

# The Somaliland Economic Conference

## Budget Policy: Transitioning from State-Building to Development



THE WORLD BANK

January 29, 2014  
Hargeisa

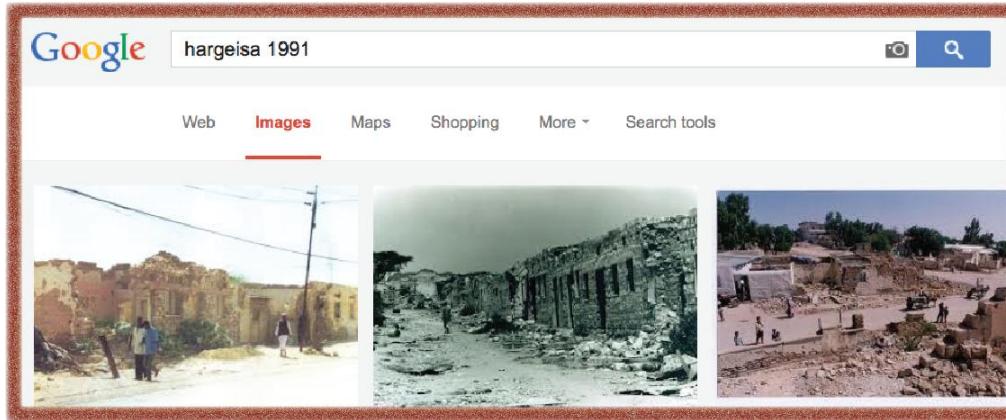
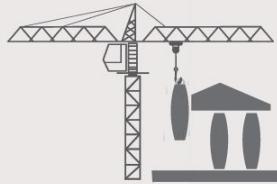


# First, Thank You...

- To the **Planning & Statistics Department of the Ministry of Finance**, without which the budget analysis would not have been possible
- The Ministry of National Planning & Development and other line ministries and stakeholders for dialogue and discussion

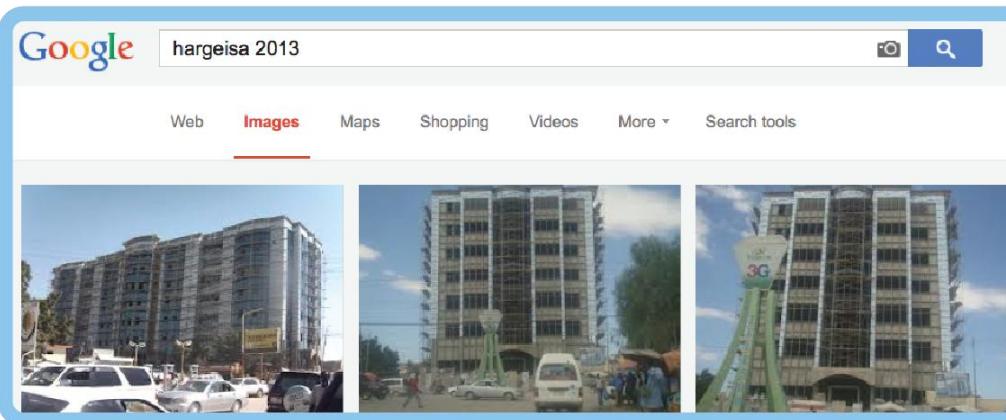


1991



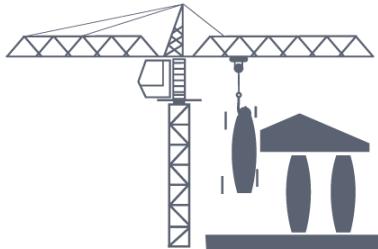
From post-war reconstruction & state-building  
to development

2013

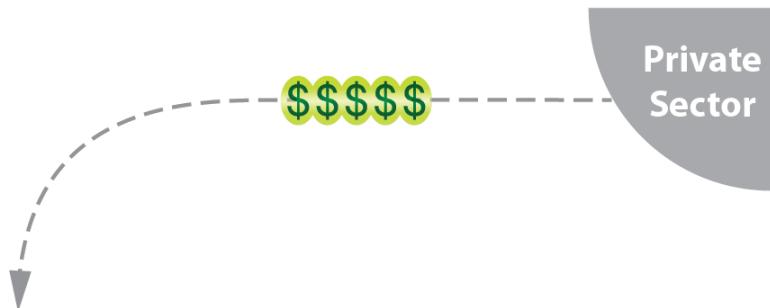




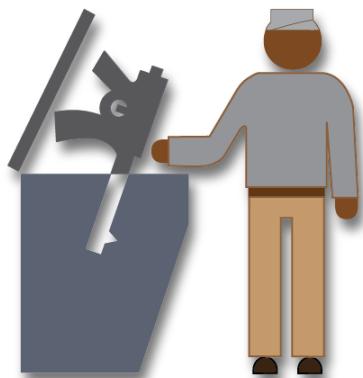
# Successful state-building through:



**through:**  
(among others)



Disarmament, demobilization,  
and reintegration of  
ex-combatants



Beginning with the  
provision of basic public  
services



New currency



Establishment of  
a police force  
and a national army





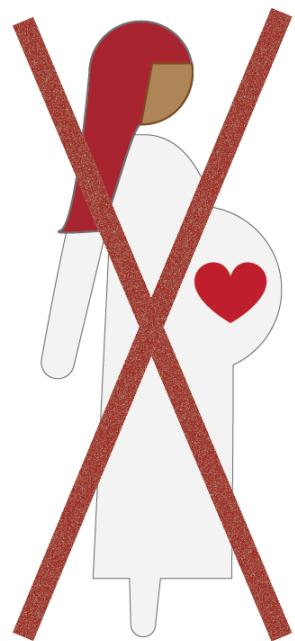
# Building on the successful state-building requires Development

- **State-building** has been about strengthening state institutions.
- **Development** requires a sustained effort to promote standards of living:
  - To achieve a healthier, more educated, population...

