

**AFRICAN DEVELOPMENT BANK
AFRICAN DEVELOPMENT FUND**



**SOMALIA
COUNTRY BRIEF**

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Currency Equivalents

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UA 1	=	USD 1.61
UA 1	=	SOS 2,326.50
USD 1	=	SOS 1,484.03

Acronyms and Abbreviations

ADB	African Development Bank
ADF	African Development Fund
AfDB	African Development Bank Group
AMISOM	African Union Mission in Somalia
ARS	Alliance for the Re-liberation of Somalia
AU	African Union
AWF	African Water Facility
FAO	Food and Agriculture Organization
FEWS NET	Famine Early Warning Systems Network
FSF	Fragile State Facility
FSNAU	Food Security and Nutrition Analysis Unit for Somalia
GDP	Gross Domestic Product
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
JNA	Joint Needs Assessment
KEFO	Kenya Field Office
NGO	Non Governmental Organization
OREA	Regional Department East 1
OREB	Regional Department East 2
OSFU	Fragile States Unit
PFM	Public Finance Management
PPP	Purchasing Power Parity
RDP	Reconstruction and Development Program
RMC	Regional Member Country
SDG	Somali Donor Group
SOS	Somalia Shilling
SRF	Special Relief Fund
SSS	Somali Support Secretariat
TFG	Transitional Federal Government of Somalia
UA	Unit of Accounts
UN	United Nations
UNDP	United Nations Development Programme
UNHCR	United Nations High Commission for Refugees
UK	United Kingdom
US	United States
USAID	United States Agency for International Development
US\$	United States Dollar
WFP	World Food Programme

I. Introduction

1. The Bank and the international community are increasingly concerned with the impact of state fragility and have stepped up efforts to devise a broad and coordinated approach to engaging more effectively with fragile states. This Country Brief is the first Bank formal note written for Somalia in two decades, during which the country disintegrated into clan-based conflicts and growing political segregation. The note provides an update of developments in Somalia, highlights the magnitude of the challenges facing the country, and proposes possible options for the Bank to take a lead role in reengaging with Somalia. It includes outcomes of various recent consultations held with the Transitional Federal Government of Somalia (TFG) and donors between May and October 2009.
2. Somalia is a fragile and conflicted nation with a population estimated at around 9.1 million in 2009 by the United Nations (U.N.). Income per capita is estimated at US\$226 in 2002 (compared to US\$515 in Sub-Saharan Africa), which makes Somalia one of the poorest countries in the world.¹ The country has been in internecine warfare and characterized by weak human and institutional capacity and without effective policies, rules, regulations, and legislative arrangements. The 19 year old civil war has led to significant instability, fragmentation of the country, and poor access to virtually all infrastructure and social services. In addition, rampant warlord fighting, population displacement, famine, and disease have caused huge humanitarian needs. Security remained poor throughout 2009 and deteriorating in the central and southern parts of the country. It is estimated that the massive violence has caused the death of over 1 million Somalis and internally displaced over 1.5 million persons. Insecurity has continued to hamper international efforts to provide food aid and basic health services.
3. Somalia is progressively transitioning from prolonged conflict and is striving to achieve peace and stability, as well as to establish functioning public finance management (PFM) and governance systems. The Transitional Federal Government (TFG) of Somalia, established in 2004 through a peace and reconciliation process, lacks human resource capacity and institutional structures. In addition to insecurity, these weaknesses have constrained international efforts to establish a fully functioning central government. At this stage, conditions are not met for Somalia to have access to normal Bank resources. However, as a Fragile State, the TFG of Somalia qualifies for support from Pillar III of the Fragile State Facility (FSF), which can provide the needed flexible resources to the Government to strengthen for capacity building and technical assistance programs as well as knowledge building and management.

II. Background

4. Somalia gained independence from Italy and Britain in June 1960. Since the fall of Mohamed Siad Barre, in January 1991, following the outbreak of civil war in the late 1980s, the country has been in a state of political turmoil. The conflict destroyed

¹ There is no recent reliable socio-economic data on Somalia. The UNDP's Human Development Index ranked Somalia 161 out of 163 countries in 2001.

virtually the entire administration system and led to the breakup of the country into three distinct entities. In 1991, the former British Somaliland Protectorate declared itself as an independent state (the Somaliland Republic). It has subsequently managed its affairs separately from the rest of the country. Another group of regions in the northeastern part of the country formed the autonomous state of Puntland. In the remaining southern and central part of the country, anarchy and armed conflict between clans or followers of local warlords has continued virtually unabated. This situation has prevented the formation of effective local administrations and rendered the provision of even rudimentary public services impossible.

5. A Somali National Reconciliation Conference was opened in October 2002. The Intergovernmental Authority on Development (IGAD) sponsored the conference to demonstrate international support for a peace-building process. On January 29, 2004, all the key faction leaders signed a declaration on a framework for a five-year transition period. A transitional parliament of 275 members was inaugurated in August 2004. The formation of the Transitional Federal Government (TFG) followed in January 2005, with the election of the President by the parliament.
6. The formation of the TFG brought some hope that the violent cycle of instability that characterized the country since the 1980s could be broken. Some incremental progress has been made toward finding a lasting solution to end the civil strife and restore peace and stability. A national reconciliation process aimed at establishing peace, proposed by the international community and led by the United Nations (U.N.), was held in Djibouti in June 2008. An 11-point Agreement was signed in August 2008 between the factions, the TFG and the Alliance for the Re-liberation of Somalia (ARS) in Asmara (Eritrea). The Djibouti Agreement calls for "end all acts of armed confrontation" within 30 days, and withdrawal of Ethiopian troops within 120 days after a UN peacekeeping force is deployed.

III. Recent Political Developments

7. In January 2009, the Djibouti Peace Process on Somalia led to the formation of a new parliament of 149 members, which extended the mandate of the TFG for another two years and installed moderate Islamist Sheikh Sharif Sheikh Ahmed as the new interim President. The formation of a broad-based government of National Unity and reconciliation efforts undertaken under the leadership of the new President in September 2009 have raised prospects that the country is finally emerging from war. The successful pursuit of this process is likely to bring about a new era in which peace and a central effective government could be possible.²
8. Despite these incremental achievements, the situation in Somalia remains fragile. The country still does not have an effective National Government with authority over the entire territory (see annex I). The continuation of the peace process remains slow and difficult, with regular outbreaks of fighting disrupting brief periods of uneasy

² The January 2009 election of Sheikh Sharif Sheikh Ahmed, the new president of the Transitional Federal Government (TFG), promised a new era in which peace and a central government could be possible. However, his nomination was not well received by all factions, and sporadic battles continue.

tranquility. In addition, the Djibouti peace process and other recent attempts at national political reconciliation remain limited, in part because some factions were not involved.³ The Somali TFG lacks institutional structures and nation-wide acceptance. These weaknesses have constrained international efforts to establish it as a fully functioning central government. Security also continues to be a major concern, particularly in South-Central Somalia.⁴ The still fractionalized nature of Somalia, i.e. the presence of several factions claiming a specific part of territory, increases the volatility and the fragility of the country. Piracy attacks off the coast of Somalia and the Gulf of Aden have dramatically increased in the last two years.⁵ Revenues from piracy fuel local economies, which exacerbate the fractionalization of the country with negative spillovers beyond borders. The international community, led by the U.N. and the AU, is increasingly being preoccupied by these developments which, if not dealt with urgently, can turn the Somalia situation into a global common bad.

