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Somalia Security and Justice Public Expenditure Review



United Nations Assistance Mission in Somalia and the World Bank
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The Security and Justice Sector Public Expenditure Review for Somalia was written by a joint team of World Bank and United Nations Assistance Mission in Somalia (UNSOM) staff in collaboration with the Federal Government of Somalia and representatives of the existing and emerging federal member states. The findings, interpretations, and conclusions expressed in this volume do not reflect the views of the Executive Directors of The World Bank, the governments they represent, nor the members of the United Nations. Although this is a joint report, in line with their respective institutional mandates, the UN led on the technical content of Chapters 2, 3 and 4, and World Bank led on the technical content of Chapters 5 and 6.

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Glossary

ACLED	Armed Conflict Location & Event Data
AfDB	African Development Bank
AMISOM	African Union Mission to Somalia
AML	Anti-money laundering
ANA	Afghan National Army
ANP	Afghan National Police
AQAP	Al-Qaeda in the Arabian Peninsula
AS	Harakat al-Shabaab al-Mujahidin, commonly known as Al-Shabaab
AU	African Union
BIN	Bureau of Immigration and Naturalization (Liberia)
CBS	Central Bank of Somalia
CFT	Combating the Financing of Terrorism
CLCS	Committee on the Limits of the Continental Shelf
COIN	Counterinsurgency
DDRR	Disarmament, demobilization, rehabilitation, and reintegration
DFID	Department for International Development (UK)
EEZ	Exclusive Economic Zone
ETA	Euskadi Ta Askatasuna (the Basque Separatist Organization)
EU	European Union
EUSEC	European Union Security Sector Reform Mission (Democratic Republic of the Congo)
EUTM	European Union Training Mission
FARDC	Forces Armées de la République Démocratique du Congo
FCO	Foreign & Commonwealth Office (United Kingdom)
FCS	Fragile and conflict-affected states
FGC	Financial Governance Committee
FGS	Federal Government of Somalia
FPU	Formed Police Unit
GDP	Gross domestic product
GIA	Galmudug Interim Administration
HEUNI	European Institute for Crime Prevention and Control
HIPC	Heavily Indebted Poor Countries
HR	Human resources
IBRD	International Bank for Reconstruction and Development (World Bank)
ICPS	International Center for Prison Studies
ICRIC	Independent Constitutional Review and Implementation Commission
IDA	International Development Association (World Bank)
IED	Improvised explosive device
IGAD	Inter-Governmental Authority on Development
IMCC	Inter-Ministerial Concessions Committee
IMF	International Monetary Fund
IMO	International Maritime Organization
INBP	Interim National Procurement Board
IOM	International Organization for Migration
IsDB	Islamic Development Bank
ISWA	Interim South West Administration
IUU	Illegal, unregulated, and unreported
LNP	Liberia National Police
LOTFA	Law and Order Trust Fund Afghanistan
MDAs	Ministries, departments, and agencies
MDB	Multilateral Development Bank
MDRI	Multilateral Debt Relief Initiative
MoD	Ministry of Defence
MoF	Ministry of Finance

MoI	Ministry of the Interior
MoIF	Ministry of Interior and Federalism
MoIS	Ministry of Internal Security
MoJ	Ministry of Justice
MoU	Memorandum of understanding
MTFF	Medium-term fiscal framework
NATO	North Atlantic Treaty Organization
NCGWG	Somali Navy and Coast Guard Working Group
NGO	Non-governmental organization
NIC	National Integration Commission
NISA	National Intelligence and Security Agency
NSC	National Security Council
NSPF	National Security Plan Framework
NSSP	Somalia National Stabilization and Security Plan
ODA	Official Development Assistance
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public finance management
PMPF	Puntland Maritime Patrol Force
PSC	Private Security Company
PSGs	Peacebuilding and State-building Goals
QIP	Quick Impact Project
RCRF	Recurrent Cost and Reform Financing
RHIB	Rigid-hulled inflatable boat
SAF	Somali Armed Forces
SC	Supreme Court
SJPER	Security and Justice Public Expenditure Review
SEMG	Somalia / Eritrea Monitoring Group
SFMIS	Somalia Financial Management Information System
SLA	Somaliland Army
SNA	Somali National Army
SNAF	Somali National Air Force
SPF	Somali Police Force
SSJ	Security, Safety, and Justice
TFG	Transitional Federal Government
TNG	Transitional National Government
TSA	Treasury Single Account
UK	United Kingdom
UN	United Nations
UNDP	United Nations Development Program
UNHCR	United Nations High Commissioner for Refugees
UNHQ	United Nations Headquarters
UNMIL	United Nations Mission in Liberia
UNODC	United Nations Office on Drugs and Crime
UNOPS	United Nations Office for Project Services
UNSC	United Nations Security Council
UNSCR	United Nations Security Council Resolution
UNSOS	United Nations Support Office in Somalia
UNSOM	United Nations Assistance Mission in Somalia
WB	World Bank
WDI	World Development Indicators

All figures are in US Dollars marked as \$ unless otherwise specified

Executive Summary

In late 2013, the Ministry of Finance (MoF) of the Federal Government of Somalia (FGS) requested that the World Bank and UNSOM jointly conduct a public expenditure review of the security and justice sectors (SJPER). An SJPER is a tool to assist policy and operational decision-making, analyze tradeoffs, and provide options on critical financially-related issues in defence, as well as criminal justice and policing.

