

CPIA Detailed Report

Country: Somalia

Exercise Year: CPIA Exercise 2023

Currency: Somali Shilling (SOS)

City: Mogadishu

Income Group: Low income

Lending Category: IDA

Final CPIA Score: 2.272

(A) Economic Management

Cluster Score: 2.833

01. Fiscal Policy

Criteria Score: 3

1. Fiscal Policy

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

Somalia's fiscal policy is anchored on cash balance, revenue floor, and spending targets as outlined in the IMF Staff Monitored Programs. Fiscal policy remains supportive of macroeconomic

stability. Despite increasing allocations to social sectors in response to the drought that was experienced from 2021-2023 April, public expenditure remained constrained as public expenditures mostly comprise wages and salaries, and security sector budgets. Fiscal reforms that commenced in 2020 continued to 2023, intended to ensure the improvement in the fiscal framework and fiscal sustainability. During 2020-2022, the country continued advancing reform efforts intended to sustain fiscal sustainability, through implementing a zero cash-balanced budget which enabled fiscal deficit to remain at 0% of GDP in 2022. The zero cash-balanced budgets are intended to avoid payments arrears and debt accumulation as required under the implementation of the IMF staff monitored programs. In addition, Somalia continued strengthening the domestic resource mobilization capacity while containing spending pressures. Some of the reforms that were implemented to improve fiscal planning, transparency and accountability included: HIPC completion point fiscal triggers, the formulation of 'fiscal transfer formula' in March 2023 to guide revenue sharing between the Federal Government of Somalia (FGS) and the Federal Member States (FMS). The FGS is continuing to accelerate revenue reforms through customs modernization. In this regard the country enacted the ad-valorem tax schedule in June 2022, and the customs regulations were issued in September 2022. The Government's Budget strategy 2023 confirms the FGS reached agreement with the FMS by adopting a single tariff schedule at all ports in Somalia during 2023 as part of the commitment to enhance domestic revenue mobilization. This is expected to foster greater revenue mobilization and foster trade integration. In addition, the Customs automated system (CAS) has been piloted in the central Administration in Mogadishu port and airport, prior to the roll out in Bosaso, Garowe, and Kismayo.

As the country prepares to reach the HIPC completion point by end of 2023, Somalia's balanced budget is expected to gradually move from zero fiscal deficit as a percentage of GDP in 2022 and widen to about -0.3% of GDP in 2023, before further widening to -1.9% in 2024 in the post HIPC- environment due to the expected decline in grants. The FGS's budget strategy for 2023 projects that grants to GDP which had increased to from 1.7% of GDP in 2019, to 4.2% of GDP in 2020, will decline from 4.1% to 3.2% in 2022 and 2023 respectively, and further to 0.5% of GDP in 2024 and 2025 as Somalia reaches the HIPC completion point in 2023 allowing concessional loans to come on board post HIPC.

During 2020 and 2021, the suspended Budget Support disbursements from the major partners such as the World Bank, European Union was suspended due to the delayed Presidential elections, but was reinstated in 2022. Reduced revenues in 2021-2022 forced the Government run down the fiscal buffer as of June 2021 to zero from about USD70 million in 2020. Thanks to the 157 million SDR allocation to Somalia, the Government intends to rebuild the buffer. On fiscal transparency, there is an enhanced coverage of reports, frequency and reliability.

Regarding the share of domestic revenue mobilization as a percentage of GDP, the performance has been mixed owing to improvements in policy reforms that led to the increased domestic revenue from 3.2% as a share of GDP in 2017 to 3.5% in 2019, yet the COVID-19 pandemic shocks contracted domestic revenue to 3.0% as a % of GDP due to restrictive measures implemented to contain the COVID-19 pandemic. Domestic revenue further declined to 3.0% of GDP and 2.9% of GDP in 2021 and 2022 respectively. During 2023, the Federal Government endorsed a new Pay & Grade policy for civil servants and implemented pension reforms to curtail expenditure. Furthermore, the Federal MoF is completing a review of the payment process.

The FGS's capacity to generate revenue is constrained by the small size of the formal economy and difficulties in collecting taxes due to widespread insecurity and institutional weaknesses. To reduce Somalia's dependence on external grants, further improvements in tax administration and the business environment are needed. The ratification of the Revenue Act of 2019 and the 2018 Baidoa Agreement on sharing natural resource revenues and the harmonization of tax systems between FGS and FMS are key

steps towards improved intergovernmental fiscal relations. In addition, the Somali authorities have formalized and continue to make use of the Finance Ministers' Forum that brings together the FGS and FMS finance ministers on a monthly basis to share information and agree on revenue sharing. In addition, the government is strengthening governance of natural resource rents, largely coming from forest, fisheries, and Petroleum. In this regard, the FGS embarked on the process of enacting the Extractive Industry Income Tax (EIIT) Law as part of the IMF HIPC completion triggers. During December 2020, the EIIT Bill was enacted to harmonize with the Production Sharing Agreements (PSA).

The FGS continues with the implementation of the revenue enhancing measures, including the tax audit strategy has begun to be implemented and lessons drawn to inform future improvements in the conduct of audits. FGS has continued to make progress in modernizing and standardizing customs administration in Mogadishu and in FMS that have major customs posts. The objective of these efforts is to roll out a single Customs Automated System to all major ports and airports, and to implement a common national customs tariff using value-based duty rates. Increasing revenue from the telecoms sector is also a priority for the FGS. Overflight revenues are collected from airline operators on Somalia's behalf by the International Air Transport Association (IATA). It has proven difficult to collect overflight fees from some local and regional airlines operating in Somalia are not IATA members, and sizeable arrears have accumulated. The FGC has supported FGS to develop a tender for third party debt collection services. To succeed, these actions will need to be underpinned by sustained political backing for enforcing telecom operators' compliance with licensing, reporting, and taxation requirements.

[References: FGS - Budget Reports (2020-2023); Financial Governance Report; IMF ECF Program 2022; World Bank Economic Update June 2022, World Bank Policy Notes 2022]

02. Monetary Policy

Criteria Score: 2.5

2. Monetary Policy

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5
Final Score	2.5

Country Notes:

The Central Bank Act of 2012 provides the regulatory framework for the Central Bank of Somalia (CBS) to be the lender of last resort and operationalizes the CBS responsibility to issue the Somali Shilling. However, the CBS has limited capacity to undertake the functions of an independent central bank and lender of last resort. The CBS's key policy objective in the medium-long term is to maintain price stability, maintain financial stability, formulate and implement monetary policy. As of October 2023, Somalia's Central Bank was still in the process of formulating and implementing the monetary policy and exchange rate policies. Owing to insufficient capitalization, the CBS is not well positioned lender of last resort for the Government and has no firm handle on monetary policy since the CBS has no control over the exchange rate or the supply of the shilling. Overall, there is widespread dollarization as the United States Dollars is the preferred medium of exchange and accepted alongside the Somali shillings for commercial transactions. Also, transactions using the mobile phone payments system is common. Uniquely, currency notes are printed by private actors and "counterfeit" and "real" currencies circulate side-by-side freely. The National payment system (NPS) has been established by the CBS to link lenders to a clearing and settlement system and is hosted at the Central Bank. According to the CBS quarterly economic review report for Q4-2022, the NPS has automated clearing house (ACH), real-time gross settlement (RTGS), and instant fund transfer (IFT) functionalities. The NPS registered about 255,000 transactions in 2022-Q4 amounting to US\$455 million. The total value of RTGS transactions was US\$340 million, while the value of ACH transactions was USD 115.6 million. Regarding inflation, it increased to 6.8% in 2022 from 4.6% in 2021, largely driven by the high energy and food import prices attributed to the Russian invasion of Ukraine. Regarding interest rates, the country has no formal process for interest rate determination as Somalia operates under the stipulations of Islamic banking. A reconstituted and strong CBS will be necessary to build confidence in Somalia's financial sector. Therefore, a Strategic Plan (2020-2024) focused on overhauling the CBS has been designed and is being implemented. As a sign of progress, the CBS's first operational budget in nearly three decades was elaborated and implemented in early 2021. Prioritization of the implementation of the CBS Strategic plan was done with support from the AfDB in 2021. In the near term, the reintroduction of a single national currency will make it easier for the CBS to impose discipline in the financial sector. Currency reform will ultimately give the CBS control over the supply of money and enable it combat currency counterfeiting, which has been rampant. To bolster the position of the CBS, the FGS has executed a memorandum of understanding with all Federal Member States to ensure that the whole country operates under a single monetary authority. In the implementation of CBS strategy, the World Bank has been supporting the CBS to implement a Currency Exchange Project and to introduce the new Somali Shilling notes to replace the notes in circulation but this process stalled in 2021, and resumed in 2022 due to the suspension of Budget over delayed multiparty democratic elections. This project is supporting the CBS to gradually develop its monetary policy capacity to manage liquidity and support needed exchange rate operations. The de jure exchange rate arrangement is undetermined, and the de facto exchange rate arrangement is classified as a free-floating arrangement. The rate is a freely determined, market clearing rate. [FGS, AfDB, IMF]

The Central Bank Act of 2012 provides the regulatory framework for the Central Bank of Somalia (CBS) to be the lender of last resort and operationalizes the CBS responsibility to issue the Somali Shilling. CBS is also implementing a Strategic Plan (2020-2024), whose strategic goals are focused on overhauling the CBS structure, formalizing financial institutions, establishing effective monetary policy, building strong foundations for banking operations, increasing organizational effectiveness, strengthening reporting and transparency, and promoting good governance. As a sign of progress, the CBS's first operational budget

in nearly three decades was elaborated and implemented in early 2021.

The implementation of the Bank's first strategic plan since (2013-2018), and the current CBS Strategy 2020-2024 have resulted into the achievement of various milestones, including among others, promotion and fostering financial stability and a reduction in the Country's debt levels, thus contributing to some moderate macroeconomic stability. During March 2020, Somalia secured a debt-relief with the World Bank and the International Monetary Fund under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, paving way for a return to the global financial system. Since 2020, the implementation of the HIPC Decision Point triggers have progress over the last 3 years, and the country's public debt is expected to reduce from US\$5.2 billion to US\$557 million by end of 2023. As of 22 September 2023, the review of the IMF Sixth Extended Credit Facility Program confirmed that Somalia was on track to achieving the HIPC completion point triggers by end of 2023. As of September 2023, only one out of 14 Completion Point triggers was pending achievement. The pending indicator relates to the modernization of customs.

Several reform actions are ongoing under the Financial Sector Reform Roadmap to deepen financial sector supervision and to improve the payments system and restore correspondent banking relationships globally. These actions include the transition to a new CBS organizational structure, strengthening its regulatory oversight in the banking and mobile money sectors and strengthening the anti-money laundering/combating the financing of terrorism (AML/CFT) operational and legal framework. In 2018 and 2019, foreign banks terminated their relationships with Somali banks due to concerns about financing of terrorism, which has affected remittance flows. The other achievements registered emanating from the implementation of the CBS strategy paper 2020-2024 include: Increase in licensed commercial bank numbers from 5 in 2018 to 15 by end of 2022. Of this, 13 are domestic commercial banks, while 2 are operated by foreign banks. Moreover, 3 Mobile Money Operators (MMOs) and 12 money transfer businesses have increased financial inclusion of the Somali people.

In addition, the National payment system (NPS) has been established by the CBS to link lenders to a clearing and settlement system and is hosted at the Central Bank. According to the CBS quarterly economic review report for Q4-2022, the NPS has automated clearing house (ACH), real-time gross settlement (RTGS), and instant fund transfer (IFT) functionalities. The NPS registered about 255,000 transactions in 2022-Q4 amounting to US\$455 million. The total value of RTGS transactions was US\$340 million, while the value of ACH transactions was USD 115.6 million.

Despite the progress on the implementation of the Strategic plan, the CBS has limited capacity to undertake the functions of an independent central bank and lender of last resort. The CBS's key policy objective in the medium-long term is to maintain price stability, maintain financial stability, formulate and implement monetary policy. As of October 2023, Somalia's Central Bank was still in the process of formulating and implementing the monetary policy and exchange rate policies. Owing to insufficient capitalization, the CBS is not well position as the lender of last resort of the Government, and has no firm handle on monetary policy since the CBS has no control over the exchange rate or the supply of the shilling. Overall, there is widespread dollarization as the United States Dollars is the preferred medium of exchange and accepted alongside the Somali shillings for commercial transactions. Also, transactions using the mobile phone payments system is common. Uniquely, currency notes are printed by private actors and "counterfeit" and "real" currencies circulate side-by-side freely.

In terms of the prioritization of the implementation of the CBS Strategic plan, this was supported by the AfDB in 2021. In addition, the World Bank has been supporting the CBS to implement a Currency Exchange Project and to introduce the new Somali Shilling notes to replace the notes in circulation, but

this process stalled in 2021, and resumed in 2022 due to the suspension of Budget over delayed multiparty democratic elections. This project is supporting CBS to gradually develop its monetary policy capacity to manage liquidity and support needed exchange rate operations. The de jure exchange rate arrangement is undetermined, and the de facto exchange rate arrangement is classified as a free-floating arrangement. The exchange rate is a freely determined, market clearing rate.

The outcome of implementation of all these project support from AfDB, World Bank and others have led to improvement in macroeconomic imbalance. For instance, inflation rates remained in single digits having performed at 6.8% in 2022, from 4.6% in 2021, largely driven by the high energy and food import prices attributed to the Russian invasion of Ukraine.

Regarding interest rates, the country has no formal process for interest rate determination as Somalia operates under the stipulations of Islamic banking. A reconstituted and strong CBS will be necessary to build confidence in Somalia's financial sector.

In the near term, the reintroduction of a single national currency will make it easier for the CBS to impose discipline in the financial sector. Currency reform will ultimately give the CBS control over the supply of money and enable it combat currency counterfeiting, which has been rampant. To bolster the position of the CBS, the Federal Government of Somalia (FGS) has executed a memorandum of understanding with all Federal Member States to ensure that the whole country operates under a single monetary authority.

[FGS, AfDB, IMF]

03. Debt Policy

Criteria Score: 3

3. Debt Policy

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0

Final Score	3.0
-------------	-----

Country Notes:

Somalia's public debt level has significantly reduced over the last three years, but remains in distress as explained by the IMF/World Bank Debt Sustainability Analysis (DSA) most recent analysis of May 2023 The country is on track to achieving its Heavily Indebted Poor Countries (HIPC) completion point by end of 2023. The Federal Government of Somalia (FGS) successfully cleared its arrears with the International Financial Institutions (IFIs) including AfDB and World Bank and reached the HIPC initiative Decision Point in March 2020. This paved way for Somalia to access debt relief and new development finance inflows. During the HIPC decision point in 2020, the FGS reached agreement on 14 triggers that the country needed to reach to achieve the Completion Point (CP). Consequently, the FGS reached a new IMF program arrangement under the Extended Credit Facility (ECF) to support progress towards the full debt relief at the completion point during 2020-2023.

According to the IMF fifth review of its Extended Credit Facility (ECF), during September 2023, Somalia is on track having met 13 out of 14 triggers, confirming the likelihood of country's progress towards achieving its HIPC completion point by end of December 2023[1], hence paving the way for moderate concessional financing and foreign direct investments to flow in.

The IMF estimates indicates that since reaching the HIPC decision point in 2020, the Public debt to GDP level significantly reduced from 82.9% of GDP in 2019 to 42.5% of GDP in 2022. The public debt to GDP ratio is projected to decline to 7.3% by end of 2023, largely driven by the fact that Somalia had not been contracting new external and domestic resources from 2020 to 2023. Consequently, this has led to minor economic improvements.

As of October 2023, Somalia was not yet contracting debt from external or domestic sources as its outstanding stock of debt is unsustainable and as part of its commitment to securing debt relief under the HIPC process. Since 2016, the Ministry of Finance, with the help from AfDB was able to rebuild its institutional capacity in debt management while collecting the debt data and putting in place the necessary infrastructure including the legal framework for public finance management.

The 2020 joint debt sustainability analysis conducted by the International Monetary Fund and World Bank reported that Somalia's external and public debt indicators remain in debt distress, public debt be unsustainable, and Somalia's debt-carrying capacity is classified as weak. Somalia's total public debt reached 82.9% of GDP in 2019, nearly all of which is external debt. Domestic public debt does not exist beyond the accumulation of government arrears, given the nascent state of domestic financial institutions and local capital markets. All domestic debt (1.5 percent of GDP) represents central government arrears. Nearly all of Somalia's public debt is with official creditors. Out of the total public debt of USD 5.3 billion in 2019, 58.1% and 11.2% was owed to the Paris Club and non-Paris Club members, respectively. The international financial institutions were owed 29% and 1.5% was owed to the Central Bank of Somalia (CBS).

The Debt Management Unit (DMU) has established contacts and maintains dialogue with all creditors, at both the official and technical levels to seek information and understanding on creditors' claims on Somalia; set up a computerized Somalia debt management system using the Commonwealth Secretariat's CS- DMRS debt management software. The DMU along with IMF/WB technical staff reconciled public and publicly guaranteed (PPG) external debt of Somalia with creditor claims. The reconciled debt database

was used to prepare the HIPC document of Somalia, which confirmed Somalia's eligibility for debt relief under the enhanced HIPC Initiative. The initial capacitating of the DMU was also instrumental in the drafting PFM regulation which entails responsibilities and roles of the Public Financial Management.

The Debt Management Unit (DMU) at the Somalia Ministry of Finance is completely funded by AfDB under three phases of the 'Institutional Support for Economic Governance Project (ISEGP)'. The total expenditure of the DMU by the AfDB highlighted below:

- 2019-2022 UA 1,145,000 – project closed. (ISEGP I)
- 2023-2024 UA 486,872 – project is ongoing, (ISEGP II), Institutional Support.
- 2025-2026 UA 929,989 – project is in the pipeline (ISEGP III). The sustainability and risks to the DMU in the future was discussed with the authorities during the appraisal of this project. The plan is for Somalia to take full responsibility for DMU beyond 2026. The gradual phasing out plan has to start by next year by recruiting/ assigning government staff to the Unit. A training budget is allocated for this purpose under this project.

The AfDB financing for the DMU entailed:

- TA support to enhance the DMU capacity on: (i) collecting, recording, managing and reconciliation of domestic arrears and external debt; (ii) developing a Medium-Term Debt Management Strategy; (iii) developing public debt procedure manual; and (iv) enhancing debt statistics, recording, and reporting for better transparency.
- Establish the legal and institutional framework for debt management operations through provision of TA services.
- Support training and skills development to staff of the DMU.
- Purchase of ICT infrastructure including the new cloud-based Commonwealth Meridian System and ICT equipment to support debt recording and management functions.

Since 2021, several debt related key achievements were registered from 2021 including: (i) installation of a new debt management system—the Meridian, which is a web-based tool that monitors transactions and conducts in-depth debt analysis in a way that supports long-term debt sustainability; (ii) The FGS DMU team, continued supporting the MOF in compiling and analyzing relevant debt information necessary for propelling Somalia towards the HIPC completion point planned to be reached in March 2023; (iii) the DMU continued compiling and disseminating monthly debt reports to key stakeholders and produced a maiden debt quarterly report in March 2021; and (iv) the Unit also drafted a strategy paper to guide engagements with Somalia's Non-Paris Club and Multilateral creditors regarding debt reduction and forgiveness.

In early 2020, Somalia cleared arrears to the IFI's (AfDB, IMF & WBG) with the assistance from the international partners followed by an agreement with the Paris Club creditors for an immediate non-ODA debt cancelation of US\$1.4 billion and restructuring of its external public debt. So far, engagements with

the respective bilateral creditors including UK, Norway, Spain, USA, Denmark and France have been undertaken resulting in signed debt restructuring agreements with USA and Spain. This process is ongoing and the AfDB, through the African Legal Support Facility (ALSF) is providing technical support on debt negotiations with creditors.

In 2019, Somalia engaged debt restructuring experts to advise on terms consistent with the HIPC initiative. Reaching Decision Point under HIPC paved the way for Somalia to reduce its debt from US\$5.2 billion at end-2018 to US\$557 million in net present value terms (NPV) once it reaches the HIPC Completion Point in 2023/24 if it maintains the reform momentum as stipulated under the IMF Extended Credit Facility program currently under implementation. This will leave Somalia with a debt-to-GDP ratio of about 9%. Implementation of the ECF is continuing despite the political challenges but a formal assessment of progress made so far will only be undertaken after the conclusion of the ongoing elections and a new government is in place. Should the conclusion of the elections be delayed beyond February 2022, it will become increasingly difficult to continue with the current ECF and thus could delay reaching the HIPC completion point.

[FGS, AfDB, World Bank, IMF]

[1]

(B) Structural Policy

Cluster Score: 2

04. Policies and Institutions for Economic Cooperation, RI and Trade

Criteria Score: 2

4.a. Regional Integration and Economic Cooperation

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

4.b. Trade restrictiveness

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

Somalia has ratified agreements and policies to guide regional trade, integration and cooperation. Somalia is a member of World Custom Organization (WCO), COMESA, AfCFTA, MIGA, Indian Ocean Tuna Commission, party of Washington convention - ICSID, and United Nations Commission for International Trade Law ("UNCITRAL"). Local traders who previously had taken advantage of the absence of state control at the height of the Somali conflict are gradually being subjected to formal trading requirements and the process of state building gathers momentum. Individual states, until 2019, maintained their own trade regimes with differential trade taxes and thus effectively competing among themselves to attract merchandise. The Customs Tariff Schedule 2020 suggests low trade restrictiveness in terms of tariffs, with the average tariff rate standing at about 30%. Agricultural and agro-processed products generally face tariffs ranging from 5% to 25%, with a higher tariff of 35% for dairy products, rice, wheat and cereal flours. Tariffs on industrial products (chemicals etc) are relatively low at mostly 5%. Tariffs for motor vehicles average about 25%. Non-tariff barriers are a major challenge. These include inefficiencies in clearance of goods, various official and non-official charges separate from customs duties, higher insurance costs due to piracy. As a member of COMESA, Somalia applies the common external on trade.

An EU-funded study on Support to the Horn of Africa Initiative on Regional Integration and Economic Development, released in November 2020, found that the incidence of Non-Tariff Barriers (NTBs) in countries like Somalia is particularly high and this presents a serious challenge to regional trade and integration in this region. In many instances, these are not clearly identified due to absence of appropriate dialogue and consultation mechanisms between governments and private stakeholders in the HoA countries on one hand and, on the other hand, because of the limited coordination between countries in the region to address NTBs effectively. Key NTBs include insecurity, unofficial taxes, high transport and insurance costs due to the poor quality of road and port infrastructure as well as incidence of piracy. To further illustrate this point, an October 2020 report by the Mogadishu-based think tank Hiraal Institute contends that Somali insurgent group al Shabaab collects almost as much tax as the government (an estimated US\$15 million per month) through a sophisticated system of levies on activities, including, trade taxes imposed on all shipping containers.

Somalia's tax revenue from exports is a mere 0.13% of total trade revenue, and this is largely levied on charcoal exports to discourage such an activity given the negative environmental impacts. The high security risks the country faces is a major non-tariff barrier. In 2020, Somalia banned imports of Khat from Kenya in basis of trying to curb the spread of COVID and this ban was only lifted in 2021.

[International Trade Center; World Bank, AfDB, FGS]

Somalia is a member of World Custom Organization (WCO), COMESA, AfCFTA, MIGA, Indian Ocean Tuna Commission, party of Washington convention - ICSID, and United Nations Commission for International Trade Law ("UNCITRAL"). . Local traders who previously had taken advantage of the absence of state control at the height of the Somali conflict are gradually being subjected to formal trading requirements and the process of state building gathers momentum. Individual states, until 2019, maintained their own trade regimes with differential trade taxes and thus effectively competing among themselves to attract merchandise. The Customs Tariff Schedule 2020 suggests low trade restrictiveness in terms of tariffs, with the average tariff rate standing at about 30%. Agricultural and agro-processed products generally face tariffs ranging from 5% to 25%, with a higher tariff of 35% for dairy products, rice, wheat and cereal flours. Tariffs on industrial products (chemicals etc) are relatively low at mostly 5%. Tariffs for motor vehicles average about 25%. Non-tariff barriers are a major challenge. These include inefficiencies in clearance of goods, various official and non-official charges separate from customs duties, higher insurance costs due to piracy. As a member of COMESA, Somalia applies the common external on trade. An EU-funded study on Support to the Horn of Africa Initiative on Regional Integration and Economic Development, released in November 2020, found that the incidence of Non-Tariff Barriers (NTBs) in countries like Somalia is particularly high and this presents a serious challenge to regional trade and integration in this region. In many instances, these are not clearly identified due to absence of appropriate dialogue and consultation mechanisms between governments and private stakeholders in the HoA countries on one hand and, on the other hand, because of the limited coordination between countries in the region to address NTBs effectively. Key NTBs include insecurity, unofficial taxes, high transport and insurance costs due to the poor quality of road and port infrastructure as well as incidence of piracy. To further illustrate this point, an October 2020 report by the Mogadishu-based think tank Hiraal Institute contends that Somali insurgent group al Shabaab collects almost as much tax as the government (an estimated US\$15 million per month) through a sophisticated system of levies on activities, including, trade taxes imposed on all shipping containers. Somalia's tax revenue from exports is a mere 0.13% of total trade revenue, and this is largely levied on charcoal exports to discourage such an activity given the negative environmental impacts. The high security risks the country faces is a major not-tariff barrier. In 2020, Somalia banned imports of Khat from Kenya in basis of trying to curb the spread of COVID and this bans was only lifted in 2021. [International Trade Center; World Bank, AfDB, FGS]

4.c. Customs/trade facilitation

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

Trade facilitation and customs reforms are critical in terms of revenue generation from trade taxes and to enable the efficient and competitive movement of goods.

According to the World Bank's Logistics Performance index (LPI) 2023, Somalia is ranked 137 out of 139 countries, with a low score of 2, this is an improvement from being the lowest in the region with a score of 2.21 in 2018, and a further improvement from 1.8 recorded in 2016. The score ranges between 1 - 5 (5 being the best performance). Somalia's performance in all indicators (customs systems, infrastructure, timeliness, tracking & tracing, logistics competence and international shipments) has improved from its previous scores. Improvements that have been introduced since 2018 include the following:

1. Automation of the Somali Customs Declaration System with support from initiatives like the Bank's Economic and Financial Reforms Support Programme (EFRSP) (2020-2021). This system allows for, among other things, ex-ante electronic declarations and manifests for goods moving through the Port of Mogadishu even before the cargo arrives at the port with level of hierarchy of regulatory framework
2. Publication of information on trade-clearing procedures and formalities improved processes by clearing agencies.
3. Physical inspection is undertaken with urgency to speed up the processing of goods
4. Risk Management Unit under the Customs Department of the Ministry of Finance was established in 2019 for customs physical inspection.

There is a manual framework of trade clearing procedure or flow chart in customs clearing procedure.

5. Customs (seaport and Airport) have utilized IT system for all activities from the arrival of vessel up to departure of goods and there is manual signature with payment of tax duties at the Central Bank of Somalia (CBS)

The automation and elimination of discretionary measures has slightly reduced corruption and mismanagement. With support from WCO and development partners, and under the Customs Reform and Trade Enhancement Somalia (CRATES) project (2018-2022), Somali Customs has worked towards implementation of the Harmonized System (HS 2017) Convention for ad valorem tariff schedules. The HS Code has been implemented at key ports of Bossaso, Kismayo, and Mogadishu as well as the introduction of SOMSAD (a digital customs declaration platform) in four other customs ports which are Garowe airport, Bossaso port, Kismayo's both air and seaport. These incremental measures continue to enhance trade facilitation in the country. However, the processes of legislative, regulatory reform and institutional capacity building are far from complete. The development of an integrated tax administration system remains on-going as part of overall improved public financial management capacity with support from the Bank's Economic and Financial Governance Institutional Support Project (EFGISP) Phase II (2018-2022) and similar initiatives. Over time, a strengthened customs administration can ensure improved domestic revenue mobilization, compliance, risk management; anti-smuggling; post-clearance audit; and intelligence; investigation, valuation and declaration. A critical next step for the FGS would be the establishment of an Electronic Single Window (ESW) to manage imports and exports. The future

development of inter-modal transport and logistics services also requires the FGS to address the problem of warehousing goods at the port and to develop a system to regulate and expand public and private bonded warehouses. Warehousing is key to the logistics services value chain and involves cargo handling, storage, packing, freight consolidation, documentation and distribution.

In addition, Somalia is perceived to face a high corruption level. During 2022, the country's ranked declined to the 180th position out of 180 countries on the corruption perception index. This shows that the country is failing to contain corruption. This score of 180 in 2022 is a deterioration compared to 2020 when Somalia was ranked 179th out of 180.

In Somalia, international trade are the main source of government revenues. It is for this reason that address fragmentation among the customs operations towards a harmonized national customs administration the World Bank's Global Tax Program (GTP), has been supporting customs reform since 2019.

In 2020, Somalia established a National Trade Facilitation Committee (NTFC) to help streamline controls and procedures related to customs, transit and clearance of goods. Membership of the NTFC includes various line ministries and agencies covering industry and commerce, agriculture and fisheries, ports and marine transport, finance (customs department), telecommunications and the Office of the Prime Minister. The NTFC is expected to make important contributions on trade facilitation in Somalia's on-going WTO accession negotiations, and to work on adoption and alignment with the WTO Trade Facilitation Agreement. In September 2021, the MoCI also launched the Somalia Trade Information Portal (STIP), offering a one-stop centre for international trade-related information, licensing permits and compliance with trade regulations. This will help to improve transparency of the country's business environment and contribute to the efficiency of trade logistics. Other EAC partner states (with the exception of South Sudan) have similar portals.

Through the Inter-governmental Finance Ministers Forum, Somalia is moving towards harmonization of the customs rules and regulations as well as an integrated tax administration system (ITAS). Once concluded, the country will have a uniform customs regime and thus simplify trading activities. A major reform challenge has been to shift from a customs valuation system based on counting physical goods (Loor wayn and loor yar system) towards an ad valorem tariff system based on value of the goods using commercial invoices or imputed value. The Somalia Public Financial Management Roadmap Action Plan (2021-2024) identifies measures to improve both internal and external controls such as plans to implement the Customs Administration System (CAS) IT system at Mogadishu, Bosaso and Kismayo ports. This will include common goods classification, customs practices and procedures and valuation of goods. The FGS Budget documents for 2023 indicate that efforts to harmonize tax systems and revenue distribution are on-going as part of the HIPC completion process. This includes reforms to adopt and apply a single import duty tariff schedule at all ports through implementation of harmonized HS codes and ad valorem tariff which is being rolled out in a pilot phase at Bossaso, Kismayo and Mogadishu ports.

Other measures include a functional review of FGS customs to better allocate human resources in customs and develop and implementing an improved harmonized organization for Somali Customs service (scheduled for 2022), preparation of draft regulations to support implementation of the Customs Act 2020, improved regulation through implementation of the Customs Brokers Licensing Regime, and the implementation of risk management procedures and risk-based cargo interventions within the CAS.