9. A number of international conferences and meetings on Somalia were held during 2008-2009, generally under the sponsorship of the UN, the AU, the IGAD, the EU, as well as other bilateral donors.⁶ A consensus seems to have emerged that the international community must urgently support Somalia in dealing with the challenges it is facing, namely lawlessness, insecurity, the collapse of the State, the refugee crisis, internally displaced persons, humanitarian and economic crisis as well as piracy. It is recognized that piracy should be attacked from the root causes, through reestablishing security and the rule of law and creating the conditions for a constructive political dialogue among factions and reinforcing the capacities of institutions.
10. The Djibouti process is seen as a credible framework which has led to the peaceful transition of a Government of National Unity. The new President has attempted to reach out to all clans and groups, with some signs of progress. There are many governance and institutional challenges facing the TGF, as it lacks resources and the capacity to ensure security within its border and along its coastline. Re-establishing trust and consensus in re-building governance institutions that are able to operate at the national level—vital for economic stability—is a huge challenge. As the new TFG struggles to establish control, civilians continue to be subjected to violence, displacement, chronic food shortages and lack of essential services.

³ The self-declared independent state of Somaliland in the north, which held legislative elections in September 2005, remains outside the Djibouti peace agreement. However, the self-proclaimed autonomous state of Puntland participated.

⁴ Somaliland and Puntland, not recognized by the international community, are reputed to be relatively more peaceful, secure, stable and with a significant level of control over their administrations and community development than South-Central Somalia. Somaliland has managed to establish a functioning political system and basic governance structures, enabling it to restore most essential public services and attracting the bulk of the reconstruction and development assistance to Somalia.

⁵ Somalia has a coastline of about 1,880 miles, which greatly increases the opportunities for piracy. The International Maritime Bureau (IMB) reported 111 piracy attacks in 2008. From preliminary assessment, this number is thought to have risen dramatically in 2009.

⁶ The International Conference on Gender and Peace in Somalia (Dar-es-Salaam, 2-5 September 2008); The International Conference on Piracy around Somalia (Nairobi, 11 December 2008); the International Conference in support of the Somali Security Institutions and the African Union Mission in Somalia (Brussels, 22-23 April 2009); the 16th meeting of the International Contact Group on Somalia (ICG) – Jeddah, Kingdom of Saudi Arabia, 17th December 2009.

IV. Economic Developments

11. There is a severe paucity of economic and social statistics on Somalia, which has been worsened by the two-decade conflict and the resulting collapse of the country's institutions. The most recent attempt at producing reliable socio-economic data on Somalia resulted from the Socio-Economic Survey 2002, a multi-sector nationwide household survey produced in 2004 by the World Bank and UNDP. The World Development Indicators suggest that GDP per capita declined from US\$280 in 1989 to US\$226 in 2002.
12. Despite the conflict, however, the Somali economy is surprisingly robust, particularly when compared to the situation of other post-conflict countries--though benefits of this growth have not been equally shared. Remittances from the Diaspora, averaging about US\$1.2 billion annually (or 71.4% of GNP),⁷ have contributed to offsetting to a great extent the decline in per capita output. Remittances are also reputed to have sustained significant unrecorded private investments in commercial activities such as trade, hotels, education, health, transport and telecommunications.⁸ Significant levels of exports of live animals also take place, particularly to Kenya and the Gulf.
13. At the macroeconomic level, since the collapse of the financial system in the 1980s, high public expenditures by Somali Governments, largely in excess of revenues, have fueled inflationary pressures. Deficit financing through money printing has led to an ever dwindling value of the Somali Shilling (see box 1). In recent years, drought and consecutive seasons of below-normal rainfalls have contributed to a sharp rise in cereal and sorghum prices. In addition, rampant counterfeiting of the Shilling has also stoked inflation. Over the period 2007-2009, the Somali economy was characterized by structural fiscal deficits, hyperinflation, multiple exchange rates with a predominant parallel market, low foreign reserves and a continuing build up of external debt arrears.
14. Inflation was estimated to be between 20 and 50 percent per year in South-Central Somali during 2002-2009. In both Somaliland and Puntland, fiscal management has continued to suffer from problems of the pre-war period: low revenue base and collections, expenditures mostly geared towards security and general administration with little scope for investment as well as weak capacity. Trade taxes, mostly specific rather than ad valorem including export taxes, account for more than 80 percent of annual revenues, currently estimated around US\$16 million for Puntland and US\$22 million for Somaliland.
15. The very limited capacities of the central government have major adverse effects on the way the economy functions. The TFG is yet to establish an effective administrative system that will perform essential economic and social functions.⁹ There is no systematic official budget that will provide ministries and local authorities with the

⁷ Central Bank of Somalia

⁸ The activities of the private sector are extremely narrow and driven by a strong profit motive. Moreover, it is unlikely that remittances can be a source of long-term sustainable growth.

⁹ Even in Somaliland and to a lesser extent Puntland, reputed to have some level of control over their administrations and community development, public service delivery and investments are heavily constrained by a very weak revenue base, primarily derived from trade taxes.

necessary financial resources to implement programs. Public infrastructure is minimal and fragile in most of Somalia. The country relies heavily on external support for its basic services. The livestock industry is particularly hampered by the absence of a proper regulation. Certificate of origin regimes needed to meet requirements for international trade greatly reduce access to markets. The informal Hawala systems of remittances, while efficient, are unable to fully demonstrate compliance with international standards and regulations, and have, in some cases, been subject to legal sanctions as a result.

Box 1: Overview of the financial system

Before the civil war, Somalia's formal financial sector was composed of the Central Bank of Somalia, Commercial and Savings Bank of Somalia, Somali Commercial Bank, Cooperative Bank of Somalia, Somali Development Bank and the State Insurance Company of Somalia. However, at present, the financial sector is composed of the Central Bank of Somalia, Somali Remittance Companies, and Micro-finance institutions (as pilot projects in the North-Western regions-Somaliland and in the North-Eastern regions-Puntland).