Three years later, Somalia is undergoing yet another political transition with the election of a new parliament and ultimately a new president. These steps will augur in a new government in 2017 that will be charged with finalizing some of the key issues around the constitution, including the relationship between the federal state and its federal members, as well as leading the country to democratic elections in 2020. Security and justice issues are hinged to many of these overarching political questions; these are two fundamental ‘public goods’ that are central to the (re)building of the Somali state and the transition from war to peace.

In this context, the SJPER is a technical tool to assist the FGS, the federal members, and their international partners in placing these critical security and justice policy questions within a public finance perspective. As a tool, rather than a one-off report, it should be used by the authorities and partners going forward in terms of testing the critical policy questions against the key dimensions studied here, including affordability, efficiency and effectiveness and accountability. The findings of the SJPER are summarized below:

Current Context

1. **Somalia is confronting two simultaneous security challenges that have enormous fiscal and political implications.** These are the ongoing insurgency of Al Shabaab and the creation of a ‘federated’ state. The first requires a substantial response, most of which has been taken on by international partners, particularly the troop contributing countries that comprise the African Union peacekeeping mission, (African Union Mission to Somalia, AMISOM). The second requires negotiated ‘security arrangements,’ including a federated approach to security, between the FGS and the existing or emerging federal member states (FMS). Such arrangements comprise iterative dialogue and agreement on the integration and formalization of armed groups and forces into a ‘federal’ structure. Ultimately these forces should come onto a public payroll at the relevant tier of government and be consolidated in line with the state (re) building process.
2. **Above and beyond armed conflict, security challenges related to fraud and corruption, inter-clan rivalry, localized crime and violence are expected to continue, even when a political settlement has been finalized and the insurgency ends.** There have been periods in the last twenty years when Somalis have been relatively safe compared to others; in turn, there are regions where crime and violence are much lower than others. However, recreating the institutions, including criminal justice structures to ensure the rule of law, will take time as well as resources. (A table indicating the political-security trends confronting Somalia is attached at the end of the Executive Summary).
3. **Insecurity in Somalia costs: in terms of lives and deaths of Somalis, of peacekeepers and in terms of economic growth and reduction of poverty. Attempting to provide better security and justice provision also costs.** An estimated \$1.5 billion per year is spent by international partners on peacekeeping, counterinsurgency and support to the Somali security sector. This figure is much larger if one accounts for the international maritime anti-piracy measures. With regard to domestic resourcing, in 2014 and 2015

the FGS spent \$67.5 million and \$44 million respectively on security (representing 45 percent and 33 percent of the national budget). Numerous other informal armed groups and militias also raise millions of dollars in predatory 'taxes' on Somalis each year to pay for themselves.

4. **Disputes are resolved by a variety of means, and the application of justice is contingent on an individual's socio-economic status.** In seeking to resolve contests over land and property ownership, access to natural resources, family and contractual disputes, Somalis are more likely to choose informal institutions using customary law, known as *xeer*, rather than public institutions. Some \$10.5 million is spent on formal provision of justice services each year in a sector that is lacking in a strategic approach to linking customary and formal laws and institutions, as well as unclear 'federal' relations and functions.
5. **The main cost driver in the security sector is personnel. 'Counting' is extremely difficult; it is estimated there are some 40-45,000 armed Somali personnel (in the army, police, and security service or paramilitary) that receive some type of 'official' compensation from either the FGS or other administrations (as well as international supplementary support to some elements of Somalia's 'formal' security sector).** In addition, there are some 20-25,000 militia that are part of relatively well organized systems of informal taxation and extraction.
6. **Wages and salaries account for the majority of FGS security spending; systems and controls in place are extremely weak allowing for leakage.** There are only rudimentary manual processes with limited institutional controls available to the FGS, coupled with a high frequency of personnel changes. Despite the innovative creation of a joint FGS-partner task force to address issues relating to payroll, to date there has been no consensus on the registration, verification and monitoring system to be in place for the payment of soldiers and police.
7. **Security actors are governed by weak institutions reflective of a fragile state in which the delegation of power to a central 'public authority' is fundamental to the political contest.** Such little 'public' capacity is compounded by international partners that can be disjointed and tend to focus on immediate operational priorities, as opposed to a longer term strategy for the sector. At the level of the FGS, civilian ministries and legislature have little capacity to engage; there is therefore little accountability of public spending throughout the budgetary cycle.
8. **At the macro-economic level, Somalia is extremely dependent on external assistance, a dependency that is driven by very low internal revenues.** This dependency threatens Somalia's ability to (i) plan domestic expenditures and future budgeting; (ii) forge a path to financial self-sufficiency; and (iii) exercise autonomy in decision-making regarding the country's strategic priorities. Somalia's dependency is largely a result of its inadequate revenue streams, which are insufficient to cover core government operations, let alone finance the delivery of basic services to citizens. Currently, the FGS funds only about 57 percent of its activities with internal revenues. Reducing the country's reliance on external funds will require an aggressive effort to increase the tax base and collection capacity, as well as the diversity of revenue sources, and improved intergovernmental fiscal coordination. Recent FGS collection has been positive, with customs on international trade comprising the largest share of revenues. Somalia's financing options will also be expanded if the country and its creditors agree on a debt relief package through the Heavily Indebted Poor Country Initiative (HIPC), and its concessional borrowing eligibility is restored.
9. **Even with external grants, spending is constrained, with some 30-45 percent of the current FGS budget going to security (depending on the year).** Somalia has been afflicted with structural budget deficits and the accumulation of arrears as it struggles to cover operational costs in the face of unrealistic revenue

forecasts and cash rationing during budget execution. Additionally, there is negligible on-budget capital spending.