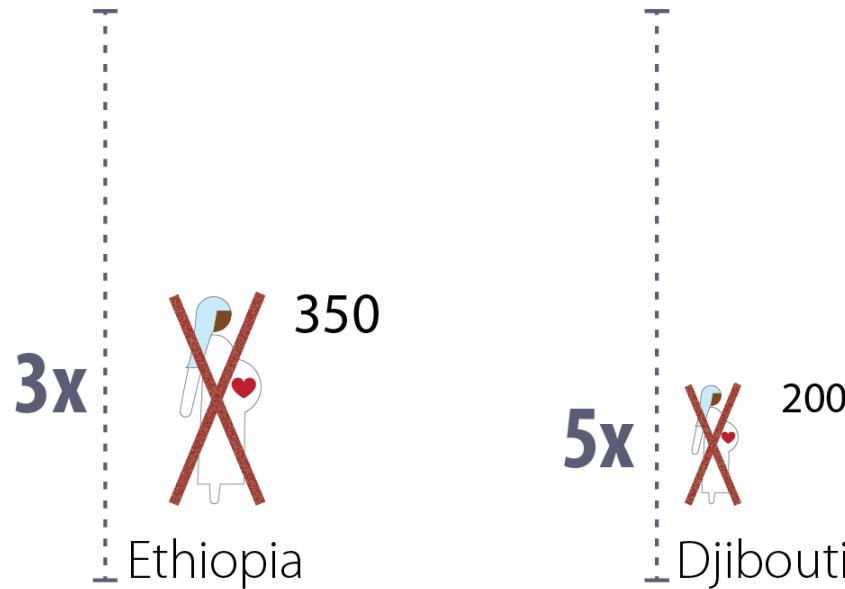


# As despite successful state-building, health indicators remain poor

For every 100,000 live births:



**1,040** mothers die (at least)



**Somaliland**

**Ethiopia**

**Djibouti**



# As despite successful state-building, health indicators remain poor

## Children who die before the age of 1:



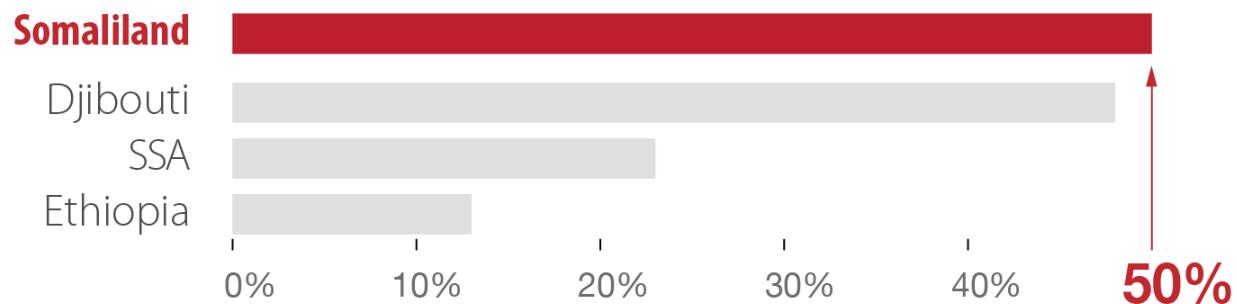


# ...and education indicators are also poor

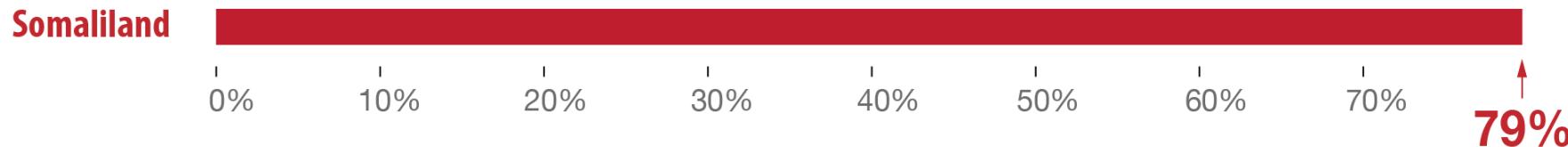
In Somaliland, **1 out of 2** children aged 6 to 13 **does not go to school**



% of children 6 to 13 years old not attending primary school



% of children 14 to 17 years old not attending secondary school

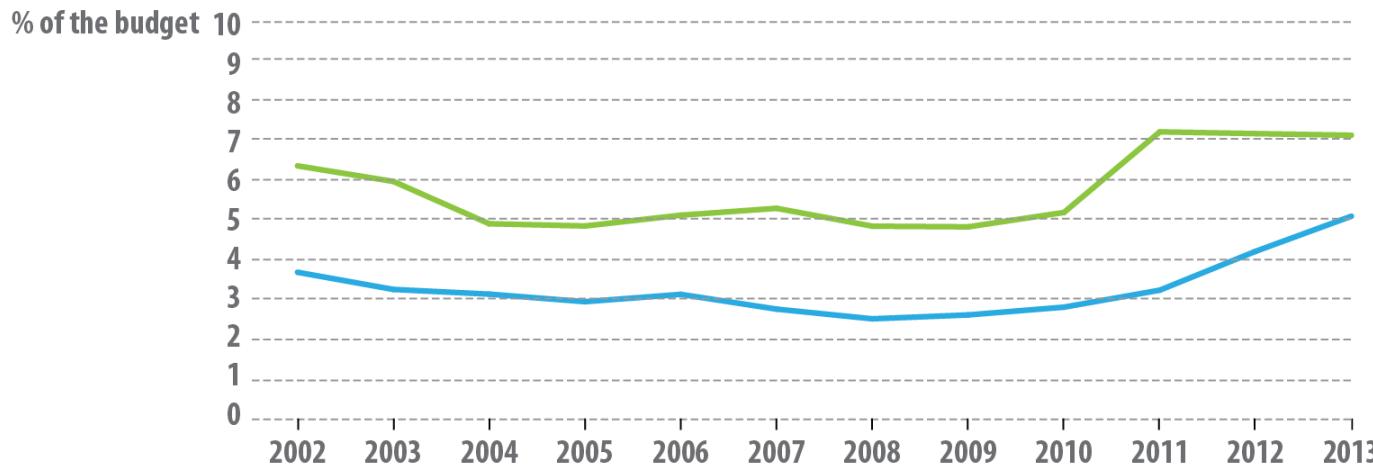
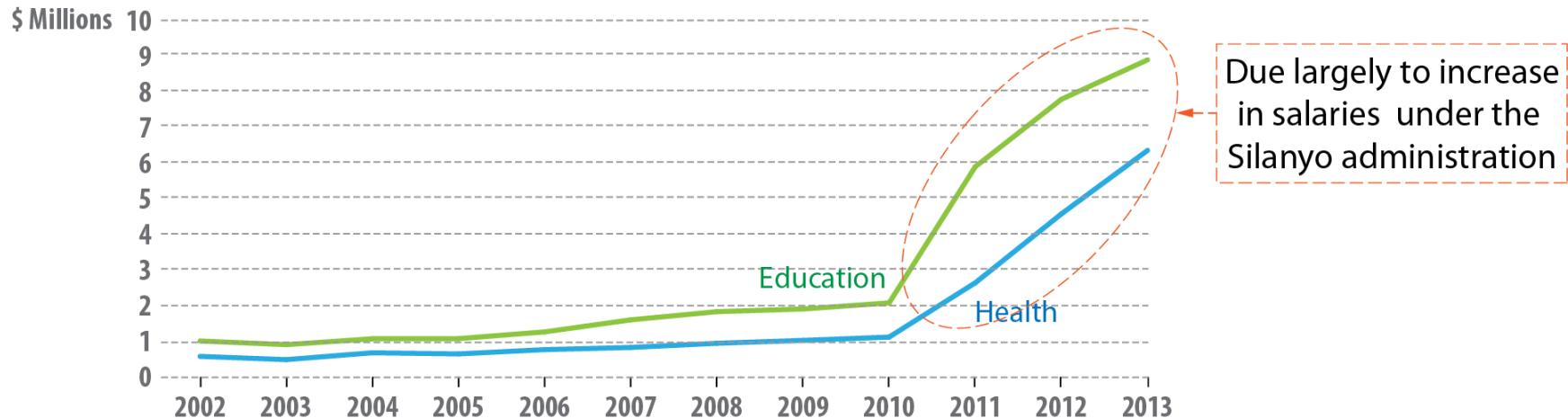