The Central Bank is currently operating under the 1968 Act, No. 6 of 19th October, which specifies the roles and responsibilities of the Central Bank. These include acting as a fiscal agent to the treasury, supervising commercial banks and others financial institutions, issuing currency etc. *In December 2006, the Central Bank was able to reopen its offices in Mogadishu and Baidoa.*

- **Money supply:** In the absence of formal commercial banking activities, the credit creation and therefore money creation by the commercial banks does not exist in the economy at present. Under such circumstances, all economic transactions in the country are being handled through cash payment to settle obligations in domestic trade, including transactions that involve large sums of cash, which could have been otherwise settled through other means.
- **Inflation and exchange rates:** The economy is deeply dollarized in view of weak confidence in the local currency, with prevalent use of counterfeits. Alongside the Somali shilling, the US dollar is widely accepted as a medium of large and high value transactions even for local trade exchange. Between 1970 and 2009, the Somalia shilling has lost its value significantly from So.Sh 7,5 per U.S.\$1 to So.Shs 32,000 per U.S.\$1. Moreover, during the past 18 years inflation occurred also as a result of the injection of foreign and local printed currency (counterfeited) into the economy, higher fuel prices and food insecurity. The inflationary environment is expected to cease as soon as the Central Bank takes full charge of monetary policy and replaces the presently currency printed by the private sector.

Remittance Companies. Are the only financial services providers in the country for the majority of households and for the whole for the private sector. Due to the prolonged civil war there are no commercial banks registered and operational in Somalia, however, some regional banks are in discussions with the Somali Remittance Companies with regard to joint ventures. In addition, local Somali business persons are exploring the possibilities of launching commercial banks that could also provide service to the lower segment of the market. The Remittance agencies supported with spin-off activities in telecommunication sector, sprang up as the main medium for much of the hard currency movements to and from the country, as well as an instrument for trade and commerce in Somalia and abroad.

Source: Central Bank of Somalia

V. Social Development

16. The civil conflict, absence of an effective central government, continuing insecurity in many parts of the country, and inadequate access to basic services and infrastructure worsened welfare and poverty compared to pre-civil war times. Extreme poverty (less than US\$1 PPP) is estimated at 43 percent. It is 10 percentage points higher for rural and nomadic populations.
17. General poverty (less than US\$2 PPP) afflicts 73 percent of households, but reaches 80 percent in rural and nomadic populations. Income inequality is significant with the poorest 10 percent of the population receiving only 1.5 percent of total income. Gross primary school enrollment of 22 percent remains the lowest in the world. One in five

Somalis is illiterate. Twice as many boys as girls attend primary and secondary school. Twice as many men as women are literate.

18. Health indicators are also among the worst in Africa. Life expectancy is 49.7¹⁰ years. Infant and child mortality rates stood at 108.4 and 178 per 1,000 live births, respectively, against 84 and 135 for Africa. Maternal mortality rate is also a staggering 1,400 per 100,000 live births, compared with 683 for Africa. A majority of the population (71%) does not receive minimum dietary energy. Only 29% of the population has access to improved water sources and 23% to improved sanitation facilities.
19. Social indicators are expected to have deteriorated during 2007-2009, as poverty and income inequality continued to rise and exacerbated by massive underemployment, collapse of the social welfare system and food insecurity. Household budgets are expected to be further stretched by a forecasted drop in remittances from the diaspora in line with a slowdown in economic activity in developed countries such as the UK and the US, where large numbers of Somali expatriates work.
20. Somali faces its worse humanitarian crisis in eighteen years characterized by increasing food insecurity and malnutrition rates, as a result of the combined effects of ongoing warlord fighting, internal displacement, as well as insufficient rainfalls and drought leading to poor crop production and high food prices. The humanitarian crisis in Somalia is widespread and severe, with more than half of the population in need of humanitarian assistance. On August 21, nearly 3.8 million Somalis were reported to require humanitarian assistance through December 2009.¹¹ This situation threatens to push the country into chaos and lead to further deteriorations in the food security, nutrition status and livelihood of the population.¹²

VI. Relations with the ADB Group

21. The Bank's activities are very limited by the current circumstances of the country. Bank Group operations in Somalia were discontinued early 1991 following the outbreak of the civil war. Prior to the civil war, the Bank had on a cumulative basis, approved 23 loans and 2 grants for a total amount of UA149 million, of which 54 percent was disbursed. Twelve projects were completed and eleven projects were at various stages of implementation. The unutilized loan balances totaling UA67.21 million were cancelled in 1996.
22. In November 1992, the Bank Group approved an Emergency Assistance package for Somalia for a total amount of UA 3.2 million, which was channeled through two UN Agencies and six NGOs covering projects and programs in the areas of water supply, health education and agriculture sectors. The program, however, proved difficult to

¹⁰ Human Development Report 2009

¹¹ Food Security and Nutrition Analysis Unit for Somalia (FSNAU) 2009 post seasonal assessment, the USAID-supported Famine Early Warning Systems Network (FEWS NET) and 88 Partners, including regional authorities, UN agencies and local and international non-governmental organizations (NGOs). Also, refer to Table of total US Government humanitarian assistance to Somalia 2009 in Annex I.

¹² Food Security and Nutrition Analysis Unit for Somalia (FAO/FSNAU, Report 2009).

implement because of the serious security situation in the country. The unutilized balances on the grant totaling US \$ 1.6 million were cancelled in 1997. In January 2005, the Bank approved a Humanitarian Emergency Assistance of USD500,000 to the Victims of December 2004 Tsunami. The grant agreement was signed with the WFP since there was no recognized Government in Somalia at that time. The grant was fully disbursed in two tranches during 2005.

23. Somalia is under sanctions since October 1990. As at 31 December 2009, Somalia had accumulated loan repayment arrears to the AfDB of about UA51.1 million over a period of nearly 20 years.¹³ It should be noted that under Pillar III of the FSF, the Bank approved in October 2009 a grant of USD2.0 million in support of the project “Rebuilding Financial Management Systems in Somalia”. The grant agreement was signed in November 2009.