10. **There is a direct link between security and revenue; the more secure a population, the more opportunity for economic growth and hence the raising of government revenues.** The PER does not include estimates of the counter-factual scenario, i.e. what economic activity would be and hence revenues if there were no insecurity. However, the stability in Somaliland provides evidence of an entity that has enjoyed relative security for two decades. This has come at a price; a significant portion of the budget has been expended in paying militia salaries. Yet, over time this has led to economic growth and substantive increases in revenues raised by the authorities in Hargeisa.
11. **The AU peacekeeping mission, AMISOM, is under strain.** It has received budget cuts, with the African Union and troop contributing countries indicating their intention to start a withdrawal in 2018. Partners are therefore signaling the need for a 'paradigm change' in the form of legitimate and effective Somali security and justice institutions to lead the counterinsurgency. Given capacity and absorptive constraints this will be a significant challenge for the incoming government and substantive reforms will need to accompany operational shifts from external to domestic security provision.

Going Forward

12. **Given the size of government revenues, the current security sector in Somalia is unaffordable without an above-trend increase in revenue.** Estimates for domestic security and justice expenditures range from about \$150-220 million per year over the coming ten year period, depending on the cost scenario. Given that FGS revenues are some \$246 million per year (as of 2016), including about \$100 million in non-security on-budget external grants, this position is unsustainable unless there is a dramatic increase in domestic revenue and/ or external support.
13. **Compared to general benchmarks, such as soldier per capita, the current size of the Somali formal military (stated to be 17,000) is not excessive; the challenge is whether it can be paid for over the short to medium term.** The qualitative improvements (e.g. envisaged by the sector plans of *Guulwade* and *Heegan*/ the New Policing model) being proposed require an escalation of spending. With these significant upgrades, the future costs of the sector will be substantially amplified. The *Guulwade* Plan, which envisions equipping, training, and supporting 10,900 SAF personnel, is expected to cost over \$120 million. The *Heegan* Plan, the strategic plan for the New Policing Model (NPM), will also expand the existing police force to approximately 17-18,000, and provide additional support for current officers, that will in turn increase costs.
14. **The cost of those plans may be unaffordable (with a shortfall of up to \$150 million per year) given the current trajectory of revenue and grants, and may continue to displace non-security spending in the future, implying a need to prioritize initiatives.** The original assessment of these options against the three revenue scenarios found that revenue was the most important determinant of medium term (3-5 year) affordability. Moreover, the simultaneous pursuit of multiple growth plans for the security sector created significant affordability challenges over the first 2-3 years of the budget period. Therefore, the Somali government will have to weigh the need for a robust security apparatus with other priorities for the development of the public sector. In the longer term, over a ten year period, such security spending will continue to crowd out attention to capital investment and to the provision of basic social services.

15. **National stakeholders will need to set clear priorities and adopt a modular approach to the sector; given the tight resource constraints there will be inevitable trade-offs.** The estimates for financing the current costing military and police plans are some \$150-220 million per year. Additional costs refer to \$10 million a year for justice institutions and the potential cumulative costs over 10 years of \$50 million for air arm development, \$100 million for the coast guard, \$30-70 million for disarmament demobilization and reintegration and \$35-73 million for pensions.
16. **Major challenges exist in the management of public finances; including corruption and intimidation, while the lack of payments for soldier and police salaries and allowances is acute.** The 2016 budget envisaged a 50 percent cut in the basic allowance (from \$100 per month to \$50) with the FGS seeking a core \$210 package (comprised of \$50 allowance, \$60 of rations and \$100 donor financed stipend). However, there is no system in place to consistently deliver this to personnel on a monthly basis and the structural imbalance between expenditure commitments and actual revenue and grant inflows has resulted in major lapses in allowance and stipend payments. This has in turn led to insecurity, as well as non-alignment between donor stipends and FGS salaries and arrears accumulation. A significant step put forward by the MoF has been the creation of a ‘consolidated security budget’ combining domestic and external financing of the sector, as well as the establishment of a ‘payroll’ taskforce.
17. **Recent security sector PFM reform initiatives, though at an early stage, are fundamental to addressing both affordability and structural reform challenges, as well as essential for the IMF Staff Monitored Program.** Ongoing work on the security payroll is of central importance, offering the potential to improve controls on personnel recruitment and management, to connect the payroll to core government PFM systems such as the financial management information system (SFMIS), to introduce an HR management system for the sector, and to reduce logistical challenges, costs, and corruption risks by moving from cash-based to bank-based payroll execution with biometric controls. There is also an important reform agenda around establishing systems for operating expenditures, and in particular the competitive procurement of rations. Rations contracts for the SPF and NISA have been awarded competitively, and subjected to independent review by Somalia’s Financial Governance Committee (FGC), both important early developments. These payment systems, including procurement policies and processes, will become increasingly important as the volume of funds and number of transactions in the sector increases.
18. **The introduction of a Comprehensive Approach to Security (CAS) provides an important framework that allows all parties to engage with the security dialogue in a collective and coherent manner.** Ensuring that Somalia is able to achieve an affordable, acceptable, appropriate and able security sector is central to state-building, both at an institutional level, and how the population views the role of their security forces in delivering human security and economic development. Somali authorities (FGS and FMS) and their international partners have much to gain from improving partnership arrangements within a mutual accountability framework. In the context of the SJPER the introduction of a Comprehensive Approach to Financing Security (CAFS) offers the opportunity to deliver sustainable security goals.