[FGS, Budget Strategy document 2023, Somalia Development and Reconstruction Facility Reports, Pillar Working Groups Reports, World Bank Performance Logistics Index 2023

(<https://lpi.worldbank.org/international/global#:~:text=The%20LPI%20is%20an%20interactive,for%20comparisons%20across%20countries>)
Corruption perception Index (<https://www.transparency.org/en/countries/somalia>)

Taxes on international trade are the main source of government revenues and amounted to US\$109million in 2022 and 2021, up from US\$ 91.1million in 2020, up from US\$107.3 million in 2018. The country has steadily increased domestic revenues since 2012 (except in 2020 due to COVID 19) and is targeting a 15 percent tax to gross domestic product (GDP) ratio in the medium to long term. Notwithstanding this progress, tax revenues in Somalia are still relatively low by international standards and among the lowest in Africa, at 4.4 percent of GDP. Since 2019, the Somalia Customs Support Project, funded by the World Bank's Global Tax Program (GTP), is helping the country develop its national customs administration with increased capacity for tax collection and strengthened institutions for intergovernmental coordination. It is also seeking to help address fragmentation among the customs operations towards a harmonized national customs administration. In 2022, the project worked to develop a Medium-Term Revenue Strategy, the impact of which remains to be seen. In 2020, Somalia established a National Trade Facilitation Committee (NTFC) to help streamline controls and procedures related to customs, transit and clearance of goods. Membership of the NTFC includes various line ministries and agencies covering industry and commerce, agriculture and fisheries, ports and marine transport, finance (customs department), telecommunications and the Office of the Prime Minister. The NTFC is expected to make important contributions on trade facilitation in Somalia's on-going WTO accession negotiations, and to work on adoption and alignment with the WTO Trade Facilitation Agreement. In September 2021, the MoCI also launched the Somalia Trade Information Portal (STIP), offering a one-stop centre for international trade-related information, licensing permits and compliance with trade regulations. This will help to improve transparency of the country's business environment and contribute to the efficiency of trade logistics. Other EAC partner states (with the exception of South Sudan) have similar portals. Through the Inter-governmental Finance Ministers Forum, Somalia is moving towards harmonization of the customs rules and regulations as well as an integrated tax administration system (ITAS). Once concluded, the country will have a uniform customs regime and thus simplify trading activities. A major reform challenge has been to shift from a customs valuation system based on counting physical goods (Loor wayn and loor yar system) towards an *ad valorem* tariff system based on value of the goods using commercial invoices or imputed value. The Somalia Public Financial Management Roadmap Action Plan (2021-2024) identifies measures to improve both internal and external controls such as plans to implement the Customs Administration System (CAS) IT system at Mogadishu, Bosaso and Kismayo ports. This will include common goods classification, customs practices and procedures and valuation of goods. The FGS Budget documents for 2023 indicate that efforts to harmonize tax systems and revenue distribution are on-going as part of the HIPC completion process. This includes reforms to adopt and apply a single import duty tariff schedule at all ports through implementation of harmonized HS codes and ad valorem tariff which is being rolled out in a pilot phase at Bossaso, Kismayo and Mogadishu ports. Other measures include a functional review of FGS customs to better allocate human resources in customs and develop and implementing an improved harmonized organization for Somali Customs service (scheduled for 2022), preparation of draft regulations to support implementation of the Customs Act 2020, improved regulation through implementation of the Customs Brokers Licensing Regime, and the implementation of risk management procedures and risk-based cargo interventions within the CAS. According to the World Bank's Logistics Performance index (LPI), Somalia is ranked lowest in the region with a score of 2.21 in 2018 an improvement from 1.8 recorded in 2016. The score ranges between 1 - 5 (5 being the best performance). Somalia's performance in all indicators (customs systems, infrastructure, timeliness, tracking & tracing, logistics competence and international shipments) has improved from its previous scores. Improvements that have been introduced since 2018 include the following: The automation and elimination of discretionary measures has slightly reduced

corruption and mismanagement. With support from WCO and development partners, and under the Customs Reform and Trade Enhancement Somalia (CRATES) project (2018-2022), Somali Customs has worked towards implementation of the Harmonized System (HS 2017) Convention for *ad valorem* tariff schedules. The HS Code has been implemented at key ports of Bossaso, Kismayo, and Mogadishu as well as the introduction of SOMSAD (a digital customs declaration platform) in four other customs ports which are Garowe airport, Bossaso port, Kismayo's both air and seaport. These incremental measures continue to enhance trade facilitation in the country. However, the processes of legislative, regulatory reform and institutional capacity building are far from complete. The development of an integrated tax administration system remains on-going as part of overall improved public financial management capacity with support from the Bank's Economic and Financial Governance Institutional Support Project (EFGISP) Phase II (2018-2022) and similar initiatives. Over time, a strengthened customs administration can ensure improved domestic revenue mobilization, compliance, risk management; anti-smuggling; post-clearance audit; and intelligence; investigation, valuation and declaration. A critical next step for the FGS would be the establishment of an Electronic Single Window (ESW) to manage imports and exports. The future development of inter-modal transport and logistics services also requires the FGS to address the problem of warehousing goods at the port and to develop a system to regulate and expand public and private bonded warehouses. Warehousing is key to the logistics services value chain and involves cargo handling, storage, packing, freight consolidation, documentation and distribution. In addition, Somalia is perceived to face a high corruption level. During 2022, the country's rank declined to the 180th position out of 180 countries on the corruption perception index. This shows that the country is failing to contain corruption. This score of 180 in 2022 is a deterioration compared to 2020 when Somalia was ranked 179th out of 180. [FGS, Budget Strategy document 2023, Somalia Development and Reconstruction Facility Reports, Pillar Working Groups Reports, World Bank]

1. Automation of the Somali Customs Declaration System with support from initiatives like the Bank's Economic and Financial Reforms Support Programme (EFRSP) (2020-2021). This system allows for, among other things, ex-ante electronic declarations and manifests for goods moving through the Port of Mogadishu even before the cargo arrives at the port with level of hierarchy of regulatory framework
2. Publication of information on trade-clearing procedures and formalities improved processes by clearing agencies.
3. Physical inspection is undertaken with urgency to speed up the processing of goods
4. Risk Management Unit under the Customs Department of the Ministry of Finance was established in 2019 for customs physical inspection.
5. There is a manual framework of trade clearing procedure or flow chart in customs clearing procedure.
6. Customs (seaport and Airport) have utilized IT system for all activities from the arrival of vessel up to departure of goods and there is manual signature with payment of tax duties at the Central Bank of Somalia (CBS)

05. Financial Sector Development

Criteria Score: 1.833

5.a. Financial stability

Score Type	Value
Draft Score	1.5
Reviewed Score	1.5
Second Draft Score	1.5
Final Score	1.5

Country Notes:

The universal banking model has allowed the commercial banks in Somalia to have subsidiary units for MTBs, mobile money operations, and insurance. The general lack of the unified national ID for the country has formed part of the reasons for financial sectors' loss of its correspondent banking credentials with established foreign banks. Somalia commercial banks and MTBs have been denied access to international payments clearing systems for fear of flouting anti-money laundering (AML) and countering the financing of terrorism (CFT) frameworks, given the absence of the national ID, CBS has introduced AML/CFT Regulation for the financial sector in 2019, a specific guidance on Know your Customer and Customer Due Diligence for commercial banks, and adopted AML/CFT screening database on the National Payment System to secure the transactions of interbank payments. FRC on the other side introduced GoAML for the regulated financial sector. Consequently, local banks are compelled to transport large amounts of physical banknotes from abroad to meet the needs of their clients, though formalization of the banking sector has evidenced an increase in the TT transfers through banks since 2019. On the advent of the COVID-19, bans on flights resulted in Somalia's financial system running out of cash, reflecting the vulnerability of the sector.

The recent establishment of the Financial Reporting Centre (FRC) has been instrumental in beginning to address these challenges. It serves as the national agency responsible for all issues pertaining to money laundering and terrorist financing. It is mandated to receive, request, analyse and disseminate relevant information concerning these matters. The FRC procured physical and IT infrastructure, including a new IT system (go-AML), while also acquiring appropriate human and institutional capacity strengthening. Further, the FRC provides AML/CFT regulation and issuing AML/CFT compliance and risk assessment manuals and guidance notes for commercial banks and MTBs on these issues. In addition, CBS has drawn up guidelines on financial reporting and accounting standards, while a governance framework for Islamic banking is being developed.

As part of wider reforms to redefine the structure, role and the responsibility of CBS In the same year, the Financial Institutions law (FIL) was passed, which laid the foundation of the legal framework for the financial sector and from which nine (9) regulations have since been drafted.

Somali's financial system is regulated by the Central Bank of Somalia, which derives such authority from the Central Bank Act of 2012 and comprises of Commercial Banks, Money transfer businesses (MTBs), and Mobile Money Operators (MMOs). The banking and money transfer businesses dominate the financial system that is considered sound and resilient. Currently, the banking system has 13 operators, 14 MTBs and 4 MMOs. The MTBs have a global network of operators located in 40 countries and the US is the origin of most of Somalia's remittances.

Somalia's financial sector has limited integration with regional and international financial system, shields it from regional financial shocks but is also the reason of its limited scope, size and structure. From 2016 to 2022, total assets of Somalia's banking sector grew by 524%. Customer deposits grew at an annual rate of 27% from 2016 to 2022. The increase in bank deposits over the years points to the increasing public confidence in Somalia's formal banking sector. Further, the banking sector is relatively well capitalized, with Liquid Asset Ratio of 52%. In addition, Liquid asset to deposits ratio = % were estimated to be at 65% as at end-December 2022.. Despite the emergence of cash shortages following bans on flights in 2020 due to COVID19, the sector has shown remarkable resilience to significant financial stress, and system-wide episodes of stress have been absent.

As both the banking sector assets and credit to the private sector is growing, the financial sector remains stable with non-performing loans estimated at only 0.6% in Dec 2022.

The regulatory framework consists of three overriding laws - namely, the Central Bank Act 2012, the Financial Institutions Act 2012, and the AML/CFT Act 2016. Based on these laws, there are a set of derived regulations and guidelines (9 regulations and 2 guidelines for commercial banks, 5 regulations for MTBs, 1 regulation for mobile money, and 1 AML/CFT regulation for Financial Institutions (Sectorial guidelines and guidance are on the pipeline). Further legal framework still need to be strengthened by enacting the Revised Financial Institutions Bill 2023, National Payments Bill 2023, and Insurance Bill 2023 . Furthermore, there is need to need to expand the legal framework to include laws that govern foreign exchange, the capital market, and the pension sector, and the National Institutions Bill requires strengthening to enhance the role of the CBS in the approval of major investments, among others. Similarly, the mobile money Regulation, as amended 2020 should consider that trust account balances earn interest. With support from international partners, the CBS regularly conducts: 1) various financial sector outreach activities to promote adherence to existing regulations through training, consultation and guidance activities, 2) periodic and thorough re-licensing, off-site and on-site assessments for compliance to the regulations.

The compliance issues relate to performance of banks and risk exposure with reference to capital adequacy, asset quality, management, earnings, liquidity, and sensitivity to market risk as part of the implementation of the CAMELS model. In additions, on-site examinations including AML/CFT compliance are also assessed. The UN, however, recently raised non-compliance issues regarding suspected payments to Al Shabaab accounts against the normal KYC requirements.

5.b. Sector's efficiency, depth, and resource mobilization strength

Score Type	Value
Draft Score	2.0

Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

The main impediments on access to finance include limited contract enforcement, lack of a central collateral registry and inadequately organized private sector. Access to funds remains a challenge, banking services are limited to urban areas, total sector assets are equivalent to 9% of GDP and credit to private sector is about 3% of GDP.

The financial sector, although an important facet of Somali life, it remains underdeveloped and having limited financial resource mobilization as most transactions only facilitate movement of money and day-to-day payments. In 2019, only 14% of adults had savings accounts with formal institutions compared to 9% of adults using community groups.

For the financial and business sector to effectively deliver its services there is need for the realization that Somalia is principally made up of small businesses. Thus, regulatory mechanisms would need to be tailored to meet the needs of SMEs. In 2019, a new facility (Gargaara) was launched, with World Bank support, to enhance access to credit by micro, small and medium-sized enterprises. In addition, as part of the FGS' response to the COVID-19 pandemic, USD5 million was provided to enhance credit availability to the SME sector. The Nordic Fund has particularly trialed financial instruments, within the context of Shuraako but a comprehensive assessment of the approach is still to made.

From 2016 to 2022, total assets of Somalia's banking sector grew by 524%. Customer deposits grew at an annual rate of 27% from 2016 to 2022, [1] The increase [KG1] in bank deposits over the years points to the increasing public confidence in Somalia's formal banking sector. It should also be noted that commercial bank credit to the private sector stood at US\$197 million in August 2020 up from US\$161.4 million in 2018. (source: <https://mof.gov.so/sites/default/files/2021-01/Gargaara%20CEO%20TOR.docx>) Please report data on ROA and ROE ratios, if available.

Further, the banking sector is relatively well capitalized, with Liquid Asset Ratio of 52% In addition, Liquid asset to deposits ratio = % were estimated to be at 65% as at end-December 2022.

1.5

[KG1] It can also be noted that commercial bank credit to the private sector stood at US\$197 million in August 2020 up from US\$161.4 million in 2018. (source: <https://mof.gov.so/sites/default/files/2021-01/Gargaara%20CEO%20TOR.docx>) Please report data on ROA and ROE ratios, if available.

5.c. Access to financial services

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

Although from a low base, Somalia's formal financial sector has been growing rapidly. The penetration rate of banking services is now estimated at about 15.5% of the Somali population, although access to mobile banking services is about 73%. Total banking assets tripled (in nominal USD terms) between 2016 and 2020 to USD604 million (9% of GDP), depicting increasing confidence in the sector and economy. Credit to the private sector has grown at an average of 45% annually since mid-2010s, but businesses, especially small-scale ones, still depend mainly on private (informal sector) money lenders to meet their needs. The credit expansion is also attributed to commercial banks venturing into microfinancing. However, credit to the private sector is estimated to represent only 7% of total credit demand.

Remittance inflows (20% of GDP) are significant. The use of Mobile Money to conduct cross-border transfers is growing and many Somalis hold savings in mobile money, in addition to traditional savings in banks. The increased availability and popularity of mobile phones in Somalia has also led to the development of other mobile money services. The 2019 Global Financial Inclusion Survey indicates about 31% of adult Somalis have an account with a formal institution and one of the most vibrant mobile money markets. The percentage of women using formal financial channels stand at about 27%. Mobile money services are common for their day-to-day operations, for investment and business opportunities and to insure against basic risks.

The Somali Core Economic Institutions and Opportunities (SCORE) Program of the World Bank continues to support the building of the foundations for financial sector development. This work which started in 2015, with the establishment of a Special Task Force (i.e. the Somalia Remittances Stakeholder Advisory Council – SRSAC) ensured a more coordinated approach with all donors involved in sustaining the flows of remittances. SRSAC is currently co-chaired by the Governor of the Central Bank of Somalia (CBS) and the World Bank, and meets regularly to discuss issues concerning the flow of remittances.

[DFID, World Bank, IMF]

06. Business Regulatory Environment

Criteria Score: 2.167

6.a. Regulations affecting entry, exit, and competition

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5
Final Score	2.5

Country Notes:

The Somali government welcomes and is making efforts to attract foreign direct investment. **However, the current investment climate is still characterized by considerable risks for foreign investors while domestic investment is limited due to low savings. Somalia does not have a private sector development or an SME policy, neither does it have a dedicated SME strategy.** However, Pillar 3 of the NDP-9, "Economic development" entails strategies and interventions that accelerate inclusive growth across the sectors of the economy, with particular emphasis on creating opportunities for women and young people". This is described in the development plan as "rehabilitate and expand infrastructure; improve resilience of food production systems; diversify the economy; strengthen natural resource management; create an enabling environment for economic growth and promote international trade." All of which implies the interest of the Federal Government of Somalia (FGS) to develop and provide support to the private sector.

The private sector in Somalia has for several decades proven to be extremely resilient and able to withstand the shocks of conflict and natural disasters. Despite this resilience, the business enabling environment is challenged with a lack of regulatory framework, effective government oversight for key economic activities, and a volatile security situation which hinders growth of the existing investments. It is considered that the private sector is more stable than the government is, with respect to self-regulation and governance. Informal economic activities are common outside the big towns and cities under the control of Somali authorities although effort to increase business formalization are under way. While the legal framework for the safety of investments exist confidence in the judiciary, enforceability of property rights and arbitration and dispute resolution processes does not exist yet.

There are few bans on investment, but the licensing requirements for many activities are complex. The government has been recently putting in efforts to enhance investment laws, restructure and simplify business registration processes, as well as set up an efficient tax system. The legal framework to address anti-competitive conduct by firms exists, but there is enforcement is neither systematic nor effective. Public sector entities are not formally required to purchase exclusively from state firms, but there is widespread implicit pressure to do so. The 2019 Companies Law transformed business licensing by enabling businesses to register once from any of the member states of Somalia. Regulations to implement the law were issued by the Ministry of Commerce and Industry Ministerial Decree. Complementary laws such as the Investment law (2015), PFM Law (2019), Bureau of Standards Act (2019) and the automated Business Registration System and rehabilitation of One-Stop-Shop Center that became operational in 2021 and further improved the business environment.

The weak regulatory framework has resulted in private businesses creating their own informal approaches, with commitment mechanisms based on informal links and relations, partly based on moral

suasion. The private sector has self-managed and self-regulated itself in informal ways for nearly 32 years and this has managed to keep the economy together by sustaining the financial markets and developing digitalized forms of business. Such arrangements have the potential to raise the cost of doing business, while the contracts by the parties might not be resolved without much wrangling and even violence. The growth of the Somali economy in the past decade has created many opportunities for the private sector, while at the same time raising issues, such as those related to competition, that require state intervention.

Somalia has many associations and groups which represent the interests of private businesses in Somalia. These include the Somali National Women Organization; Nagaad Network; Somali Chamber of Commerce and Industry; Livestock Marketing Association and the Somali Fisheries Development Association. These groups can potentially play advocacy role with respect to engaging Government to support their respective interests or activities. Also, any potential private sector development intervention could be channeled through any of these groups. For example, training activities for business development support, adoption of certification processes, provision of information on financing products and application to access financing.

While informality has made it easy for Somalis in the low-income categories to do business, without much government interference, formal firms have found it quite difficult to conduct business in the country over a host of reasons including paucity of infrastructure. Laws relating to trademarks, have not been promulgated, or where they have, the impact is not yet evident. As previously noted, the lack of infrastructure and affordable credit are additional burdens. For businesses seeking to compete in regional and international markets the above impediments are considerable, with implications for business expansion, additional hiring, investment in productivity enhancements and market development. The issues of access to land have also had important implications, with the lack of clarity over land titles being a key obstacle and source of conflict, as many land parcels are communally owned. However, the existing legal and regulatory framework around land issues, in tandem with those relating to construction permits and business licenses, property rights, contract enforcement, customs administration and tax collection, is weak.

[World Bank, IFC, FAO, UNIDO, AfDB, FGS]

6.b. Regulations of ongoing business operations

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

Business regulation for ongoing business is weak and there are considerable trust and information deficits. Government is developing rules guiding the telecommunication sector. Central bank needs additional capacity and financial infrastructure.

Under the Somalia Investment Climate Reform Project, the World Bank, through the IFC is assisting the Ministry of Commerce and Industry to coordinate implementation of improved trade facilitation. The process will include modernization and improvements in transparency frameworks by prioritizing policy, regulatory, administrative and institutional changes to improve Somalia's cross border trade. The telecommunications sector, one of Somalia's most resilient and dynamic sectors, the government has started to develop rules to regulate interconnection and the operators' awareness of the need for such reforms has been developed.

In financial sector, the regulatory and supervision capacity is yet to be enhanced despite the existence of a Roadmap for Financial Sector Development. Money Transfer Operations dominate the financial sector and are especially patronized by the diaspora to send funds to their families and businesses. The Central Bank of Somalia's (CBS) mandate with respect to regulation covers MTOs, mobile money services and commercial banks. At the peak of the civil conflict, MTOs also known as hawalas, represented the financial markets in that country. Not only do they provide money transfer services to Somali diasporans, but also to humanitarian organizations that need to send money to various parts of the country. However, as the country transitions into a less conflict-affected environment, increasingly Somalis are returning home and demand for international money transfer services are decreasing. Also, MTOs are formalizing their operations and have transitioned into commercial banks and forming conglomerates, while using banking services to support their operations such as deposit wire transfer services. There are considerable trust and information deficits. Financial institutions, including the CBS require additional capacity and improved governance, and the financial infrastructure (credit information, judicial, legal) is under-developed or non-existent. Individuals and businesses report that the main obstacles to accessing credit are unfavorable terms and conditions, and insufficient collateral. At the same time, risk aversion constrains bank lending, illustrated by a highly liquid system and the need for financial infrastructure. The payments system is under-developed: MM penetration is high but lacks inter-operability; settlement and clearance of inter-bank transactions at the CBS lacks scalability; and international payments are largely transacted through MTBs that have lost or face the risk of losing correspondent banking relationships due to de-risking by international correspondent banks. The bigger banks or investment firms have a unit in the MTB sector. MTBs handle on average USD1.2 billion in monthly transactions, and mobile money usage has a penetration among households of above 70%, which is surprising for a country emerging out of conflict. However, it also epitomises the adaptability of the population in the face of serious communication constraints. The implementation of the currency reforms mentioned above, once completed, will raise the sector's efficiency, and its potential for inclusion. In 2020, Somalia faced a cash crunch as flights that were bringing in cash were banned in response to the COVID pandemic. These gaps inhibit efficient financial intermediation and robust economic growth.

[IMF, FGS, IFC, World Bank, AfDB, UN]

2.0

2.0

6.c. Regulations of factor markets (labor and land)

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

The employment regulation remains tight, as it affects formal employment. Also the Land registration is costly. The political interventions have resulted in increasing investor confidence and the gradual return of both diaspora and international humanitarian and development organizations, with increase in the value of land and property in safe neighborhoods, however, security and safety of investors remain of grave concern.

Somalia has a youth bulge which is an opportunity to develop a strong labor force to support economic activities. The youth (under 30 years) represent approximately 70 percent of the population, and the labor force is rapidly increasing. However, the majority of the youth are unemployed or unemployable because of lack of relevant skills, or underemployed due to engagement in low productive activities. Rigid employment regulations and other labor institutions depress formal employment. Labor law No. 11 of 2006 is still applicable. Processes to register property are costly. With support from the ILO, Somalia developed the National Employment Policy in 2019. The policy aims to provide sustainable employment opportunities for the Somali population by focusing on three priority areas, (i) strengthening private sector and promoting micro-small- and medium-enterprises; (ii) supporting productive economic sectors for job-creation; and (iii) strengthening labor market governance. One of the major challenges in the labor market in Somalia is the absence of a formal pension system leading to many workers reluctant to retire even when they are no longer physically fit to work, thereby impacting productivity. The absence of common labor regulations across the whole of Somalia is a challenge for investors. Somaliland and Puntland have labor laws that promote equality of employment, protects labor rights, while at the FGS level Law No.11 of 2006 is only specific to civil servants. Also, there is no equal remuneration for work of equal value and gender discrimination is applied in hiring and women do not receive 100% of wages on maternity leave.

One of the most difficult and sensitive issues of the country's long process of recovery and normalization is competing claims to land. Private land ownership is permitted with very few restrictions or distortions from property market controls, but in practice some businesses do not have formal title or use rights to land. Land ownership is still administered under the Land ownership: Law No. 41 of 13 September 1973 and does not address the emerging challenges. The control and ownership of land and property have been underlying themes in Somalia's civil conflict before the collapse of the state. The weakness of successive transitional governments, combined with low levels of political will, has meant that there has been no sustained attempt to address this most sensitive, but potentially transformative issue. As limited socio-political gains continue to be made in the country, there is a growing recognition that land and property disputes are potential obstacles to full reconciliation and normalization. The political progress of recent years, despite reversals and delays has resulted in increasing investor confidence and the gradual return of both diaspora Somalis and international humanitarian and development organizations. These developments have in turn contributed to a rapid increase in the value of land and property in neighbourhoods considered relatively safe. This rise in the value of land in Somalia has only added to the current competition for it, and to the corresponding urgency to address the land question.

Somalia has performed well on the adoption of technology. Data from the International Telecommunications Union (ITU) data show that only 12 percent of households have a computer at home, indicating relatively acceptable rates of access to internet. In terms of mobile phone subscriptions, Somalia is reported to have 56 subscriptions per 100 persons, compared to 20 subscriptions per 100 persons for South Sudan and 61 subscriptions per 100 persons for Uganda. These relatively good rankings imply that Somalia has made significant progress in the adoption of technology and has the potential to digitize its economy. Firms in the country can increase productivity through the use of virtual platforms such as websites and email communication to connect to the world and expand their operations.

[World Bank, DB Report, UN, EU, AfDB, ITU]

2.0

1.5

(C) Policies for Social Inclusion/Equity

Cluster Score: 2.147

07. Gender Equality

Criteria Score: 2.333

7.a. Promotion of equal access for men and women to human capital development opportunities

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5
Final Score	2.5

Country Notes:

Somalia remains among the lowest ranking countries for gender equality (Global Gender Gap Index is 0.56 in 2021). Gender inequality remains a significant obstacle to inclusive growth with stark disparities pronounced in socioeconomic outcomes. The low inclusivity in Somalia's economy

emanates from the wide gender disparities. Somalia's 2015 Gender Inequality Index was 0.776 (where 1 equal total gender inequality) (United Nations Development Program (UNDP, 2013) placed it fourth from the top for gender inequality globally.

Reproductive health outcomes are poor with high maternal mortality ratio of 692[1] per 100,000 births in 2021. In education, 3 out of 5 girls are presently unable to attend school, while some 75 percent of girls in IDP camps are not able to receive any form of education. The incidence of gender-based violence is estimated at 12 percent, poor access to income generation activities and social services, and inadequate legal protections at the domestic and communal levels. In 2021, 35.4% of women between 20-24 years were married or in a union before age 18, and currently there is no legalisation against it. Approximately 98% of girls between 9-15 years have undergone female genital mutilation. Adolescent birth rate is 118 per 1000 women, a reflection of the fact that only 2.1% of women have access to modern family planning.

Gender rights and equality remain critical issues in the uncertain context of Somalia, with low human development indicators, instability, and climate change. In the past several years, there have been significant efforts at state building, and fostering peace and inclusion in Somalia. Key frameworks have been developed and international partnerships forged, with gender goals high on the agenda. The country also suffers prolonged and severe drought, with famine remaining a 'looming risk'. These challenges contribute to population displacements.

What has been observed is that the weak institutional capacity relegates actions for the pursuit of gender equality to the initiative of individual ministers. Achieving gender equality and women empowerment, therefore requires support for strengthening key gender units in the different line ministries, developing gender indicators and budgets, and supporting public awareness on gender equality. This will support the country in the implementation of the National Gender Policy and in addressing the gender gaps in the different sectors which will lead to positive developmental outcomes for all. Increasing national level awareness and supporting a National Action Plan for women's empowerment will also be critical in changing attitudes towards women. Additionally, Somalia's updated Nationally Determined Contribution (NDC) Report for 2021 comprises of both mitigation and adaptation components to climate change which negatively affects women and girls at a larger scale. Based on this report, the country has made a priority to achieve sustainable development and poverty eradication while sustaining stability and peace building gender responsive resilience to climate change impacts. The key guiding principles to Somalia's NDC process include country driven linkages with national development and peace building efforts, maximizing co-benefits, gender responsiveness, conflict sensitive, inclusive, transparent, and participatory forums. This will be guided by the best conflict resolution strategies documented in literature and tried elsewhere and found to be successful with inclusive traditional and indigenous knowledge systems rooted in the strong clan-based systems of governance and customary laws. Furthermore, FGS will continue to take into consideration critical principles based on National Development Plans, National Gender Policy, Sustainable Development Goals and Gender Mainstreaming.

Several recent studies on gender inequality portray an unsettling situation for women in Somalia today, across a range of issues. International agencies, bilateral development partners, Non-governmental Organizations (NGOs), and FGS' own reports; (AfDB/UN Women, 2020; UNDP, 2013; United Kingdom Home Office, 2018), conclude that more effort is required to address gender inequality. While the patriarchal supremacy in some of these reports is similar to those from other African experiences, what is most surprising is that these wide gender disparities have persisted, even as the economy and security have improved in the past decade. The fact that the bulk of the violence exerted on women and girlchildren continues with impunity reflects poorly on the FGS' broader goal of transforming Somalia. Critical in gaining traction on gender equality is the change in cultural norms and community attitudes

towards women and girls.

Progress towards gender equality has met some real resistance from several quarters of Somali society - including religious groups. The reasons for this reticence range from viewing some of the pro-women stances as direct attacks on the country's culture, while any alternative view is considered foreign, to be frowned upon or outrightly resisted. Furthermore, Somalia is traditionally patriarchal Islamic society, Somali culture is considered socially conservative for women, with women's lives historically restricted to the 'private domain', leading to their constrained role in decision-making, and limited access to assets and resources. Yet, women have contributed significantly to peace building efforts in recent years, forging new public roles. New trends are also now visible in the political, social and economic domains. Deep rooted gender inequality therefore prevails in Somalia.

The general insecurity, and in some cases harmful religious practices and their opposition result in limited range of income-generating opportunities in which women can engage outside their homes. Even worse, the most vulnerable sections of the population are the worst affected by gender inequality. The women and girlchildren residing among internally displaced populations (IDPs) or those from already marginalized populations are more exposed to these types of violence described above compared to those in more secure and affluent parts of the country. Moreover, gender inequality remains a major challenge to social inclusion. Although women comprise 53% of the Somali population, a mixture of tradition, cultural erosion, and persistent political and economic crises have confined women to the societal periphery, with all the attendant afflictions of marginalization: poverty, gender-based violence, poor access to income generation activities and social services, and inadequate legal protections at the domestic and communal levels. Somalia's 2015 Gender Inequality Index was 0.776 (where 1 equal total gender inequality) (United Nations Development Program (UNDP) (2013) placed it fourth from the top for gender inequality globally. Somalia is among the lowest ranking countries for gender equality (Global Gender Gap Index is 0.56 in 2021). The high gender inequality is reflected in many social indicators. In 2020, the maternal mortality ratio was as high as 829 per 100,000 births in 2020 (compared to Ethiopia with half that in the same year). In education, 3 out of 5 girls are presently unable to attend school, while some 75% of girls in IDP camps are not able to receive any form of education. These inequalities in access to early education are then reflected in the progress women make for the rest of their lives. For example, a combination of poverty and lack of education has forced many girls into early marriages. In 2021, 35.4% of women between 20-24 years were married or in a union before age 18, and currently there is no legalisation against it. Approximately 98% of girls between 9-15 years have undergone female genital mutilation. Adolescent birth rate is 118 per 1000 women, a reflection of the fact that only 2.1% of women have access to modern family planning.