Somalia: Arrears to the ADB Group, as at 31 December 2009
(In thousand UAs)

	Total	Principal	Charges
ADF	37,183.7	27,832.5	9,351.2
ADB	12,455.4	4,052.6	8,402.8
NTF	1,435.7	611.8	823.9
Total	51,074.8	32,496.9	18,577.9

VII. Donor Coordination

24. Donor coordination is relatively good. The UN and the AU play an overall leadership role, in coordination with the IGAD as well as bilateral and multilateral partners and NGOs. The Somali Donor Group (SDG), assisted by the Somali Support Secretariat (SSS), was established in 2005 to provide a framework for a harmonized approach to enhance coordination and efficiency in the delivery of aid resources in Somalia, including their predictability.¹⁴ The SDG meets regularly in Nairobi on a bi-monthly basis and focuses on key areas of rehabilitation and development assistance. There is also the International Somalia Contact Group, an informal body of mainly western UN Ambassadors established in June 2006 at the UN headquarters in New York to support peace and reconciliation in Somalia. In addition to funds from the UN agencies, international NGOs and bilateral donors, there is a high, but unknown, level of support from Islamic NGOs and other agencies, largely to health and education.

¹³ The World Bank and the IMF are owed substantial amounts. As at 30th November 2009, the total overdue amount to the IMF by Somalia was SDR229.7, of which SDR112.0 in principal and SDR117.7 million in charges/interest.

¹⁴ The Somali Donor Group (SDG) is currently co-chaired by DFID and USAID and made up of about thirty bilateral African and non-African representatives, U.N. agencies, multilateral and non-governmental organizations. The Bank has increased its participation in the last two years, but mainly during field missions. The SSS provides secretariat support services to the Somali authorities and the international community in order to facilitate their efforts of coordination of the humanitarian, reconstruction and development programs for the country. The Secretariat is to ensure political neutrality and independence with regards to all constituencies.

25. At the request of the TFG and the international community, the UN and the World Bank prepared a “Somali Joint Needs Assessment (JNA)” in 2005, which provides a prioritized reconstruction and development initiatives needed to support Somali-led efforts to deepen peace and reduce poverty. Consultations were undertaken with Stakeholders in all regions of Somalia. The recommendations of the JNA resulted in a long-term report titled, the “Somali Integrated Reconstruction and Development Program (RDP)”, endorsed by the TFG and authorities in Somaliland and Puntland. Three high priority areas were identified: (i) Deepen peace, improve security and establish good governance; (ii) Strengthen basic social services, particularly education, health and water supply; and, (iii) Rebuild infrastructure, jointly with other actions to expand economic opportunities, employment and incomes.
26. On governance and institutional capacity building, the RDP identified four specific priorities to be fast-tracked: (i) a comprehensive public sector expenditure management reform program, based on principles of consistency with country priorities, prudence, accountability and transparency; (ii) customs reforms to secure domestic resource mobilization; (iii) central banking reforms and financial sector development to promote macroeconomic stability and private sector intermediation; and, (iv) civil service reform and institution building to professionalize the administrative structures in Somaliland and Puntland and to rebuild the federal civil service. On the basis of the RDP, the World Bank is preparing a Public Financial Management and State Capacity Building Program for the TFG and the Governments of Somaliland and Puntland, to be supported by a grant.
27. Several challenges have limited international efforts to stabilize Somalia. The international community is seeking to improve the security situation in the country, mainly by funding an African Union peacekeeping operation, the AU Mission in Somalia (AMISOM).¹⁵ Mandated to constitute 8,000 troops, AMISOM has suffered from difficulty in generating troops and in deploying troops pledged due to deficient resources of both the AU and its member states. AMISOM forces are expected to remain in Somalia until a Somali security force is trained and operational on the ground. Challenges faced by AMISOM are lack of resources, capacity and funding, and poor institutional capacity to manage operations. AMISOM is heavily dependent on assistance from outside partners, including the UN.
28. There has been a renewed interest in Somalia from the donor community in the last two years, as evidenced by the increasing number of international conferences and meetings, generally sponsored by the UN, the AU and the EU. These events have primarily focused on piracy, security and gender (cf. paragraph 9). There is an agreement that the international community should develop urgently a new partnership aimed at assisting the TFG in creating the conditions for an inclusive Somali-led effort towards peace, security, national reconciliation and State rebuilding within the

¹⁵ AMISOM was created on 19th January 2007 and approved by the UN Security Council on 21st February 2007 with an initial six month mandate, which has been extended several times. AMISOM is mandated to support transitional governmental structures, implement a national security plan, train the Somali security forces, and to assist in creating a secure environment for the delivery of humanitarian aid.

framework of the Djibouti Agreement. Significant resources were also pledged for emergency assistance and strengthening AMISOM in terms of resources and capacity.

VIII. Strategic Entry Points for AfDB Re-engagement with Somalia

29. As the situation stands, the Bank cannot resume full-fledged regular operations in Somalia, as the country is still under sanctions. The country's arrears problem can be dealt with credibly only when the situation normalizes, i.e. restoring peace and security, national reconciliation and consensus towards rebuilding State institutions. The priority for the Bank would then be to settle the arrears issue in order to pave the way for scaling up economic reconstruction and recovery assistance, in collaboration with other development partners particularly the IMF and the World Bank.
30. In the meantime, given the Bank's role as the premier development institution in the continent and in particular the opportunity provided under the FSF to stay engaged with fragile states, dialogue between the TFG and Bank management and staff has resumed in recent years. In this regard, AfDB was invited to take a lead role in facilitating the re-engagement process between Somalia and the international community, in coordination with the TFG.
31. In taking forward a lead role in this process and given the particular circumstances of Somalia, the Bank will build on the renewed strong partnership between the TFG and the international community in working in an inclusive manner with all the factions towards peace, national reconciliation and State rebuilding. In this context, the Djibouti process is seen as a credible transition framework within which all international efforts should be undertaken. The TFG, which is the legitimate and internationally recognized Government of Somalia, is encouraged to sustain its consensus-building efforts, in order to broaden the support base to all clans and groups. Reconciliation efforts should continue to empower and support the TFG in this endeavor. With the support of the international community, Somalis are in a position where they should take the driver's seat in addressing the country challenges. The Somalis of the Diaspora should be an integral part of the overall process.
32. Somalia faces a number of urgent challenges, mainly: (i) accelerating progress in nation-wide reconciliation efforts among the factions, aimed at finding a lasting political and institutional consensus to restore security, peace and stability over the entire territory; (ii) alleviating the rapid degradation in human living conditions, through emergency humanitarian assistance; and, (iii) restoring the key functions of the state in delivering the most essential public service and initiating urgent reconstruction efforts, through rebuilding the human and institutional capacities, and putting in place the basic governance structure. Given the urgency and the time required to obtain tangible results on the ground, these challenges must be tackled in parallel. Indeed, security and emergency humanitarian assistance appear to be the most pressing priority. However, security can not be sustained in isolation from improving the lives of Somalis and building Government institutions through a participatory process agreed by all Somali Stakeholders.