SSA = Sub-Saharan Africa

Source: Somaliland MICS Preliminary Results 2011 (Somaliland Ministry of Planning and National Development and UNICEF) and World Development Indicators

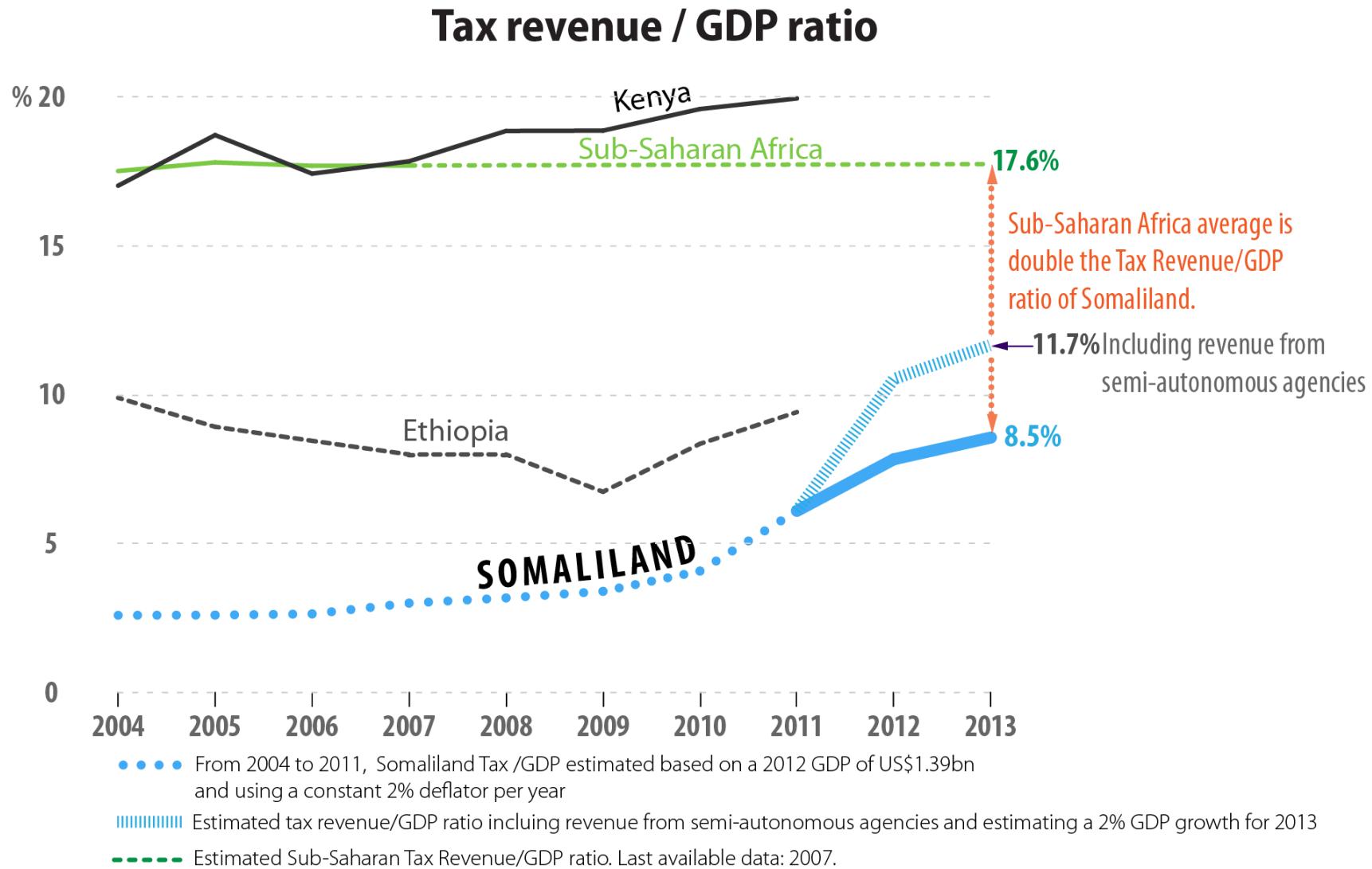


# Which is consistent with a historic lack of investment in social services





# Constrained by low domestic revenue

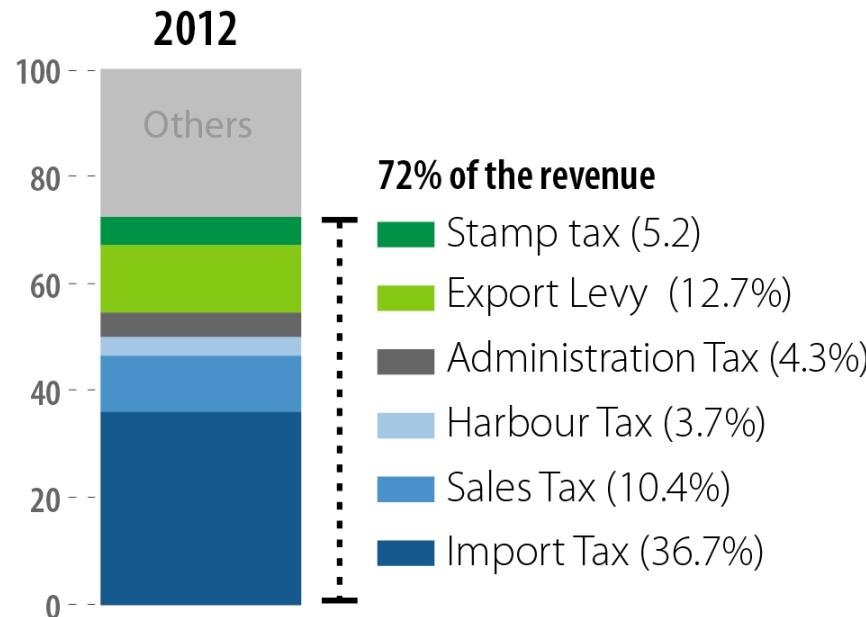




# Largely due to:

- A narrow domestic revenue base, heavily reliant on trade taxes.