Whereas informality is a boon for women's participation as entrepreneurs, it has restricted them to low earning activities, thereby presenting little opportunities for escaping poverty. According to a report by UN Somalia, Gender Equality Strategy for 2018 to 2020, several gender based inequalities have been observed and documented. Protracted and new displacements of population have resulted in severe protection implications, particularly for women and girls who make up 53% of affected populations. Women and girls continue to be vulnerable to gender-based violence (GBV) and conflict related sexual violence (CRSV). The situation is further exacerbated by the ongoing conflict in parts of the country, displacements and weak justice system resulting in the impunity for the perpetrators of GBV. Of the reported GBV cases, 96% of survivors are women and girls whilst 76% are IDPs. Female genital mutilation (FGM) persists with a prevalence of 98%; whilst the prevalence of child marriages remains high with 45% of women aged 20 to 24 married before the age of 18. Women in Somalia experience higher unemployment rates than men:

74% for women and 61% for men. Despite the Somali private sector being dominated by micro, small and medium enterprises of which women are the main drivers, women have limited access to credit, technology, and information.

Women in Somalia experience higher unemployment rates than men: 74% for women and 61% for men. Despite the Somali private sector being dominated by micro, small and medium enterprises of which women are the main drivers, women have limited access to productive resources like credit, technology, and information. Access to services such as health care and education, by women and girls is disproportionately low. Somalia's maternal mortality rate is the highest in the world, at 1,600 per 100,000 live births. Literacy levels are low; only 26% of women can read and write compared to 36% for men. Women's participation in leadership and decision-making roles, in public and political spheres at all levels—national, state, local, remains low with most women in these roles lacking capacity to fully engage. Besides, clan based and strong customary laws and a leadership system at the customary level challenge the established national institutional, policy and legal frameworks through patriarchal political structures and culture. These in turn challenge prevailing insecurity and negatively affect women's ability to negotiate greater role and representation in political and policy making processes.

There are actions at the sectoral level, with potential to change gender stereotypes in the country. In infrastructure, mainstreaming gender in all policies and programmes will improve women's wellbeing and access to social and economic opportunities. For example, access to energy and roads increase women and girls' safety and security as well as their access to economic and social services. Thus, availability of water and sanitation reduce women's and girls' vulnerability. In skills and education, supporting women's skills development will increase women's representation and leadership. Similarly, women access to financial resources and digital literacy, as highlighted in the National Gender Policy, would empower them in making decisions that positively impact their households. Developing a nationwide strategy to establish women's Saving Groups such as Self-Help Groups (SHGs) or Village Savings and Lending Associations (VSLAs) which demonstrate positive impact on income will also lead to more empowered female leadership at local levels.

Women's political representation remains low, although their political participation has improved since the FGS elections FGS in 2016. Moreover, Somalia's general political and security environment is still very delicate. This insecurity limits the type of income generating activities that women can partake in outside their home. This has contributed to a certain degree to women having higher unemployment rates a 74 percent compared to 61 percent for men. Therefore, a lot of female economic activities are predominantly in self-employment.

The share of parliamentary seats held by women increased from 14% to 24% (63 out of 262). The 2019 Gender Charter proposal and parliamentary approval for a least 30% women positions in the parliament was granted. The Ministry of Women and Human Rights Development is also consulting with relevant ministries with the aim of ensuring that the Constitution, electoral law, and political party laws are gender sensitive.

[FGS, UNDP, UNICEF]

[1] <https://api.nbs.gov.so/wwwroot/mmr-graph/b246456d8c2b487aa6020af83efe7992.pdf>

7.b. Promotion of equal access for men and women to productive and economic resources

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5
Final Score	2.5

Country Notes:

Somalia developed the National Gender Policy 2014-2024 whose objectives are:

1. · Eliminate all forms of gender discrimination from Somali society
2. · Reduce gender inequalities between women and men; boys and girls to achieve sustainable livelihoods
3. · Advocate for and promote understanding of human rights of women and men. Increase women's participation in decision-making processes at all levels.
4. · Provide sets of guidelines for concrete strategies and actions to empower women and men, girls and boys. Hold government accountable to its commitment to gender equality, and;
5. · Promote positive societal beliefs, attitudes and behavioral change pertinent to achieving gender equality.

The United Nations Strategic Framework (UNSF) 2017- 2020 addresses gender equality as a cross cutting issue and aims to mainstream gender in all its five strategic priorities. The framework articulates the UN's collective commitments and actions in support of the Somali government's development priorities as outlined in the National Development Plans (NDP) 2017- 2019 and 2020-2024. The UN further developed the Somalia Gender Strategy (2018- 2020) that is aligned to the UNSF and the Humanitarian Response Plan (HRP), international conventions, global and regional normative frameworks, including the

Convention on the Elimination of All forms of Discrimination Against Women (CEDAW), the UN Security Council Resolutions on Women, Peace and Security (WPS), the Protocol to the African Charter on Human and Peoples' Rights on the Rights of Women in Africa (2003), the Sustainable Development Goals (SDGs) and the principles of the 'New Way of Working'. Respect for and protection of human rights of all Somalis—women, men and girls and boys and in all their diversity—is a precondition to achieving and sustaining peace, political stability and development in Somalia.

While the laws exists to promote equal access for men and women int he productive sectors and economic resources, alot remains to be done as some of the outcomes attained still disadvantage women. For instance, the national unemployment rate in 2022 stood at 16.3%, of which men was 14.3% and females 20.6%. Similarly, about 60% of the Somali population is illiterate with two out of three youth having no formal education, with significant disparities between urban and rural areas, and between males and females [1]. According to the 2019 Labour Force Survey (LFS), about 44.2 percent of youth (50.2 percent female youth, 37.7 percent male) are Not in employment nor education/training (NEET) and only 0.8 percent of the labour force has gone through vocational training compared to 13.4 percent and 7.4 percent for secondary and university, respectively. The destruction of the education system, including TVET, has affected enrolment capacity in the education sector and has generated skills deficit. In 2020, about 2 million youth aged 18-24, were roughly eligible for TVET and higher education (HE). However, only 103,400 students were enrolled, representing only 5 percent of the youth aged 18-24. There is no data on Somalia on wage bill, however, the labourforce participation rate is 25.9%. Women represent majority of the agricultural labourforce, but limited decision- making power, they hold little control over the land they cultivate or its products.

[1] UN, Somalia Youth Engagement & Empowerment (May 2019).

MoWHRD is currently developing one stop shop for women empowerment program in Somalia, we have initiated a program called **Dumar-Kaab**. Which has 3 pillars (Political, educational and Economic empowerment of Women in Somalia). Which is expected to benefit over 20,000 Women in Somalia.

7.c. Men and women equal status and protection under the law

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0

Country Notes:

There has not been change since the 2021 review in terms of gender equality. Generally, the Attitudes and narratives attitude towards gender equality and participation are improving in the Federal Government region with peace and state building efforts, and key frameworks including the new *Provisional Constitution (2012)*, the *National Gender Policy (NGP)* and *National Development Plan (NDP)*. The Ministry of Women and Human Rights Development (MoWHRD) has championed issues around gender inequality and there have been significant strides in legislative and policy making to mainstream and integrate gender rights and equality, including the drafting of key Bills (related to Female Genital Mutilation or Cutting (FGM/C) and Sexual Offences). The Ministry of Women and Human Rights Development recently formulated a new National Gender Policy; and a Gender Based Violence Working Group Strategy (2014-2016) was also developed to strengthen preventive measures and improve access to justice for GBV victims. In addition, the MoWHR has issued the Gender Action 2023-2025 with seven strategic priorities.

The Constitution of Somalia (2012) states at Article 4, 'After the Shari'ah, the Constitution of the Federal Republic of Somalia is the supreme law of the country.' It protects human dignity and equality under Articles 10 and 11 respectively, and, most significantly in relation to FGM, sets out under Article 15(4) that: Circumcision of girls is a cruel and degrading customary practice, and is tantamount to torture. The circumcision of girls is prohibited. Article 29(2) further provides, 'Every child has the right to be protected from mistreatment, neglect, abuse or degradation.' There is currently no national legislation in Somalia that expressly criminalizes and punishes the practice of FGM. The Penal Code, Law No. 05/19623 (the Penal Code), is applicable to all jurisdictions in Somalia (and Somaliland) and makes it a criminal offence to cause hurt to another that results in physical or mental illness.

Despite this, there is need to support critical legislation to protect against gender-based violence (GBV) and other harmful practices, increase women's access to finance and capital and improve access to better jobs, Women and girls, especially those from marginalized groups and internally displaced communities, confront challenges along the dimensions of: (i) human endowments (health and education)

Nevertheless, the Government has continued to demonstrate its commitment to protecting human rights by signing the Independent Human Rights Commission Bill, which complies with international laws and aims to meet human rights standards and norms. This move is considered an important step towards protecting and promoting the human rights of all Somalis. Other notable progress made by the FGS Ministry of Women and Human Rights Development include the ratification of the Treaty on persons with disability and adoption of the National Strategy for people living with disability, all achieved in June 2018, Approval of the Sexual Offenses Act by parliament and implementation of the Convention on the Rights of the Child. Moreover, the Female Genital Mutilation Bill is for cabinet approval, while the Government has banned this practice as it was found not to be a requirement under the Muslim faith. Cases of people who practice FGM have been brought for prosecution, but convictions have not been made as parents do not cooperate with investigations on offenders. Also, a Human Rights Commission has been approved as it is part of the institutions contained in the Somali constitution.

The FGS now recognizes several international gender and human rights frameworks and is signatory to several international conventions and treaties that provide guidance for the achievement of women's empowerment and gender equality. As a UN Member State, Somalia agrees to the 'oversight of various

UN human rights bodies, including the Human Rights Council and its Universal Periodic Review and thematic special procedures'. [i] In terms of conventions, UNDP (2014) indicated that Somalia has so far ratified three (out of the four) international bills on human rights, including the International Covenant on Economic, Social and Cultural Rights; the International Covenant on Civil and Political Rights; and the Optional Protocol to the International Covenant on Civil and Political Rights; and the African (Banjul) Charter on Human and Peoples' Rights, in 1985. It has signed but still not ratified the Protocol to the African Charter on Human and People's Rights on the Rights of Women in Africa (the Maputo Protocol). More recently, it has now ratified the Convention on the Rights of the Child (2015), and the Convention on the Rights of Persons with Disabilities (2018).

Federal Government of Somalia has accepted to commit to the implementation of Women Peace and Security Agenda and the implementation of 1325 resolution. In line with the recommendation Somalia launched its first National Action Plan 1325 on 5th of Sept 2022 for 2022-2026. The NAP also integrated the UNSCR 1325 four pillars of participation and representation, prevention, protection as well as relief and recovery.

Efforts remain at ratifying or implementing the following key gender frameworks:

1. Convention on the Elimination of all Forms of Discrimination against Women (CEDAW)
2. United Nations Security Council Resolution 1325 (UNSCR).
3. Protocol to the African Charter on Human and Peoples' Rights on the Rights of Women in Africa. In 2019, MoWHRD confirmed that they had established a CEDAW ratification advocacy committee.
4. Sexual offence bill. (Finalization stage and approval by cabinet and House of people).
5. Child right bill. (Finalization stage and approval by cabinet and House of people).
6. African charter on the right of child and welfare.
7. FGM Bill (in consultation stage).
- 8.

Apparently, there are concrete sector recommendations for accelerating the advancement of gender equality and building resilience including through formal institutions and political participation, social affairs and justice, education and human capital development, health systems strengthening, and economic growth and development (including agribusiness, enterprise, and employment). These include:

9. Promoting gender equality in institutional structures and legislation by strengthening the Constitution, approving, and implementing laws/policies, promoting gender quotas, instituting key gender units, developing gender indicators and budgets, and public awareness raising.

10. Promoting gender equality in social affairs and justice by facilitating urgent national level dialogue on SGBV, approving, and enacting key legislation (and developing new legislation where there are gaps), supporting prevention and response, and increasing community action/advocacy.
11. Promoting gender equality in education, and human capital development by the development of national campaigns to support children/girls in school (and possible subsidies, and/or free primary education), civic education, school improvement through *Child Education Committees*, vocational training through mobile units, scholarships, and ICT youth training.
12. Improving maternal health by strengthening health systems, rehabilitating health sector infrastructure; improving service delivery, implementing community outreach and national health communication campaigns.
13. Promoting gender in the economy by raising awareness of 'Women in the Economy' and exploring employment quotas; facilitating a *National Action Plan* for women's employment; and developing a nationwide strategy to establish women's Self-Help Groups (SHGs).
14. Promoting gender equality in infrastructure development by facilitating women's inclusion in road projects (through PPDP), developing legal standards, and supporting professional training in renewable energies. Community recommendations include supporting WASH projects through school development plans and facilitating solar energy products through MFI schemes.
15. Promoting gender in the environment by forming a *National Commission for the Environment* with the inclusion of women *and* developing local strategies in rangeland management.

[FGS]

[i] <https://ijrcenter.org/wp-content/uploads/2017/11/Somalia.pdf>

08. Equity of Public Resource Use

Criteria Score: 1.667

8.a. Poverty Measurement

Score Type	Value
Draft Score	1.5
Reviewed Score	1.5
Second Draft Score	1.5

Final Score	1.5
-------------	-----

Country Notes:

Poverty levels remain unacceptably high. An estimated 69 percent of the Somali population live on less than US\$ 1.90 a day. The current humanitarian crises depict the extent of poverty in the country owing to many fragility factors including the prolonged drought conditions, Al- Shabab extremist group, insecurity, and Russia's invasion of Ukraine.[1] According to the 2023 Somalia Humanitarian Response Plan (HRP) [i]about 8.25million people needed humanitarian assistance with USD 2.6 billion required to assist 7.6 million vulnerable population. Similarly, the Integrated Food Security Classification Phase for December 2022 forecasted that half of the population or 8.3million people are at risk of acute food insecurity in 2023 due to the prolonged drought

Somalia is rapidly urbanizing and, according to the 2017-2018 Somalia High Frequency Survey (SHFS), 40% of the population resides in urban areas, while nomadic pastoralists make up 26% and agro-pastoralist communities 23%. Population growth is about 2.9%, with fertility rate 6.7 births per woman. In 2021, 2.9 million people in Somalia (19%) of the population were displaced due to conflict and climate-related conditions. In addition, some 877,000 Somali refugees live in neighboring countries, making them one of the largest refugee populations in the world.

The 2017/2018 SHFS, uses monetary poverty due to lack of data in applying the HDI measure of poverty. The underlying assumption is that people need at least a certain level of income to afford basic living standards such as being nourished, having access to health and basic education.

Based on this measurement of poverty, the 2017-2018 SHFS revealed that 77% of Somalis currently live below the international poverty line of US\$1.90 per capita, per day (2011 PPP), which is the third highest in the region after South Sudan and Burundi, with per capita gross (GDP) of US\$535. Using the Gross National Income measure, Somalia's per capita income is reported to be USD270. With COVID -19 having reduced growth during the 2020-2021 period, prospects for substantial poverty reduction envisaged under the country's Nineth National Development Plan (NDP-9, 2020-2024), which is also the interim Poverty Reduction Strategy Paper, have receded. In 2020, the economy contracted by 0.3% and growth for 2021 and 2022 is likely to be below the projected at 2.9% and 3.2%, respectively. The effect is likely that poverty has increased posing serious challenges to realizing the development and poverty reduction as envisaged under NDP-9.

[FGS, UNDP, World Bank]

[1]Agreed wording at the African Development Bank Annual Meetings 2022 in Ghana. Algeria, China, Egypt, Eswatini, Namibia, Nigeria, and South Africa entered a reservation and proposed "Russia-Ukraine Conflict."

[i] <https://reliefweb.int/report/somalia/somalia-humanitarian-response-plan-february-2023>), accessed

8.b. Public Expenditures: Priorities and strategies

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

The NDP-9 focuses on poverty reduction and there is an expressed goal allocating more resources to poverty reducing expenditures that would enhance economic opportunities to all Somalis while providing safety nets to the disadvantaged populations. Critical in achieving this objective is economic growth.

While budgetary allocations to the capital budget and social sectors has increased as a proportion of total the social sector spending largely depends on donor support. During 2021 and 2022 social sector spending fell below budgeted where only 45% was disbursed owing to Donor Budget Support cuts over delayed Presidential elections. In 2020, USD 149 million was budgeted for social sector, reducing to USD 109million in 2021, and doubling to USD 324million in the 2022 budget. In terms of the distribution of social spending, the largest budget goes to labour and social affairs.

The dominant expenditure components accounting for 69% of total expenditures as of June 2021 compared to 77% for the whole of 2020. While reaching decision point under HIPC in 2020 and the response to COVID-19 resulted in increased inflows of donor support, in 2021 (Q1) revenues amounted to 45% of budgeted amount. This has resulted in an almost 50% cut in expenditures thereby reducing the absolute amounts compared to 2020. Government's priority is to gradually increase the coverage of operating costs by domestic revenues to 100% from the 2018 and 2019 levels of 74% and 77%, respectively. In 2019, the employee compensation allocation rose to 52%. Given the FGS budget strategy in recent years has been guided by fiscal targets with the broad objective of putting Somalia on a path to fiscal sustainability, including the need to maintain zero-cash fiscal balances, the fall in revenues has meant reduced actual allocations to poverty reducing expenditures as the government exercised austerity across all expenditure components.

[IMF, World Bank, EU, UNDP]

8.c. Regressive Tax

Score Type	Value
Draft Score	1.5
Reviewed Score	1.5
Second Draft Score	1.5
Final Score	1.5

Country Notes:

Somalia's domestic revenue mobilization relies heavily on international trade taxes that contributed about 70.5% and 60.4% to total revenue in 2021/2018 and 2022/2019, respectively. While the share trade taxes, including import taxes on khat, decreased to 44% in 2022 from USD 3 to USD 4 per kilogram, the second main contributor to domestic revenue, general sales tax, remained unchanged at about 24.9% and 33% in 2021/2018 and 2019/2022 rose to 34% in 2020 respectively. This tax structure is contrary to the objective of attaining a progressive tax system in the near future. At the FGS level, the bulk of revenues come from the Mogadishu Airport and Port. Corporate and other forms of income tax that were almost non-existent for a long time are beginning to be a significant contributor to revenues. In 2020, corporate taxes accounted for 6.4% of total revenue but remain low due to widespread insecurity and limited formal activity have constrained the capacity of Government to generate revenues from these sources. Considering that the tax system is biased toward trade, such costs are normally passed on to consumers regardless of their income status. As such it could be inferred that Somalia runs a regressive tax system.

Through the IMF ECF Program and AfDB support, Somalia is currently receiving technical assistance on modernization of tax and customs policy administration. The aim of this support to ensure a more equitable tax system that is supportive of development objectives while also ensuring the vulnerable are protected. Several tax reform measures started in 2017 and 2018, with assistance from the IMF and the AfDB have focused widening the tax base, enhance tax collection systems and administration.

The Bank Board in October 2023 approved a new Institutional Support Project on Economic Governance that will support the Federal Government in improving Domestic Revenues Mobilizing.

Somalia's domestic revenue mobilization relies heavily on international trade taxes that contributed about 70.5% and 60.4% to total revenue in 2021/2018 and 2022/2019, respectively. While the share trade

taxes, including import taxes on khat, decreased to 44% increased in 2022 from USD3 to USD 4 per kilogram, the second main contributor to domestic revenue, general sales tax, remained unchanged at about that contributed 24.5% and 33% in 2018 and 2019 respectively. This tax structure is contrary to the objective of attaining a progressive tax system in the near future. At the FGS level, the bulk of revenues come from the Mogadishu Airport and Port. Corporate and other forms of income tax that were almost non-existent for a long time are beginning to be a significant contributor to revenues. In 2020, corporate taxes accounted for 6.4% of total revenue but remain low due to widespread insecurity and limited formal activity have constrained the capacity of Government to generate revenues from these sources. Considering that the tax system is biased toward trade, such costs are normally passed on to consumers regardless of their income status. As such it could be inferred that Somalia runs a regressive tax system. Through the IMF ECF Program and AfDB support, Somalia is currently receiving technical assistance on modernization of tax and customs policy administration. The aim of this support to ensure a more equitable tax system that is supportive of development objectives while also ensuring the vulnerable are protected. Several tax reform measures started in 2017 and 2018, with assistance from the IMF and the AfDB have focused widening the tax base, enhance tax collection systems and administration. The Bank Board in September 2023 approved a new Institutional Support Project on Economic Governance that will support the Federal Government on Mobilizing Domestic Revenues.

[MoF, IMF SMP Reports, SDRF reports]

09. Building Human Resources

Criteria Score: 2.333

9.a. Health and nutrition services

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

Health or social insurance policies provide basic protection against the financial burdens of illness; public expenditure on health allows access to an appropriate package of preventive and some curative services; national public health policy and government regulation and oversight are appropriate; programs exist to prevent under- and micronutrient malnutrition, as well as severe malnutrition, and are adequately implemented; public resources often achieve intended objectives. The overall health situation in Somalia remains poor, with some of the worst health indicators in the world. For example, one out of every seven Somali children dies before their fifth birthday. The leading causes of infant and child mortality include pneumonia, diarrhea, and measles. Malnutrition is an underlying factor in over a third of the deaths. Reported maternal mortality in 2015 was 850/100,000 live births, which was mainly compounded by a low number of institutional deliveries. There are multiple sector-wide and disease specific strategies formulated and developed for the last 5 years and are being implemented namely: i) A comprehensive Nutrition Strategy, ii) A National Reproductive, Maternal, Newborn and Child Health (RMNCAH) Strategy, iii) Malaria, HIV and TB National Strategies, iv) Cholera preparedness and response plan 2017-2022 strategy. The Federal Government of Somalia's regulatory systems is progressive where some health related regulatory acts have been developed and approved; namely i) the national health professional act whose enforcement body (the council) is being established, ii) the cabinet passed the national drug authority bill passed to the parliament and is progressively going through the hearings. The government also developed public private sector engagement strategy and action plan to enforce regulatory systems in both public and private sector service providers and ensure leveraging private sector resources to deliver basic essential package of health services. The essential package of health services, including Sexual, reproductive, maternal and child health and nutrition, communicable diseases including HIV, TB and Malaria services, are delivered free of charge with basic attention to the poor and to the most vulnerable population including women and children with some geographical inequity. The ministry of health has put in place the departments of public health and medical services that support the planning and implementation process of reproductive, maternal, newborn, child and sexual reproductive health, communicable and non-communicable diseases, including TB, HIV, Malaria, neglected tropical disease, mental health, EPI and Nutrition Programmes as well as health promotion activities in the country while monitoring the quality of related service provision in the Somalia is one of the high TB burden countries in Africa. While some improvement in nutrition statistics in 2018 over the 2017 - Global Acute Malnutrition (GAM) of 15% recorded in June 2018 in Bossaso, Qardho, Galkacyo Garowe, Mogadishu, Dolow and Baidoa IDPs. This high GAM has been associated with a crude death rate >1 percent, which suggests humanitarian emergency still exists. In response, the government developed a National Nutrition Strategy and Micronutrient Strategy as well as a costed plan of action for nutrition in 2017. These strategies have resulted in better coordination, monitoring of nutrition and health developments. The response rates have as a result improved. With support from donors, the 2017 famine was halted and with the good rains 2018 has seen an improved nutrition situation in 2018. Somalia has a high disease burden and weak healthcare systems. Per capita spending on health in 2017 was USD6 compared to Uganda's USD42, of which USD3 was provided by donors and USD2 were out of pocket expenses, with the government contributing USD1,

that is, 16% of the per capita spending. Overall, the country has only four health care workers (doctors, nurses, or midwives) for every 10,000 people compared to 13 per 10,000 population for Sub-Saharan Africa. The Somali Universal Health Coverage roadmap was launched in September 2019 and is synchronized with the NDP-9's focus on improving access to essential services including health, nutrition, water and sanitation, plus improved disaster management. However, it will take a while before its operational impact is felt. Despite the healthcare stresses being witnessed in Somalia, some achievements have been made with respect to maternal and childcare. For example, under-fives mortality declined from 172/1000 to 122/1000 live births between 2005 and 2018, while maternal mortality fell from 1080/100,000 in 2000 to 829/100,000 in 2018. Despite this progress, the figures are high by regional and global comparison, and much more needs to be done to achieve the SDGs. There is a high risk of COVID-19 pandemic wiping out these health outcome gains. Somalia also falls far below the minimum global expectation of doctor/patient ratio. Currently, there are only four doctors, nurses or midwives for every 10 000 people in Somalia. In addition, one out of every 12 women dies due to causes related to pregnancy, and 1 out of every 7 Somali children dies under the age of 5. Water borne diseases like cholera have also been a challenge, especially following the higher rainfall and 2018 floods.

Somalia's health infrastructure has been completely destroyed by the civil war that broke out in 199[1]. As a result, and as expected in war zones, Somalia's health status has drastically declined. Droughts, famines, outbreaks (of disease or fighting, for example) and economic decline have exacerbated the situation[2]. In armed conflicts, health services focus on treating the injured and the sick. Preventive and health promotion activities are greatly reduced[3]. Lack of basic life needs (e.g. water, food and shelter) is the main concern of the people in war. Immunization, clean water, personal hygiene and maternal health, although essential for disease prevention, are the least of their concerns. The result of the civil war in Somalia has inevitably increased mortality and morbidity across the country[4].

Somalia is among the 15 countries that WHO marked as very high alert countries for maternal deaths. Somalia has one of the worst maternal conditions in the world. The Maternal Mortality Ratio (MMR) is 692/100,000 live births where 1 in 20 women would die from pregnancy-related causes during their reproductive lifetime. Four in 100 Somali children die during the first month of life, eight in 100 before their first birthday, and 1 in 8 before they turn to five[5]. The immunization coverage of children in Somalia is very low. The number of children who have not received a single dose of vaccine is around 60%, which indicates a critical weakness of the coverage of primary care services.

The communicable disease burden has declined from the estimated 2009 levels of 52% (as a share of all DALYs (disability adjusted life years), but still remains high at 47% in 2019, compared to the East African regional average of 40%. The COVID-19 pandemic further revealed the serious limitations in the management of critically ill patients in Somalia. During the first few months of the pandemic, about a quarter of patients with COVID-19 were in need of critical care and the Somali health systems struggled to cope with the rapidly growing caseload. The health facilities and health personnel were stretched beyond their limits to manage critically ill patients in health centres which had limited diagnostic and care facilities, highlighting the important gaps in the health system[6]. TB, meningitis, acute hepatitis, measles, and other respiratory and infectious diseases account for the majority (37%) of the communicable disease burden.

Malnutrition is a growing problem. Approximately 17.2% of all Somali children under five are stunted[7] compared to the Sub-Saharan African average of 33%. An estimated 12% of all children under five are underweight while 11% are wasted (i.e., too thin for their height) compared to the Sub-Saharan African average of 17% and 7%, respectively. Women's nutrition is vital for their health and pregnancy outcomes, while early childhood malnutrition has been linked to long-term outcomes of children. According to the Somali Health and Demographic Survey (SHDS), 15% of women aged 15–49 are thin. Nomadic areas

have the highest percentage of thin women (26%), followed by women in rural areas (16%), compared to 14% of women in urban areas[8]. Lastly, according to the Health Sector Strategic Plan 2022–2026 (HSSP III); although lacking referable data, the consensus among health experts is that they are now dealing with more issues related to non-communicable diseases than before, highlighting mental health, diabetes and hypertension as major neglected areas of the burden of disease.

Approximately 2.6 million Somalis are currently displaced within their own country. The largest concentration, around half a million, are in the Somali capital, Mogadishu. Some families were displaced nearly 30 years ago, whereas others continue to arrive in the city daily due to conflict and natural disasters. Families that moved to these areas live in precarious conditions and are unable to meet basic needs due to inconsistent health service provision or exclusion from accessing humanitarian support due to the conflicts in the city.

The COVID-19 pandemic has also highlighted the need to strengthen essential public health functions to guide development in the country's health sector. The government has outlined a roadmap for establishing a resilient health system that can deliver health services to the Somali people, while responding to the growing threat of the COVID-19 pandemic. The Health Sector Strategic Plan 2022–2026 (HSSP III) sets out the government's mid-term direction for health system development through improving access to affordable and equitable quality health services, which will help Somalia realize its vision for Universal Health Coverage (UHC). A key pillar of the HSSP III is to steer physical infrastructure investments – to contain imbalances between levels of care, regions and population groups.

Currently, public health service delivery is limited. A large private sector has emerged, which delivers an estimated 60 per cent of health services concentrated in urban areas. Humanitarian health services are provided by numerous international and national NGOs with funding from the UN, donor organizations, the diaspora and other private sources. The limited availability of health services over the past few decades has worsened inequities with displaced, rural and nomadic populations being worse off. The geographical availability of services is limited and community awareness on public health interventions is quite low, creating islands of neglect. Urbanization is happening at a rapid pace in Somalia, with around half of the population now living in urban centres and small modernizing villages. This changes the dynamic of demand for health care as it leads to a large enough number of consumers for services. Private providers have responded to this demand by establishing service delivery outlets.

Currently in Somalia, most of the tertiary and secondary facilities are privately owned, especially in urban areas. The government and donor partners are mostly focused on providing Primary Health Care (PHC) services in line with the Essential Package of Health Services (EPHS) including relevant primary curative care. Excluding pharmacies, the density of private facilities stands at 0.93 facilities per 10 000 population and the density in the public sector is 0.76 per 10 000 population. According to the SARA report of 2016 for public health, the target density is two facilities per 10 000 population[9]. This means the density for the private health facilities is greater than that of the public, and while neither reaches the national target alone, together, the density adds up to 1.69 per 10 000 population, which is low[10]. In the private sector facilities 46% of hospitals and 74% of clinics are either individually or group owned. The mix of services provided at the private facilities does not fully cover the interventions contained in the EPHS 2020.

According to the HSSP III, a broad classification of health infrastructure that would be required by level could be: a) community level (no or minimal level equipment and infrastructure); b) primary care level (requires equipment and dedicated qualified health workers as defined in the EPHS linking up to higher levels of care for referrals). The next delivery platform are the health centres which provide a set of health

interventions defined in the EPHS; c) secondary care (requires a full set of basic equipment for the services and dedicated infrastructure, in addition, it has specific requirements for specialization) and d) tertiary care (provision of specialized services requires expertise, equipment to also serve as training sites for new cadres of health care providers). Currently in Somalia, most of the tertiary and secondary level centres are provided by the private sector, especially in urban areas. The government and donor partners are mostly focused on provision of PHC services in line with the EPHS, including relevant primary curative care.

The important issue for the health sector, in terms of strategy, is how to engage private providers and ensure that EPHS services are offered at all facilities, specifically for secondary care to deliver quality services. This creates an opportunity to deploy the limited resources available within the public health sector in areas where coverage and access are issues. A recent resource mapping exercise identified the public funding (domestic and donors) available for the health sector over a period of three years 2018–2020. The government share in health expenditure has increased from 7.8% in 2018 to 12.2% in 2020. The government has also expanded its financing from provision of salaries to other areas such as acquisition of assets, training and education. The mapping misses out on some major contributions. These figures underestimate total health expenditure. Most of the development assistance to Somalia is off budget, which requires coordination to achieve efficient use of available resources. Currently, the Federal Ministry of Health (FMOH) has a limited role in the decision-making on how these resources are used. The FMOH needs to build strong technical capacity in many areas, including public financial management and supply chain management, in order to scale up the EPHS implementation across the country.

