needed to sustain revenue and create a more competitive economy.
- The absence of a conventional financial system is significantly hindering access to finance which is the number one constraint on private sector activity in Somaliland⁷.
- Improving public service delivery is vital through revising decentralization policies, civil service reform and implementing the Public Financial Management (PFM) Reform Strategy 2013-2017.
- A predictable decision making system is required, where new ministries, departments, agencies and commissions are only created after a careful consultative processes regarding financing and mandates.
- The influence of the private sector must not prevent the Government harnessing revenues and using resources to invest in the people.

⁶ World Development Indicators 2013

⁷ As identified in the Somaliland Enterprise Survey 2013

3. CROSS-CUTTING RECOMMENDATIONS

Promote Inclusive Growth	
1.	Carry out a review of the competitiveness of key economic sectors to identify opportunities and constraints to expanding important sectors of the economy. Use such a review to establish an economic reform program set within the NDP 2012-16 and Somaliland Special Arrangement (SSA) framework.
2.	Carry out further research on the characteristics of the poorest households and inequalities in assets, access to services and markets. To inform policies and the economic reform program which should be based on the principle of inclusive growth to reduce inequalities.
3.	Pass the Banking Credit and Financial Institutions Bill to establish a conventional banking system , alongside the existing Islamic financial system. And build capacity of the central bank to effectively apply the regulatory framework.
Invest in Social Services	
4.	Significantly increase budget allocations for social services in the 2015 (and ongoing) budgets. The increase in recent revenue collection should free up enough space to start increasing social service spending, with a focus on investments rather than recurrent costs.
5.	Review budget spending at a sectoral level to provide valuable insights on the use and effectiveness of resources.
Enhance Resources	
6.	The Government, in consultation with the private sector, should adopt and implement a tax strategy with a focus on consistent and moderate taxation of large corporations , to help bring the Somaliland tax to GDP ratio more in line with regional averages.
7.	Empower the Committees that will review taxation of the telecommunications and remittances industries with powers to impose sanctions for non-compliance and, in parallel, equip the Ministry of Telecommunications with equipment needed to monitor the servers.
8.	Engage donors on supporting the Somaliland Special Arrangement (SSA) through the preferred financing modality, the Somaliland Development Fund (SDF)
Strengthen Service Delivery	
9.	Fund and commit to implementation of the PFM Reform Strategy 2013-17 . Without a functioning PFM system, public service delivery will remain severely hindered.
10.	Pass revisions to the Regions & Districts (Self-Management) Law (23/2002) and the Local Government Unified Tariffs Law (12/2000) as amended. Renewed commitment is needed to review financial and functional assignments , and to incentivize stronger local level tax collection.
11.	Sequence and prioritize reforms under the Civil Service Strategy , putting in place realistic short-term steps.
Further Strengthen Evidenced-Based Planning and Budgeting	
12.	Continue to build strong linkages between planning and budgeting , with close working relationships between the National Planning Commission and Budget Policy Committee
13.	Provide certainty to Government operations by only creating new ministries, departments or agencies if there is need, financing and no duplication with existing entities. Build on recent success in reviewing mandates of existing ministries, departments and agencies.
14.	Construct a Consumer Price Index (CPI) series to provide inflation data for policy making.
15.	Improve systematic data collection efforts to monitor human development outcomes, while making sure to use existing frameworks (such as the Somaliland population sample frame 2013), to promote consistent, collaborative approaches in accordance with the Somaliland Statistics Development Strategy.
16.	Undertake further surveys to (a) monitor some of the key poverty indicators, and (b) gather more data on internally displaced persons (IDPs), pastoralists and agro-pastoralists.