## Share of different taxes of the government revenue



In 2012, the Profit Income Tax levied only 1.57% of the total revenue

Source: Planning and Statistics Department of the Ministry of Finance



## Largely due to:

- A narrow domestic revenue base, heavily reliant on trade taxes.
- A small formal sector dominated by a few large businesses which pay insufficient taxes
- A historical lack of inclusion of sub-national revenue – comprising local revenue generation, a Municipal Tax and half of the Transfer Tax – in the national budget
- Historical mistrust over the use of taxation by old regime

# There have been great recent strides to increase domestic revenue

## Main drivers of the revenue increase:



End of the ban on livestock exports to Saudi Arabia



Change in the official exchange rate from 3,500 to 4,500 SLS per USD



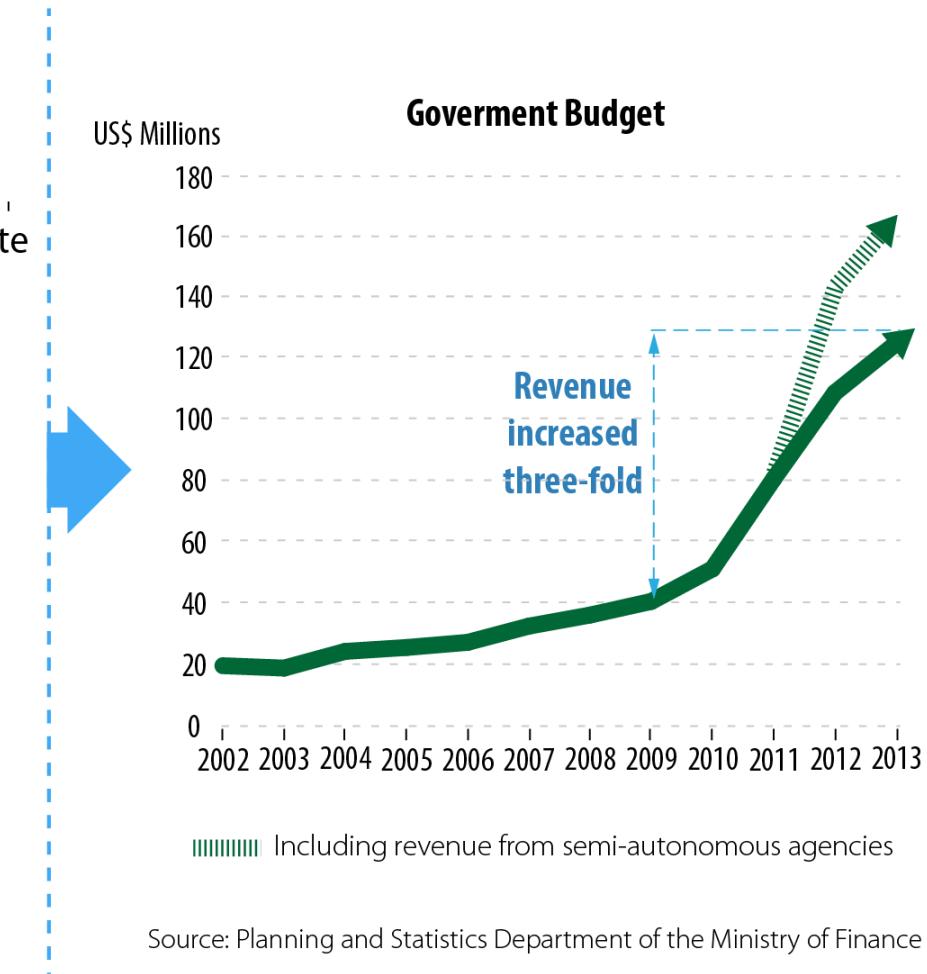
Improvements on the tax administration, especially inland revenue



Consolidating national accounts, (including sub-national & semi-autonomous bodies)



Capturing some external resources (SDF accounted for from 2013)

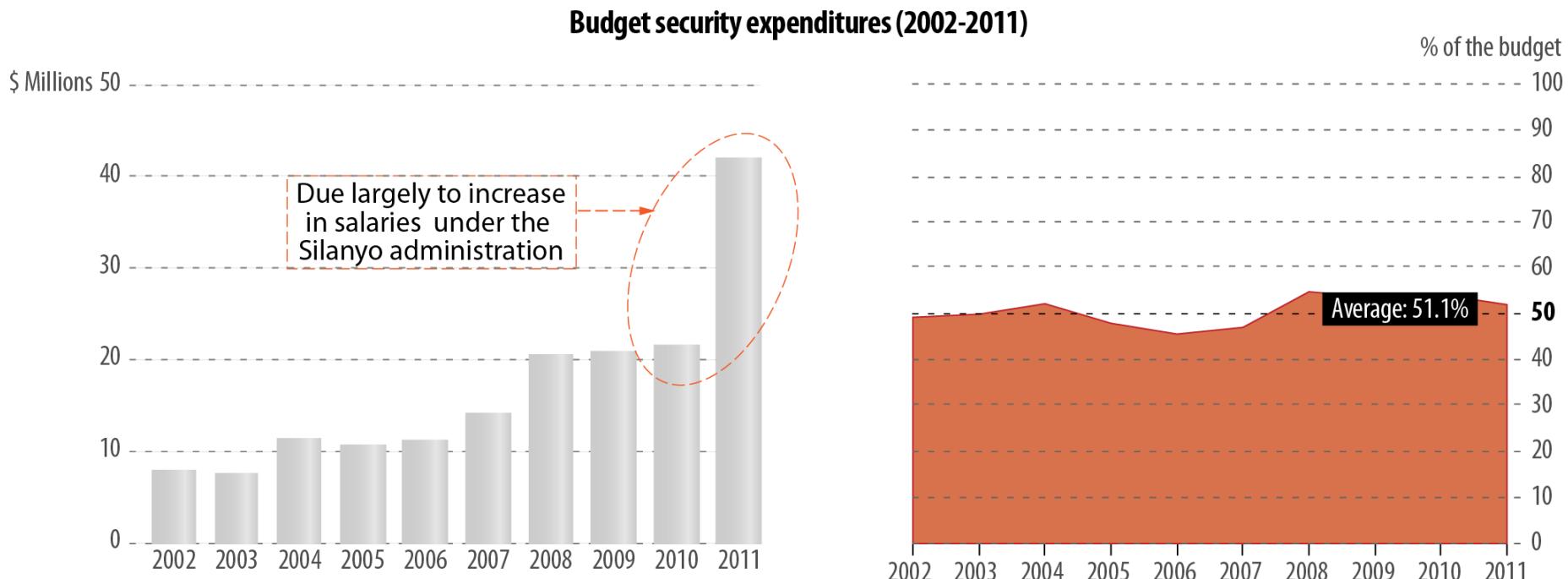




# But the security sector continues to absorb most domestic revenue

Need to:  
Protect recent stability gains  
Counter threats of destabilization

1 out of 2 SLS spent on security  
of the government revenue (2002-2012)