Financial barriers deter care seeking. Cost is the greatest obstacle cited by Somali women aged 15–49. Sixty-five per cent of women cite this as the main barrier to seeking care. Communities have little disposable income for OOPs for health services, while almost half of all households (48%) finance health expenses using their own income. The high rate of OOP means households often have to deplete savings, sell their assets (14% of the households) or borrow money. The rate of seeking health care is lowest for the nomadic population, with only 10% of households identified that they had someone who was ill and 68% out of these did not seek care.

The FGS is committed to the Sustainable Development Goal 3 (SDG3) - to “Ensure healthy lives and promote well-being for all at all ages”— a broad health goal pushing for universal health coverage (UHC). This is embodied in the country’s NDP-9. The challenges in delivering on this goal lies in that Somalia government capacity is very and the sector is dominated by the private sector players and non-government organizations limiting the poor and vulnerable individuals’ access to these services. Referring to the top three causes of early deaths in Somalia neonatal disorders, lower respiratory infections and diarrheal diseases are preventable, just as child immunization can reduce tuberculosis, measles, and whooping cough. Improved water and sanitation services also can reduce diarrheal diseases.

[WHO, UNICEF, FGS]

[1] Warsame A, Handuleh J, Patel P. Prioritization in Somali health system strengthening: a qualitative study. *Int Health*. 2016;8(3):204–10. <https://doi.org/10.1093/inthealth/ihv060>.

[2] Dalmar AA, Hussein AS, Walhad SA, Ibrahim AO, Abdi AA, Ali MK, et al. Rebuilding research capacity in fragile states: the case of a Somali–Swedish global health initiative. *Glob Health Action*. 2017;10(1):1348693. <https://doi.org/10.1080/16549716.2017.1348693>.

[3] Sato R. Effect of armed conflict on vaccination: evidence from the Boko haram insurgency in northeastern Nigeria. *Confl Health*. 2019;13:49. <https://doi.org/10.1186/s13031-019-0235-8>.

[4] Muse A; Hassan A. Robustness of and challenges to public health colleges: the case of Somalia. *East Mediterr Health J*. 2021;27(7):646–647. <https://doi.org/10.26719/2021.27.7.646>.

[5] Adam A Mohamed, Temesgen Bocher, Mohamed A Magan, Ali Omar, Olive Mutai, Said A Mohamoud & Meftuh Omer (2021) Experiences from the Field: A Qualitative Study Exploring Barriers to Maternal and Child Health Service Utilization in IDP Settings Somalia, *International Journal of Women's Health*, 13:, 1147-1160, DOI: 10.2147/IJWH.S330069.

[6] Two years of work that can transform the health system in a fragile setting WHO's response to COVID-19 in Somalia, 2020–2022: road to an inclusive recovery. Cairo: WHO Regional Office for the Eastern Mediterranean; 2022. Licence: CC BYNC-SA 3.0 IGO.

[7] Somalia CPF, 2018.

[8] Buckley J, O'Neill L, Aden AM. Assessment of the Private Health Sector in Somaliland, Puntland and South Central. Heart: Oxford; 2015.
(<https://assets.publishing.service.gov.uk/media/57a0899bed915d622c0002e3/Assessment-of-the-Private-Health-Sector-in-Somaliland-Puntland-and-South-Central.pdf>, accessed 14 January 2022).

[9] Service availability and readiness assessment (SARA). Geneva: World Health Organization; 2016.

[10] Zaman, R. Morris, R. Law, B. Brouwer, L. Thayil, S. Lipcan, A. Assessing the capacity of the private health system in Somalia. Final Report. Oxford Policy Management and Forcier. 2018

The FGS is committed to the Sustainable Development Goal 3 (SDG3) - to “Ensure healthy lives and promote well-being for all at all ages”— a broad health goal pushing for universal health coverage (UHC). This is embodied in the country's NDP-9. The challenges in delivering on this goal lies in that Somalia government capacity is very and the sector is dominated by the private sector players and non-government organizations limiting the poor and vulnerable individuals' access to these services. Referring to the top three causes of early deaths in Somalia neonatal disorders, lower respiratory infections and diarrheal diseases are preventable, just as child immunization can reduce tuberculosis, measles, and whooping cough. Improved water and sanitation services also can reduce diarrheal diseases.[WHO,

9.b. Education, ECD, training and literacy programs

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5
Final Score	2.5

Country Notes:

For a country like Somalia where lack of opportunities to gainful employment is considered as a major driver for the youths to join or support violent groups, education is critical. The country struggles with significantly low levels of literacy with noticeable gender and regional disparities. Data from the National Bureau of Statistics (2022) indicates that just over 53.7 percent of the Somalia's population is literate, with men attaining higher levels at 63.6 percent compared to females at just 45.3 percent. Regional disparities are also prominent with rural areas having lower levels of literacy at 49.1 percent compared to urban areas at 60.9 percent. What is more concerning however, is that Nomadic areas have significantly lower literacy levels at just 20.5 percent. Somalia's gross enrollment rate (GER) is just 14 percent both at primary and secondary level. The GER levels have been steadily declining over the years, in lower primary level, from 18.0 percent in 2016 to 14.3 percent in 2020. Similarly, upper primary levels declined by 3.1 percent during the same period. More than half of school-age children in Somalia are currently out of school with 171,000 learners enrolled in lower primary school in 2020 compared to the 1.2 million of children eligible to attend. Many learners who dropped out of school have failed to return due to the 2017/2018 droughts. Access to education has remained low over the last two decades with girls, children from rural and poor households disproportionately excluded from access education. Targeted interventions are recommended specifically for nomadic populations where an estimated 92.5 percent have no formal education compared to 68.6 percent of rural respondents. Only 3 percent of rural residents have completed secondary education and 1.7 percent have reached higher education. The gender gap in school enrollment is wide with girls estimated to account for 43 percent of those enrolled in school in Somalia. Only recently established after decades of state failure, the Federal Government of Somalia (FGS) is grappling with a host of issues related to fragility, weak systems, vulnerability to climate change and is still at the very early stages of state building. Although some minor gains in education can be noted over the past several years, the country faces numerous challenges with strengthening the capacities of education institutions and systems to support continued progress to achieving SDG 4 education targets, particularly those related to improving access to education and learning outcomes. There remain significant political and social risks with many communities affected by conflict, displacement, trauma, and high levels of poverty. Non-state actors have been the main providers of education in many parts of Somalia. About 55% of students are estimated to be enrolled in nonstate schools across Somalia.

Based on the Population Estimation Survey (PESS) data from UNFPA, about 145,309 learners are enrolled in post-secondary institutions across Somalia, while around 95% of the youth between 14 and 24

years across the entire country are not in any type of post-secondary institutions. The destruction of the education system, including TVET, has affected enrolment capacity in the education sector and has generated skills deficit. In 2020, about 2 million youth aged 18-24, were roughly eligible for TVET and higher education (HE). However, only 103,400 students were enrolled, representing only 5 percent of the youth aged 18-24. Only 1- 4 percent of eligible youth were enrolled in vocational and technical training centers due to limited facilities. In 2022, it was estimated that there were 58 TVET centers across the eight regions. However, there is no TVET center in middle Jubba due to heavy presence of al-Shabaab militant group. Lack of skills training opportunities for the youth in this region worsens their vulnerability.

Access to quality higher education is also limited in Somalia. There are 118 universities listed in the Education Management Information System (EMIS) but only 41 universities are recognized, with few universities and other higher education institutions by the National Commission of Higher Education. Most university institutions in Somalia are concentrated in Mogadishu and other urban areas, leaving rural youth with limited access to tertiary education. The government of Somalia spends 33 percent of total education expenditure on higher education, most of this funding goes to Somali National University, the only public university in the country with 2,000 enrolled students.

Funding is also a significant constraint in Somalia. For example, in 2019, average government spending per learner was \$268 for public primary school, \$117 for secondary, and \$2,280 on each student at the Somali National University and very limited expenditure on TVET.

Despite these drawbacks, notable achievements have been made in the sector including: completion of the national curriculum framework, approval of the Higher Education Act, provision of standard national primary and secondary education examinations in all regions, launch of the Education Management Information System (EMIS) to regional states, and the strengthening of the capacity of Federal and State Education Ministries through recruitment and training of staff in key areas such as policy, planning, financial management, administration and leadership.

To strengthen and revive TVET education in Somalia, the government is developing a new TVET policy. The policy seeks to position TVET to be demand-driven and responsive to labor market needs to make TVET graduates competitive on the job market. The government is targeting agriculture, fisheries, veterinary training, nursing, and automotive engineering in the medium term. The government seeks to enact the formalization and standardization of TVET including the TVET policy, a TVET sector strategy, standardized curricula and a national vocational qualification framework in partnership with development partners and other stakeholders in the sub-sector.

The FMS have established their own state-level Ministries of Education, laws and policies. Somaliland and Puntland have been developing their own ESSPs. TVET has moved from Ministry of Education to Ministry of Labour. Public spending on education has remained low. While the education allocation to the Ministry of Education and Higher Education budget, excluding other indirect allocations, almost doubled from \$6.94 million in 2018 to \$12.12 million and \$14.6 million in 2019 and 2020 respectively, education expenditure accounts for less than 5 percent of the total government spending.

[MOCHE, UNICEF, MoF, World Bank]

9.c. Prevention and treatment of HIV/AIDS, tuberculosis, and malaria

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5
Final Score	2.5

Country Notes:

Somalia is classified as a low-level HIV epidemic country due to the steady decline in HIV/AIDS prevalence over a decade to 2022. According to the most recent 2018 sentinel survey in 2019, HIV prevalence for Somalia was 0.1%, a significant improvement from 0.3% in 2000. HIV/AIDS prevalence in Somalia was estimated at 1% in 2019 (World Bank) compared to 0.5% in 2015. Despite the increase, this is still considered to be low compared with the incidence in surrounding countries; although many factors including low awareness and lack of preventive mechanisms could aggravate the situation. HIV/AIDS in Somalia is also associated with promiscuity, thus proving difficult to convince many to seek treatment. Stigma and resistance are also high, and HIV victims are normally abandoned by their families. Similarly, the mean antenatal HIV prevalence was also 0.10% for Somaliland, Puntaland and South Central. With regards to HIV treatment/ART coverage, 82.7% of recorded patients were receiving treatment by June 2022.

Somalia has the highest number of tuberculosis in East Africa. The 2021 Global TB Report indicated there was a marginal increase in the estimated TB incidence in Somalia, from 258 per 100 000 people in 2018 to 259 per 100 000 in 2020. However, the death rate in Somalia remained at 68 per 100 000. It has the highest estimated multidrug-resistant tuberculosis incidence, with 29 cases per 100,000 population per year. In order to address this, a multi drug resistance-TB treatment was introduced by the TB program for Somalia, which is supported by the Global Fund and implemented by World Vision (with technical support from WHO). To date, there are 68 TB centers operating across the country, and Somalia still maintains a TB treatment success rate above the WHO recommended level of 85%. The Global Fund has cumulatively provided US\$345.8 million since 2004 to 2018 for investments in the health sector and specifically targeting the treatment and prevention actions against HIV-AIDS, TB and malaria. In 2020, 3696 people were placed on antiretroviral therapy for HIV, 16,954 people treated for TB, a slight decline from 17,000 in 2019 and more than 1.5 million mosquito nets distributed. Total financing from the Global Fund in 2020 has reached US\$378.5 million in disbursements out of the US\$433.2 million of the signed amount.

The vector of malaria infections is plasmodium species of mosquitos, the most dangerous. Confirmed cases of malaria in 2017 were 35,158. The incidence of malaria has decreased significantly in Somalia due to free prompt testing and treatment, indoor household spraying campaigns and distribution of bed nets. Furthermore, households in locations prone to malaria have been sprayed with insecticides and Somalis provided with information about protecting themselves from mosquito bites. A significant reduction of the malaria prevalence from 22 to 2.8 per 1000 population enabled Somalia to meet the Millennium Development Goal (MDG) goal target for Malaria in 2018.

COVID-19 has however resulted in decreased attention to some of the health programs, especially those pertaining to regular vaccinations for children.

The public expenditure in the health sector is very low, the leading players in the sector are private sector and non-government organization. This has led to high out of pocket expenses limiting the poor's access to quality health care. The government needs to develop a health financing strategy that will provide: (i) a framework for resource mobilization —domestic, development partners and health insurance; (ii) a framework for purchasing health supplies and value for money considerations—aligning financing function and country health priorities; (iii) a framework for leadership, governance, accountability and transparency. Donor funded health sector interventions follow internationally established standards and have been considered effective despite the challenging operating environment. In 2019, HIV prevalence for Somalia was 0.1%, a significant improvement from 0.3% in 2000. HIV/AIDS prevalence in Somalia was estimated at 1% in 2019 (World Bank) compared to 0.5% in 2015. Despite the increase, this is still considered to be low compared with the incidence in surrounding countries; although many factors including low awareness and lack of preventive mechanisms could aggravate the situation. HIV/AIDS in Somalia is also associated with promiscuity, thus proving difficult to convince many to seek treatment. Stigma and resistance are also high, and HIV victims are normally abandoned by their families. Somalia has the highest number of tuberculosis in East Africa, with 262/100,000 people infected in 2019 but this has fallen from 292/100,000 in 2000. It has the highest estimated multidrug-resistant tuberculosis incidence, with 29 cases per 100,000 population per year. In order to address this, a multi drug resistance-TB treatment was introduced by the TB program for Somalia, which is supported by the Global Fund and implemented by World Vision (with technical support from WHO). To date, there are 68 TB centers operating across the country, and Somalia still maintains a TB treatment success rate above the WHO recommended level of 85%. The Global Fund has cumulatively provided US\$345.8 million since 2004 to 2018 for investments in the health sector and specifically targeting the treatment and prevention actions against HIV-AIDS, TB and malaria. In 2020, 3696 people were placed on antiretroviral therapy for HIV, 16,954 people treated for TB, a slight decline from 17,000 in 2019 and more than 1.5 million mosquito nets distributed. Total financing from the Global Fund in 2020 has reached US\$378.5 million in disbursements out of the US\$433.2 million of the signed amount. The vector of malaria infections is plasmodium species of mosquitos, the most dangerous. Confirmed cases of malaria in 2017 were 35,158. The incidence of malaria has decreased significantly in Somalia due to free prompt testing and treatment, indoor household spraying campaigns and distribution of bed nets. Furthermore, households in locations prone to malaria have been sprayed with insecticides and Somalis provided with information about protecting themselves from mosquito bites. A significant reduction of the malaria prevalence from 22 to 2.8 per 1000 population enabled Somalia to meet the Millennium Development Goal (MDG) goal target for Malaria in 2018. COVID-19 has however resulted in decreased attention to some of the health programs, especially those pertaining to regular vaccinations for children.

10. Social Protection and Labor

Criteria Score: 2.4

10.a. Social safety net programs

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5
Final Score	2.5

Country Notes:

The IIAG 2022 rates social protection and welfare as Somalia's greatest improvement with a score of 50.7 out of 100, and a rank of 17 out of 54 countries. Specifically, decent housing dimension scored the highest with a score of 96 out of 100. In addition, food security also scored 96 out of 100 with a rank of 1 out of 54 countries. Despite this, IIAG dimensions of social safety nets scored a low 8.3 out of 100, ranking 51 out of 54 countries. On a trend from 2012-2021, social safety nets registered an +8.3 increase. The capacity of the Federal Government of Somalia (FGS) is steadily increasing, and it is committed to the establishment of a strong system of social protection, as reflected in the eighth and ninth National Development Plans (NDP) and the Recovery and Resilience Framework. In addition, the FGS established a social protection sub-working group as part of the New Deal/Peace and State-Building Goals process. The institutional framework for social protection in Somalia has also evolved, with the assignment of a ministerial lead for social protection at the federal level under the Ministry of Labour and Social Affairs (MoLSA) and the support of the Ministry of Humanitarian Affairs and Disaster Management (MoHADM) and the Ministry of Planning, Investment, and Economic Development (MoPIED).

The early 2019 Social Protection Policy outlines priority actions for the FGS and its development partners for the five years beginning in 2019, and to be followed by a second phase from 2023 to 2040. The policy was developed with the realization that over half the population lives in extreme poverty and large sections remain vulnerable to falling into extreme poverty and therefore in need of social protection. Poverty cuts across all major social and population livelihood groups, with prevalence and vulnerability to hazards varying according to livelihood and geography.

To support a workable social protection framework, Somalia signed and ratified international conventions relevant to social protection, including a) the International Covenant on Economic, Social, and Cultural Rights, b) the Worst Forms of Child Labour Convention, c) the Convention on the Rights of Persons with Disability, d) the International Covenant on Civil and Political Rights, e) the Convention Against Torture and Other Cruel, Inhuman or Degrading Treatment or Punishment (which is increasingly used in grave cases of sexual violence), and f) the African Charter on Human and People's Rights. Somalia is also a signatory to g) the Convention on the Rights of the Child and h) the African Charter on the Rights and Welfare of the Child.

In addition, a domestic legal framework exists in that the Constitution acknowledges the following:

1. • Article 27 on Economic and Social Rights - (1) Every person has the right to clean potable water. (2) Every person has the right to health care, and no one may be denied emergency health care for any reason, including lack of economic capability. (3) Every person has the right to full social security. (4) Every person has the right to protect, pursue, and achieve the fulfilment of the rights (5) It shall be ensured that women, the aged, the disabled, and minorities who have long suffered discrimination get the necessary support to realize their socio-economic rights.
2. • Article 28 - Mother and childcare is a legal duty of the State.
3. • Article 29 - Every child has the right to be protected from mistreatment, neglect, abuse, or degradation. (3) No child may perform work or provide services that are not suitable for the child's age or create a risk to the child's health or development in any way.
4. • Article 30 - Education is a basic right for all Somali citizens.

The goal of the policy is to progressively build a comprehensive and coherent social protection system that combats poverty and vulnerability in Somalia while contributing to economic growth, peace and security, human development, and equity through programs which improve food security and nutrition, support access to basic social services, enhance livelihoods and assets, reduce negative coping, and protect at risk populations from recurrent shocks.

Building on the increases in allocations to the social sector in 2019, the policy will enable Somalia to make a difference on its vulnerable populations. In 2019, Somalia allocated 8% of its budget to social sectors that mostly benefit children – the total budget for education was increased from 2 to 5% and that for health from less than 1% to 2%. While noting the huge increase in health expenditures in response to COVID-19, in 2020 and 2021, the social sectors were allocated 17% and 23% of total expenditure. Despite the tremendous increase in budget allocations, Somalia still lags far behind the international targets for public expenditure on education (20%) and for health (15%).

All actions on social protection are coordinated through the Social Protection Steering Committee that is supported by a technical committee. The Baxnaano Pprogram (Shock Responsive Safety Net and Human Capital project) is the main program for all social safety nets implemented in the country. Social insurance framework is still being developed, namely, Public service pension policy and law are in the final stages for cabinet approval; the army pension law is already in place and implemented. Public employment services and other active labor market are undergoing assessments before introducing reforms.

[EU, UNICEF, MoF, SDRF Reports]

10.b. Protection of basic labour standards

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5
Final Score	2.5

Country Notes:

While Somalia has been a member of the International Labour Organisation since 18 November 1960, the three decades of conflict interrupted issues of Protection of labor standards until recently in 2018 when Somalia ratified three fundamental ILO Conventions bringing the total number of ratified Conventions to 19; of which 16 are in force and has abrogated on 3 of them in 2018. The country has not ratified 69 Conventions, including important ones such as the Minimum Age Convention of 1973 and the Occupational Safety and Health Convention of 1979. However, in 2014 Somalia ratified the worst forms of child labor convention of 1999 (convention 182). Significant progress is yet to be evident after the approval (source of information is the ILO). These ratifications include 6 out of 8 Fundamental Conventions, 13 out of 177 Technical Conventions. However Somalia has not ratified any of the 4 Governance Conventions. A further seven conventions were ratified between 2019 and 2021 and these are the Violence and Harassment Convention, 2019 (No. 190), the Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144) ; the Occupational Safety and Health Convention, 1981 (No. 155); the Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187) ; the Migration for Employment (Revised) Convention, 1949 (No. 97); the Migrant Workers (Supplementary Provisions) Convention, 1975 (No. 143); and the Private Employment Agencies Convention, 1997 (No. 181) .

Convention No. 190 promotes and recognizes the right of everyone to a world of work free from violence and harassment and to this end adopt an inclusive, integrated and gender-responsive approach for the prevention and elimination of violence and harassment in the world of work. It also addresses inequality and discrimination at the workplace, as women generally have a weak position in the labor market and represent a large proportion of people in vulnerable employment.

Some of the general provisions for the protection of the labour standars in Somalia include: Somalia Social Protection policy 2019, Rape and Sexual offences Law (Law No.78/2018), The Provisional Constitution 2012 (Under review in 2023), Juvenile Justice Law (No.36/2007), Somaliland Piracy law (2012), Private Sector Employees Law (No. 21/2004), Somaliland Special Economic zones law (2021), Somaliland Labour Amendmends Law, No. 31/2020.

Key steps taken to address child protection include the Child Soldier Action Plan that establishes a strategy for the reception and stabilization of children found within the SNA, and for the prevention of child soldiers through education of soldiers and monitoring of military camps; National Development Plan (2017–2019) which aims to end all forms of violence against children, including child labor and United

Nations Strategic Framework (2017–2020) that established a broad framework for preventing, eliminating, and rehabilitating children associated with armed conflict.

[FGS, UN, UNICEF, ILO]

Somalia recently ratified three fundamental ILO Conventions bringing the total number of ratified Conventions to 19; of which 16 are in force and has abrogated on 3 of them in 2018. The country has not ratified 69 Conventions, including important ones such as the Minimum Age Convention of 1973 and the Occupational Safety and Health Convention of 1979. However, in 2014 Somalia ratified the worst forms of child labor convention of 1999 (convention 182). Significant progress is yet to be evident after the approval (source of information is the ILO). These ratifications include 6 out of 8 Fundamental Conventions, 13 out of 177 Technical Conventions. However Somalia has not ratified any of the 4 Governance Conventions. A further seven conventions were ratified between 2019 and 2021 and these are the Violence and Harassment Convention, 2019 (No. 190), the Tripartite Consultation (International Labour Standards) Convention, 1976 (No. 144) ; the Occupational Safety and Health Convention, 1981 (No. 155); the Promotional Framework for Occupational Safety and Health Convention, 2006 (No. 187) ; the Migration for Employment (Revised) Convention, 1949 (No. 97); the Migrant Workers (Supplementary Provisions) Convention, 1975 (No. 143); and the Private Employment Agencies Convention, 1997 (No. 181) .Convention No. 190 promotes and recognizes the right of everyone to a world of work free from violence and harassment and to this end adopt an inclusive, integrated and gender-responsive approach for the prevention and elimination of violence and harassment in the world of work. It also addresses inequality and discrimination at the workplace, as women generally have a weak position in the labor market and represent a large proportion of people in vulnerable employment. Key steps taken to address child protection include the Child Soldier Action Plan that establishes a strategy for the reception and stabilization of children found within the SNA, and for the prevention of child soldiers through education of soldiers and monitoring of military camps; National Development Plan (2017–2019) which aims to end all forms of violence against children, including child labor and United Nations Strategic Framework (2017–2020) that established a broad framework for preventing, eliminating, and rehabilitating children associated with armed conflict.[FGS, UN, UNICEF, ILO]

10.c. Labour market regulations

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

The Somali labor market continues to suffer from a number of weaknesses including: outdated national legislation, policies and action plans regarding labor rights and employment; violation of employee rights; absence of labor inspection systems; absence of social safety nets; weak delivery of vocational/technical training & skills development services; absence of reliable labor market information system (LMIS); and lack of monitoring of occupational health and safety standards. The existing Labor Code (Law No. 65 of 18 October 1972) governs the establishment of trade unions, contracts of employment, apprenticeship, remuneration, etc is still to be made into law.

Somalia ratified ILO Convention No. 111 on Discrimination (Employment and Occupation). Somaliland, however, passed a law against women sexual discrimination in 2018. Somalia has a National Employment Policy (NEP) launched in June 2021 with an overall vision of 'Achieving decent and productive employment for all in conditions of freedom, equity, security and human dignity'. Lack of enforcement of labor laws and regulations means there is also no minimum wage rate. The Ministry of Labor has re-affirmed its commitment to a LMIS and noted that during the NDP period, the Government will conduct a country-wide labor market survey and establish a labor market information system at both Federal and State levels.

The 2022 Somalia Integrated Household Budget Survey reports that the national unemployment rate for Somalia stood at 16.3% (Female – 20.6%. Males – 14.3%) Unemployment among the youth however remains the highest in the world at 30.1%. Youth employment is a cornerstone of stability in Somalia. With the support of the ILO, a Decent Work Country Program was aligned to the 9th National Development Plan for Somalia This program will focus on reducing the number of unemployed people in Somalia. The Decent Work Program for Somalia, which came into effect in 2014, focuses on Universal Declaration of Human Rights, and Convention of the Elimination of all forms of Discrimination Against Women (CEDAW). About 400,000 persons are entering the labour market every year but there are fewer formal sector jobs, the bulk of the labour force who enter the labour market every year end up in the informal sector due to lack of skills as a result of destruction of education system. The Somalia's demographic growth is among the fastest in the world at about 3% annually. There are high rates of rural-urban migration.

[MoYS, ILO]

The Somali labor market continues to suffer from a number of weaknesses including: outdated national legislation, policies and action plans regarding labor rights and employment; violation of employee rights; absence of labor inspection systems; absence of social safety nets; weak delivery of vocational/technical training & skills development services; absence of reliable labor market information system (LMIS); and lack of monitoring of occupational health and safety standards. The existing Labor Code (Law No. 65 of 18 October 1972) governs the establishment of trade unions, contracts of employment, apprenticeship, remuneration, etc is still to be made into law. Somalia ratified ILO Convention No. 111 on Discrimination (Employment and Occupation). Somaliland, however, passed a law against women sexual discrimination in 2018. Somalia has a National Employment Policy (NEP) launched in June 2021 with an overall vision of 'Achieving decent and productive employment for all in conditions of freedom, equity, security and human dignity'. Lack of enforcement of labor laws and regulations means there is also no minimum wage rate. The Ministry of Labor has re-affirmed its commitment to a LMIS and noted that during the NDP period, the

Government will conduct a country-wide labor market survey and establish a labor market information system at both Federal and State levels. The ILO reports that the unemployment rate in Somalia (as a percentage of the economically active population) in 2018 was 11.28% but this increased to 11.35% in 2019. Unemployment among the youth however remains the highest in the world at 67%. Youth employment is a cornerstone of stability in Somalia. With the support of the ILO, a Decent Work Country Program was aligned to the 9th National Development Plan for Somalia. This program will focus on reducing the number of unemployed people in Somalia. The Decent Work Program for Somalia, which came into effect in 2014, focuses on Universal Declaration of Human Rights, and Convention of the Elimination of all forms of Discrimination Against Women (CEDAW). About 400,000 persons are entering the labour market every year but there are fewer formal sector jobs, the bulk of the labour force who enter the labour market every year end up in the informal sector due to lack of skills as a result of destruction of education system. The Somalia's demographic growth is among the fastest in the world at about 3% annually. There are high rates of rural-urban migration. [MoYS, ILO]

10.d. Community driven initiatives

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

Somalia has a long history of community driven initiatives developed during the period when there was no effective government in place. The traditional activities centred around the clan, family and religious based system have retained their importance, and are practiced at the Federal ceremonies. The structure of governance is composed of the two levels of government namely the federal government (Central Government), and the Federal Member States (FMS) who also have their own constitutions. A number of community driven initiatives that are registered both at the federal government level and FMS levels have been instrumental in implementing community driven recovery initiatives in the recovery era of the post COVID-19 and post conflict Somalia. These initiatives have been important in complementing government efforts to address issues of conflict and responding to the needs of internally displaced persons related to drought, floods and insecurity. Such initiatives have been applied across a wide range of areas including education, disaster response, health and climate change mitigation and adaptation. For the period 2020-2021, Action for Women and Children Concern (AWCC) Somalia is implementing community-based disaster risk management to reduce the effects of climate change-induced shocks and increase the overall community resilience Lower Shabelle region focusing on strengthening community resilience capacities and enabling people to better adapt to climate induced shocks.

For instance, the World Bank have in the past implemented a Somalia Community Driven Recovery and Development Project (USD 3.5million), supporting 60 community selected projects, where the communities have implemented their developmental priorities, analyzed resources and developed their action plans.

Despite the coming into effect of the social protection policy, Government-led social protection systems are still limited although resources allocated for that purpose have increased. Somali citizens still rely on traditional systems for social protection including community savings instruments where 9% of the adult population participates. These include religious obligations, voluntary charity, donations into a pooled fund that is shared between poor households in the community, funeral support, and other forms of assistance provided to the poor, widows and widowers. The diaspora also play a significant role, through remittances, in supporting family members, and clan and community based initiatives.

Health-wise, there exists community-based initiatives such as the Basic Development Needs program, whose main objective is to provide health services. The program is based on full community involvement and promotes self-reliance through self-management and self-financing by communities. Through the program, community information centers are being set up in each village, creating linkages to the nearest health facility and supporting the integration of different health-related priority programs.

The community contracting approach adapted for the implementation of Employment Intensive Infrastructure Projects was considered particularly effective and well-appreciated by communities. Village Development Committees created under this program, in some cases evolved into rural local economic development forums and is considered one of best practices in community empowerment.

In 2016, development partners together with the government agreed to design, fund and implement the state led and community focused "Durable Solutions Initiative" (DSI). It provides a collective framework for harmonizing durable solutions approaches and programming. The DSI promotes an area-based, multi-sectoral, multi-stakeholders, rights & needs based approach involving simultaneously humanitarian and development partners under the leadership of government authorities.

The approach has gained prominence following the 2017 IGAD Heads of State summit on Durable Solutions for Somali Refugees and the first meeting of the Conference of State Parties to the African Union Convention for the Protection and Assistance of Internally Displaced Persons in Africa. Experience on the ground has shown that this approach could be effective in rebuilding Somali's infrastructure, climate focused community projects and other activities where the communities are involved, including using their resources with support from the diaspora. Following the April 2018 floods, the community in El-dibir prioritized rehabilitating the important roads linking them to main villages like Galkayo, as part of Adeso's cash for work intervention in their village. The intervention presented members from the drought-affected community with an opportunity to rehabilitate their community assets while earning an income.

[IGAD, FGS, SDRF Reports, UN]

Not much developmental changes have occurred since the last review of 2021.