Policy Options

19. **The SJPER does not advocate for specific recommendations. Instead, the issues covered in this study are there to inform the policy dialogue that is being held amongst Somali stakeholders and their international partners on these critical issues.** The SJPER highlights four main policy questions that need further interrogation by the key stakeholders; these relate to four factors that need careful balancing: (i) The balance between international and national provision of security and justice services; (ii) The balance between a centralized and decentralized security and justice structure; (iii) The balance between the size

of the military and the police forces; and (iv) The balance between differing sector objectives (first a counterinsurgency and second a demilitarization process as part of a war-to-peace and statebuilding transition) and available resources.

20. **Affordability is the key test facing the new government in the sector. This is possible if Somalia is able to: (i) grow the domestic revenue base; (ii) expand access to external resources; and (iii) accept that domestically financed development spending will remain out of reach in the medium term, and that supporting the security sector will continue to be the primary role of the state.** Accountable security and justice provision will reinforce government legitimacy, which in turn will increase revenue and the opportunities for (re) building the state and launching recovery and development.
21. **In order to improve the resources available to the public, the FGS will need to accelerate the growth of domestic revenues.** The development budget projection in this public expenditure review was calculated as being extremely conservative, assuming that Somali services provision would grow to no more than 30 percent of Sub-Saharan African (SSA) benchmarks in 10 years. Such low levels would mean that 10 years from now, Somalis would still receive only a fraction of the services SSA currently receives, further widening the development gap. Therefore, the surplus resulting from the more optimistic projections should be seen as an opportunity to reduce the gap through investments in infrastructure and public services, rather than additional funds available for security.
22. **Regardless of the source of funds, improving PFM processes is critically important to ensure that resources are spent in an effective and timely manner, that corruption and inefficiencies are addressed and open the way for structural reform.** The basic norms of fiscal management are still developing, as the FGS struggles with limited controls on expenditure, a lack of staffing controls, and ad hoc cash rationing. An improved system would include streamlined budget planning that directly links sector plans to affordability and enforces regular salary and rations payments. It would also require an appropriate HR management system for security personnel, and clear linkages to whole-of-government PFM systems such as the SFMIS. Moving away from cash-based payroll execution toward a biometric and bank-based system, with a final and agreed registration and verification system for payroll, will also safeguard processing from corruption and leakage, as well as reducing logistical challenges and costs. Finally, a robust system of oversight, including full capacity of external audit institutions, will create a mechanism for accountability and responsibility in financial processing.
23. **With a new government continuing the sector reform process, relevant international experience may be useful in addressing these challenges. Some of these are listed below:**
 - (i) **Dialogue processes can fundamentally change the security posture of governments leading a counterinsurgency.** In the case of AS, the ability to retain safe-haven is likely to depend on continued clan-based support, particularly as a significant segment of AS is based on regional and clan affiliation. While comprehensive accommodation may not be possible, it may be possible to dialogue with certain elements currently affiliated with AS. Not only could this precipitate a quicker and more successful resolution of the insurgency; it would also significantly alter the needs and costs associated with the security sector.
 - (ii) **‘Policing’ counterinsurgencies:** Research indicates that a classically trained army is ultimately less effective at the types of activities that a successful counterinsurgency requires, and that the local police is commonly underequipped to deal with the threat. This could involve a shift in focus to one of training and equipping a paramilitary police rather than a whole army and relying on a smaller,

fully professionalized National mobile army, including units deployed at the regional level based around concepts like the Danab Battalion.

- (iii) **For demilitarization, consolidating the political settlement can be key to militia integration.** A political settlement that reduces the need for self-defence can lead to stand-down arrangements, creation of reserves and part-time elements as a stepping-stone toward peace.
- (iv) **Standard approaches to demobilization, providing individual cash and in-kind entitlements, may not be appropriate in the Somalia context.** Other options such as civilian brigades and national non-military service, pensions, and part time forces should also be examined.