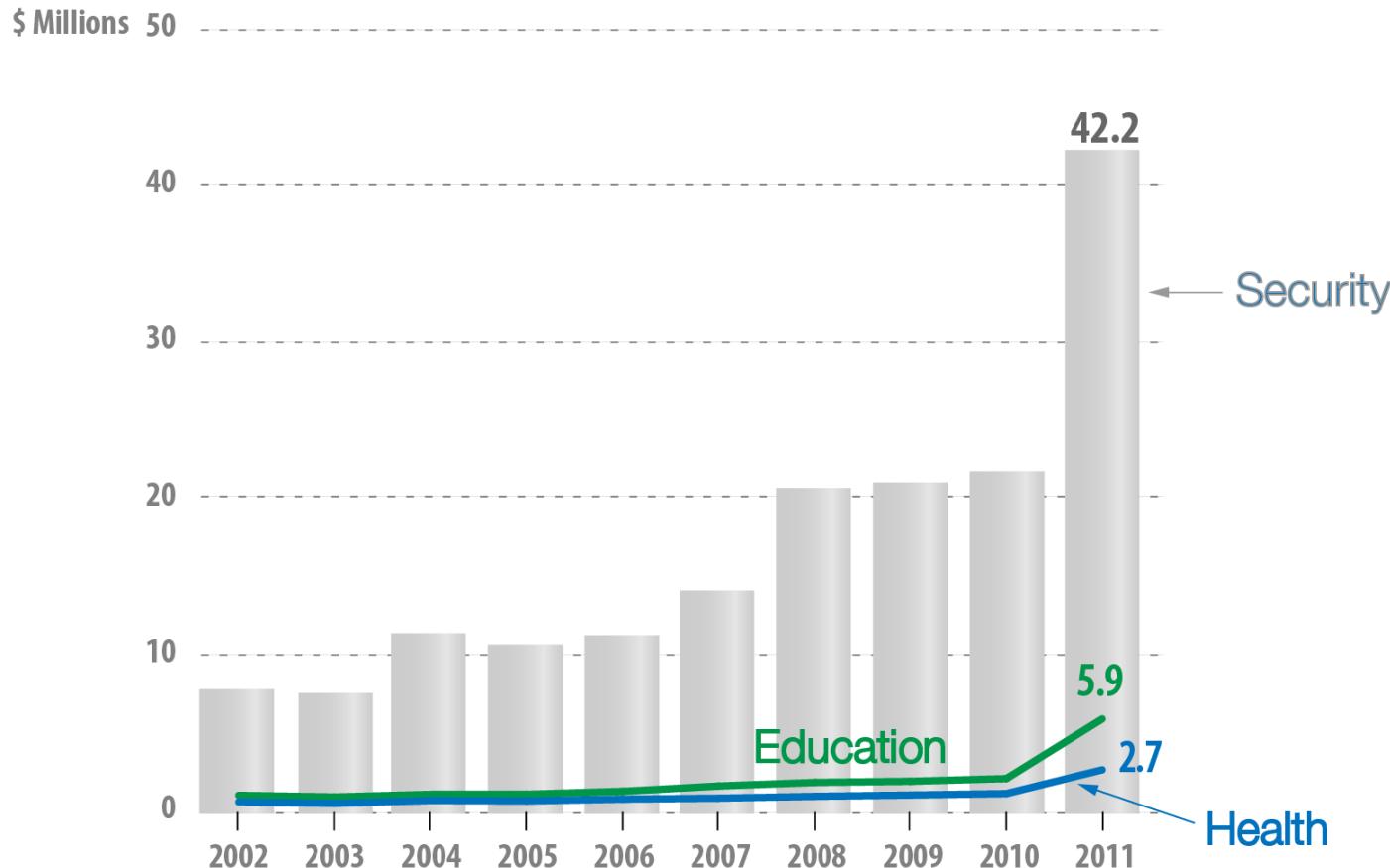


Security sector includes: National Army, National Police, Immigration Office, Coastal Guard, Presidential Guard, Intelligence, Custodial Corps, NDC, Ministry of Interior, Ministry of Defence



# Whereas social services continue to pale in comparison

Budget expenditure on Education, Health and Security



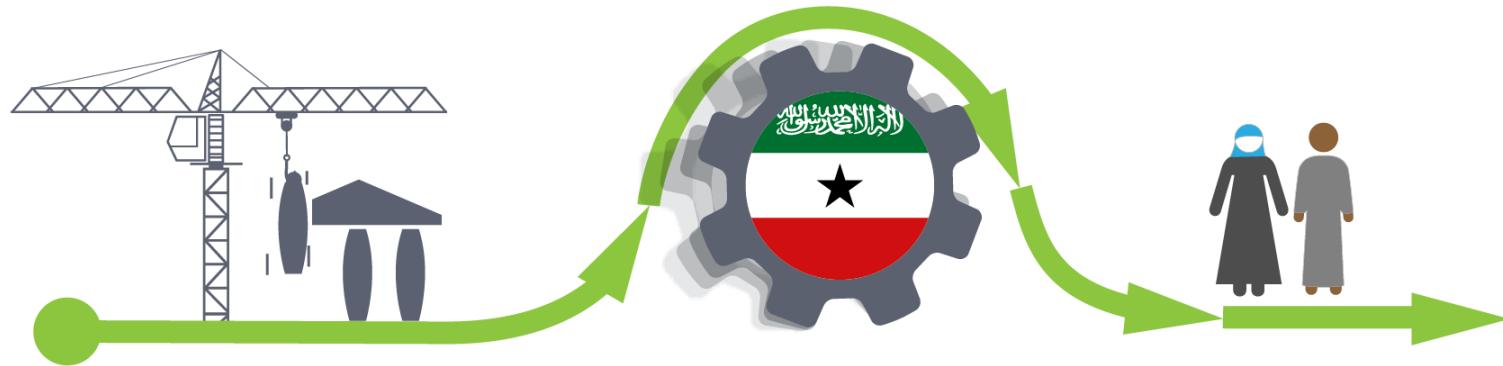


## In summary, so far...

- **Somaliland undertook a remarkable state-building achievement, thanks to a lot of support from the private sector**
- **But very low levels of domestic revenue, with so much spending on security to protect the valuable gains of peace, has meant very little investment in social services**
- **Therefore health and education indicators remain low, and Somalilanders desire a move to better standards of living, which is Development...**