Somalia has a long history of community driven initiatives developed during the period when there was no effective government in place. These initiatives have been important in complementing government efforts to address issues of conflict and responding to the needs of internally displaced persons. Such initiatives have been applied across a wide range of areas including education, disaster response, health and climate change mitigation and adaptation. For the period 2020-2021, Action for Women and Children Concern (AWCC) Somalia is implementing community-based disaster risk management to reduce the effects of climate change-induced shocks and increase the overall community resilience Lower Shabelle region focusing on strengthening community resilience capacities and enabling people to better adapt to climate induced shocks. Despite the coming into effect of the social protection policy, Government-led social protection systems are still limited although resources allocated for that purpose have increased. Somali citizens still rely on traditional systems for social protection including community savings instruments where 9% of the adult population participates. These include religious obligations, voluntary charity, donations into a pooled fund that is shared between poor households in the community, funeral support, and other forms of assistance provided to the poor, widows and widowers. The diaspora also play a significant role, through remittances, in supporting family members, and clan and community based initiatives. Health-wise, there exists community-based initiatives such as the Basic Development Needs program, whose main objective is to provide health services. The program is based on full community involvement and promotes self-reliance through self-management and self-financing by communities. Through the program, community information centers are being set up in each village, creating linkages to the nearest health facility and supporting the integration of different health-related priority programs. The community contracting approach adapted for the implementation of Employment Intensive Infrastructure Projects was considered particularly effective and well-appreciated by communities. Village Development Committees created under this program, in some cases evolved into rural local economic development forums and is considered one of best practices in community empowerment. In 2016, development partners together with the government agreed to design, fund and implement the state led and community focused "Durable Solutions Initiative" (DSI). It provides a collective framework for harmonizing durable solutions approaches and programming. The DSI promotes an area-based, multi-sectoral, multi-stakeholders, rights & needs based approach involving simultaneously humanitarian and development partners under the leadership of government authorities. The approach has gained prominence following the 2017 IGAD Heads of State summit on Durable Solutions for Somali Refugees and the first meeting of the Conference of State Parties to the African Union Convention for the Protection and Assistance of Internally Displaced Persons in Africa. Experience on the ground has shown that this approach could be effective in rebuilding Somali's infrastructure, climate focused community projects and other activities where the communities are involved, including using their resources with support from the diaspora. Following the April 2018 floods, the community in El-dibir prioritized rehabilitating the important roads linking them to main villages like Galkayo, as part of Adeso's cash for work intervention in their village. The intervention presented members from the drought-affected community with an opportunity to rehabilitate their community assets while earning an income. [IGAD, FGS, SDRF Reports, UN]

10.e. Pension and old age savings programs

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0

Final Score	2.0
-------------	-----

Country Notes:

During 2023, the government undertook some pension reforms as part of the its public financial management reform action points.

The system of social protection governing old age pensions (which were already malfunctioning before the civil war), as well as the overall legal and judicial system governing employment and collective labor relations are non-existent. There are no laws governing compensation and pensions to provide non-contributory, earnings-related pensions to both permanent civil servants, as well as private workers. The elderly currently depend on diaspora remittances, and informal clan and community arrangements for support. Law # 11 of 2006, during the transitional government only provides for pension for civil servants and does not apply to the private sector. In the absence of laws that govern the labor market conduct and pensions most Somalis prefer to work beyond retirement age. The Central Bank of Somalia only started paying pensions in 2018. A draft Armed Forces Pension Bill has been developed but issues on the type of pension system; operationalization of the system, and regulation of the pension sector are still to be decided upon.

Civil service pension systems: The lack of functioning civil service pension systems and a mandatory retirement age contributes significantly to both the large wage bill and the shortage of skills in the civil service. A growing number of public servants are reaching retirement age but staying on in the system due to the lack of an exit strategy such as a clear pension scheme. There are no mechanisms for providing adequate income for civil servants who become disabled, and for their survivors if they die. Despite progress in developing civil service pension policies in FGS, PSS and SL, implementation has not been possible due to the lack of a legal framework. The other FMSs have no pension systems in place. The absence of pension schemes, inter alia, is jeopardizing wage bill sustainability and the quality of services as a significant number of "premium" jobs remain occupied by less educated and productive individuals. Similarly, given that the security sector consumes over 35 percent of expenditures, a clear exit strategy for security personnel reaching retirement age is required, as this will free up the limited slots for the most suitable applicants.

The World Bank has supported FGS and PSS in developing pension policies and developing/amending pension legislation. These are structured around the "pay as you go" pension system, which is the least expensive and best suited for Somalia.

Private Sector Employees Law (Law No. 31/2004) governs all employment related contracts, but its enforcement is a challenge given the informal nature of many businesses in Somalia.

Given that parliament ratified the new Labor Code, some of Somalia's labor market challenges with regards to protecting the rights of workers and providing for their post-retirement life as provided by the international conventions, addressing the issue of pensions has become urgent. However, addressing the budgetary implications of introducing a pension system in the country are still to be resolved.

[FGS, ILO]

During 2023, the government undertook some pension reforms as part of the its public financial management reform action points. The system of social protection governing old age pensions (which were already malfunctioning before the civil war), as well as the overall legal and judicial system governing employment and collective labor relations are non-existent. There are no laws governing compensation and pensions to provide non-contributory, earnings-related pensions to both permanent civil servants, as well as private workers. The elderly currently depend on diaspora remittances, and informal clan and community arrangements for support. Law # 11 of 2006, during the transitional government only provides for pension for civil servants and does not apply to the private sector. In the absence of laws that govern the labor market conduct and pensions most Somalis prefer to work beyond retirement age. The Central Bank of Somalia only started paying pensions in 2018. A draft Armed Forces Pension Bill has been developed but issues on the type of pension system; operationalization of the system, and regulation of the pension sector are still to be decided upon. Private Sector Employees Law (Law No. 31/2004) governs all employment related contracts, but its enforcement is a challenge given the informal nature of many businesses in Somalia. Given that parliament ratified the new Labor Code, some of Somalia's labor market challenges with regards to protecting the rights of workers and providing for their post-retirement life as provided by the international conventions, addressing the issue of pensions has become urgent. However, addressing the budgetary implications of introducing a pension system in the country are still to be resolved.[FGS, ILO]

11. Environmental Policies and Regulations

Criteria Score: 2

11. Environmental Policies and Regulations

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

Somalia is currently a signatory to all three Rio Conventions: the UN Convention to Combat Desertification; the UN Framework Convention on Climate Change; and the UN Convention on Biological Diversity. Despite this, the regulatory and institutional framework for environment management for most of the country has been largely absent over the last two decades. As a result, there has been tremendous degradation of environment and natural resources including forests and rangelands.

Somalia is largely arid and semi-arid, with the vegetation being dominated by acacia and commiphora species. Although the country is considered an agricultural country with 80% of the population dependent on agriculture, only 2% of the country's land area is arable. Most of this arable land (69%) is under grazing of low-intensity livestock while 17 percent is deforested. Extreme climate events, especially the alternating cycles of droughts and floods, have accelerated land and environmental degradation. Key manifestations of land and environmental degradation include soil erosion, deforestation, desertification, reduced soil fertility and loss of biodiversity. All these threaten agricultural and pastoral activities on which the vast majority of the population depend. Further, while Somalia boasts of many endemic species – though there is scanty information on many of these species – land degradation and changes in weather patterns have led to the decline of many palatable plant and animal species, resulting in dwindling pastures for livestock and loss of biological diversity.

The main cause of environmental degradation includes unregulated charcoal production, over-grazing, shifting cultivation, sand mining, waste dumping, inadequate sewerage and liquid waste treatment, and break down of traditional land management practices. These factors, as already mentioned, are increasingly being compounded by changes in climate patterns. While there are recent rankings of Somalia in the Environmental Performance Index (EPI), the country is currently ranked last in the 2014 assessment. Given its vulnerability to climatic shocks, Somalia is ranked as the 2nd most vulnerable country to climate change but also among the least ready to adapt to the impacts of climate change on the ND-GAIN index.

According to the ND-GAIN Vulnerability Index, Somalia is ranked as the most climate vulnerable country, with high vulnerability, ranking 185 out of 185 countries. Somalia, like several other countries in Africa, experiences recurrent climate-induced shocks including droughts, floods, cyclones and tsunamis. Since 2007, Somalia experienced 9 severe drought conditions with the 2021/22 drought affecting over 7.8 million people and 16 million livestock. The climate risk outlook is dim with higher likelihood of more erratic and intense rainfall, hence increased floods and droughts. Adverse climatic effects are fuelling conflicts and tension as communities compete for scarce resources. Rapid and unsustainable urbanization has also increased as displaced people move to towns in search of alternative economic activities and security.

Given the long period of civil war and low industrial development, Somalia's GHG emissions is very low. According to Somalia's Initial National Communication to the UNFCCC, total GHG emissions as at 2015 stood at 62.92 Mt CO₂e, representing less than 0.12 percent of total global emissions. About 96 percent of these emissions come from the Agriculture, Forestry and Land Use sector, further pointing to increasing environmental degradation. The Energy and Waste contribute 3 percent and 1 percent, respectively while emissions from the other sectors are considered negligible. Further analyses conducted as part of National Communication showed that that the AFOLU and Energy sectors are the most important sources of emissions while the land-use change and forestry sector (LUCF) is the most important sinks for GHG.

Despite the exposure of Somalia to severe climate hazards, management of these hazards have largely been through humanitarian appeals because of limited domestic resource, mobilization and weak institutional capacity of the Federal Government of Somalia. The Government of Somalia has established a specialized institution – Somalia Disaster Management Agency (SODMA) – whose mission is to protect Somali lives, property, economy and environment through developing capacities of government and communities to better predict, mitigate, prepare for and manage disasters and crises. However, this institution doesn't have the requisite financial and technical capacity to independently prepare for and respond to climate disasters. The instruments available to Somalia to manage climate disasters in an ex-ante manner are also limited. Thus support to promote the adoption of ex-ante instruments for climate disaster risk management, to build the capacity of SODMA to undertake its mandate and to increase risk awareness by the Somali government would be important.

Given that Somalia's priority for the next decade is to spur sustainable economic growth through leveraging its natural resources and enhancing living standards for its population and based on its environment policy of 2020 it has revised its Nationally Determined Contributions up to 2030. The revisions build on a number of policies and development plans of particular importance to the environment are the Ninth National Development Plan 2020-2024, which notes that climate emergencies exacerbate the root causes of poverty. The commitment of the Government on this issue is also shown through its establishment of a dedicated Ministry of Environment (formerly the Federal Directorate of Environment and Climate Change) in 2022, as a crucial opportunity in achieving resilience to climate change and sustainable development.

To address the myriad of environmental and climate change challenges facing the country, Somalia has enacted critical environmental, natural resource management and climate change policies, strategies, and legislative frameworks. These include the Somalia National Climate Change Policy 2020, the Power Master Plan for Somalia of 2019, the National Adaptation Programme of Actions 2013, the National Adaptation Plan (2022), the National Environment Policy 2019, Draft National Environmental Management Bill 2020, Draft Environmental Social Impact Assessment Regulations 2020, Somali National Disaster Management Policy 2018, Integrated Water Resources Management Strategic Plan 2019-2023, the National Water Resource Strategy (2021-2025), Recovery and Resilience Framework 2018, The Initial National Communication to UNFCCC 2018, updated Nationally Determined Contributions (2021), the National Electricity Bill 2019, and the National Energy policy 2018. However, given that limited actions have been taken to build institutional capacity with respect to environmental and climate change issues, implementation of the actions required remain limited.

Other key policy documents include the National Environment Policy (2020), the National Voluntary Land Degradation Neutrality Targets (2020) under UNCCD, the National Biodiversity Strategy and Action Plan (2015) under the UNCDB, the National Environment Strategy and Action Plan, and most recently a Strategic Plan 2023-2028. The MoECC Strategic Plan is a transformative roadmap that aims to guide the ministry in the pursuit of its noble mission to provide effective leadership, partnership and good governance to protect, conserve and sustainably utilize environmental resources for the betterment of the present and future generations. The theme of the new Strategic Plan is *"Resilience in Environmental Management and Climate Change Adaptation for Sustainable Development"*. Given that

The Ministry's key priority areas have been well outlined as: Climate change, energy and weather information, Environmental conservation and waste management, Environmental governance and coordination, Biodiversity and wildlife conservation, and Food Systems. The strategic plan also captures monitoring, evaluation, accountability, reporting and learning framework that depicts the data and information gathering to track progress against the plan and determine attainment of set objectives.

However, clear gaps remain in the policy and regulatory landscape, especially with regards to developing sector-specific regulations, for example, oil and gas exploration regulations, mining regulations, just to name a few. Furthermore, institutional capacity deficiencies and budgetary constraints hinder implementation of environmental policies and regulations. While previous efforts have been made, gaps remain in implementing climate change measures, integrating them into national policies, and building resilience to climate-related hazards. The current strategic plan of the Ministry of Environment, Conservation, and Climate Change (MoECC) aims to address these challenges. It includes interventions such as restoring land degradation, reducing resource competition-based conflicts, integrating climate change into policies, and enhancing education, awareness, and institutional capacity. The plan also emphasizes adopting energy-efficient technologies, promoting renewable energy, mainstreaming gender considerations, mobilizing resources, and implementing participatory climate finance mechanisms. Somalia seeks to mitigate and adapt to climate change, fostering resilience and sustainable development.

Effort should thus be focused on building technical and institutional capacity of state and national government agencies to develop and implement environmental management and conservation policies and programs. Similarly, there is need to support Somalia to mobilize financial resources from bilateral and multilateral partners for environment and climate actions.

[UNDP, FGS, SDRF Reports]

(D) Public Sector Management and Institutions

Cluster Score: 2.3

12. Property Rights and Rule-based Governance

Criteria Score: 2

12.a. Legal basis for secure property and contract rights

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

Somalia's property rights index shows that between 2018 (33) and 2021 (28), Somalia retrogressed on this front (scale of 0 - 100, with 100 being the best score). This places Somalia at 46 (out of 53 African countries) on the Africa Property Rights index. The present score of 28 indicates that the degree of legal protection of property and judiciary independence is weak (Heritage Foundation, 2021). There are currently no laws protecting or enforcing intellectual property rights (IPR). The cabinet approved a new IP law in 2019, but parliament has not yet approved it. The property rights index assesses the likelihood that private property will be expropriated and analyzes the independence of the judiciary, the existence of corruption within the judiciary, and the ability of individuals and businesses to enforce contracts. The Mo Ibrahim Index of African Governance ranks Somalia at 52 (out of 54) in Africa on Property Rights in the 2022 report.

Somali laws relating to land are complex. Laws regulating the administration and management of land in Somalia can be broadly categorized in to three groups: pre-1969 era laws, those enacted between 1969 and 1991, and post-1991 era laws. It remains unclear which group(s) of laws have been repealed, amended, and/or are still in force. The Land Law of 1975 brought all land under state ownership and provided 50-year leaseholds for agricultural land. Very little has changed since then. While there have been no federal efforts to catalogue property ownership and title land, some FMS have tried to document land ownership for the purposes of taxation. In addition, land within the major cities, including Mogadishu, is generally documented for taxation purposes. Somaliland has a more advanced land title framework and dispute mechanism. The Somaliland legal framework addresses urban land management, agricultural land ownership, urban land dispute resolution, and civil procedures for hearing property disputes. Progress made by Somaliland in reestablishing formal property registries that existed before the war while negotiating stable ownership frameworks and recognition of formal and customary law rights present an opportunity for the rest of Somalia to follow. With increasing urbanization, control over land has become more important, especially in major cities like Mogadishu. However, disputes over land have also become a big challenge yet many vital procedures and institutions to transfer real estate are missing or inadequately dealt with under the current legal framework, including registries to determine legitimate title (however, according to local business communities, the Somaliland and Puntland Governments respect the right to private ownership, free exchange and disposal of land).

[World Bank, UN, Heritage Foundation]

12.b. Predictability, transparency, and impartiality of laws affecting economic activity

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

The FGS and the Federal Member States (FMS) have a positive attitude towards private investment and describe Somalia as “open for business.” The country’s 2012 provisional constitution is currently under review. The current FGS has revised some of the current investment regulations and has begun development of modern business and investment legislation to conform to the global business environment. Some new pieces of legislation recently approved and signed into law include: telecommunication, petroleum, company, public finance management, and anti-corruption laws. During March 2023, the President assented to the following laws that improve economic activity: The Law on the Management of Underground Resources, the Investment and Investor Protection Law, The Law on Identification and Public Registration, The Somali Fisheries Development and Management Law and Anti-Terrorism Act.

Several more business-related laws are currently under review. The passing of the Telecommunication Law, the new Companies Law (2019), membership to MIGA in 2020 and several other bills, including the building Permits law, under consideration or development are expected to transform the business environment in many ways. The Company Law establishes the legal framework under which companies are established, run and dissolved in Somalia. It also provides the regulatory framework for licensing and management of both public and private companies in the country. Therefore, the new significantly improves how businesses will conduct themselves introducing predictability and transparency. In September 2020, Somalia's investment promotion authority (SOMINVEST) released a five-year National Investment Promotion Strategy, which aims to improve Somalia's image abroad. The strategy paints a rosy picture of doing business in Somalia, highlighting agriculture, fishing, energy, infrastructure, and banking as key areas ripe for investment. On January 27, 2021, the FGS Ministry of Commerce issued a supplementary regulation (001/2021) to support enforcement of the company law. Regulation 001/2021 established the Office of the Registrar of Companies, defined its roles/functions, and set the requirements and processes for business registration, licensing fees, and penalties. Because of this regulation, the new Somali Business Registration System (SBRS) was established. On March 30, 2022, the Ministry of Commerce and Industry officially launched the Somali Business Registration System (SBRS), which will serve as a "one-stop shop" business registration website to streamline licensing approvals and reduce corruption.

The Trademarks Registry in Somalia, which ceased operations in 1991, re-opened its doors in 2019. However, Somalia is yet to modernize its old trade mark law but the Ministry of Commerce and Industry is currently taking the lead to amend and renew it. Pending the enactment of the new Trade Mark Laws, the current trade mark registration process is based on the Ministerial Decree of 2019, and such decrees have the force of law in Somalia.

Foreign investment is governed by the Foreign Investment Law (Law No. 19 of 1987) and managed by the National Investment Promotion Department housed in the Ministry of Planning, Investment and Economic Development (MoPIED). Such investments can include any of the following expenses:

1. i. Machinery, equipment, spare parts, installations and current production inputs, whose importation is permitted under the prevailing import legislation;
2. ii. Patent rights, trademarks and licenses duly registered in Somalia, provided they are necessary for the activities to be pursued under the approved investment;
3. iii. Studies and technical documentation, prepared in connection with the approved investment;
4. iv. Profit reinvested, originating from foreign investment approved in accordance with this law;
5. v. Establishment or the expansion of an enterprise incorporated and registered in Somalia.

However, Somalia remains lacking a legal framework that would provide the basis for safe investment, including a strong judiciary, enforceable property rights and arbitration and dispute resolution processes. Insecurity and uncertainty driven by terrorist groups, lack of transparency, failure to fully constitute

governing bodies per the 2012 provisional constitution, and widespread corruption in government sectors present considerable barriers to private investment. Corruption is rife in all government sectors and civil courts are largely nonfunctional. Despite economic reforms, Somalia has been consistently ranked among the most corrupt countries in the world by Transparency International's Corruption Perceptions Index (CPI). With the CPI 2022 Somalia scored 12 out of 100 and was ranked 180 out 180. Somalia's regulatory system is largely nonexistent.

[Foreign Investment Law; IFC; FGS Reports, US Department of State]

12.c. Difficulty in obtaining business licenses

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5
Final Score	2.5

Country Notes:

In 2019, the FGS passed a company law formalizing the legal requirements to create and register a company. On March 30, 2022, a new Somali Business Registration System (SBRS), which will serve as a "one-stop shop" business registration website to streamline licensing approvals and reduce corruption. The new SBRS followed the supplementary regulation (001/2021) that supports enforcement of the company law. Regulation 001/2021 established the Office of the Registrar of Companies and set the requirements and processes for business registration, licensing fees, and penalties.

While the new Companies Act (2019) and other recent laws governing the conduct of business in Somalia are in place, implementation of the laws is still at the early stage. A few sectors, for example, the telecoms, banking and money transfer businesses, many businesses operate with no formal operating licenses, permits or other compliance systems in Somalia. Business formalization, however, is increasingly becoming important if the operator intends to do business with government where tax clearance certificates are required. For most of the rural businesses and Southern Somalia, informality still prevails.

All foreign investments are required to be approved by the Foreign Investment Board. Company registration in general have to be done in accordance with the new Companies Act 2019 and it is the responsibility of the Ministry of Industry and Commerce. Since the launch of the Somali Business Registration and Licensing System (SBRL), an online portal, registration of businesses has been streamlined thereby reducing the time it takes to register a business.

[World Bank, FGS]

12.d. Crime and violence as an impediment to economic activity

Score Type	Value
Draft Score	1.5
Reviewed Score	1.5
Second Draft Score	1.5
Final Score	1.5

Country Notes:

Insecurity remains one of the major challenges for business and economic activities, especially in areas outside the government-controlled cities and regions. Assassinations, kidnappings for ransom and abductions are common, even in Mogadishu where the risk of collateral damage from indiscriminate attacks is high. ACLED data shows that although insecurity remains, its intensity is gradually falling. Central and Southern Somalia regions experienced more than 25 instances each, with Mogadishu recording more than 50 instances of violent attacks. These attacks increased in 2021 and 2022 owing to the gradual pulling out of the ATMIS peacekeeping troupes. Overall, Somalia experienced 722 instances of violence in 2020 resulting in 729 fatalities, a significant decline from the 2019 levels. Deadly attacks in Mogadishu and other parts of Somalia, especially in the southern part of the country averaged about 5 per day with the United Nations Assistance Mission in Somalia (UNSOM) recording a total of 1,154 civilian casualties by mid-November 2019. The US has in the last two years intensified its drone attacks on Al Shabab positions, but these attacks are reported to have killed civilians in some cases.

The UN, through its activities funded through multi-partner fund has made some impact through mobile courts that determine verdicts and let judgements be enforced through local community structures. Such courts handle criminal and property right cases.

Through all this and surprisingly, Somali's have still been able to sustain a vibrant informal economy that relies on clan and inter-clan relationships, as well as substantial capital support from the Somali diaspora. However, the lack of basic security and safety continues to hinder a full economic take-off in Somalia despite a low level of homicide rates in Somalia, which average about 5.6 per 100,000 people.

[UN, SDRF Reports]

13. Quality of Budgetary and Financial Management

Criteria Score: 3

13.a. Comprehensive and credible budget

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

The FGS has made significant progress towards achieving a credible budget through improved fiscal performance. Government has been able to introduce and sustain new revenue measures, such as sales tax on imports, and the decision to require non-tax revenues collected by FGS agencies to be remitted to the Treasury Single Account. In parallel, stringent expenditure control, supported by improving cash forecasting, has continued to contain spending within the funds available. In 2020 the overall expenditure execution rate was 70.81%, the capital expenditure execution rate was 44.25% and the recurrent expenditure execution rate was 72.54%. However, the operations of the Federal Member States (FMSs) are currently not captured in the national budget due to non-integration of FMS systems with the FGS SFMIS. As such, the observed high revenue and spending execution rates could be significantly different. Execution rates combining revenue and spending from both FGS and FMSs are currently not readily measurable as consolidation is done off-line using Excel Spread sheets. Efforts are being made by the FGS to compile fiscal information from all FMSs using the GFS framework. The above fiscal performance notwithstanding, data in fiscal reports show that the overall spending execution rates for several donor-funded projects are relatively low. It is believed that improving the monitoring of implementation of donor-funded projects coupled with enhancing project management capacity will be needed to improve the spending execution rates for projects. Further building of capacity in fiscal forecasting will also be critical in order to register sustainable improvements in Somalia's budget credibility.

The annual budget of the FGS covers all public spending that is channeled through the government accounting system (SFMIS). The annual budget (Appropriation act) accompanied with a budget policy framework paper have become useful public documents providing information on the budget allocations for each MDA. Both documents are annually posted on the MOF website. The government revenue and expenditure records are maintained using the budget module in the SFMIS. Since 2016, fiscal performance reports are produced quarterly and posted on the MOF website. The coverage of central government fiscal operations is based on the 2014 IMF-Government Finance Statistics (GFS)-compliant Chart of Accounts (CoA). Budget and accounting data also use a uniform coding system based on the GFSM-2014, which is an internationally recognized classification system. Thus, the standard CoA provides flexibility for budget formulation and execution based on administrative, program, economic, functional and geographic segments. In-year budget modifications including but not limited to i) budget line

item transfers, ii) transfer across MDAs, iii) transfer from contingency budget, iv) supplemental budget, are guided by strict processes included in the appropriation act, with the final statutory authority to effect transfers resting with the Minister of Finance.

In 2021, According to the Open Budget Survey 2021 (<https://internationalbudget.org/open-budget-survey/country-results/2021/somalia>), the authorities are largely fulfilling their reporting requirements, however some of the reports are not disclosed timely as in the case of the mid-year report which were not published for 2018 and 2019, but improvements were registered as evidenced by the timely publication of the same reports for 2021 and 2022. According to the Open Budget Survey which assesses the online availability, timeliness and comprehensiveness of budget documents and scores each country on a scale of 0 to 100, Somalia does well in providing more fiscal reports, but remains weak in fiscal transparency where it scored only 20 out of 100 (A transparency score of 61 or above indicates a country is likely publishing enough material to support informed public debate on the budget). Similarly, the country scores low on budget oversight involving the legislative and Audit oversight reports, where it scored 36 out of 100 and 17 out of 100 respectively.

The Appropriation Act provides transparent legal provisions for reallocations from one budget heading to another and from one source of financing to another. Nonetheless, a quick (informal) assessment of the amount and number of in-year budget transfers appears significant. There exists a cash management arrangement that ensures disbursements to MDAs are done in a timely manner. MDAs prepare work plans that estimate the value of goods and services to be purchased on a quarterly basis, which are consolidated by the MoF and used in determining the budget allotments for each MDA. Expenditure warrants (budgetary requests) are approved within adequacy of budgetary allotments provided on the SFMIS. The Accountant General has real-time cash position of the FGS on the SFMIS. MDAs prepare their spending and corresponding cash flow requirements which are submitted to Accountant General for consolidation. MDAs make their budgetary requests (expenditure warrants) through the SFMIS.

The expenditure warrants submitted by MDAs go through an approval process involving the Budget Directorate and Accountant General. Once the expenditure warrants are approved, a payment voucher is prepared by the AG and sent to the Central Bank to disburse the funds to MDA account within the TSA. Funds move from the TSA to accounts of MDAs within the TSA. MDAs are required to prepare monthly reports on disbursements, expenditures, and bank reconciliation to help in the monitoring and control of budget execution, however, regular reporting by MDAs remains a challenge (and a fiscal risk) that needs to be addressed.

[World Bank Systematic Country Diagnostic, 2018; Open Budget Survey, 2022; MoF Citizens' Guide & Budget Strategy 2018&2019; IMF Reports; Bottom of Form AfDB, IMF various reports, Open Budget Survey 2022]

The budget classification system is comprehensive, but not at the level of international standards. Significant off-budget donor aid remains a challenge and efforts to bring such funds on-budget are under way, but there is little analysis of contingent liabilities. Budget monitoring and control systems exist, but there are some deficiencies. Actual expenditures deviate from the amounts budgeted by more than 10 percent on many broad budget categories. A comparison of actual revenue receipts against the budgeted figures indicates that revenue collection shortfalls of the budgeted figures in both years 2018 (7%) and 2019 (13%). In terms of expenditures, budget figures varied from the outturn by 9.6% in 2018 and 19% in 2019. In 2021, **According to the Open Budget Survey 2021 (<https://internationalbudget.org/open-budget-survey/country-results/2021/somalia>), the authorities are largely fulfilling their reporting requirements, however some of the reports are not disclosed timely** as in the case of the mid-year report which were not published for 2018 and 2019, but improvements were registered as evidenced by the timely publication of the same reports for 2021 and 2022. According to the Open Budget Survey which assesses the online availability, timeliness and comprehensiveness of budget documents and scores each country on a scale of 0 to 100, Somalia does well in providing more fiscal reports, but remains weak in fiscal transparency where it scored only 20 out of 100 (**A transparency score of 61 or above indicates a country is likely publishing enough material to support informed public debate on the budget**). Similarly, the country scores low on budget oversight involving the legislative and Audit oversight reports, where it scored 36 out of 100 and 17 out of 100 respectively. For example, since 2017, a budget Framework Paper has been developed as an instrument linking overall government policies to resource allocations in the budget. Line ministries and agencies are invited to submit their budget requirements, which are adjusted according to spending priorities and the budget envelope. The Ministry of Finance coordinates the budget process and presents the final budget proposals to parliament for approval. The Budget Framework Paper provides a timetable for the budget preparation, consultations and final approval by parliament. The Public Finance Committee of parliament held public consultations on the budget making process in the context of the laid down principles of public consultations. Beginning with the 2018 budget, a citizens' guide was made public on the FGS website. With support from the development partners, participation in the budget process has improved including the formalization of the Inter-Governmental Finance Ministers' Forum. Improved coordination between the FGS, IFIs and the donor community has enhanced credibility of the budget as total revenues are now clearly reflected in the annual budget. However, the dependency on grants remains a cause for concern. In 2019, the Ministry of Finance's Economic Policy and Planning Department, produced the first Government Financial Statistics Report covering the period FY2013 to FY2019. This publication, together with the half-year and annual budget reports as well as the annual audit of fiscal operations are increasingly spotlighting financial management and execution of budgets. Attempts by sector institutions to 'secure' additional resources for sector expenditure outside of the budget process has the potential to compromise the integrity, comprehensiveness, and transparency of budget preparation and budget execution. These effects are additionally problematic in a context of extremely constrained FGS fiscal resources. Examples of such actions include: [World Bank Systematic Country Diagnostic, 2018; Open Budget Survey, 2022; MoF Citizens' Guide & Budget Strategy 2018&2019; IMF Reports; Bottom of Form AfDB, IMF various reports, Open Budget Survey 2022]

1. *Ring-fencing of concessions* –Poor formulation of concessions agreements can create inadequate transparency over use of sector revenues and/or off-budget sector investment. To the extent that such agreements are not properly scrutinized, or do not follow due process as required by the Procurement Act, they can result in poor value for money for the FGS, as well as a loss of transparency in revenue or expenditure management.

2. *Retention of revenue collections* – Unauthorized sector retention of non-tax revenues was a significant problem for the FGS up to 2016–17. MoF revenue reforms have since reduced the practice, but OAG annual audit reports identify some persistence. The OAG compliance audit report for financial year 2019 audit identified US\$1.86 million spent by three agencies at source.
3. *Earmarking of revenues* – Budget earmarks proposed in sector legislation may lead to the permanent allocation of a share of government revenues to particular sectors or purposes. If sectors are able to determine their own funding through legal earmarks, the MoF will lose control over budget policy, and allocations may not reflect overall FGS priorities.