33. In assisting the country to address these challenges, the Bank will focus on its main areas of comparative advantage with available instruments allowed by the particular Somali situation, namely dialogue backed by relevant Economic and Sector Work (ESW), technical assistance, human and institutional capacity building, assisting in organizing seminars, workshops and conferences as well as emergency assistance.
34. The process leading to a lasting political settlement to restore peace and security over the entire territory will take a long time with sustained consensus building efforts. Recent efforts initiated by the TFG in establishing itself in Mogadishu, reinforcing dialogue with all factions to achieve unity and sovereignty of the Republic of Somalia as well as building a federal system should be encouraged and supported by the international community. The Bank Group will continue to actively monitor developments in the political area and humanitarian assistance as well as playing a key role in coordinating with other development partners. In this context, the Bank intends to participate more actively and regularly in the Somali Donor Support Group (SDG), through OREB with support from KEFO.¹⁶ The Bank will also work through the AU/ECA/AfDB Secretariat to coordinate this re-engagement process.
35. The Bank will actively participate in and, when possible, assist in the organization of major international forums on Somalia, particularly those pertaining to national reconciliation, State rebuilding and governance in general as well as the overall re-engagement and arrears processes.¹⁷ Resource persons could be drawn from countries that have gone through this route before.
36. In parallel, it is critical to start engaging urgently in the tedious task of state-building, as it will take a very long time to establish a fully effective functioning government and administration systems, particularly at the central level.¹⁸ The Bank will provide assistance in this area, in coordination with other development partners. The Bank's interventions will be consistent with priorities agreed by all Somali stakeholders. However, particular attention will be given to the federal or central level, as the PFM and governance systems will have to be developed virtually from scratch.¹⁹ This will require a significant amount of resources.

¹⁶ OREB will be working out the modalities of this participation, in consultation with OREA and KEFO, to ensure that resources are put in place to facilitate the assumption of this role, including staffing issues.

¹⁷ A number of international conferences on Somalia are already planned for 2010. An International Conference on the Role of Democratic Governance versus Sectarian Politics in Somalia is scheduled for 4-6 June 2010 in Sweden. In addition, the SDG is planning an international conference on Somalia in mid-2010, primarily aimed at assessing progress on the Djibouti Agreement, agreeing on key priorities and transitional tasks for the remaining period of the transition, increasing donor funding aligned to national plans and programs, mobilizing support from new donors and setting up new modalities to enhance coordination and implementation of agreed upon priorities.

¹⁸ From the diagnosis already undertaken by donors in consultation with all Stakeholders, the existing rudimentary PFM capacity in Somaliland and Puntland can be built upon. Given the current political setting in Somalia, the PFM reforms need to be done separately for TFG, Somaliland and Puntland. However, by coordinating their implementation, the three PFM systems can be consolidated at a later period if and when the political dynamics in Somalia move towards reintegration of the TFG and the Governments of Somaliland and Puntland.

¹⁹ Skill levels in the civil service are very low and need massive upgrading. The TFG has only a small number of senior officials in key cabinet ministries and the offices of the President, Prime Minister and Speaker. Most of them are supported by development partners. Most other staffs of the TFG are generally not being paid.

37. With regards to funding, the most feasible option for the Bank's financial assistance to Somalia will be limited to the use of the FSF and, eventually when applicable, to facilities that are not affected by the arrears situation, such as the African Water Facility (AWF)²⁰ and the Special Relief Fund (SRF). With respect to the FSF, however, given the political volatility and the prevailing security situation, the country cannot meet the eligibility criteria for both Pillar I (Supplemental Support) and Pillar II (Arrears Clearance) of the FSF. The Bank's assistance to Somalia is therefore to be confined initially to resources available under Pillar III, which aims at providing targeted support for a range of activities, including: (i) capacity building and technical assistance programs for human and institutional development; (ii) service delivery through non-sovereigns, including private sector activities; and, (iii) knowledge building and management.
38. Given the urgent need to initiate capacity building activities, the Bank fast-tracked, in October 2009, the approval of the project "Rebuilding Financial Management Systems in Somalia" in the amount of USD 2.0 million, funded under Pillar III of the FSF (see annex III). This approval was the Bank response to a formal letter addressed to the AfDB from the Ministry of Finance of the TFG on 28th September 2008, requesting support that is aimed at reforming the core PFM institutions (the Ministry of Finance, the Central Bank, the Accountant General and the Auditor General).²¹ Following this request, the Bank held several consultations which led the appraisal of the project. A follow up donor's meeting was held in Nairobi in January 2009 to discuss with the Government of Somalia and the main donors the capacity building challenges in Somalia, the way forward, possible AfDB intervention as well as coordination issues. The agreement reached, which was formalized in a revised request on 5th February 2009, was that the TFG would refocus its priorities on PFM and Central Banking areas, with a view to urgently rebuilding the capacity of financial integrity institutions.²²
39. The main activities to be covered under above mentioned technical assistance are: (i) Updating the legal framework and operating systems of the Ministry of Finance and Planning and the Central Bank of Somalia; (ii) Developing and implementing systems for planning, budgeting and fiscal management; (iii) Developing sound and transparent PFM systems, including budget formulation and execution with accountability and transparency; (iv) Providing technical training and monitoring on-the-job training, and secondment in public institutions in neighboring countries;²³ and, (v) Conducting

²⁰ Resources from the AWF could be channeled through NGOs operating in the country after submitting a proposal and following the due process.

²¹ The TFG of Somalia will be conducting a series of training to build the capacity of key economic institutions such as the Ministry of Finance and Planning, the Central Bank of Somalia, Auditor General, Accountant General and line ministries. Staff training will include hands on training programs for key government institutions that will link policy with budget formulation, execution and monitoring.

²² Several subsequent consultations were held, including: (i) meetings with the Ministry of Finance of the TFG during the Bank's Annual Meetings in Dakar in May 2009; (ii) a meeting between the President of the Bank and the President of the TFG of Somalia held in August 2009 in Nairobi, on possible ways to re-engage and re-negotiate with the Bank all pending issues that are hindering the provision of Bank assistance and cooperation to Somalia; and (iii) the appraisal mission of OSFU in Nairobi in September 2009.

²³ Training of women will be strongly encouraged.

necessary studies in the monetary and financial sector as well as providing advisers to implement key financial sector reforms.