# How to build on the state-building success and transition to development



**Continued efforts at two levels:**

**1- Targeted economic reform**

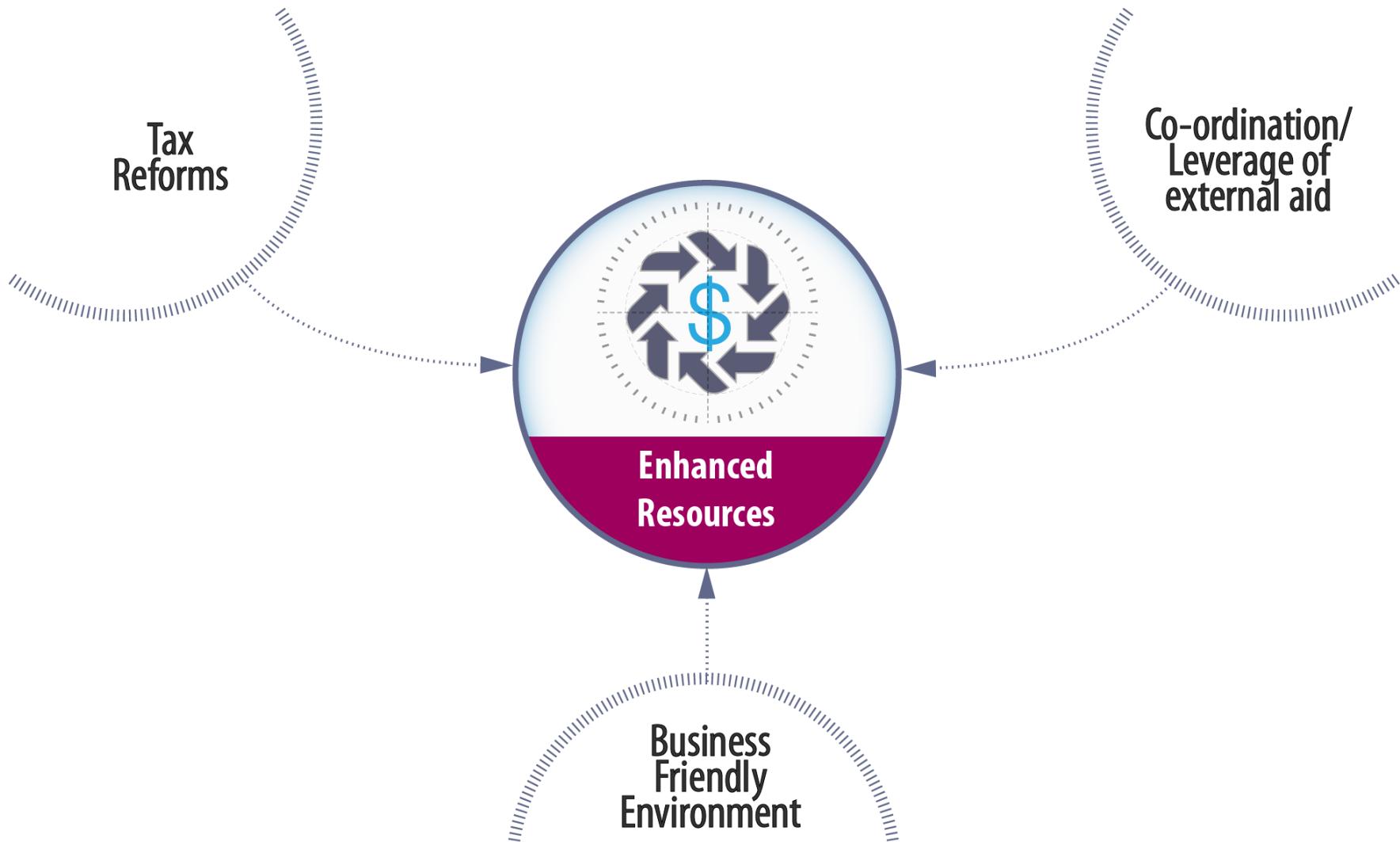


**2- Enhanced provision of public services**





# Targeted economic reforms to enhance resources



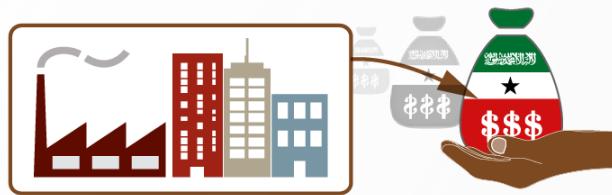


# Targeted economic reforms to enhance resources further

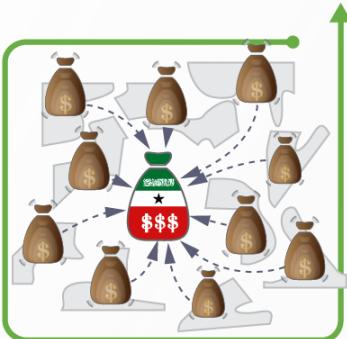


Undertake a detailed review of tax rates

## Tax Reforms



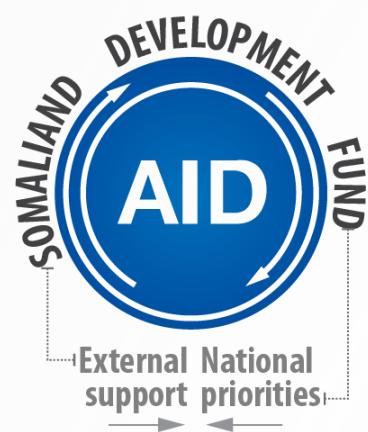
Collect appropriate tax levels from large corporations