13.b. Effective financial management systems

Score Type	Value
Draft Score	3.5
Reviewed Score	3.5
Second Draft Score	3.5
Final Score	3.5

Country Notes:

Somalia has made significant strides in the implementation of Public Financial Management (PFM) reforms, largely as part of the HIPC Completion point triggers. Despite this progress, the country remains poorly rated in terms of several aspects of PFM, that require strengthening including debt management, budget execution, and improved public investment planning and execution. To sustain long term growth, Somalia will require continued PFM reform efforts. Overall, the PFM Systems of the Federal Government of Somalia presents an overall residual fiduciary risk of a substantial nature.

Somalia's PFM environment continues to face critical challenges including (i) lack of harmonized state and federal PFM systems which adds complexity to the overall PFM reform effort; (ii) inadequate human resource capacity building and staff retention efforts which remain an impediment in implementing PFM reforms in a sustainable manner; and (iii) substantial diversity in system quality across government units and between FGS and FMSs.

Against this backdrop country continues to implement reforms in line with the action plan since 2021. These improvements in the PFM system are on a positive trajectory with significant PFM reforms having been achieved by 2023, while noting that most of the reforms are at the infant stages of operationalization. The initiated and focused reforms in PFM will, when fully implemented along with other future planned reforms, bear fruit and lay forward the roadmap for a transformative change in the PFM environment and facilitate the full use of FGS's country systems.

The PFM reforms are anchored on four platforms: (i) instituting PFM fundamentals for budget credibility; (ii) effective budget execution and financial accountability; (iii) improved policy formulation, planning and budget preparation; and (iv) institutional structures. The Somalia's PFM system reform Programme has seen the replacement of the legacy PFM legal and regulatory framework with a refined legislation that is responsive to the current needs of Somalia and measure up to internationally recognized standards and good practices. The foundation for a solid and robust PFM system has been laid following the enactment of the PFM Act on 25 December 2019. New regulations and/or instructions pursuant to the new PFM Law including the draft PFM Regulations, Accounting Procedures Manual and Budget Preparation Manual have been developed. A Comprehensive Operating Procedures Manual (COPM) for PFM was developed and operationalized at the beginning of the FY 2019.

The budget classification system is comprehensive, but not at the level of international standards. Significant off-budget donor aid remains a challenge and efforts to bring such funds on-budget are under way, but there is little analysis of contingent liabilities. Budget monitoring and control systems exist, but there are some deficiencies. Actual expenditures deviate from the amounts budgeted by more than 210 percent on many broad budget categories. On the revenue side, reliance on trade revenues is sensitive to trade shocks while donor aid is also not predictable. On the expenditure side, the need to ensure a balanced cash fiscal balance would mean revenue variations are also reflected in the expenditure. In 2020 the overall expenditure execution rate is 70.81%, the capital expenditure execution rate is 44.25% and the recurrent expenditure execution rate is 72.54%.

The Ministry of Finance has developed a Public Finance Reform Strategy and Action Plan 2018 – 2021 and updated to 2023 which addresses fundamental PFM reform challenges identified in coordination with donors and IFIs. The Reform Action Plan 2021-2024 sets out targets and activities in order to achieve a fully functioning PFM system. The action plan, which is updated on a quarterly basis, provide clear and timely information on PFM reform accomplishments and results in the following strategic areas: a) enhancement of domestic revenue mobilization; b) improvement of public expenditure management; c) establishment of an effective federal fiscal and expenditure frameworks; and d) engagement with external partners to harness sources of financial support. The implementation of the plan is on-going but there is urgent need to prioritize human resource capacity building while addressing staff retention issues through a targeted long-term capacity building strategy to keep on track. The current PFM Reform Strategy and Action Plan has introduced a new monitoring framework that ensures actions are clearly linked to donor support and reflected in Mutual accountability Framework which now includes measurable indicators.

Whereas the legacy legal and regulatory framework is being addressed, Somalia's PFM environment continues to face critical challenges namely: (i) The need to harmonize state and federal PFM systems which adds complexity to the overall PFM reform effort; (ii) Human resource capacity building and staff retention remains an impediment in implementing PFM reforms in a sustainable manner; and (iii) There is substantial diversity in system quality across government units and between FGS and FMSs. Some ministries (at both the federal and state level) have emerged as particularly effective in delivering on their varied mandates, while others have lagged.

Instances in which FGS sector legislation enables the provisions of financial governance laws to be disappplied if they conflict with the relevant sector law have been encountered. Challenges have also occurred at the drafting stage of sector legislation, whereby sector ministries, and the international partners providing them with technical assistance, prepare draft bills for Parliament without adequately considering their consistency and compatibility with cross-cutting legislation on financial governance. Disputes over the applicability of cross-cutting legislation on financial governance to individual sectors can serve to weaken financial governance overall.

In addition, and particularly in procurement, disregard for procurement and concessions procedures has emerged repeatedly across sectors. Often, the intention of sector institutions is to push through procurements as rapidly as possible. Urgency tends to be the consequence of a lack of planning and proper preparation, such that existing contracts run close to expiry or long-anticipated requirements for goods and services are neglected until they become immediate. In the face of these pressures, sector institutions seek to fast-track 'urgent' requirements by bypassing procedures.

In 2020 the overall expenditure execution rate is 70.81%, the capital expenditure execution rate is 44.25% and the recurrent expenditure execution rate is 72.54%.

[AfDB, FGS Reports]

13.c. Timely and accurate fiscal reporting

Score Type	Value
Draft Score	2.5
Reviewed Score	2.5
Second Draft Score	2.5
Final Score	2.5

Country Notes:

Somalia has registered a modest level of budget transparency over the years. According to the Open Budget Survey 2021 (<https://internationalbudget.org/open-budget-survey/country-results/2021/somalia>), the authorities are largely fulfilling their reporting requirements, however some of the reports are not disclosed timely as in the case of the mid-year report which were not published for 2018 and 2019, but improvements were registered as evidenced by the timely publication of the same reports for 2021 and 2022. According to the Open Budget Survey which assesses the online availability, timeliness and comprehensiveness of budget documents and scores each country on a scale of 0 to 100, Somalia does well in providing more fiscal reports, but remains weak in fiscal transparency where it scored only 20 out of 100 (**A transparency score of 61 or above indicates a country is likely publishing enough material to support informed public debate on the budget**). Similarly, the country scores low on budget oversight involving the legislative and Audit oversight reports, where it scored 36 out of 100 and 17 out of 100 respectively.

As of October 2023, Somalia had achieved various HIPC Completion Point triggers, including the improvements fiscal reporting. Following the adoption of the Fiscal transfer formula in March 2023, the government has improved on timely fiscal reporting. Some of the key fiscal reports published on the government Ministry of Finance website include: i) Monthly consolidated fiscal reports between Federal Government of Somalia (FGS) and Federal Member States (FMS), ii) quarterly debt bulletins and debt transparency, as well as establishment of a iii) Budget Appropriation report, iv) End Year Budget

Fiscal Performance Report, v) Annual Budget Strategy Reports, vi) budget calendar, vii) Financial Governance Committee reports, viii) the regulations to the PFM Act of 2019, operationalization of the Comprehensive Operating Procedures Manual (COPM) and the, (x) publication of audited financial accounts by the Office of the Auditor General (OAG) (<https://mof.gov.so/publications/budget-reviews>)

Under the new PFM Act and regulations, the principles, policies, and standards have all been set out. A draft Accounting Procedures Manual prescribes applicable financial accounting policies, standards, guidelines, and procedures of the financial systems that are in line with the International Public Sector Accounting Standards (IPSAS) cash basis. Financial Reporting templates have been developed. The requirement of Article 12 of the PFM Act for the budget classification system to be consistent with the IMF Government Finance Statistics Manual has been achieved. Accounting records are maintained on double entry principles.

The current auditing environment and practices continue to be shaped Law N. 2 of 29/12/1961 Financial and Accounting Procedure of the State, Law N. 34 of 14/04/1972, Magistrate of Account and Article 114 of the Provisional Constitution of the Federal Republic of Somalia (2012) which provides for the Supreme Audit Institution (SAI) and mandate the Auditor General (AG) to audit all the federal government institutions. The law provides that the AG shall be appointed by the President and is placed under the Presidency and is required to carry out *prior control audit* before the expenditures are incurred (which includes registration of budget warrants, tenders, financial contracts, head transfers of budgets and keeping track of the financial transactions of the central treasury of the government in terms of revenue and expenditures and also *post audit* which is done after the expenditures are incurred, to control and verify the management of the budget allocations and development projects. From the legacy law, the reports of the AG are required to be submitted to the President by the 31st May each year. In practice, there is evidence to indicate that audit reports were submitted to the legislature within the statutory period from receipt of the financial reports by the audit office for the last three completed fiscal years. Following the audit of the 2018 FY accounts, the Accountant General put in place the necessary institutional arrangements to cause the required follow up action and implementation of the audit recommendations. A financial management improvement plan was developed, and appropriate action taken to address the audit issues raised.

Sources: [AfDB, IMF various reports, Open Budget Survey 2022]

13.d. Clear and balanced assignment of expenditures and revenues to each level of government

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

Somalia successfully matched its expenditures at the different levels of government to revenues thus resulting into a balanced zero fiscal deficit in 2022, where Revenue inflows amounting to 8.8% of GDP was matched to the fiscal expenditure of 8.8% of GDP. This is an improvement from 2021 where expenditure (6.0% of GDP) exceeded revenue and grants which came in at a paltry 4.9% of GDP explained by the Budget Support cuts due to the delayed democratic elections for Presidential positions. Somalia has improved further.

The FGS improvements in matching of expenditures and revenues between different levels of government as illustrated in the newly introduced Consolidated Fiscal reports between the FGS and FMS of 2023. In addition, the Annual Performance Report of the Office of the Auditor General 2021 indicates a Comparison of Budget outturns and approved Budgets.

In addition, the Office of This report is classified by budget lines for all member states and FGS. The national budget also provides a clear assignment of expenditures by category of expenditure and by government agency. Similarly, revenue collections are also categorized by source and shares from these sources. However, given the non-harmonization of revenue codes and administration between the FGS and the States creates a challenge, which is one of the weaknesses actions to be addressed in the implementation of the PFM strategic action plan. The Baidoa agreement of 2018 to some extent addressed the issue of revenue sharing in fisheries and extractives with the aim of ensuring fairness. Moreover, the allocation of expenditures between the FGS and the Member States has been a cause of tensions as the states consider that they are not allocated their fair share of revenues collected at the FGS level, especially donor funds. In 2020, and within the context of the implementation of the IMF Extended Credit Facility program, transfers to the member states were increased by about 17%.

[2018, 2019 & 2020, 2021 Auditor General Reports, AfDB, IMF 2023]

14. Efficiency of Revenue Mobilization

Criteria Score: 3

14.a. Tax policy

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

Somalia's Revenue-share-Gross-Domestic-Product remains very low having improved to 8.8% in 2022 up from 4.9% of GDP in 2021, comparatively lower standing at about half of Africa's average tax-to-GDP rate of 16.5%. The Revenue Administration Law 2019 is Somalia's overarching regulatory framework guiding tax policy, while the domestic revenue mobilization remains a high priority for the Federal Government of Somali to achieve the HIPC completion point by end of 2023 as agreed under the IMF Extended Credit Policy Program 2020-2023. Despite the presence of the regulatory framework, For the country to raise taxes and service its public debt and interest payments, it has implemented a number of fiscal reforms and enhanced policies. In addition, it is developing the capacity to raise revenue through taxes is particularly important in Somalia is the issue of resource rents from Oil & Gas exploration to which Somalia earned USD7million. The other resource rents where the country is broadening the tax base from include forest and fishing licenses.

Somalia's tax regime is characterized by multiple taxes entailing direct and indirect taxes. Direct taxes include; personal income tax, rental tax, withholding tax, and corporate tax, while indirect taxes include Value Added Tax (VAT), customs duty, excise, turnover taxes fees, charges, licenses levied by the Federal Government and State Governments institutions. In this context, the various levels of government do not coordinate well regarding issues of taxation, which calls for clarifying tax collection and administration between the various levels of authorities.

Somalia operates a federal fiscal system, with the Federal Government and State Governments having different tax collection responsibilities. During 2023 March, the Federal Government of Somalia reached a consensus on the 'Fiscal Transfer Formula' which indicates how revenue can be collected and shared with the Federal member States (FMS). One FMS, Puntaland is yet to become a signatory to the Fiscal Transfer Formula'. Somalia's tax system guarantees political autonomy for the Federal Member states on the powers and functions of the federal government to collect and remit taxes. The Kampala (Nov, 2019) interim agreement on the division of functions and assignment of revenues stipulates shared functions and a notional split of 60:40 of shared revenues to FGS/FMS. The Revenue Administration Law (Oct 2019) provides for the harmonization of tax policies across the country but does not state which level of government will administer or retain any given tax. Currently, Somalia has agreements on the sharing of revenue from fisheries licenses and oil and gas (Baidoa Agreements), but states remain responsible for collecting all taxes with the Federal Government revenue coming from the Benadiar Region (Mogadishu).

Whereas Somalia aspires to implement a progressive tax system, the current tax structure is heavily reliant on trade and sales taxes, which together comprise about 91% of tax revenue and therefore regressive in nature.

[Revenue Administration Act (2019); Baidoa Revenue Sharing Agreement; World Bank]

Regarding the broadening tax base, in the Approved Budget Appropriation Act 2023, domestic revenue is projected to increase by 14.2% in 2023 from 2021. As such, several tax reforms have been undertaken from 2020-2023 with tangible impact on revenue collection, including: (1) Revenue of the Federal Government is required to be deposited to the Treasury Single Account (TSA) at the Central Bank of

Somalia within 24 hours working day of collection (2023), (2) All revenue and payment transactions are processed through the Somalia Financial Management Information System (SFMIS), introduction of a sales tax for import goods and reform of the personal income tax, (2) enforcement of Tax Identification Number (TIN) requirement and tax compliance certificate being subjected to renewal of annual licenses and anyone transacting with government, (3) restrictions and reduction of tax exemptions, (4) customs efficiency gains thanks to the introduction of electronic declarations and manifests, (5) automation of visa fees and working permits collection, and (6) collection of fly-over fees.

The Revenue measures introduced in FY 2023 Budget strategy that are expected to increase domestic revenue in 2023 to \$276.3 million from \$229.6 million in 2021 include:

i) enforcement of collection of spectrum fees expected increase revenue collection by \$6 million,

(ii) increased tax on khat from \$3 to \$4 per kilogram (expected to bring \$6 million more revenue, (iii) increase tax collection by installing more electronic Point of Sale (POS) machines at major business premises as per the ECF structural benchmark. This is expected to raise \$20 million.

(iv) increase corporate income tax through improvements in tax compliance from tax audits, tax enforcement and introduction of tax clearance certificates. This is expected to raise \$5 million additional revenue. Overall, these 2023 measures are expected to increase domestic revenue in 2023 to \$276.3 million from \$229.6 million in 2021.

During 2021, various tax measures were introduced in the FY2021 budget worth \$29.9m of estimated additional revenue. These included: (i) increase khat rate per bundle from \$2.50 to \$4; (ii) additional excise charge on petroleum products; (iii) removal of 'covid induced' temporary lower rates on dates, rice, and flour; (iv) increase in excise rates for tobacco, plastic bags and cosmetics; (v) resume full rate collections of electricity sales tax from 1 January 2021; and (vi) automation of rental income collection. (FGS reports, 2021)

The government has continued to create the necessary conditions for an efficient revenue mobilisation. For instance, the Extractive Industry Income Tax (EIIT) Law was enacted in March 2023.

With regards to the tax structure, there are direct taxes, indirect taxes and Non-Tax revenue in the department of In-land revenue. The Direct taxes include personal income taxes, rental tax and business corporate taxes. Indirect taxes include: Sales Taxes, Value-Added Taxes (VAT), Excise taxes, customs duty and withholding taxes.

Nonetheless, several tax policy reforms are still required to expand the tax base for corporate and personal income taxes, as well as increased tax rates for trade taxes, including more attention to service sectors such as the telecommunications companies, financial institutions and/or restaurants and hotels for corporate taxes. Also, exemptions on corporate income tax or on customs duties or sales taxes on imported goods should be more transparent, and equipment, automation and information systems. A transparent process is needed to limit exemptions and a negative impact on the competitive environment.

[Domestic Resource Mobilization in Somalia; 2021; World Bank]

Somalia's Revenue-share-Gross-Domestic-Product remains very low having improved to 8.8% in 2022 up from 4.9% of GDP in 2021, comparatively lower standing at about half of Africa's average tax-to-GDP rate of 16.5%. The Revenue Administration Law 2019 is Somalia's overarching regulatory framework guiding tax policy, while the domestic revenue mobilization remains a high priority for the Federal Government of Somali to achieve the HIPC completion point by end of 2023 as agreed under the IMF Extended Credit Policy Program 2020-2023. Despite the presence of the regulatory framework, For the country to raise taxes and service its public debt and interest payments, it has implemented a number of fiscal reforms and enhanced policies. In addition, it is developing the capacity to raise revenue through taxes is particularly important in Somalia is the issue of resource rents from Oil & Gas exploration to which Somalia earned USD7million. The other resource rents where the country is broadening the tax base from include forest and fishing licenses. Somalia's tax regime is characterized by multiple taxes entailing direct and indirect taxes. Direct taxes include; personal income tax, rental tax, withholding tax, and corporate tax, while indirect taxes include Value Added Tax (VAT), customs duty, excise, turnover taxes fees, charges, licenses levied by the Federal Government and State Governments institutions. In this context, the various levels of government do not coordinate well regarding issues of taxation, which calls for clarifying tax collection and administration between the various levels of authorities.Somalia operates a federal fiscal system, with the Federal Government and State Governments having different tax collection responsibilities. During 2023 March, the Federal Government of Somalia reached a consensus on the 'Fiscal Transfer Formula' which indicates how revenue can be collected and shared with the Federal member States (FMS). One FMS, Puntaland is yet to become a signatory to the Fiscal Transfer Formula'. Somalia's tax system guarantees political autonomy for the Federal Member states on the powers and functions of the federal government to collect and remit taxes. The Kampala (Nov, 2019) interim agreement on the division of functions and assignment of revenues stipulates shared functions and a notional split of 60:40 of shared revenues to FGS/FMS. The Revenue Administration Law (Oct 2019) provides for the harmonization of tax policies across the country but does not state which level of government will administer or retain any given tax. Currently, Somalia has agreements on the sharing of revenue from fisheries licenses and oil and gas (Baidoa Agreements), but states remain responsible for collecting all taxes with the Federal Government revenue coming from the Benadiar Region (Mogadishu). Whereas Somalia aspires to implement a progressive tax system, the current tax structure is heavily reliant on trade and sales taxes, which together comprise about 91% of tax revenue and therefore regressive in nature.[Revenue Administration Act (2019); Baidoa Revenue Sharing Agreement; World Bank]Regarding the broadening tax base, in the Approved Budget Appropriation Act 2023, domestic revenue is projected to increase by 14.2% in 2023 from 2021. As such, several tax reforms have been undertaken from 2020-2023 with tangible impact on revenue collection, including: (1) Revenue of the Federal Government is required to be deposited to the Treasury Single Account (TSA) at the Central Bank of Somalia within 24 hours working day of collection (2023), (2) All revenue and payment transactions are processed through the Somalia Financial Management Information System (SFMIS), introduction of a sales tax for import goods and reform of the personal income tax, (2) enforcement of Tax Identification Number (TIN) requirement and tax compliance certificate being subjected to renewal of annual licenses and anyone transacting with government, (3) restrictions and reduction of tax exemptions, (4) customs efficiency gains thanks to the introduction of electronic declarations and manifests, (5) automation of visa fees and working permits collection, and (6) collection of fly-over fees.The Revenue measures introduced in FY 2023 Budget strategy that are expected to increase domestic revenue in 2023 to \$276.3 million from \$229.6 million in 2021 include: i) enforcement of collection of spectrum fees expected increase revenue collection by \$6 million, (ii) increased tax on khat from \$3 to \$4 per kilogram (expected to bring \$6 million more revenue, (iii) increase tax collection by installing more electronic Point of Sale (POS) machines at

major business premises as per the ECF structural benchmark. This is expected to raise \$20 million.(iv) increase corporate income tax through improvements in tax compliance from tax audits, tax enforcement and introduction of tax clearance certificates. This is expected to raise \$5 million additional revenue. Overall, these 2023 measures are expected to increase domestic revenue in 2023 to \$276.3 million from \$229.6 million in 2021. During 2021, xix new tax measures were introduced in the FY2021 budget worth \$29.9m of estimated additional revenue. These included: (i) increase khat rate per bundle from \$2.50 to \$4; (ii) additional excise charge on petroleum products; (iii) removal of 'covid induced' temporary lower rates on dates, rice, and flour; (iv) increase in excise rates for tobacco, plastic bags and cosmetics; (v) resume full rate collections of electricity sales tax from 1 January 2021; and (vi) automation of rental income collection. (FGS reports, 2021)The government has continued to create the necessary conditions for an efficient revenue mobilisation. For instance, the Extractive Industry Income Tax (EIIT) Law was enacted in March 2023. Nonetheless, several tax policy reforms are still required to expand the tax base for corporate and personal income taxes, as well as increased tax rates for trade taxes, including more attention to service sectors such as the telecommunications companies, financial institutions and/or restaurants and hotels for corporate taxes. Also, exemptions on corporate income tax or on customs duties or sales taxes on imported goods should be more transparent, and equipment, automation and information systems. A transparent process is needed to limit exemptions and a negative impact on the competitive environment.[Domestic Resource Mobilization in Somalia; 2021; World Bank]

14.b. Tax administration

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

Tax administration is continuously improving, while the cost of revenue generation has noticeably declined. The efficiency in revenue collection has been enhanced as evidenced by the annual revenue growth registered in 2018 and 2019 was about 17%. The projections for 2023 and 2024 indicates domestic revenue will increase by 15% annually in 2023 and 2024. Cases of corruption and political interference have been reported although eligibility for preferential rates and exemptions is largely transparent. The tax laws apply the principle of voluntary compliance, and the implementation of tax audits is helping in increasing compliance.

In 2019 Somalia's tax administration framework was strengthened as several new laws were enacted:

Revenue Administration Law is functional; Amended Customs Law is operational; Public Financial Law is functional; Anti-corruption bill has been signed into law.

Additional legislation governing customs taxes has been approved by Parliament and (as of March 1, 2020) awaits the President's signature.

These laws represent a great achievement on the road to rule-based and merit considerations that support transparency. They support the modernization of tax administration by covering taxpayer registration, assessment, refunds, certificates of tax clearance, tax agents (and is applicable to customs). The enactment of the Law and supporting measures to improve tax administration are expected to boost revenue collection although during 2021 -2022, the annual revenue growth stagnated largely on account of COVID-19, climatic shocks as well as the geopolitical conflict related to the invasion of Ukraine by Russia. Generally, the efficiency in revenue collection has been enhanced as evidenced by the annual revenue growth registered in 2018 and 2019 was about 17%. The projections for 2023 and 2024 indicates domestic revenue will increase by 15% annually in 2023 and 2024. While trade taxes remain dominant, its contribution to total revenue is fast falling. It has dropped from 85% in 2013 to 47% in 2019. The modernization of tax collection, coupled with the elimination of open-ended exemptions have since 2017 have doubled the share of revenue to GDP, however, the tax to GDP share is still low averaging about 3% during 2020-2022. Tax exemptions go through a very strict process, and it is only approved for verified non-governmental non-profit organizations and the diplomatic representatives. In 2023, the Budget Strategy paper indicated that Government would streamline the issuance of exemptions to eliminate discretionary exemptions and improve tax revenue forecasting.

The federal government has stepped up its fight against corruption through the passing of the Anti-corruption law and the setting up of an Anti-corruption Commission, which has also helped in avoiding revenue leakages. A couple of public officials were arrested and charged with corruption during 2020/21 as part of the enforcement measures. Somalia has also ratified the UN conventions on corruption but is yet to do the same under the African Union.

Daily information sharing between revenue collection by regional tax offices with the HQ has improved through the operationalization of the Somali Financial Management System and Customs Management System. This has also resulted in the cost of revenue collection falling. All contractors doing business with the federal government, the international and foreign entities are required to have tax identification numbers and tax clearance certificates thereby increasing formalization of business activities.

With regards to tax administration reforms, according to the 2023 budget strategy, several measures are being implemented that are expected to widen the tax revenue base including:

1. Government suppliers and contractors are now required to pay their corporate income tax in advance through a withholding tax arrangement,
2. introduction of excise taxes on various items such processed juices, internet data, outbound cross border money transfer,
3. introduction of export levy on fish exports, and

4. introduction of an EVC platform usage charge.

During 2021 the following tax administration reforms were implemented including: (i) tax awareness education in FMS capitals with a view to embrace harmonization of the tax and customs systems which is expected to increase revenue for both FGS and federal member states; (ii) implementation of a second tax audit program aimed at improving tax compliance in Somalia; (iii) establishment of a Risk Management Unit within tax administration, which is expected to guide on areas where more revenue could be realised; (iv) drafting of the new income tax bill for Somalia, which is aimed at facilitating the much needed improvements in the mobilization of income tax, which currently accounts for only 6.5% of total domestic revenue compared to about 25% in FCV countries; (v) modern tax administration functions such as registration, filing/assessment, payment, audit and arrears management have been established under the Large and Medium Taxpayers Office; and (vi) construction of the five inland revenue offices and the Taxation Training Institute and Fiscal Police Headquarters were completed and launched in 2021.

In addition:

1. Against the background of insecurity due to Al-Shabaab militants who collect most of the taxes in the rural areas under their control,, the tax revenue collections remains very low at about 2.1% of GDP in 2021-2022 challenged by multiple shocks including COVID-19, drought, desert locust, and political uncertainty. The administration costs over time (past 24 months) remains high due to the insecurity risk. In addition, there has been massive difficulty in collecting resource rents from forestry and illegal charcoal exports, as well as fisheries owing to the illegal nature of theunreported fishing. Enforcement measures would make the tax collection cost to be very high largely due to insecurity and safety.

2. Efforts are underway to have eliminate corruption from the tax collection system. As such, the government is scaling up the use of point of sales device. During March 2022, the Somali Business Registration System (SBRS), which serves as a “one-stop shop” business registration website was launched to streamline licensing approvals and reduce corruption. The SBRS is an initiative of the Ministry of Commerce and Industry.

3. The new government has emphasized its zero-tolerance policy towards corruption and is thus working towards curbing corruption in all sectors. Somali's Criminal Code criminalises active and passive bribery, attempted corruption, extortion, bribing a foreign official, and money laundering. During 2016, the Anti-Money Laundering and Counter Financing of Terrorism Act 2016 was enacted. This law provides for the offence of money laundering and terrorism financing and provides for the civil criminal penalties.

4. Regarding the existence of an appeal mechanism, the World Bank 2021 report on Domestic Resource Mobilization confirms that Somalia is yet to establish a Tax appeals Board. The representatives of the private sector are requesting for the Federal Government to accelerate the establishment of an appeals board to improve the tax legitimacy in Somalia.

5. With regards to the use of information system and technology, Somalia is implementing a program on Customs modernization, under which the Somali Customs Tariff 2022 was established. According to the Government's Budget strategy 2023, the Federal Government of Somalia (FGS) reached agreement with the Federal Member States (FMS) by adopting a single tariff schedule at all ports in Somalia during 2023 as part of the commitment to enhance domestic revenue mobilization. This is expected to foster greater revenue mobilization and foster trade integration. In addition, the Customs automated system (CAS) has been piloted in the central Administration in Mogadishu port and airport, prior to the roll out in Bosaso, Garowe, and Kismayo.

1. Against the background of insecurity due to Al-Shabaab militants who collect most of the taxes in the areas under their control mostly rural areas, the tax revenue collections remains very low at about 2.1% of GDP in 2021-2022 challenged by multiple shocks including COVID-19, drought, desert locust, and political uncertainty administration costs over time (past 24 months). In addition, there has been massive difficulty in collecting resource rents from charcoal export, forestry and fisheries owing to the illegal, unreported fishing. Enforcement measures would make the tax collection cost to be very high largely due to insecurity and safety. 2. Efforts are underway to eliminate corruption from the tax collection system. As such, the federal government is scaling up the use of point of sales devices. In addition, during March 2022, the Somali Business Registration System (SBRS), which serves as a "one-stop shop" business registration website was launched to streamline licensing approvals and reduce corruption. The SBRS is an initiative of the Ministry of Commerce and Industry. 3. The new government has emphasized its zero-tolerance policy towards corruption, and is thus working towards curbing corruption in all sectors. Somali's Criminal Code criminalises active and passive bribery, attempted corruption, extortion, bribing a foreign official, and money laundering. During 2016, the Anti-Money Laundering and Counter Financing of Terrorism Act 2016 was enacted. This law provides for the offence of money laundering and terrorism financing, and provides for the civil criminal penalties. 4. Regarding the existence of an appeal mechanism, the World Bank 2021 report on Domestic Resource Mobilisation confirms that Somalia is yet to establish a Tax appeals Board. The representatives of the private sector are requesting for the Federal Government to accelerate the establishment of an appeals board to improve the tax legitimacy in Somalia. 5. With regards to the use of information system and technology, Somalia is implementing a program on Customs modernization, under which the Somali Customs Tariff 2022 was established. According to the Government's Budget strategy 2023, the Federal Government of Somalia (FGS) reached agreement with the Federal Member States (FMS) by adopting a single tariff schedule at all ports in Somalia during 2023 as part of the commitment to enhance domestic revenue mobilization. This is expected to foster greater revenue mobilization and foster trade integration. In addition, the Customs automated system (CAS) has been piloted in the central Administration in Mogadishu port and airport, prior to the roll out in Bosaso, Garowe, and

Tax administration is continuously improving, while the cost of revenue generation has noticeably declined. The efficiency in revenue collection has been enhanced as evidenced by the annual revenue growth registered in 2018 and 2019 was about 17%. The projections for 2023 and 2024 indicates domestic revenue will increase by 15% annually in 2023 and 2024. Cases of corruption and political interference have been reported although eligibility for preferential rates and exemptions is largely transparent. The tax laws apply the principle of voluntary compliance, and the implementation of tax audits is helping in increasing compliance. In 2019 Somalia's tax administration framework was strengthened as several new laws were enacted: Revenue Administration Law is functional; Amended Customs Law is operational; Public Financial Law is functional; Anti-corruption bill has been signed into law. Additional legislation governing customs taxes has been approved by Parliament and (as of March 1, 2020) awaits the President's signature. These laws represent a great achievement on the road to rule-based and merit considerations that support transparency. They support the modernization of tax administration by covering taxpayer registration, assessment, refunds, certificates of tax clearance, tax agents (and is applicable to customs. The enactment of the Law and supporting measures to improve tax administration are expected to boost revenue collection although during 2021 -2022, the annual revenue

growth stagnated largely on account of COVID-19, climatic shocks as well as the geopolitical conflict related to the invasion of Ukraine by Russia. Generally, the efficiency in revenue collection has been enhanced as evidenced by the annual revenue growth registered in 2018 and 2019 was about 17%. The projections for 2023 and 2024 indicates domestic revenue will increase by 15% annually in 2023 and 2024. While trade taxes remain dominant, its contribution to total revenue is fast falling. It has dropped from 85% in 2013 to 47% in 2019. The modernization of tax collection, coupled with the elimination of open-ended exemptions have since 2017 have doubled the share of revenue to GDP, however, the tax to GDP share is still low averaging about 3% during 2020-2022. Tax exemptions go through a very strict process, and it is only approved for verified non-governmental non-profit organizations and the diplomatic representatives. In 2023, the Budget Strategy paper indicated that Government would streamline the issuance of exemptions to eliminate discretionary exemptions and improve tax revenue forecasting. The federal government has stepped up its fight against corruption through the passing of the Anti-corruption law and the setting up of an Anti-corruption Commission, which has also helped in avoiding revenue leakages. A couple of public officials were arrested and charged with corruption during 2020/21 as part of the enforcement measures. Somalia has also ratified the UN conventions on corruption but is yet to do the same under the African Union. Daily information sharing between revenue collection by regional tax offices with the HQ has improved through the operationalization of the Somali Financial Management System and Customs Management System. This has also resulted in the cost of revenue collection falling. All contractors doing business with the federal government, the international and foreign entities are required to have tax identification numbers and tax clearance certificates thereby increasing formalization of business activities. With regards to tax administration reforms, according to the 2023 budget strategy, several measures are being implemented that are expected to widen the tax revenue base including: (i)

Government suppliers and contractors are now required to pay their corporate income tax in advance through a withholding tax arrangement, (ii) introduction of excise taxes on various items such processed juices, internet data, outbound cross border money transfer, (iii) introduction of export levy on fish exports, and (iv) introduction of an EVC platform usage charge. During 2021 the following tax administration reforms were implemented including: (i) tax awareness education in FMS capitals with a view to embrace harmonization of the tax and customs systems which is expected to increase revenue for both FGS and federal member states; (ii) implementation of a second tax audit program aimed at improving tax compliance in Somalia; (iii) establishment of a Risk Management Unit within tax administration, which is expected to guide on areas where more revenue could be realised; (iv) drafting of the new income tax bill for Somalia, which is aimed at facilitating the much needed improvements in the mobilization of income tax, which currently accounts for only 6.5% of total domestic revenue compared to about 25% in FCV countries; (v) modern tax administration functions such as registration, filing/assessment, payment, audit and arrears management have been established under the Large and Medium Taxpayers Office; and (vi) construction of the five inland revenue offices and the Taxation Training Institute and Fiscal Police Headquarters were completed and launched in 2021.