24. The fiscal and public financial management issues raised in this SJPER will be at the heart of the sector reform process of the new government. However, there are other important considerations:

- (i) **Sector reform is as much about international approaches; particularly when the greater portion of the sector is externally financed.** Anecdotal evidence such as the training of some 30-40,000 military and police personnel over the last ten years with no recorded outcomes suggests that there must be greater international coordination, systematic assessment and coherent approaches, even to the point of a common financial platform for the sector.
- (ii) **Justice reform has not been the focus of the SJPER; yet it is clear that most Somali communities use informal mechanisms for dispute resolution involving customary arbitration and law, *xeer*.** Comparative international experience suggests that hybrid approaches be adopted to allocate cases among federal, customary, religious and alternative dispute resolution systems.
- (iii) **Monitoring and evaluations systems, and above all the measurement of violence and human security, needs to be strengthened.** There are a number of innovative approaches including use of perception surveys (the Hargeisa based Observatory) and newspaper reporting (ACLED) that assist in measuring progress. However, given insecurity and violence are the greatest impediments to peace recovery and development it is remarkable that not more consideration is given to supporting better data and research so that governments and partners alike can measure security outcomes over time.

Somalia's Political and Security Trends, 2015-2020			
<i>Current Threats</i>	<i>Evolution over Medium Term</i>	<i>Common Response (& Global Experience)</i>	<i>Existing Institutional Capacity</i>
Al Shabaab insurgency	<u>Gradual reduction</u> in territorial control; but <u>increase</u> in asymmetric attacks particularly in urban areas; as well as <u>increase</u> in regional footprint.	Intelligence, offensive and strike capabilities, political accommodation, population-centric governance and basic services	<ul style="list-style-type: none"> • AMISOM, international counterterrorism • SNA • NISA, SPF • Puntland Darawish, Regional military forces
Political Settlement or Fragmentation	Final political/ security settlement leading to national elections expected in 2016; potential <u>rise</u> in inter-elite clan-based conflict, perceptions of large-scale corruption and <u>non-payment</u> of soldier and police salaries.	Political mediation and dispute resolution towards an inclusive coalition; Civilian oversight and accountability mechanisms; Public financial management reform.	<ul style="list-style-type: none"> • International mediation • Constitutional Review process and National Leadership forum • Federal Member States • SPF, regional police • Courts • informal justice mechanisms
Local, communal, interpersonal violence	<u>Potential to rise</u> , including abuse by uniformed forces; very high risk factors associated with normal urban crime and violence	Community policing; Vetting of uniformed personnel; Judicial accountability; Control of small and light weapons	<ul style="list-style-type: none"> • SPF, regional police • Courts • Informal justice mechanisms
Crime	<u>Potential to rise</u> ; crime now largely violent (e.g. kidnapping, fraud) but also theft and fraud.	Investigative policing; Criminal justice institutions; Social and economic investments.	<ul style="list-style-type: none"> • SPF, regional police • Courts • Informal justice mechanisms
Piracy	<u>On the decrease</u> , internationally-led naval cordon measures have largely worked but not sustainable.	Maritime patrols; Regional governance and control; Livelihoods and economic opportunities.	<ul style="list-style-type: none"> • Coast Guard • Puntland Maritime Police • International patrol measures

1. Introduction

This paper, the Security and Justice Public Expenditure Review (SJPER), outlines the key findings of an extensive exercise examining the relationship between public finance and the security and justice sectors in Somalia. The paper at point of dissemination will be accompanied by a 25-page Executive Summary Report.

In October 2013, the Federal Government of Somalia (FGS) Ministry of Finance (MoF) requested the World Bank to support, jointly with the United Nations Assistance Mission in Somalia (UNSOM), a review of public expenditures in the security and justice sectors in Somalia.¹

The paper starts with (i) this introduction chapter sets out the background to Public Expenditure Reviews (PERs) and the specific objectives of this PER in relation to the Ministry request; and continues with (ii) chapter two - an overview of the historical and sectoral context of security and justice issues in Somalia; (iii) chapter three - an overview of the security sector institutions, including defence, police, and informal structures that cover militias and private security providers; (iv) chapter four - an overview of the criminal justice sector, including police, judiciary and corrections; (v) chapter five - fiscal projections of the sector within the context of current revenues and estimated expenditures; (vi) chapter six - public financial management, including payroll systems, accountability, and oversight; and (vii) chapter seven - conclusions.

1.1 Security and Development

In recent years, security issues have moved from the margins to the center of the development agenda. Security is now recognized as essential for citizens' livelihoods, access to services, and the free exercise of civil political social and economic rights. Security is seen as particularly important for the marginalized and vulnerable sections of the society, as they suffer disproportionately from perennial threat to life and property, and violence in the absence of security.² In turn, security is seen as the principal development challenge in fragile and conflict affected states (FCS).

The 2011 World Development Report *Conflict, Security and Development*³ calls for a paradigm shift in the development community's work in fragile and conflict-affected settings. The report argues that fragility and violence arise when countries are exposed to economic, political, or security stresses that they are institutionally unable to cope with. Figure 1, shows that poverty trends are directly proportional to the intensity of violence. Countries suffering from a significant level of violence tend to see poverty increase, or at best perpetuate, while those experiencing little or no violence see the share of the population below the poverty line decrease significantly.⁴ Moreover, conflict zones often tend to enter a vicious cycle of repeated conflicts.