Improve district level local tax collection

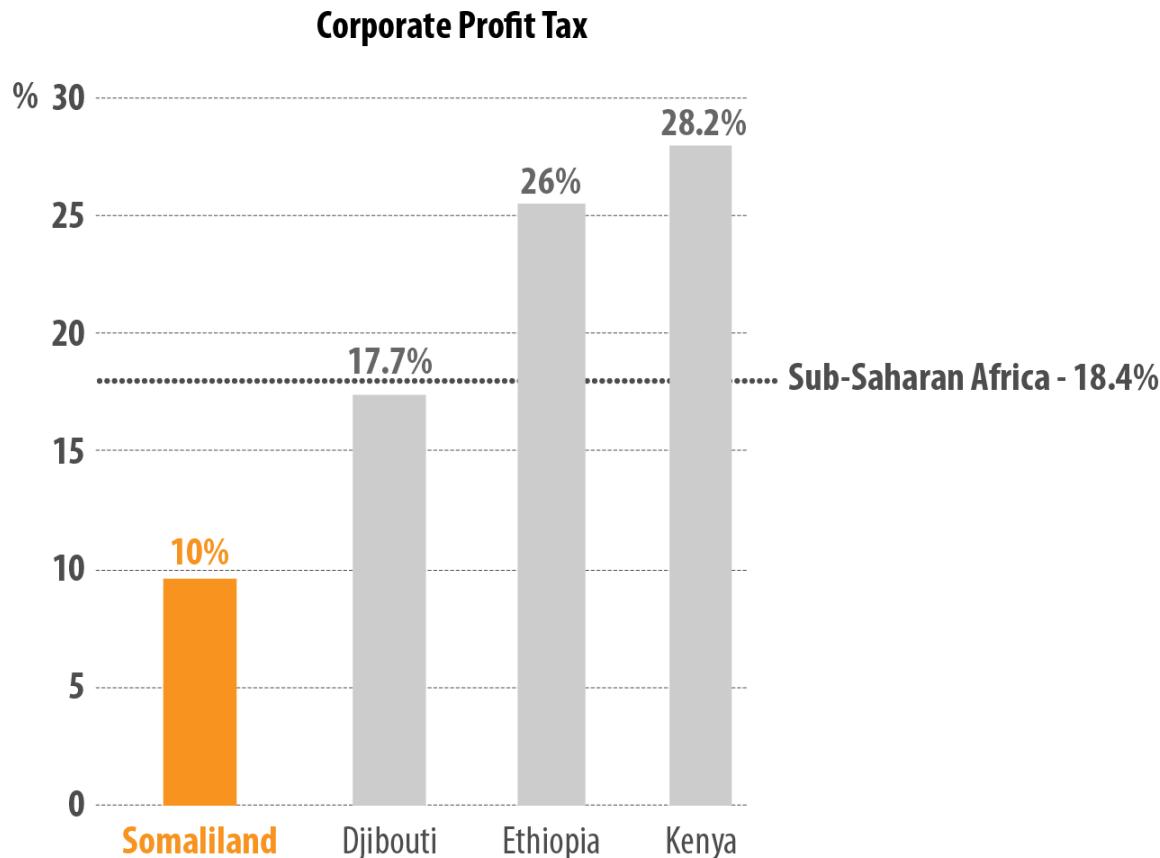
## Co-ordination/ Leverage of external aid

Utilize the Somaliland Development Fund which aligns external support with national priorities





# Low tax rates in comparison to neighbouring countries

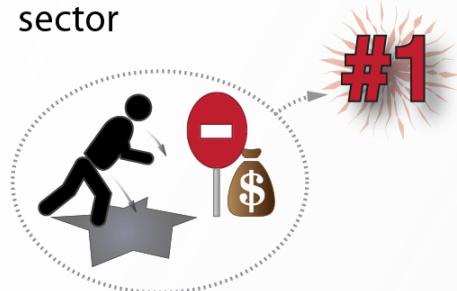


Source: "Doing Business" report, The World Bank



# Targeted economic reforms to enhance resources further

Access to finance is the #1 constraint on the private sector

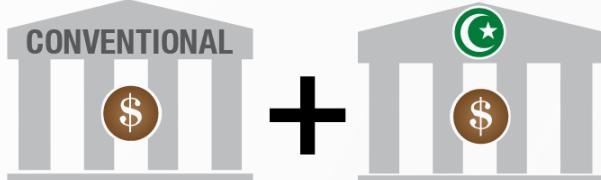


## Business Friendly Environment

Pass the Banking Credit and Financial Institutions Bill

YES  NO

Need a Conventional Banking System to complement (not replace) the Islamic system