15. Quality of Public Administration

Criteria Score: 2

15.a. Policy coordination and responsiveness

Score Type	Value
Draft Score	2.0

Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

There hasn't been much progression since the last review of 2021. Mechanisms for policy coordination are improving but remain weak. According to the Bertelsmann Transformation Index (BTI 2022) policy coordination in Somalia remains very weak, and that confrontations between ministries and between federal states and the Federal government of Somalia (FGS) initiated reforms in security and finance sectors, among which are biometric registration of security forces and the integration of soldiers into an electronic financial system. There are still conflicting objectives and a poor record of negotiating policies with various political stakeholders, including clans and their traditional leaders and well as parallel mandates within the key ministries. generally function effectively The public service law and regulations are guiding the human resource management of the public service. The government commissioned a human resource audit and implemented its recommendations to increase the public administration effectiveness and efficiency. During March 2023, as part of the HIPC completion triggers the FGS signed an agreement with the Federal Member States on how to handle Fiscal Transfers. There was a restructuring and modernization exercise carried out across all government institutions by independent consultants commissioned by the World Bank in order to foster good governance.

The core administration demonstrates moderate internal management capacity: major personnel actions, such as recruitment and selection, promotions, and dismissals generally reflect merit and performance; terms of employment, and basic salaries are generally higher than those offered by the private sector for comparable educational levels. Average salaries range from US\$700 for graduate staff to as little as US\$198 for unskilled labor. Thus, the public administration can compete reasonably for scarce skill sets it requires. However, the public sector pay regime requires some improvements to motivate effort within the public service but this could be difficult given the low revenue levels as percent of GDP.

Government capacity to ensure quality in policy and regulatory management is improving. Cabinet decisions, presidential or ministerial policy announcements are almost never dropped or otherwise not implemented; institutional responsibilities for data collection, analysis and reporting in the sectors are clear; and the bodies with responsibility for sector regulation are regarded as independent in practice with adequate regulatory quality management arrangements in place.

[FGS, FGR 2020]

15.b. Service delivery and operational efficiency

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0

Second Draft Score	2.0
Final Score	2.0

Country Notes:

Somalia is assessed with a score of 8.2 out of nine public management indicators under the Mo Ibrahim Index of African Governance 2022. Somalia ranks 53rd out of 54 countries 52 placing it among the worse 5 performers in Africa in 2021 although its score has risen 23.2 points out of 100. The greatest gains in operational efficiency have been made in social protection (+25.3 points); Human development (+11.8 points), however, equal access to public service has registered a decline (-2.0 points). The Financial Governance report of 2022 indicates that the delays in holding the Presidential elections from 2020-2021 delayed the political transition, thus increasing uncertainties and financial governance risk during 2021 to 2022. The delayed elections resulted into a constrained relations between the Federal Government on the one hand as well as the Multinational Development Partners that subsequently suspended Budget Support inflows to the Government, thus causing acute budget pressures which in turn affected service delivery and operational efficiency. For instance, during 2021, the Federal Government revenue could only support 50% of the total expenditure as salaries alone exceeded the domestic revenue collections by about USD 20million,thus the FGS faced a monthly deficit of USD 8million monthly. The Donors eventually re-instated Budget support in 2022 after elections.

To improve fiscal transparency, the Federal Government of Somalia signed a Fiscal Transfer Formul agreement with the Federal Member states in March 2023 to improve fiscal decentralization and service delivery at the Federal Member State level. Coordination of actions between the FGS - FMS however still needs to be improved further for better service delivery and operational efficiency, especially given the weak state of institutions and lack of qualified staff across all Ministries and Government Agencies.

The continuation of the Capacity Injection Mechanism (CIM), an instrument which allows fast-tracking of merit-based recruitment of senior civil servants and specialist advisors has been instrumental in addressing some the challenges associated with capacity. Challenges still remain, as staff turnover is high due to either the frequent changes in ministers or heads of agencies who in turn would like to bring their own trusted lieutenants or movement by those that are qualified to better paying jobs outside the country. The World Bank has been implementing a civil service reform project in Somaliland since 2016 and will be ending in June 2022. Through this project aims at strengthening basic functions for payroll, human resources and policy management in selected central government agencies and line ministries, and to establish a pension system for civil servants. For the rest of Somalia, such reforms are still to take place.

[World Bank, IIAG, UN]

Somalia is assessed with a score of 8.2 out of nine public management indicators under the Mo Ibrahim Index of African Governance 2022. Somalia ranks 53rd out of 54 countries 52 placing it among the worse 5 performers in Africa in 2021 although its score has risen 23.2 points out of 100. The greatest gains in

operational efficiency have been made in social protection (+25.3 points); Human development (+11.8 points), however, equal access to public service has registered a decline (-2.0 points). The Financial Governance report of 2020 indicates that three achievements that stand out since March 2017 to June 2020 were: i) a shift towards competitive tendering for public procurements, such as rations contracts, ii) FGS concluded the renegotiation of two major concession agreements for the Mogadishu airport and the Mogadishu port, iii) improved the legal framework for public procurement through an amended Procurement Act and new supporting regulations. Coordination of actions between the FGS - FMS however still needs to be improved further for better service delivery and operational efficiency, especially given the weak state of institutions and lack of qualified staff across all Ministries and Government Agencies. The continuation of the Capacity Injection Mechanism (CIM), an instrument which allows fast tracking of merit-based recruitment of senior civil servants and specialist advisors has been instrumental in addressing some the challenges associated with capacity. Challenges still remain, as staff turnover is high due to either the frequent changes in ministers or heads of agencies who in turn would like to bring their own trusted lieutenants or movement by those that are qualified to better paying jobs outside the country. The World Bank has been implementing a civil service reform project in Somaliland since 2016 and will be ending in June 2022. Through this project aims at strengthening basic functions for payroll, human resources and policy management in selected central government agencies and line ministries, and to establish a pension system for civil servants. For the rest of Somalia, such reforms are still to take place. [World Bank, IIAG, UN]

15.c. Merit and ethics

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

From a policy point, merit is the predominant factor in obtaining appointments or promotion in all government entities, but the clan-based practices have made implementation of such policy impractical. Extensive patronage still exists in all regions of Somalia as is the case at the FGS level and hiring and promotion of civil servants has to be balanced with clan consideration. As a result, tenure for positions in government tend to be subject to ministerial changes and thus make building a career in civil service difficult.

The National Civil Service Commission is responsible for setting the human resources policies and regulations. Several improvements to the HR procedures (including establishment control, recruitment, HR records management, termination, retirement) were approved by the Commission. These efforts are meant to create a professional civil service where employment conditions are clearly specified, with employment based on open competition and merit-based recruitment. A formal recruitment process for filling civil service positions has been introduced but widespread variations exist.

[World Bank, IMF, UNDP, EU]

15.d. Pay adequacy and management of the wage bill

No score data available for this subcriteria.

16. Transparency, Accountability, and Corruption in the Public Sector

Criteria Score: 1.5

16.a. Accountability of the executive to oversight institutions

Score Type	Value
Draft Score	1.5
Reviewed Score	1.5
Second Draft Score	1.5
Final Score	1.5

Country Notes:

Somalia has made some progress in the PFM arena. The overall Ibrahim Index of African Governance (IIAG) 2022 the score for accountability and transparency improved from 8.0 out of 100 in 2013 to 19.2 in 2019 but declined to 16.4 out of 100 in 2021. This improvement was largely driven by gains in ratings on human development, and foundations for economic opportunity, while security, participation and human rights worsened. According to the 2022 IIAG Index, Somalia recorded the largest improvement in IIAG scores over the 2010-2019 period (+29.5%) in mobile communications. Somalia's score on the Bank's Country Policy and Institutional Assessment (CPIA) showed some improvement from 1.1 out of a possible score of 6 in 2014 to 2.1 in 2020. The improvements have been registered across all dimensions of governance, with the greatest gains made on quality of budgets and financial management. The IMF 2020 Article IV report also noted improvements in expenditure management and revenue mobilization.

Somalia's Provisional Constitution criminalizes corruption (including abuse of office, embezzlement and bribery). As stated in the Somalia State of Accountability (Marqaati) report of 2019, while major issues remain, some steps were taken in the past year to ensure Somalia moves towards creating accountability at the federal level. Corruption levels, however, worsened at the federal member state (FMS) level due to elections. The federal government took modest steps to improve transparency and accountability and increased public data availability by publishing semi-annual reports on expenditures in 2018 and 2019. The Auditor General released two reports for 2018 and 2019, which highlighted institutional weaknesses at various government departments. The FGS cabinet endorsed the

National Anti-Corruption Strategy (NACS) that seeks to fight corruption; strengthen the integrity of institutions; build a merit-based, professional civil service; ensure the transparency of public finance management; and promote a culture of accountability. The FGS also ratified the African Union Convention on Preventing and Combating Corruption (AUPCC). However, Somalia is still to ratify the United Nations Convention against Corruption (UNCAC) although a memorandum of agreement that enables the UN to work on the modalities towards ratification is in place.

As mentioned in the section on Public Financial Management, challenges with corruption reflect a general weakness of the governance environment but positive steps are being taken (See: <https://www.garoweonline.com/en/news/somalia/health-officials-arraigned-in-somalia-court-over-corruption-involvingdonor-funds>). The Attorney General's request for a forensic audit of payments made by the Ministry of Health from 2017 to 2019 unearthed misappropriation of funds in the Ministry of Health resulting in prosecutions and conviction of those involved.

While at policy and legal level, some institutional checks and balances are in place, implementation capacity remains weak. In addition, the Somali power structures remain convoluted as has been seen in the elections crisis of 2020/21 where role of parliament appeared compromised. In addition, the independence of the Auditor General's Office remains unclear as the legal instrument to guarantee such remains to be ratified.

In 2019, the Somali government enacted the Anti-corruption law and established the High Anti-Corruption Court. Members to the Anti-corruption Commission were also nominated but these are yet to approved by parliament. These developments signal the first steps in fighting corruption. Thus, in principle, the requisite system and instruments are in place but implementation is still at the early stage. The Africa Integrity Index (AII) of 2019 gives a score of zero for judiciary independence for the period 2014-2019. The World Bank and AfDB governance projects and the EU budget support operation, as well as IMF post-arrears clearance program seek to reinforce the progress that Somalia has made in improving transparency and accountability. The arrest, prosecution and jailing of the Health Ministry officials in 2020 marks a major milestone in fighting corruption.

[FGC Reports, TCI, Marqaati, World Bank, IMF, AfDB]

16.b. Access of civil society to information on public affairs

Score Type	Value
Draft Score	1.5
Reviewed Score	1.5
Second Draft Score	1.5
Final Score	1.5

Country Notes:

African Governance (IAG) 2022 indicates that the Civil Society space has deteriorated during 2012-2021 by –9%, ranking 35 out of 54 countries.

Multiple civil society organizations emerged in Somalia during the absence of a central government. Few of these organizations had a national agenda but tended to focus on local issues and needs, especially education and health. With the establishment of the Federal Government in 2012, engagement with the civic organizations has been limited although a national umbrella body, the Somalia NGO Consortium, exists. The legal framework for civic groups is clearly specified in Puntland and Somaliland, while at the FGS level, the NGO bill is still to be approved by the parliament. Additionally, the ever- changing government structures have not supported a sustained and structured CSO-Government dialogue.

A few institutions have arisen in recent years, including the Somali opposition parties, that seek to hold the government to account. For example, the Facility for Talo and Leadership (FTL Somalia) is an independent Policy-Institute and a Training Centre that is dedicated to promoting peace, democracy and justice by providing, inter alia, a platform for dialogue and diplomacy. However, the low literacy rates limit their reach to a large section of the Somali population. Improved reporting on government finances in 2018 and 2019, as well as the availability of the audit reports provides an opportunity to civic organizations to scrutinize the activities of government. As similar reporting standards become entrenched in the country, such scrutiny will be extended to states.

The Ministry of Finance now makes all available financial reports available through its website, reflecting attempts to be more transparent with the public regarding revenue and expenditure positions while the Ministry of Planning is also engaging widely with the population and other stakeholders in the planning processes. In addition, all contracts above USD 100,000 have all details published for public information.

Improvements on the timeliness of the publication of the relevant information still needs to be improved while also widening the channels through which such information is made available to the public. A major constraint, though, is the human capacity deficiencies, as well as effective communication mechanisms/channels to reach Somalis across the whole country. However, tThe Mo Ibrahim 2020 IAG Index ranks Somalia 46 - with a score of 0/100 - out of 54 countries on the sub-criteria of "Accessibility of information."In terms of freedom of the press, the 2021 Press Freedom Index from Reporters Without Borders ranks Somalia 161th out of 180 countries.

The development coordination role of the government has improved, as exemplified by the attempts at wide consultations by the Ministry of Planning, Investment and Economic Development, which include the civil society and state governments. The Ministry of Finance also holds the Finance Ministers Forum that deliberates on resource sharing.

[World Bank, SDRF Reports, NGO Consortium of Somalia, MOF, FGR]

16.c. State captured by narrow vested interests

Score Type	Value
------------	-------

Draft Score	1.5
Reviewed Score	1.5
Second Draft Score	1.5
Final Score	1.5

Country Notes:

The Auditor General Bill drafted in 2017 remains unenacted as there are issues relating to the independence of the Auditor General as provided for in the provisional constitutions, where it is stated that measures will be taken to increase the independence and capacity of the external audit office.

In the telecom sector, one of the formally organized sectors, estimates suggest that Somali operators have typically paid less than 4% annually over the past few years (and even less in 2021 where revenues from sales tax on telecom fell by 75 percent in 2020 compared to 2019), largely in the form of voluntary payments rather than assessed revenues. This compares badly to Sub-Saharan Africa's telecom operators' average of 26% in annual income in taxes and non-tax revenues. The National Communications Act passed in 2017 requires that the operators pay their tax dues annually, yet many have not done so and with no consequences. Expectations that the new law would enable the MoF to assess the revenues payable by telecom operators from general taxes such as sales tax on mobile airtime and corporate income tax as well as the sector-specific fees, such as operator licences and spectrum allocations have therefore not been realized.

The Marqaati identified cases of corruption involving low-level police officers and seaport officials in July and August 2018 but no prosecutions were made. This situation seems to have changed in 2020 as corruption cases have resulted in jailing of those involved once proven through the courts. As a way of getting more information available to the public, Marqaati is now publishing frequent accountability reports on the operations of government ministries.

As part of a national anticorruption strategy adopted by the cabinet in June 2020, the government ratified the African Union Convention on Preventing and Combating Corruption in June 2020 and announced that it would join and sign the UN Convention against Corruption in September 2021.

Addressing perceptions on the capture of watchdog institutions remains to be addressed at the implementation level to increase the trust in government.

[Marqaati, MoF, FGR]

(E) Infrastructure and Regional Integration

17. Infrastructure Development

Criteria Score: 1.667

17.a. Sector strategy/policy

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

In 2019, Somalia developed its National Infrastructure Development Strategy (2019-2063) whose objective is to *revitalize, operate and maintain essential infrastructure and services to improve stability and set foundations for social, economic and sustainable development*. During its first five years that coincides with the National Development Plan 9 (NDP-9), the focus will be on setting the organizational structures & capacity, infrastructure standards, legislations, priorities, strategies, mobilize resources and planning for long term infrastructure development, land and urban planning, while simultaneously rehabilitating, (re)constructing, upgrading, mapping and developing the existing infrastructure systems. This process will ensure that infrastructure development enhances employment, increases food security, builds up resilience to climate change and variability, respect Somali cultural heritages and is environmentally and economically sustainable. NDP-9 acknowledges the need to focus on infrastructure development as part of supporting economic growth and reduction of widespread poverty in Somalia. Most of the country's infrastructure was destroyed during the conflict years and needs rehabilitation and development. The challenge facing Somalia currently is that its institutions are being built and at their early stages to be able to deliver in a complex environment. As a first step, strategies to address the infrastructure deficits have been developed per each sub-sector to cover the areas below as follows:

a. 1. *Transport*

- a. Reconstruction and maintenance of existing transport infrastructure (including airports, seaports and roads/corridors) to support economic growth and access public services
- b. Rehabilitation and building of urban infrastructure
- c. Maximize employment creation during infrastructure development, with a focus on young people and the displaced

- d. Strengthening of policy and legal frameworks, and institutional and technical capacity
- e. Integration of databases and systems for vehicle registration and driving licences across Somalia
- f. Ensuring environmental protection is adequately factored into intervention design and implementation

2. *Energy*

i) The following are the important developments in the Energy Sector in the 2022-2023:

a- Developed strategies to increase renewable and non-renewable energy sources under the NDP-9 2022-2024 and Power Sector Master Plan in 2018.

b- Development partners are supporting the GoS to reduce dependency on fossils fuel generation by increasing the clean renewable energy supply from Solar, Wind etc. In this regard the DPs are providing support, AfDB the Households Access to Renewable Energy and Advanced Cooking Technologies project (UA 5.75 million equivalent to USD 8.0 million), WB approved financing of USD 150 million for Somalia Electricity Sector Recovery project, FCDO (UK) hybrid mini-grids PV Solar projects etc.

c- National Energy policy issued in 2019 that defines the mandate of the energy ministry, and the Energy Act that defines the mandates and responsibility of the sector institutions and private sector participation in the energy sector approved by the parliament in March 2023. Accordingly, the Government has established a National Electricity Authority (NEA) independent body responsible for regulating the electricity sector in accordance with the Energy Act's goals.

d- Federal Government of Somalia launched in Feb. 2023 the Somalia project of the Africa Minigrids Program (AMP) to increase access to electricity and bring new development opportunities to rural communities while contributing to putting the country on a sustainable development path.

e- The Private Energy Service providers are investing to increase the generation capacity and also trying to increase the renewable energy mix using the Solar PV generation and Hybrid (Solar PV & Diesel) Systems

ii) Developing renewable and non-renewable energy sources to increase supply

Most of the electricity generation is based on high speed diesel generators using fossils fuels, which is imported and heavy dependent on imported fuel continues to make Somalia highly vulnerable to fluctuations in global fuel prices. About 80% to 90%.[1] of its population relies on biofuels - wood and charcoal, for cooking and lighting (often kerosene), which poses significant health risks to the population. The high demand for these biofuels has caused significant environmental degradation, deforestation and increased CO2 emissions.

The NDP-9 specified on opportunities for a diversified energy portfolio to reduce dependency on fossil fuels and to reach rural and pre-urban populations. Both solar and wind resources have significant potentials in the northern and coastal regions of Somalia. And developing strategies to increase renewable and non-renewable energy sources. In this regard development partners are supporting the GoS to reduce dependency on fossil fuel generation by increasing the clean renewable energy supply from Solar, Wind etc. In this regard the DPs are providing support, AfDB the Households Access to Renewable Energy and Advanced Cooking Technologies project, WB Somalia Electricity Sector Recovery project, FCDO (UK) hybrid mini-grids PV Solar projects etc.

iii) Establishing a national regulatory authority for energy market governance

The sector requires developing policies, regulations, procedures, and guidelines to create an enabling environment and a level playing field for public and private sectors (PPPs) participation. National Energy policy issued in 2019 that defines the mandate of the energy ministry, and the Energy Act that defines the mandates and responsibility of the sector institutions and private sector participation in the energy sector has been approved by the parliament in March 2023. Accordingly, the Government has established a **National Electricity Authority (NEA)**.

The AfDB & other DPs providing a TA & Capacity building support to establish the required regulatory frameworks and National Regulatory Authority to improve the electricity sector regulation and governance structure.

iv) the administrative and technical capacity of the federal and states ministries of energy

The Ministry of Energy and Water Resources (MoEWR) which oversees operations in the electricity sector requires institutional strengthening to enforce regulations and codes of practice to enforce standards for quality of service and safety of ESP personals and electricity users. MoEWR mainly involved in providing licences to electricity services providers. . There are also Ministries responsible for electricity at the Federal States level that require significant capacity support to make them fully functional and also the power sector faces significant challenges, including lack of sufficiently trained labor.

- v) Ensuring the needs of vulnerable groups – particularly women, the youth and displaced persons are catered for at both design and implementation stages.

There National Energy Policy (2019) have mentioned the focus areas including poverty reduction by focusing creating electricity access to poor population, stakeholders' consultation on design and implementation stages. But there is a need to implicitly include enabling environment to ensure the need of vulnerable groups, particularly women, the youth and displaced person and the DPs including the AfDB providing TA & Capacity building support on the policy side and creating awareness.

3. ICT

- a. Extension of the national backbone infrastructure to connect all major urban centres with redundant/duplicate links (to ensure reliability), as well as addressing last mile challenges to ensure universal access to broadband, including efficient interconnection and expansion of the existing 3/4G mobile coverage;
- b. Develop a regulatory framework for telecom operators to take part in (within and cross sector) infrastructure sharing and dig-once policies, supported by other utility network development
- c. Ensuring critical infrastructure is protected – establishing a Cybersecurity and Privacy group to oversee the development and enforcement of national cybersecurity policies, and develop a Computer Emergency Response Team (CERT)
- d. Develop a postal services policy to establish digital addressing and spatial data infrastructure.

4. *Water and Sanitation*

Access to water services for Somalia's population remains inadequate due to drought. Only 58.3% of Somalia's population has access to at least basic drinking water whereas the figure is lower for sanitation at 40.6%; with 21% of the Somali population still practicing open defecation. The Joint Monitoring Program Report by UNICEF WHO published in 2023 shows that although access to basic water and sanitation services in Somalia has improved over the years (2000-2022), access figures to at least basic drinking water and sanitation services remains low compared to other countries.

Albeit marginal, there has been a slight increase in water supply and sanitation access figures from 1.8% and 1.3% for basic drinking water and sanitation services respectively compared to the 2020 access figures.

Notable disparities in access to improved water services between urban and rural areas exist. The urban population water services access rate increased from 79.1 percent in (2020) to 80.1 percent (2022), while that in rural areas increased from 37.1 percent in 2020 to 38.6 percent in 2022. As shown in Graphs 1&2 below, the population using basic sanitation in urban centres increased from 56.4 percent (2020) to 57 percent in 2022, while the numbers with access to sanitation in rural areas increased from 24.7 percent in 2020 to 25.9 percent in 2022. The overall country statistics are therefore skewed by the relatively high levels of access in urban areas and far lower access in rural areas.

Access to hygiene and sanitation services remains limited. In 2022 an estimated 25 percent of the population had access to basic hygiene nationally (19 percent rural and 32 percent urban).[2] The poor WASH conditions are linked to broader health challenges such as cholera and typhoid fever. According to the World Health Organization (2018) diarrhoeal diseases deaths in Somalia reached 16,868 or 11.03 percent of total deaths. The age adjusted death rate was 125.88/100,000 of population, ranking Somalia the 10th highest country in the world for this form of preventable deaths.[3]

With regards to strategy, Somalia launched its National Water Strategy (NWRS) covering the period (2021 – 2025) in August 2021. The Strategy which has 13 Flagship Projects recognises that water services must be regulated to ensure water security and consistent good quality water and sanitation services. To this end, Goal 1 of the NWRS which is also Flagship Project 1 correctly identified the establishment of a *Functional water sector governance framework* as Goal 1. Strengthening governance provides the basis for Somalia's ability to effectively manage scarce water resources and to ensure their sustainable and equitable development.

II. Efforts towards Developing Water Sector Policies, Strategies and Acts

The Bank supported the preparation of a *Water Policy for FGS* under the *Improving Access to Water Supply and Sanitation Project*, although it is yet to be tabled in Parliament. In a related initiative under the same project, the Bank supported the preparation of the *Water Act for Jubbaland* (approved), and a *Water Act for Southwest* (approved). The approval of the Water Act for Jubbaland led to the creation of the Jubbaland Water Agency.

The other federal states have created the following organisations to deal with water supply and sanitation: (i) Galmudug: Ministry of Water and Energy; (ii) Southwest: Ministry of Water and Mineral resources; (iii) Jubbaland: Ministry of Water, Energy and Environment and (iv) Somaliland: Ministry of Water Resources.

The FGS' MoEWR's inability to finalise and approve the Water Policy to pave way for the development of the Water law has meant that Somalia has still not regularised how water resources are developed, managed, and how water services are safely provided. The NWRS has thus provided an important instrument to guide the strengthening of the Somali water sector.

II Outcomes of implementing the policies – are they effective? What achievements have been registered?

Following the development of the NWRS, the MoEWR established a Water Sector Coordination Facility (WSCF) to, (i) operationalise the Strategy and support the implementation of flagship Projects that will facilitate interventions to support the implementation of the NWRS and strengthen the role of the

government actors to lead and coordinate interventions in the water sector complimented by a sustainable financing framework.

The Facility which brings together the different actors involved in the water sector initiatives to efficiently coordinate programs that include national, state, and local level interventions, has formulated the building blocks for improving sector governance to facilitate alignment of sector programs both horizontally and vertically between the various sector ministries and agencies operating in the sector.

The WSCF has five technical working groups under the following themes:

- vi) Water Sector Investment Coordination Group,
- vii) Flood Control & Water for Irrigation Working Group,
- viii) Water Service Provision Working Group,
- ix) Groundwater & Water Harvesting Working Group and;
- x) Hydromet Working Group.

The working groups seek to Coordinate investments in the water sector to avoid duplication, ensure compliance, and to co-ordinate knowledge generation and sharing.

IV Improvements: What has changed in the last 12-18 months?

There have been improvements in the last 12-18 months within the water sector. The WSCF is fully functional, and all the Working Groups highlighted above have held their inaugural meetings to define the ToRs of specific working groups. Improvements registered so far in the sector include:

- xi) The WSCF is seen as the investment and knowledge sharing co-ordination platform for the sector. There has been marked improvement in the co-ordination of investments in the sector amongst Development Partners. Co-ordination challenges however remain at the Federal Member State Level.
- xii) The WSCF has provided a knowledge sharing platform amongst the DPs. For example at the last meeting, the World Bank Group announced that they would be undertaking a study on Urban Water Supply to inform their potential Urban Water investments in Somalia going forward. Since the AfDB is financing the Kismayo/Baidao Urban Water Supply Project, the Bank will share its experience so far. The Bank would equally benefit from the scientific analysis of the WB report to inform the design of its operations going forward.
- xiii) The Facility has brought together the UN Agencies working in the humanitarian/emergence space and the DPs focusing on the long-term climate resilient infrastructure development. Consensus has now been reached amongst sector actors on the need to gradually shift from the short-term emergency

interventions to long-term planning for sustained water resources development.

This increased collaboration and co-ordination will lead to:

- xiv) Co-ordinated development of water resources which would minimize exploitation of the water resources and contribute to water security
- xv) Minimize catchment degradation
- xvi) Increase in the number of people accessing clean water and sanitation services as the joint planning and co-ordination would lead to efficiency gains
- xvii) Co-ordinated efforts to protect people, property and livestock from the natural disasters through sharing information from the established early warning systems e.g. from El-Nino, drought and flooding
- xviii) Under the Kismayo/Baidoa Water Supply and Sanitation project which is financed by the AfDB, the Jubbaland State with the support of GIZ and the Bank has created the Jubbaland Water Agency which will partner with the private sector to ensure sustainable water supply for the residents in Jubbaland including the IDPs. The creation of the Jubbaland water agency was specified in the Water Act which the Bank supported.

V Challenges that Remain, Government's Policy Response

Despite the co-ordination efforts mentioned above, the governance challenges identified under the SIF-financed water and sanitation needs assessment remain pertinent and still hamper wider delivery of improved water services. The challenges include:

- i) *Absence of a substantive water policy framework:* the Water Sector policy exists in draft form.[4] The core structural cause of poor water sector service delivery is the lack of policy and the absence of a coordinated, strategic water development plan over the last 20 years. UNDP is supporting the MoEWR with the development of Water sector governance frameworks – the estimated cost for this work is USD 36.5 million and the MoEWR is calling on all partners to plug in and support with financing the proposed governance projects.
- ii) *Inadequate water sector financing.* There has been limited investment in water infrastructure and support for operation and maintenance has mostly concentrated on short-term repair. Private owners of water sources and operators have been left to provide water services with minimal guidance, regulation or capacity. According to UNICEF (2019), the institutional set up of the WASH sector largely remains under-resourced in terms of human, financial and logistics capacity and is dependent on financing from

international donors, with FGS as a facilitator.

iii) *Weak water sector regulations.* The absence of a regulatory framework to enforce tariff and quality standards exposes the public to unscrupulous operators. Delivering an institutional and regulatory framework that organises the sector and protects the poor is an urgent priority. Nascent service regulation is emerging at the FMS level but is undermined by coordination and implementation issues. In the absence of a water sector regulatory framework, water companies often enter into informal agreements with the municipal government.

iv) *Inadequate institutional framework.* Despite efforts to reform, most water sector institutions are dysfunctional. Lack of consensus among the political elites also has a destabilising effect across the political system and significantly hampers the development of functioning state institutions. The human resources and organisational capacity for managing water at the basin scale also remains weak, due to the inherent national fragility. This constrains the regulation of water management and collaboration with Ethiopia on the shared Shabelle and Juba rivers.

v) *Inadequate sector data and information systems.* Inadequate data and information systems linked with the absence of analytics on water resources availability, quality, and quantity constrain water governance. The NWRS acknowledges the need to establish functional public institutions and organisations responsible for processing and disclosing standardised water-related statistics. The NDP-9 also recognises the dearth in data for water resources planning and highlights the need to develop a national water management master plan, supported by robust modelling and analysis.

vi) *Stakeholder engagement challenges.* According to the NWRS, stakeholder engagement faces several major challenges including limited resources to fund engagement, power and information imbalances between stakeholder groups, limited government capacity to manage engagement including information management on appropriate stakeholders, inadequate engagement platforms and limited sharing of information and lessons learnt. Concerns over security issues in certain parts of the country and the spread of the COVID-19 pandemic serve to further stifle efforts to engage stakeholders.