¹ Ministry of Finance, FGS, October 2013

² D Narayan, *Voices of the Poor*, World Bank, 2000

³ 'World Bank 2011. *Conflict, Security, and Development*: World Development Report (Washington, DC: World Bank)

⁴ The World Development Report adds that for every three years that a country is affected by major violence (battle deaths or excess deaths from homicide equivalent to a major war), poverty reduction lags by 2.7 percentage points. based on Chen, Ravallion and Sangraula 2008 poverty data (available on POVCALNET (<http://iresearch.worldbank.org>)).

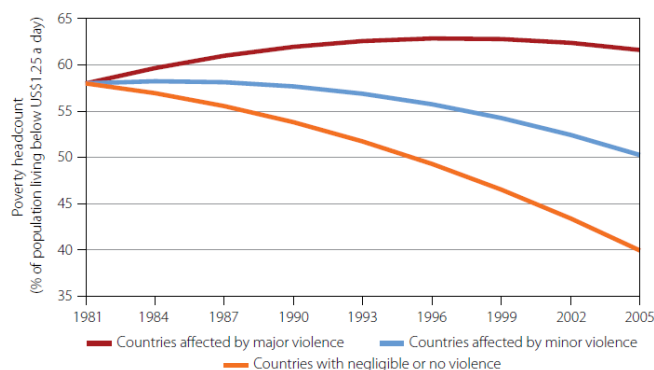


Figure 1. Violence Disrupts Development

Source: World Development Report 2011 WDR team calculations based on Chen, Ravallion, and Sangraula 2008 poverty data (available at POVCALNET, [HTTP://iresearch.worldbank.org](http://iresearch.worldbank.org).)

Security has a direct impact on the growth of investment, social and human capital, and public institutions. A study shows that insecurity weakens the investment climate by making investment incentives scarcer, and destroying material assets and human capital.⁵ The private sector is subject to higher costs in the form of security taxes, i.e. the additional costs associated with negative externalities as a result of instability, and would be confronted with disorganized markets in a society ridden with greater security risks. Insecurity also negatively affects human and social capital, particularly in the most vulnerable segments of the population. The effects are evident in the form of physical and psychological damage, migration, deteriorating living standards, interruptions in public utilities, etc. Finally, insecurity weakens the legitimacy of public institutions and creates points of entry for corruption. Growing insecurity in a conflict-ridden society is generally both the cause and consequence of skewed distribution of national resources, which weakens the overall security sector apparatus of the society.

For these reasons, security and development have increasingly been seen as inextricably linked. One instrument that has been used with some success in developing countries to examine these links has been the Public Expenditure Review, which examines the ways finance supports the public goods of security and justice service provision.⁶

1.2 Rationale, Scope, and Objectives

Security and Justice PERs can serve as a decision-making tool for governments and international partners to assist key policy and operational decisions in the security and justice sectors. Data and analysis are used to make future projections and examine potential solutions, providing decision-makers with key options on critical forward-looking issues in national defence, as well as criminal justice, public order and policing.⁷

⁵ See Byrd and Guimbert, Public Finance, Security & Development: A Framework and an Application to Afghanistan, World Bank Policy Research Working Paper Series (2009).

⁶ *Securing Development: Public Finance and the Security Sector, A Sourcebook on Public Expenditure Reviews in the Security and Justice Sector*, World Bank and the United Nations, to be published, 2016

⁷ The 'security sector' is a broad term often used to describe the structures, institutions and personnel responsible for the management, provision and oversight of security in a country. It is generally accepted that the security sector includes defence, law enforcement, corrections, intelligence services and institutions responsible for border management, customs and civil emergencies. Elements of the judicial sector responsible for the adjudication of cases of alleged criminal conduct and misuse of force are, in many instances, also included. Furthermore, the security

From UN-World Bank experience to date, such exercises have been important tools for public authorities to address a variety of issues. These include: (i) macroeconomic stability and sustainability - raising questions around the affordability of the security sector within the overall national budgetary envelope; (ii) efficiency – examining whether resources allocated to the sector are expended efficiently and whether there are any leakages or inefficiencies, such as in the procurement or payroll systems; (iii) effectiveness – investigating whether the objectives outlined in sector strategies are being met and how sector performance is measured; and (iv) transparency and accountability – whether resources (domestic or external) are being used transparently and accountably with adequate oversight and control.

With regard to the request of the MoF, the key objectives of the exercise were as follows:

- (i) Inform the FGS and other authorized stakeholders about the nature of expenditure and public sector management of security sector.
- (ii) Match the security sector policy frameworks with available financial resources in a manner to ensure financial realism and fiscal sustainability.
- (iii) Contribute to strengthening security-sector governance, ensuring greater overall macro-economic stability, establishing a sound overall governance environment that can strengthen state legitimacy, and preserving resources for economic and social development in Somalia.

As is standard practice for public expenditure reviews, this Review approached the analysis along the four main dimensions:

- (i) **Effectiveness of sector public expenditures:** An analysis of how the security and justice sector public expenditures are aligned with the evolving security needs, and with stated government objectives and budget allocations.
- (ii) **Affordability / fiscal sustainability:** An analysis of how the *aggregate* costs of the various options under considerations are aligned with available resources, as well as with the potential alternative uses of the available resources.
- (iii) **Efficiency:** An analysis of the elements that determine the unit costs of delivery of security and justice services.
- (iv) **Financial Management and Accountability:** An analysis of the adequacy of the public administrative processes related to the execution of public expenditures and the implementation of associated services in the sectors, as well as the mechanisms to control and account for resources allocated.