40. The Rebuilding Financial Management Systems Project in Somalia is in line with the Bank's strategy for enhanced engagement in fragile states as well as priorities articulated in the "Somali Joint Needs Assessment (JNA)" and the "Somali Integrated Reconstruction and Development Program (RDP)". In the short run, this type of support will help sustain dialogue with the Authorities and, in the medium, restore stability, foster socio-economic development and pave the way for the Bank's long term engagement in Somalia, in particular its arrears clearance program in close coordination with the Bretton Woods Institutions.
41. Like with other donors, financial support from the Bank is to be managed by the Somali Authorities. The TFG of Somalia recognizes its lack of financial management capacity to administer donor funds. The TFG has therefore entrusted a reputable international accounting firm, Price Waterhouse Coopers, as its Fiduciary Agent to manage all donor funds on its behalf. Indeed, given the limited government capacity and the very weak fiduciary framework, development assistance is almost entirely administered by agencies, including the UN. Most social interventions are channeled through international or local NGOs.
42. Furthermore, the current security environment limits the physical presence of international staff to provide technical assistance in Somalia. The TFG intends to capitalize on opportunities of institutions available in the region to provide on-the-job and more formal training to its key finance staff through Technical Assistance support. In this process, the recipient institutions will be strengthened as a result South-South cooperation will also be encouraged.

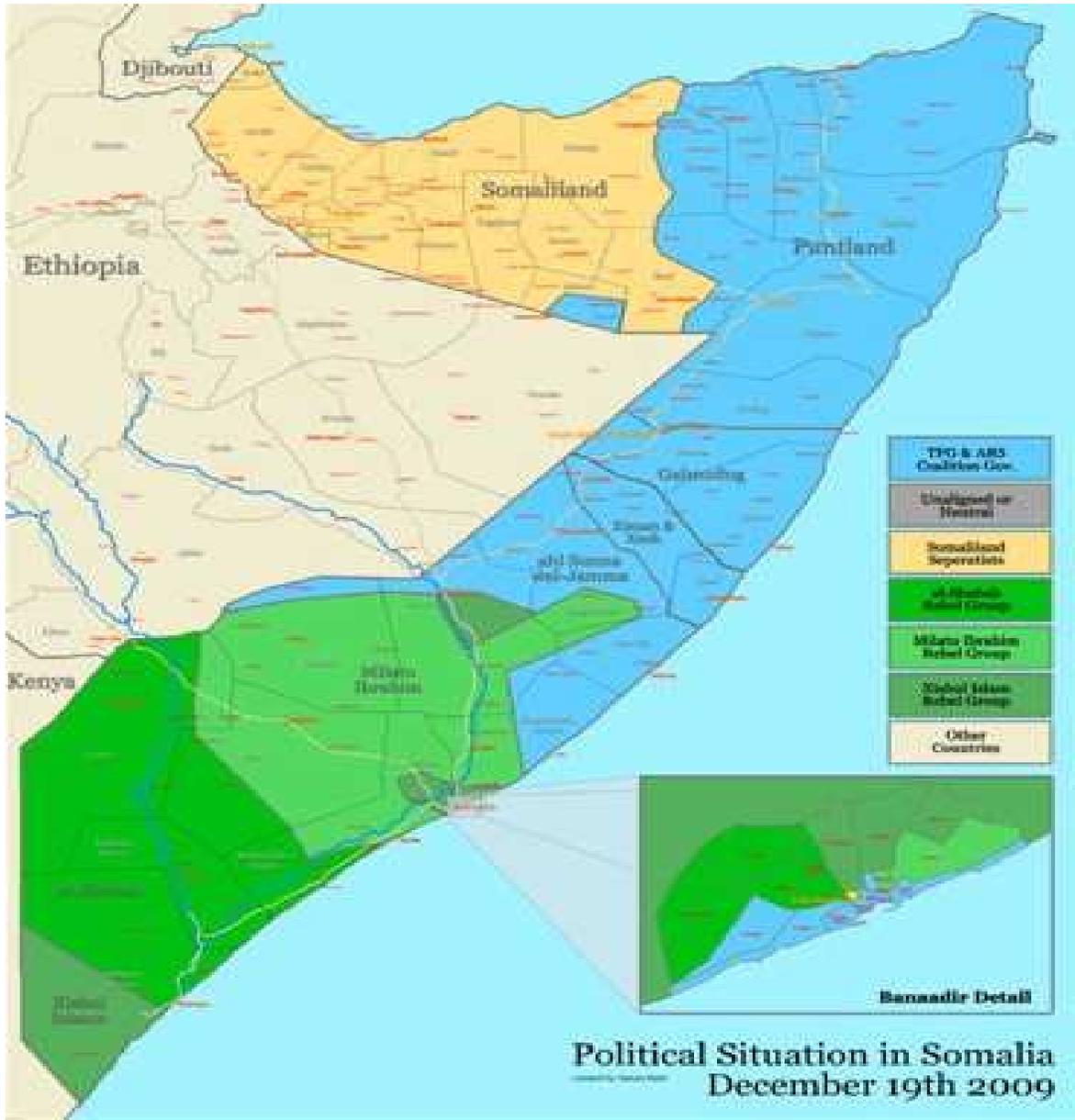
IX. Risks

43. Support to the TFG of Somalia is not without significant risks since the peace process in Somalia is still fragile and the current security environment does not allow for field supervision mission to Somalia. However, this risk will be mitigated by the joint monitoring and evaluation mechanism, involving the TFG, the Fiduciary Agent and the Bank. The Bank's support will be closely supervised and monitored to ensure that resources are used for their intended purposes.

X. Recommendation

44. The Boards of Directors are invited to:
 - a. take note of Somalia's eligibility as a Fragile State; and,
 - b. approve continued and increased Bank support to Somalia through: (i) country dialogue; (ii) the FSF, particularly under Pillar III (Targeted Support Window); and, (iii) other facilities that are not affected by the arrears situation, such as the African Water Facility (AWF) and the Special Relief Fund (SRF).