VI Strategies to Address Identified Challenges

Strategies to address the infrastructure deficits for the Water and Sanitation Sector based on the identified challenges include:

- a) Supporting the government in the development and establishment of policies and a legal framework to support Private-Public Partnerships. Given the important role the Private sector plays in water and sanitation service provision regulation remains crucial to accessibility and availability of clean water.
- b) Interventions to provide safe drinking water and sanitation services including drainage, sewage, and solid waste management to vulnerable communities, including IDPs, under-served schools and health clinics in urban areas which have the highest concentration of inhabitants.
- c) Promoting good hygiene practices and behavior change to lessen the burden on the health sector.

d) Building human and institutional capacities for sustainable water supply services. Building technical capacities for data collection and analysis, monitoring and evaluation, safe water provision, and hygiene promotion. Training community leaders, elders, teachers and local authorities on community mobilization to raise awareness on safe water handling, handwashing, and waste management through household visits, campaigns, and community forums.

e) Building partnerships with the international community and development partners to support water and sanitation related infrastructure development at all levels of government"

f) The government should put in place a policy and legal framework to support the sector for private sector engagement. Private-Public Partnership law will enhance accessibility and availability of clean water and sanitation service.

For these strategies to deliver change, huge amounts financing resources are needed. However, the Somali government can only provide little financing given the low revenue situation. It may be the case, that development partners would be required to provide large amounts of resources before the policy, legal and regulatory frameworks are fully developed to attract private resources.

[NDP-9, Infrastructure Strategy]

2.0

[1] 2018 African Economic Outlook: Somalia
https://www.afdb.org/fileadmin/uploads/afdb/Documents/Generic-Documents/country_notes/Somalia_country_note.pdf

[2] Basic hygiene service means availability of a handwashing facility with soap and water at home

[3]<https://www.worldlifeexpectancy.com/somalia-diarrhoeal-diseases>.

[4] UNICEF (2019); UNICEF Somalia WASH Strategy Note 2018-2020.

17.b. Legal and regulatory frameworks for infrastructure

Score Type	Value
Draft Score	1.5
Reviewed Score	1.5
Second Draft Score	1.5
Final Score	1.5

Country Notes:

The 2022 Mo Ibrahim Index of African Governance report ranked Somalia as the 53rd out of 54th countries during 2022 and 2020, hence falling among the 10 worst scoring countries. The indicators related to the foundations of economic opportunities remain a challenge including infrastructure dimensions for the transport network, access to energy, mobile communications, internet and computers, shipping and postal network were rated poorly, implying the infrastructure deficit is broad based including gaps in the regulatory frameworks for infrastructure.

During 2021-2023, a few laws were enacted to improve the infrastructure framework and bolster private sector growth. For instance, the National Electricity Bill 2019v was enacted into law in March 2023. Based on the Somalia National Infrastructure Strategy (SNIS), the lack of legal and regulatory frameworks is a huge drawback on infrastructure development, a necessity for growth and development in a fragile situation as that which faces the country. In ICT sector, for example, the lack of a solid legal framework is a significant risk for remittances, mobile banking, mobile-money services, and mobile-telecom services. A clear legal framework will result in major benefits for the people who use the ICT services by fostering a sense of certainty, and by promoting investment.

In the absence of these important legal and regulatory frameworks and capable institutions to make this happen, Somalia will continue to depend on limited donor aid. In the energy sector, the AfDB, World Bank and the European Union jointly launched the Horn of Africa (HoA) Initiative to enhance regional integration, where the development of the regional energy infrastructure, including expanding interconnection capacity, is a priority. Somalia has completed an Energy Sector Master Plan, which will guide the development of the power sector in the long term, while the UN has supported the development of an industry policy, which will have important synergies with the former. In 2020, and with support from the IFC, a draft energy sector law was developed but is yet to be ratified. The AfDB has started work to assist the FGS develop the regulatory framework for the electricity sector in anticipation of the enactment of the law and this is delaying implementation of the project. The AfDB has developed water policies and an overall infrastructure strategy and Road Maintenance Policy.

There is however potential to change the situation as observed in the ICT sector where efforts to formalize operations are beginning to have an impact on revenue collections. The FGS established the Communications Regulatory Commission in 2017 that is responsible to the ICT sector. Through this, formal registrations of ICT firms including payment license fees has commenced contributing positively to revenue generation. However, some elements of the ICT, especially those pertaining to financial services require regulations and supervision from the central bank.

[SNIS, World Bank, UNDP, AfDB]

The 2022 Mo Ibrahim Index of African Governance report ranked Somalia as the 53rd out of 54th countries during 2022 and 2020, hence falling among the 10 worst scoring countries. The indicators related to the foundations of economic opportunities remain a challenge including infrastructure dimensions for the transport network, access to energy, mobile communications, internet and computers, shipping and postal network were rated poorly, implying the infrastructure deficit is broad based including gaps in the regulatory frameworks for infrastructure. Based on the Somalia National Infrastructure Strategy (SNIS), the lack of legal and regulatory frameworks is a huge drawback on infrastructure development, a necessity for growth and development in a fragile situation as that which faces the country. In ICT sector, for example, the lack of a solid legal framework is a significant risk for remittances, mobile banking, mobile-money services, and mobile-telecom services. A clear legal framework will result in major benefits for the people who use the ICT services by fostering a sense of certainty, and by promoting investment. In the absence of these important legal and regulatory frameworks and capable institutions to make this happen, Somalia will continue to depend on limited donor aid. In the energy sector, the AfDB, World Bank and the European Union jointly launched the Horn of Africa (HoA) Initiative to enhance regional integration, where the development of the regional energy infrastructure, including expanding interconnection capacity, is a priority. Somalia has completed an Energy Sector Master Plan, which will guide the development of the power sector in the long term, while the UN has supported the development of an industry policy, which will have important synergies with the former. In 2020, and with support from the IFC, a draft energy sector law was developed but is yet to be ratified. The AfDB has started work to assist the FGS develop the regulatory framework for the electricity sector in anticipation of the enactment of the law and this is delaying implementation of the project. The AfDB has developed water policies and an overall infrastructure strategy and Road Maintenance Policy. There is however potential to change the situation as observed in the ICT sector where efforts to formalize operations are beginning to have an impact on revenue collections. The FGS established the Communications Regulatory Commission in 2017 that is responsible to the ICT sector. Through this, formal registrations of ICT firms including payment license fees has commenced contributing positively to revenue generation. However, some elements of the ICT, especially those pertaining to financial services require regulations and supervision from the central bank. [SNIS, World Bank, UNDP, AfDB]

17.c. Public resource management and accountability in the infrastructure sector

Score Type	Value
Draft Score	1.5
Reviewed Score	1.5
Second Draft Score	1.5
Final Score	1.5

Country Notes:

Progress has been made on PFM. Since 2017, there has been a shift towards competitive tendering for public procurements, with the Procurement Department of the Ministry of Finance (MoF) in managing FGS procurements above US\$100,000. Second, FGS commenced the renegotiation of two major concession agreements. New agreements for that Mogadishu airport and the Mogadishu port have been concluded and these will lead to better management of these key infrastructures, increase revenue to

government and provide clear investment plans for expansion. Improvements have also been made to the legal framework for public procurement through an amended Procurement Act and new supporting regulations. Although the FGS has made progress since 2017 in requiring competitive tendering for high-value goods contracts, such as security sector rations, compliance with the Procurement Act and Interim Public Procurement Requirements is still lacking across many FGS institutions. In 2021, the FGC identified 14 contracts, with a total value of US\$4.7 million, that were most likely awarded directly by the relevant FGS institutions without a competitive process. In addition, they were not registered with the OAG, as required by the Procurement Act. The FGC has recommended that the MoF and the OPM make active and sustained efforts to inform FGS institutions of their obligations, and that that international partners support the FGS to deliver a sustained programme of public procurement and concessions capacity support and development.

The COVID-19 pandemic has revealed the shortcomings in FGS institutional capacity for procurement with implications in emergency contexts. The Procurement Act establishes the basic principle of altering procedures and processes in emergency situations, but neither the Procurement Act nor its Regulations provide guidance or direction on how procedures and processes should be altered. The FGC helped FGS to retain technical support from the World Bank to develop more detailed guidance on emergency procurements. The guidance will define the procedures that apply to emergency procurements and will establish parameters for when those emergency procedures should apply.

Somalia has also started producing government financial audits since 2018 financial year in accordance with International Standards of Supreme Audit Institutions. This signals the FGS' commitment to transparency. The most recent audit report of 2020 however still indicates challenges in the use of public resources across all sectors, including infrastructure.

[FGC Reports, EU, AfDB, World Bank]

18. Regional Integration

Criteria Score: 2.5

18.a. Movement of persons and labor and right of establishment

Score Type	Value
Draft Score	3.0
Reviewed Score	3.0
Second Draft Score	3.0
Final Score	3.0

Country Notes:

Somalia has signed agreements with key regional economic cooperations to deepen regional integration. Somalia is a member of the Intergovernmental Authority on Development (IGAD), Community of Sahel-Saharan States (CEN-SAD) and it rejoined the Common Market for Eastern and Southern Africa (COMESA) in July 2018. Decades of conflict and high security risk have contributed to Somalia's limited progress towards regional integration. Somalia is also member of the Horn of Africa Initiative (HoAI). In addition, Somalia has applied to join the East African Community Regional Trading Bloc, and during 2020 the country signed and ratified the AfCFTA Agreement, however was interrupted by COVID-19 and delayed elections. With regards to the European Union, Somalia is a beneficiary of the European Union's Everything But Arms (EBA) trade preferences, and established relationships with the World Trade Organization (WTO) in December 2016, thus currently Somalia has Observer status.

Despite challenges of insecurity, Somalia scored 1.0 and ranked 1st out of 54 countries in the 2019 African Regional Integration Index (ARII) in the dimension of Free movement of people. Similarly, the Africa Visa Openness Index 2020 ranks Somalia at 17th out of 54 countries, a slight improvement from 18th in 2019. Somalia offers visa on arrival for all travelers from the continent. Somalia suspended the visa on arrival for Kenyan citizens in December 2020, during the diplomatic row between the two countries. Implementation of commitments under the RECs and the AfCFTA, might lead to further liberalization of the entry regime. For example, under the COMESA Protocol on the Free Movement of Persons, Labour, Services, the Right of Establishment and Residence (which is in the process of being signed and ratified), member states undertake to remove all restrictions to the free movement of persons such as visa requirement, labour, and services and provide for the right of establishment and right of residence. In June 2021, the IGAD Council of Ministers adopted the Protocol on Free Movement of Persons in the IGAD Region which seeks to enhance orderly and regulated cross-border mobility, labour mobility and migration in the broader context of regional economic integration. The Protocol borrows from models of the ECOWAS and the EAC free movement protocols. It was developed with on-going support from the ILO and European Union Trust Fund (EUTF) to facilitate Free Movement of Persons and Transhumance in the IGAD Region. The Council of Ministers also adopted the roadmap to implement the protocol on free movement of persons, which is expected to take over 15 years and will benefit the 270 million people of the region. Some member states are already applying reciprocal visa-free travel under the EAC and COMESA. For others, like Somalia, nationals of IGAD member states require visas to travel around the region. Implementation of the Protocol is expected inter alia to: (i) progressively eliminate visa requirements; (ii) develop, review, and harmonize of immigration and labour mobility laws in conformity with the Protocol; (iii) establish and enhance capacities of citizen identification and registration authorities and related laws for these institutions of IGAD member states; (iv) provide all citizens of IGAD Member States with recognized and valid travel documents and enable mutual recognition of valid travel documents issued by a member state; (v) demarcate and develop border points of entry of each member state, and equip all official entry points with up to date border governance information systems to facilitate entry and exit and fight; (vi) identify and progressively remove administrative procedures and practices resulting from national laws that restrict the right of establishment, including, the right to self-employment, property ownership and other economic activities by citizens of IGAD member states in conformity with the Protocol. As a complement to the work by IGAD, the HoAI will also support the free movement of persons across the region with investments in identification-enabling systems, national civil registration systems with IT capability and enhanced national and regional interoperability that promotes mutual recognition, and support for skills development.

OCHA reports that the humanitarian situation in Somalia continues. Despite progress made to improve security, recurring violence is a challenge in addition to economic threats, food insecurity and threats of climate change. Evidence suggests most families with severe or extreme needs live in southern, central

and southwest regions of Somalia where insecurity still prevails and there are ongoing security operations against Al Shabab. The triple nexus – humanitarian /development /peace should be the focus if sustainable progress is to be achieved. During 2022 over 7.6million people were affected and 1.2 internally displaced driven by the severe drought due to five failed rainy seasons, which affected over 16million livestock due to pasture and water scarcity. Similarly. the 2021 Floods and locust infestations affected 70,000 hectares of land, leaving about 4.8 million people food insecure, 1.2 million people were left in emergency and crisis situations, 1 million children were projected to be malnourished and 2.95 million internally displaced as of August 2021. The COVID-19 pandemic has further exacerbated the humanitarian crisis in the country, although country-wide vaccination has started.

While conflict, insecurity, poverty, and famine continue to be the main causes for migration, with Somalia ranked as the fifth-highest country of origin for refugees in the world, most of whom are in the Horn of Africa and Yemen (UNHCR, 2018a; 2018b), Somali labor has moved to countries such as South Africa where operate small businesses; IGAD region and the Middle East where they work as casual workers and domestic workers. Some 133,166 Somalis have returned to their country since 2014, but face uncertain futures due insecurity, high levels of unemployment, environmental disasters, lack of basic services, and weak governance and rule of law. These factors have also contributed to significant internal displacement, and some returnees have become internally displaced upon their return to Somalia. Labor migration to Somalia is largely associated with international aid agencies, the African Union Mission in Somalia (AMISOM) and skilled workers from the region working for private companies and government. Main sector attracting workers are the hospitality, IT, and construction, education and health sectors. The right of establishment in Somalia is guided by the 1962 Citizenship law that stipulate that persons can be established in Somalia through an application after demonstrating good moral and civil conduct.

[UNHCR, OCHA, ILO Reports]

OCHA reports that the humanitarian situation in Somalia continues. Despite progress made to improve security, recurring violence is a challenge in addition to economic threats, food insecurity and threats of climate change. Evidence suggests most families with severe or extreme needs live in southern, central and southwest regions of Somalia where insecurity still prevails and there are ongoing security operations against Al Shabab. The triple nexus – humanitarian /development /peace should be the focus if sustainable progress is to be achieved. During 2022 over 7.6million people were affected and 1.2 internally displaced driven by the severe drought due to five failed rainy seasons, which affected over 16million livestock due to pasture and water scarcity. Similarly. the 2021 Floods and locust infestations affected 70,000 hectares of land, leaving about 4.8 million people food insecure, 1.2 million people were left in emergency and crisis situations, 1 million children were projected to be malnourished and 2.95 million internally displaced as of August 2021. The COVID-19 pandemic has further exacerbated the humanitarian crisis in the country, although country-wide vaccination has started. While conflict, insecurity, poverty, and famine continue to be the main causes for migration, with Somalia ranked as the fifth-highest country of origin for refugees in the world, most of whom are in the Horn of Africa and Yemen (UNHCR, 2018a; 2018b), Somali labor has moved to countries such as South Africa where operate small businesses; IGAD region and the Middle East where they work as casual workers and domestic workers. Some 133,166 Somalis have returned to their country since 2014, but face uncertain futures due insecurity, high levels of unemployment, environmental disasters, lack of basic services, and weak governance and rule of law. These factors have also contributed to significant internal displacement, and

some returnees have become internally displaced upon their return to Somalia. Labor migration to Somalia is largely associated with international aid agencies, the African Union Mission in Somalia (AMISOM) and skilled workers from the region working for private companies and government. Main sector attracting workers are the hospitality, IT, and construction, education and health sectors. The right of establishment in Somalia is guided by the 1962 Citizenship law that stipulate that persons can be established in Somalia through an application after demonstrating good moral and civil conduct. Despite challenges of insecurity, the Africa Visa Openness Index 2020 ranks Somalia at 17th out of 54 countries, a slight improvement from 18th in 2019. Somalia offers visa on arrival for all travelers from the continent. Somalia suspended the visa on arrival for Kenyan citizens in December 2020, during the diplomatic row between the two countries. Implementation of commitments under the RECs and the AfCFTA, might lead to further liberalization of the entry regime. For example, under the COMESA Protocol on the Free Movement of Persons, Labour, Services, the Right of Establishment and Residence (which is in the process of being signed and ratified), member states undertake to remove all restrictions to the free movement of persons such as visa requirement, labour, and services and provide for the right of establishment and right of residence. In June 2021, the IGAD Council of Ministers adopted the Protocol on Free Movement of Persons in the IGAD Region which seeks to enhance orderly and regulated cross-border mobility, labour mobility and migration in the broader context of regional economic integration. The Protocol borrows from models of the ECOWAS and the EAC free movement protocols. It was developed with on-going support from the ILO and European Union Trust Fund (EUTF) to facilitate Free Movement of Persons and Transhumance in the IGAD Region. The Council of Ministers also adopted the roadmap to implement the protocol on free movement of persons, which is expected to take over 15 years and will benefit the 270 million people of the region. Some member states are already applying reciprocal visa-free travel under the EAC and COMESA. For others, like Somalia, nationals of IGAD member states require visas to travel around the region. Implementation of the Protocol is expected *inter alia* to: (i) progressively eliminate visa requirements; (ii) develop, review, and harmonize of immigration and labour mobility laws in conformity with the Protocol; (iii) establish and enhance capacities of citizen identification and registration authorities and related laws for these institutions of IGAD member states; (iv) provide all citizens of IGAD Member States with recognized and valid travel documents and enable mutual recognition of valid travel documents issued by a member state; (v) demarcate and develop border points of entry of each member state, and equip all official entry points with up to date border governance information systems to facilitate entry and exit and fight; (vi) Identify and progressively remove administrative procedures and practices resulting from national laws that restrict the right of establishment, including, the right to self-employment, property ownership and other economic activities by citizens of IGAD member states in conformity with the Protocol. As a complement to the work by IGAD, the HoAI will also support the free movement of persons across the region with investments in identification-enabling systems, national civil registration systems with IT capability and enhanced national and regional interoperability that promotes mutual recognition, and support for skills development. [UNHCR, OCHA, ILO Reports]

18.b. Regional financial integration

Score Type	Value
Draft Score	2.0
Reviewed Score	2.0
Second Draft Score	2.0
Final Score	2.0

Country Notes:

After three decades without formal commercial banking and financial institutions, Somalia's financial sector is in the process of rebuilding, led by the Central Bank of Somalia. As such, the country is at its relative infancy in terms of preparedness for regional financial integration. There are 15 licensed banks as of 2022 up from 5 in 2018. Of this, 13 are domestic commercial banks, while 2 are operated by foreign banks. In addition, there are 3 Mobile Money Operators (MMOs) and 12 money transfer businesses. Several actions are ongoing under the Financial Sector Reform Roadmap to deepen financial sector supervision and to improve the payments system and establish correspondent banking relationships. These actions include the transition to a new CBS organizational structure, strengthening its regulatory oversight in the banking and mobile money sectors and strengthening the anti-money laundering/combating the financing of terrorism (AML/CFT) operational and legal framework. In 2018 and 2019, foreign banks terminated their relationships with Somali banks due to concerns about financing of terrorism, which has affected remittance flows. The cut-off of Somali institutions from the global market follows a similar action taken by Kenya banks and money transfer banks in 2015. Data published by the Committee on Payments and Market Infrastructures (CPMI), the global standard setter for payment, clearing and settlement services observes a steady decline in the number of correspondent banking relationships (especially for developing countries) by 20% over the past seven years despite transaction volumes increasing by nearly 40%. This is partly due to compliance risks and associated punitive financial penalties posed by anti-money laundering (AML) and countering financing of terrorism (CFT) regulations regulation. Therefore, these are challenges with a broader context for Somalia.

In March 2020, Somalia secured debt-relief with the World Bank and the International Monetary Fund under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, paving the way for a return to the global financial system. Arriving at the HIPC Decision Point in about 3 years' time will effectively reduce the country's debt from US\$5.2 billion to US\$557 million. In 2021, the country set up a national payments system enabling the 13 lenders in the country to become inter-operable, connected to the clearing and settlement system of the central bank and able to transact with each other. Similar to Mastercard which in 2015 entered the Somali market, in 2021, Visa partnered with the International Bank of Somalia (IBS Bank) to launch the Visa card payment service which offers cashless payment services for international and local transactions.

As regional economic communities (RECs), IGAD and COMESA both envisage a future stage of financial integration achieved through progressive macroeconomic convergence and stabilization of macroeconomic policies within the REC, and pursuit of harmonization criteria in areas fiscal and monetary policy areas such inflation, budget deficits, debt levels and external reserves to create a conducive financial climate that attracts cross-border investments and a seamless framework for cross-border payments / free movement of capital. These developments feed into the convergence criteria of the African Union's African Monetary Cooperation Programme (AMCP), which has a target to migrate from regional currencies in 2028 to an African single currency in 2034. Although no specific timeline is set within IGAD, there have been few developments to report in this area. To address the issues of money transfers, in 2021, IGAD and the United Nations Capital Development Fund (UNCDF), agreed a two-year partnership to support the harmonization of remittance policies across the IGAD countries. The project seeks to harmonize the governance of remittance and address issues such as acceptable forms of identification, maximum transaction sizes, licensing requirements for money-transfer providers, possibilities for digital money transfers and other factors to reduce reliance on less secure forms of informal money transfer.

The COMESA Committee of Central Bank Governors has been meeting to discuss ways of enhancing implementation of the COMESA Monetary Integration Agenda with technical inputs from the COMESA Monetary Institute. The Committee recognizes that the success of COMESA, the Tripartite Free Trade Area (TFTA) and the AfCFTA are dependent on a sound monetary system. Overlapping memberships with the EAC and SADC present some coordination challenges and COMESA has concluded Memoranda of Understanding with EAC and IGAD to adopt and implement a harmonized trade liberalization and facilitation programme. COMESA targets implementation of convergence criteria in three stages up to 2035 leading to the creation of a single currency. A handful of countries have begun working on macroeconomic convergence criteria. Progress is dependent on the decisions on how to proceed from the Convergence Council comprising COMESA Ministers of Finance, Trade, and Industry, and Central Bank Governors. While Somalia is still in its early stages of integrating within COMESA, it is worth noting that COMESA has established the Regional Payment and Settlement System (REPSS). The bloc aims to gradually establish a payment union and common currency based on the COMESA Clearing House.

As an applicant to join the EAC, Somalia will be mindful of the ambitious EAC agenda for financial integration. EAC Members achieved some progress toward the REC's macroeconomic convergence criteria and readiness for monetary union, drawing on lessons from the West Africa Monetary Union. The EAC has been cautioned not to rush the process.

Strong property rights are essential to promote vibrancy of the financial sector. Somali laws relating to property and land are complex and include customary rules and traditions used by Somalia's clan-based society, Western-style laws from the colonial era, remnants of the pre-1991 authoritarian rule, and Islamic law and tradition. Some FMS have tried to document land ownership for the purposes of taxation, for example, some land within the major cities like Mogadishu, is generally documented for taxation purposes. Regulations regarding land leases or acquisition by foreign investors are scanty. Verifying titles registered before 1991 can take several weeks while properties registered more recently may have records available in the official bulletin. Lawyers charge approximately \$50 to verify a title's authenticity. Somaliland also has a more advanced land title framework and dispute mechanism which covers urban land management, agricultural land ownership and civil procedures for property disputes.

There is still a long way to go in reforming Somalia's financial sector before it can be properly integrated and enjoy effective participation in regional financial integration. For example, Somalia suffered from circulation of counterfeit local currency (Shilling), with the economy largely dollarized. Formal monetary policy remains weak and the exchange rate is also set by currency traders located in Mogadishu's Bakara market. Subject to availability of resources, in January 2023, the Central Bank announced plans to print a new currency notes and the impact of this initiative remains to be seen.

Regarding Financial Inclusion, the 2022 Somalia's National Economic Council report on Access to finance and Financial Inclusion, 15% of Somalis were banked (of this 7% were women). The mobile money was the most popular tool for financial inclusion having registered 99% of financial transactions.

[IMF, International Finance Corporation, World Bank, UN, USA State Department, Central Bank of Somalia quarterly economic report, Q4-2022, Somalia National Economic Council 2022: Access to finance and Financial inclusion]

After three decades without formal commercial banking and financial institutions, Somalia's financial sector is in the process of rebuilding, led by the Central Bank of Somalia. As such, the country is at its relative infancy in terms of preparedness for regional financial integration. There are 15 licensed banks as of 2022 up from 5 in 2018. Of this, 13 are domestic commercial banks, while 2 are operated by foreign banks. In addition, there are 3 Mobile Money Operators (MMOs) and 12 money transfer businesses. Several actions are ongoing under the Financial Sector Reform Roadmap to deepen financial sector supervision and to improve the payments system and establish correspondent banking relationships. These actions include the transition to a new CBS organizational structure, strengthening its regulatory oversight in the banking and mobile money sectors and strengthening the anti-money laundering/combating the financing of terrorism (AML/CFT) operational and legal framework. In 2018 and 2019, foreign banks terminated their relationships with Somali banks due to concerns about financing of terrorism, which has affected remittance flows. The cut-off of Somali institutions from the global market follows a similar action taken by Kenya banks and money transfer banks in 2015. Data published by the Committee on Payments and Market Infrastructures (CPMI), the global standard setter for payment, clearing and settlement services observes a steady decline in the number of correspondent banking relationships (especially for developing countries) by 20% over the past seven years despite transaction volumes increasing by nearly 40%. This is partly due to compliance risks and associated punitive financial penalties posed by anti-money laundering (AML) and countering financing of terrorism (CFT) regulations. Therefore, these are challenges with a broader context for Somalia. In March 2020, Somalia secured debt-relief with the World Bank and the International Monetary Fund under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative, paving the way for a return to the global financial system. Arriving at the HIPC Decision Point in about 3 years' time will effectively reduce the country's debt from US\$5.2 billion to US\$557 million. In 2021, the country set up a national payments system enabling the 13 lenders in the country to become inter-operable, connected to the clearing and settlement system of the central bank and able to transact with each other. Similar to Mastercard which in 2015 entered the Somali market, in 2021, Visa partnered with the International Bank of Somalia (IBS Bank) to launch the Visa card payment service which offers cashless payment services for international and local transactions. As regional economic communities (RECs), IGAD and COMESA both envisage a future stage of financial integration achieved through progressive macroeconomic convergence and stabilization of macroeconomic policies within the REC, and pursuit of harmonization criteria in areas fiscal and monetary policy areas such as inflation, budget deficits, debt levels and external reserves to create a conducive financial climate that attracts cross-border investments and a seamless framework for cross-border payments / free movement of capital. These developments feed into the convergence criteria of the African Union's African Monetary Cooperation Programme (AMCP), which has a target to migrate from regional currencies in 2028 to an African single currency in 2034. Although no specific timeline is set within IGAD, there have been few developments to report in this area. To address the issues of money transfers, in 2021, IGAD and the United Nations Capital Development Fund (UNCDF), agreed a two-year partnership to support the harmonization of remittance policies across the IGAD countries. The project seeks to harmonize the governance of remittance and address issues such as acceptable forms of identification, maximum transaction sizes, licensing requirements for money-transfer providers, possibilities for digital money transfers and other factors to reduce reliance on less secure forms of informal money transfer. The COMESA Committee of Central Bank Governors has been meeting to discuss ways of enhancing implementation of the COMESA Monetary Integration Agenda with technical inputs from the COMESA Monetary Institute. The Committee recognizes that the success of COMESA, the Tripartite Free Trade Area (TFTA) and the AfCFTA are dependent on a sound monetary system. Overlapping memberships with the EAC and SADC present some coordination challenges and COMESA has concluded Memoranda of Understanding with EAC and IGAD to adopt and implement a harmonized trade liberalization and facilitation programme. COMESA targets implementation of convergence criteria in

three stages up to 2035 leading to the creation of a single currency. A handful of countries have begun working on macroeconomic convergence criteria. Progress is dependent on the decisions on how to proceed from the Convergence Council comprising COMESA Ministers of Finance, Trade, and Industry, and Central Bank Governors. While Somalia is still in its early stages of integrating within COMESA, it is worth noting that COMESA has established the Regional Payment and Settlement System (REPSS). The bloc aims to gradually establish a payment union and common currency based on the COMESA Clearing House. As an applicant to join the EAC, Somalia will be mindful of the ambitious EAC agenda for financial integration. EAC Members achieved some progress toward the REC's macroeconomic convergence criteria and readiness for monetary union, drawing on lessons from the West Africa Monetary Union. The EAC has been cautioned not to rush the process. ***Strong property rights are essential to promote vibrancy of the financial sector. Somali laws relating to property and land are complex and include customary rules and traditions used by Somalia's clan-based society, Western-style laws from the colonial era, remnants of the pre-1991 authoritarian rule, and Islamic law and tradition.*** Some FMS have tried to document land ownership for the purposes of taxation, for example, some land within the major cities like Mogadishu, is generally documented for taxation purposes. Regulations regarding land leases or acquisition by foreign investors are scanty. Verifying titles registered before 1991 can take several weeks while properties registered more recently may have records available in the official bulletin. Lawyers charge approximately \$50 to verify a title's authenticity. Somaliland also has a more advanced land title framework and dispute mechanism which covers urban land management, agricultural land ownership and civil procedures for property disputes. There is still a long way to go in reforming Somalia's financial sector before it can be properly integrated and enjoy effective participation in regional financial integration. For example, Somalia suffered from circulation of counterfeit local currency (Shilling), with the economy largely dollarized. **Formal monetary policy remains weak and the exchange rate is also set by currency traders located in Mogadishu's Bakara market.** Subject to availability of resources, in January 2023, the Central Bank announced plans to print a new currency notes and the impact of this initiative remains to be seen. [IMF, International Finance Corporation, World Bank, UN, USA State Department, Central Bank of Somalia quarterly economic report, Q4-2022] **2.0**