As the consultations deepened, a number of features needed to be placed up front in defining the scope of this exercise working in the challenging conditions of Somalia in transition:

sector includes actors that play a role in managing and overseeing the design and implementation of security, such as ministries, legislative bodies and civil society groups. Other non-State actors that could be considered part of the security sector include customary or informal authorities and private security services.” UNSG Report, *Securing peace and development: the role of the United Nations in security sector reform*, A/62/659; S/2008/39, January 2008 and UN SC Resolution 2151

- (i) **The absence of a final political settlement:** Somalia remains a country beset by armed conflict. There is not yet a final overarching political settlement (such as encompassed by a final constitution) that could underpin the security architecture of the country. In the absence of the final political arrangements with respect to the ‘Somali State,’ a PER of this kind not only provides stock of the public finances of security and justice sectors, but also serves as a tool for policy makers in setting up a long-term, sustainable security apparatus by providing analysis and recommendations based on data collected.
- (ii) **Short-term counterinsurgency operational imperatives vs long-term policy-making:** The SJPER exercise recognizes that the prime concerns relate to the grave threat posed by the Al-Shabaab (AS) insurgency to both territorial control and the achievement of a final political settlement. The approach of the SJPER has been to situate operational decisions (e.g. size, structure and capability of forces, stabilization etc.) within a broader context of key policy decisions (related to the constitutional review), as well as fiscal decisions (around what is sustainable given limited domestic and external resources).
- (iii) **Formal and informal institutions:** In a country such as Somalia, where formal governance institutions remain largely undeveloped since the dissolution of a central government in 1991, what lies within the ‘public sector’ is difficult to define. Much of the security and justice for citizens is provided by informal structures and institutions. The SJPER has not only looked at formal public sector institutions (which are nascent at best given Somalia’s recent history); traditional authority and non-state actors have also been included in the analysis. However, the focus of the ‘affordability’ and ‘efficiency’ sections is upon government costs, systems and processes.
- (iv) **The scope of the SJPER - the FGS and the existing and emerging Federal Member States (FMS):** Given the absence of a final political settlement and relations between the FGS and Somaliland have yet to be determined, Somaliland has been excluded from the SJPER. Relations between the FGS and the other established and emerging federal states of Somalia are evolving, with the National Leadership Forum being used as a vehicle to develop these relationships. For the purposes of this SJPER, the scope will focus on the FGS and the established (Puntland) and emerging federal member states (FMS)⁸, notably Galmaadug, HirShabelle, Jubbaland and South West. However, when appropriate, reference is also made to the historical lessons of both Somaliland and Puntland, which have provided significant evidence of the value of inclusive political settlements providing consolidated security, justice and sustained peace.

1.3 Process and Methodology

Since early 2014, a joint UN-World Bank team has been working on collecting background data, information, and analysis on the context and sectors relevant to the Review. In mid-2014, the FGS formed a technical ‘Reference Group’ comprised of the key FGS ministries, including the Ministries of Finance, Justice, Internal Security and Defence, as well as the Somali National Army (SNA), and the Somali Police Force (SPF). Representatives from the federal states were also included in the Reference Group, which became the counterpart to the UN-World Bank team, providing feedback on the substance and process of the exercise.

⁸ Established and emerging Federal Member States (FMS) will be referred to as FMS in this report.

The team has followed the standard framework of public expenditure analysis along the four key dimensions of (i) effectiveness, (ii) affordability and sustainability, (iii) efficiency, and (iv) financial management and accountability.⁹ However, this has been adapted, given the complex context in Somalia in which a formalized public sector has largely been absent since the collapse of the Siad Barre regime in the late 1980s. Such adaptation has been based on three other important streams of work:

- (i) **Contextual analysis of Somalia** – particularly the study of the means of violence, largely in non-state hands, and aligned to various clan, business and ideological interests.¹⁰ The study has also incorporated the ways in which analysts have approached critical questions of state-building and demilitarization given the complex mosaic of political and military power in Somalia.¹¹
- (ii) **Counterinsurgency** – the wars in Afghanistan and Iraq have regenerated the interest in studies of counterinsurgency and the different approaches to stabilization.¹²
- (iii) **War-to-peace transitions** – the literature on peacebuilding is extensive but only relatively recent is the examination of the nexus between military integration, security arrangements and peace processes.¹³

In undertaking the work, the team has used open source data, discrete research, budgetary information, and reference to global standards and practices. Needless to say, undertaking an exercise of this kind has presented a number of key challenges, including:

- (i) Lack of data due to weak institutional capacity, limited record keeping, little statistical and research capacity, and limited access of international partners to southern Somalia.
- (ii) Questionable accuracy of information and data obtained from the public domain.
- (iii) Limited access due to insecurity hindered international collaboration with Somali stakeholders, either in Mogadishu or in other regions.
- (iv) Data that is available, particularly on the size and composition of security forces, given the current context, remains seriously contested by a number of key stakeholders.
- (v) Security and justice institutions, both formal and informal, in Somalia are related but have distinct differences and organizing principles.