Political Situation Map of Somalia

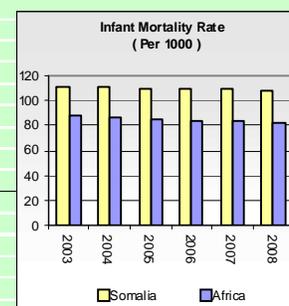
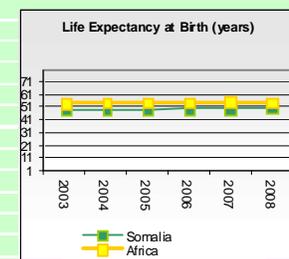
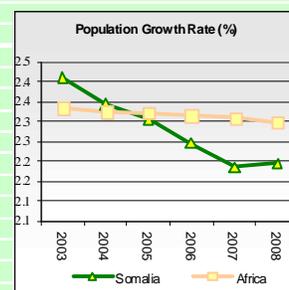
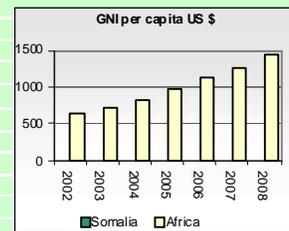


Source: Wikipedia

Somalia

COMPARATIVE SOCIO-ECONOMIC INDICATORS

	Year	Somalia	Africa	Developing Countries	Developed Countries
Basic Indicators					
Area ('000 Km ²)		638	30 323	80 976	54 658
Total Population (millions)	2008	8.9	986	5,523	1,229
Urban Population (% of Total)	2008	37.0	39.1	44.2	74.6
Population Density (per Km ²)	2008	14.1	32.6	66.6	23.1
GNI per Capita (US \$)	2005	...	1 428	2 405	38 579
Labor Force Participation - Total (%)	2008	39.7	42.3	45.6	54.6
Labor Force Participation - Female (%)	2008	39.0	41.1	39.7	44.9
Gender-Related Development Index Value	2005	...	0.482	0.694	0.911
Human Develop. Index (Rank among 182 countries)	2005	...	n.a.	n.a.	n.a.
Popul. Living Below \$ 1 a Day (% of Population)	2005	...	34.3	25.0	...
Demographic Indicators					
Population Growth Rate - Total (%)	2008	2.2	2.3	1.4	0.3
Population Growth Rate - Urban (%)	2008	3.4	3.3	2.5	0.6
Population < 15 years (%)	2008	44.9	56.0	40.0	16.6
Population >= 65 years (%)	2008	2.7	4.5	3.3	15.6
Dependency Ratio (%)	2008	88.0	78.0	52.8	49.0
Sex Ratio (per 100 female)	2008	98.3	100.7	96.7	106.0
Female Population 15-49 years (% of total population)	2008	23.0	48.5	53.3	47.2
Life Expectancy at Birth - Total (years)	2008	49.9	54.5	65.7	77.1
Life Expectancy at Birth - Female (years)	2008	51.3	55.5	67.6	80.6
Crude Birth Rate (per 1,000)	2008	44.1	35.8	22.2	11.2
Crude Death Rate (per 1,000)	2008	15.7	12.4	8.1	10.1
Infant Mortality Rate (per 1,000)	2008	108.4	83.9	51.4	6.3
Child Mortality Rate (per 1,000)	2008	177.9	134.5	77.4	7.9
Total Fertility Rate (per woman)	2008	6.4	4.6	2.7	1.6
Maternal Mortality Rate (per 100,000)	2005	1400.0	683.0	450.0	9.0
Women Using Contraception (%)	2005	...	29.7	61.0	75.0
Health & Nutrition Indicators					
Physicians (per 100,000 people)	2005	...	39.6	78.0	287.0
Nurses (per 100,000 people)*	2005	...	120.4	98.0	782.0
Births attended by Trained Health Personnel (%)	2006	33.0	51.2	59.0	99.0
Access to Safe Water (% of Population)	2006	29.0	68.0	62.0	100.0
Access to Health Services (% of Population)	2005	...	61.7	80.0	100.0
Access to Sanitation (% of Population)	2006	23.0	37.6	53.0	100.0
Percent. of Adults (aged 15-49) Living with HIV/AIDS	2005	0.9	4.5	1.3	0.3
Incidence of Tuberculosis (per 100,000)	2005	0.9	315.8	275.0	19.0
Child Immunization Against Tuberculosis (%)	2007	52.0	83.0	89.0	99.0
Child Immunization Against Measles (%)	2007	34.0	83.1	81.0	93.0
Underweight Children (% of children under 5 years)	2006	36.0	25.2	27.0	0.1
Daily Calorie Supply per Capita	2005	...	2 436	2 675	3 285
Public Expenditure on Health (as % of GDP)	2001	1.2	2.4	1.8	6.3
Education Indicators					
Gross Enrolment Ratio (%)					
Primary School - Total	2005	...	99.6	106.0	101.0
Primary School - Female	2005	...	92.1	103.0	101.0
Secondary School - Total	2005	...	43.5	60.0	101.5
Secondary School - Female	2005	...	40.8	58.0	101.0
Primary School Female Teaching Staff (% of Total)	2005	...	47.5	51.0	82.0
Adult Illiteracy Rate - Total (%)	2005	...	38.0	21.0	1.0
Adult Illiteracy Rate - Male (%)	2005	...	29.0	15.0	1.0
Adult Illiteracy Rate - Female (%)	2005	...	47.0	27.0	1.0
Percentage of GDP Spent on Education	2005	...	4.5	3.9	5.9
Environmental Indicators					
Land Use (Arable Land as % of Total Land Area)	2007	1.6	6.0	9.9	11.6
Annual Rate of Deforestation (%)	2005	...	0.7	0.4	-0.2
Annual Rate of Reforestation (%)	2005	...	10.9
Per Capita CO2 Emissions (metric tons)	2007	0.1	1.0	1.9	12.3



Sources : ADB Statistics Department Databases; World Bank: World Development Indicators;

last update :

October 2009

UNAIDS; UNSD; WHO, UNICEF, WRI, UNDP; Country Reports.

Note : n.a. : Not Applicable ; ... : Data Not Available.

Bank Group Support to Somalia: Activities and Estimated Budget for the PFM Action Plan

Target Outcomes	Baseline 2008	Constraints to Achieving Outcomes	Planned Activities for Twelve Months	Budget year 1	Implementing Agency
<p>1. PFM</p> <p>Hire two senior economic/financial Advisor and short terms consultants for the Minister of Finance</p> <p>Systems for planning, budgeting, and fiscal management</p>	<p>Ministry lack of technical capability for policy formulation, resource mobilization and capacity building</p> <ul style="list-style-type: none"> • Constitution outlines a decentralized governance structure • Large shortcomings in fiscal management • Revenue coming mainly from trade taxes, expenditures heavily focused on security sectors 	<ul style="list-style-type: none"> • Total absence to high quality experts • Lack of needed technical financial capacity to negotiate with bilateral and multilateral institutions • Lack of expertise in budget formulation and implementation • Weak capacity of civil service • Lack of domestic resource base to build and finance public sector capacity • Lack of transparency and accountability in budget process • Weak institutional and human resource capacity at all government levels 	<ul style="list-style-type: none"> • Negotiate with bilateral and multilateral institutions of Somali debt • Establish a transparent system of budgeting and budget credibility • Payroll system and linkages between treasury and the central bank • Operationalizing key departments of the MOF, such as revenue, expenditure and budget in general • Budget to be prepared through participatory approach • Public Finance Management bill finalized, budget Act and procedures to be redrafted and completed • Develop framework for treasury operations 	<p>\$ 400,000</p> <p>\$ 400,000</p>	<p>Fiduciary Agency/TFG</p> <ul style="list-style-type: none"> • Horn Economic and Social Policy Institute (HESPI), KIA & UMI/SIMAD