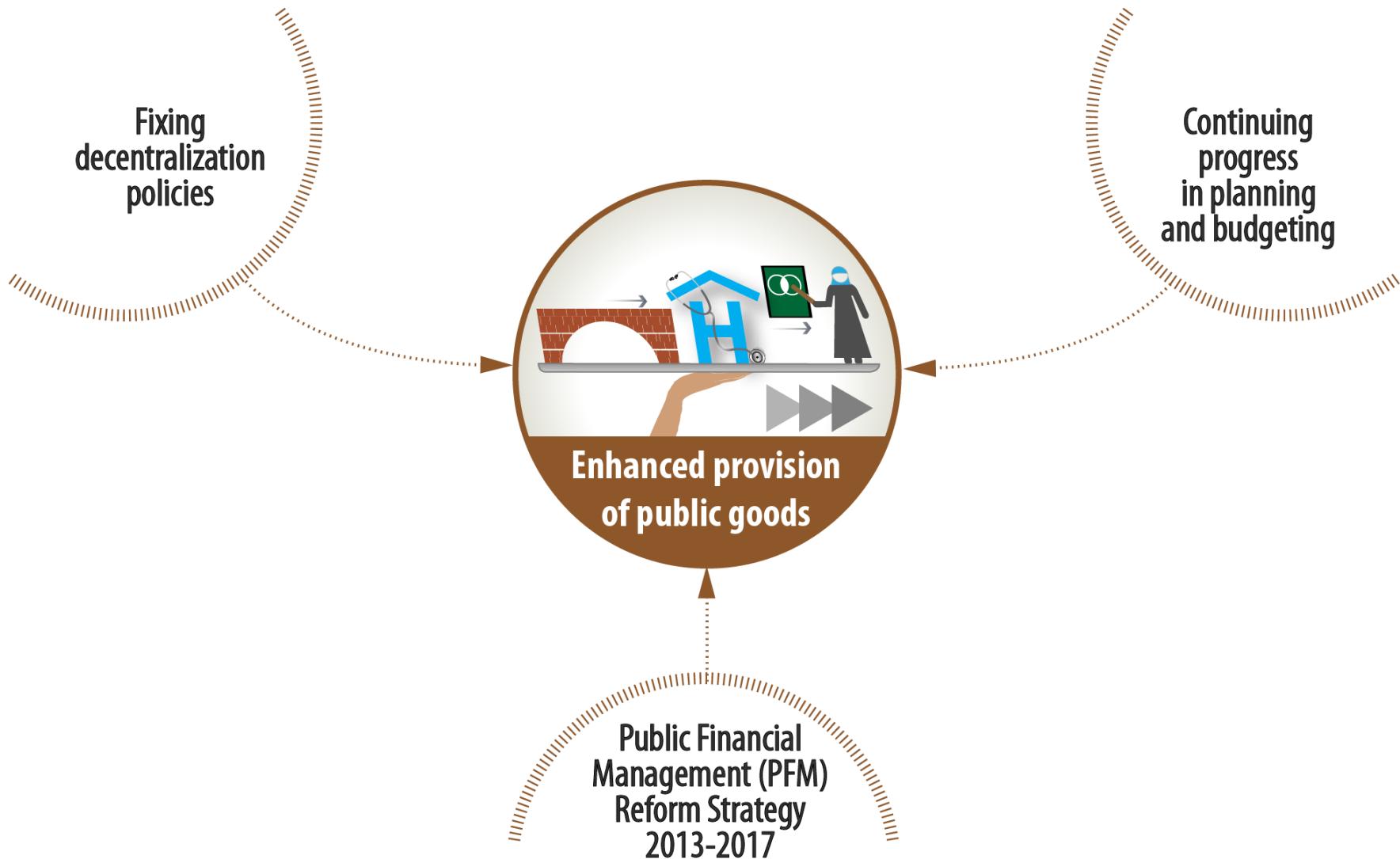


In summary, this requires:  
**A new agreement between the public and private sector** for more appropriate levels of taxation, in a business friendly investment, to enhance domestic resources for Development...





# Improving capacity for public service delivery





# Improving capacity for public service delivery



## Fixing decentralization policies

Need to fix decentralization laws

Public service delivery will remain constrained if finances are not appropriate for functions

## Further strengthen Planning and Budgeting



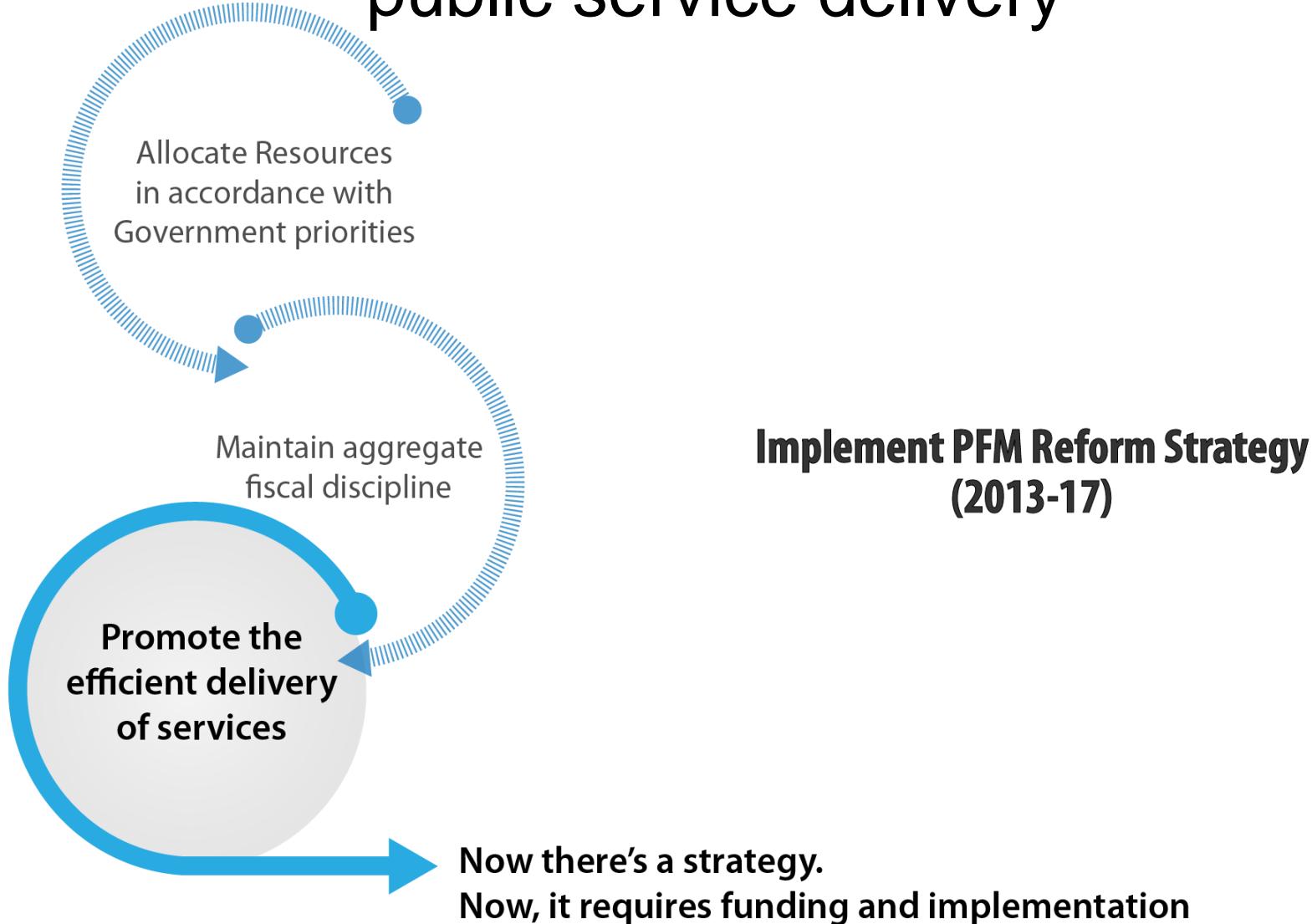
Continue great strides in developing and linking planning and budgeting

(NDP prioritization, Somaliland Special Arrangement and role of the NPC)

(BPC and SDF)



# Improving capacity for public service delivery





# Summary Recommendations for Targeted Economic Reform

## 1. **Adopt an Economic Reform Strategy**

- On principles of inclusive growth, and investing in social services

## 2. **Adopt a Tax Strategy**

1. Detailed review of rates, while increasing tax capacity
2. Focus on consistent and moderate taxation of large companies

## 3. **Engage development partners** around supporting the Somaliland Special Arrangement and utilizing the Somaliland Development Fund



# Summary Recommendations for Enhancing Service Provision

## 4. Fix Decentralization Policies

- Better match finances with functions, while improving local level tax collection

## 5. Pass the Banking Credit and Financial Institutions Bill

- There are many examples of states with both Islamic and Conventional banking systems in place

## 6. Continue to build on successful linkages in Planning and Budgeting

## 7. Implement the PFM Reform Strategy (2013-17)



# Much of the transition from State-Building to Development requires a new model of operating between the public and private sectors