<p>Sound and transparent public financial management system</p>	<ul style="list-style-type: none"> • Offices of Accountant General and Auditor General exist but with weak capacity • Budget formulation and preparation non-existent 	<ul style="list-style-type: none"> • Lack of operative financial integrity institutions • Lack of skilled staff 	<ul style="list-style-type: none"> • Capacity on financial management improved • System of computerized accounting and reporting system, and financial management policies developed • Participatory, transparent and poverty reduction focused MTF budget preparation process prepared 	<p>\$ 300,000</p>	<ul style="list-style-type: none"> • HESPI/UMI/KIA/SIMAD
<p>Technical training and follow-up on-the-job training</p>	<ul style="list-style-type: none"> • Inadequate accounting skills among staff • Non-existent budget preparation process • Lack of accountability and independence of financial integrity institutions 		<ul style="list-style-type: none"> • Basic training and on-the-job-training offered to a variety of institutions including Ministry of Finance and Planning, Central Bank, Auditor General, Accountant General, Parliamentary Committee on Financial and Economic Management 	<p>\$ 350,000</p>	<ul style="list-style-type: none"> • Kenya Institute of Administration , and Uganda Management Institute, HESPI, SIMAD & KIA

Main Development Partners Active in Somalia*	
Organization/Institution	Main Areas of Focus
World Bank	Policy advice and analytical work, PFM capacity building, youth employment, business environment Funding: US\$11.5 m (2009)
EU	Peace and security, governance (incl. police), DDR, education and training, health, agriculture, support to Somali NGOs Funding: US\$ 33.97 m (2009)
Denmark	Peace & Security, Good Governance, Education, water & sanitation, land tenure, productive sector, democracy, and livestock sector. Funding: US\$ 3.5 m (in 2009 and projected for 2010)
DFID	Governance (democracy), education, health etc. Funding: US\$ 11.84m (2009) and US\$ 5.8m (estimated for 2010)
USA	Community development, food aid/humanitarian assistance, health, peace building, Governance/Institutional capacity building. Funding: US\$ 287.94m (2009)
Belgium	Rule of Law, water access, social protection, employment creation, and infrastructure. Funding: US\$ 2.2m (2009)
Italy	Security, education, health, water & sanitation, employment creation. Funding: US\$17.2m (2009)
Japan	Security, Rule of law, education & skills devt., health, water & sanitation, IDP protection. Funding: US\$ 50.64 m (2009)
Canada	Governance (incl. rule of law, peace & reconstruction), water & sanitation, gender related issues, IDP protection, health, education, PFM, macroeconomic stability. Funding: US\$ 291.22m (2009)
Netherlands	Demining, good governance, poverty reduction Funding: US\$ 3.8m (2009)
AfDB	Public Financial Management, institutional capacity building- Central Bank of Somalia Funding: US\$ 2m (2009)

* UN Agencies are not included, as they mostly act as Coordinating Agencies. Non-traditional donors are also not included.

SOMALIA: COUNTRY BRIEF

CORRIGENDUM

After distribution of the document, comments were received from a number of Executive Directors, on the basis of which the Somalia Country Brief was slightly adjusted as follows:

1. Paragraph 6: was slightly revised and a footnote (in bold) was added. Paragraph 6 is changed as follows:

6. The formation of the TFG brought some hope that the violent cycle of instability that characterized the country since the 1980s could be broken. Some incremental progress has been made toward finding a lasting solution to end the civil strife and restore peace and stability. A national reconciliation process aimed at establishing peace, proposed by the international community and led by the United Nations (U.N.), was held in Djibouti in June 2008. An 11-point Agreement was signed in August 2008 between the factions, the TFG and the Alliance for the Re-liberation of Somalia (ARS). The Djibouti Agreement calls for "end all acts of armed confrontation" within 30 days, and withdrawal of Ethiopian troops within 120 days after a UN peacekeeping force is deployed.¹

¹ **Ethiopia interventions in Somalia have a very long history and a background of territorial and political dispute. In recent history, they have mostly been motivated by attempts at fighting Islamic groups and militants since the collapse of the central authority in Somalia, in particular by preventing them to gain control over the capital Mogadishu. In July 2006, at the request of the TFG, Ethiopian troops were ordered to force opposition fighters out of Mogadishu. Ethiopian troops withdrew from Somalia in January 2009 after the AU peacekeepers started to be deployed.**

2. Some figures were adjusted in the table in Annex IV and the source of the table was added. The correct table follows and, replaces the Annex IV table in the report.

Annex IV: Main Development Partners Active in Somalia*	
Organization/Institution	Main Areas of Focus
World Bank	Policy advice and analytical work, PFM capacity building, youth employment, business environment Funding: US\$11.5 m (2009)
EU	Peace and security, governance (incl. police), DDR, education and training, health, agriculture, support to Somali NGOs Funding: US\$ 154.83 m (2010)
Denmark	Peace & Security, Good Governance, Education, water & sanitation, land tenure, productive sector, democracy, and livestock sector. Funding: US\$ 3.5 m (in 2009 and projected for 2010)
DFID	Governance (democracy), education, health etc. Funding: US\$ 11.84m (2009) and US\$ 5.8m (estimated for 2010)
USA	Community development, food aid/humanitarian assistance, health, peace building, Governance/Institutional capacity building. Funding: US\$ 284.94m (2009) / US\$ 103.31m (2010)
Belgium	Rule of Law, water access, social protection, employment creation, and infrastructure. Funding: US\$ 2.2m (2009)
Italy	Security, education, health, water & sanitation, employment creation. Funding: US\$17.2m (2009)
Japan	Security, Rule of law, education & skills devt., health, water & sanitation, IDP protection. Funding: US\$ 50.65 m (2009)
Canada	Governance (incl. rule of law, peace & reconstruction), water & sanitation, gender related issues, IDP protection, health, education, PFM, macroeconomic stability. Funding: US\$ 291,228 (2010)
Netherlands	Demining, good governance, poverty reduction Funding: US\$ 3.8m (2009)
AfDB	Public Financial Management, institutional capacity building- Central Bank of Somalia Funding: US\$ 2m (2009)

* UN Agencies are not included, as they mostly act as Coordinating Agencies. Non-traditional donors are also not included.
Source: United Nations Office for Project Services (UNOPS), December 2009. The information was submitted to the Somali Donor Group. The table is indicative and may not be comprehensive.