⁹ See Harborne et al, *Securing Development: Public Finance and the Security Sector, A guide to public expenditure reviews in the security and criminal justice sectors*, 2017, World Bank

¹⁰ See for example Menkhaus, *Non-State Security Providers and Political Formation in Somalia*, Centre for Security Governance, April 2016

¹¹ See for example Bryden and Brickhill, *Disarming Somalia: Lessons in Stabilization from a Collapsed State*, *Conflict Security and Development*, vol 10, 2010

¹² See for example Rich and Duyvesteyn eds, *The Routledge Handbook of Insurgency and Counterinsurgency*, 2012

¹³ See for example Licklider ed, *New Armies from Old, Merging Competing Military Forces After Civil Wars*, April 2014

2. Historical and Sectoral Context

This section provides (i) a brief historical overview of Somalia until the formation of the FGS in 2012; (ii) an outline of the sectoral context, including sources of conflict and the threat environment; (iii) the regional and international context; and (iv) an outline of the current macroeconomic situation.

2.1 Historical Context

Somalia's colonial and post-independence history has been strongly associated with state predation, and subsequently armed conflict since the dissolution of central government in 1991. Under Siad Barre's regime during 1969-1991, the security sector absorbed a disproportionate amount of government spending and employment, with upwards of 65,000 personnel under arms.¹⁴ The violence trends in Somalia intensified in the late 1980's following the Ogaden War with Ethiopia and subsequent loss of domestic and international support for the regime.

Since the fall of Siad Barre, armed conflict in Somalia has been characterized by the popular rejection of a centralized-state and subsequent lack of consensus on what structure and form the state should develop. In the absence of a central security sector, clan and local-based militias have proliferated to provide security organized around personal, family, and sub-clan relationships. As they evolved from occasional to permanent security functions, militias have also become self-financed, being the primary source of 'revenue' extraction, e.g. through holding of infrastructure points and extra-legally taxing markets.

Ad hoc and autonomous political orders have emerged that have established durable coalitions, including around the monopoly of violence. Where political settlements have been successfully brokered, personal security and socio-economic stability has relatively prevailed. This has been evident since the establishment of the self-declared independent Somaliland in 1991, a largely stable entity, where, particularly after the brief civil war of mid-1990s, a coalition of business and political interests set the conditions for a small democratic administration to govern. This was mirrored more or less in the semi-autonomous region of Puntland, which governed under its own constitution and hybrid political order from 1998. The periodic establishment of local governing councils in southern regions signaled local clan-based responses to the power vacuum in Somali. It also reflected various attempts at externally-driven state-building.

Statutory institutions and functions developed in a way that co-existed with traditional and local security and justice actors, which tend to have a broader reach than the state systems. In southern and central Somalia, the capacity and performance of governance structures remained especially limited. This mix of informal and formal is particularly pronounced in the justice sector where local communities reverted to traditional clan-based arbitration—the customary Somali *xeer*—and/or local forms of law enforcement through Sharia courts. Such courts obtained their financial backing through businessmen and clan-based militias achieving substantial order, authority, and legitimacy in specific areas and at certain times.

¹⁴ Richard F. Grimmet ("Somalia: Arms Deliveries," Washington: Congressional Research Service, 1993) estimates that the USSR delivered some \$260 million in arms to Somalia from 1973 to 1977 alone; after 1978, the US, Italy and West Germany were key military partners (the US delivered some \$154 million in arms to Somalia between 1981 and 1991 and Italy delivered some \$380 million between 1978 and 1982 (values in 1993 U.S. dollars).

The challenge of moving to a stable, domestically and internationally accepted central government in Somalia represents a complex task. In 2000, a Transitional National Government (TNG) was instituted, but failed to establish government institutions and sufficiently-stable security for the people of Somalia. A new interim government, the Transitional Federal Government (TFG), was established under the auspices of the Intergovernmental Authority on Development (IGAD)¹⁵ in 2004.

The TFG was largely sustained by the setting up of the AU peacekeeping mission ‘African Union Mission in Somalia’ (AMISOM) in 2007, as well as subsequent intervention by Kenya and Ethiopia in their respective borderland areas with Somalia. The withdrawal of Ethiopian troops in 2009 led to a new coalition, followed by an expanded TFG in Mogadishu, headed by the President Sheikh Sharif and his allies. The expanded TFG was unable to prevent a further conflict-related humanitarian crisis in 2011, while also being beset by charges of large-scale corruption. The Harakat al-Shabaab al-Mujahidin (AS), was an extremist faction of the Somali Council of the Islamic Courts Union (ICU) that took over most of southern Somalia in the second half of 2006. Despite the group’s military defeat by Ethiopian forces in 2007, it has maintained a presence in southern and central Somalia, as well as in the northwestern part of Kenya near the Somali border. It has also maintained a small presence in the mountainous areas in northern Puntland.

The election of President Hassan Sheikh Mohamud by the Somali Parliament in August 2012 and the inauguration of the Federal Government of Somalia (FGS) offered a new beginning. There have been many positive developments on the political front, with regional political and state formation progressing steadily, and the constitutional review process ongoing following the setting up of an Independent Constitutional Review and Implementation Commission (ICRIC).¹⁶ This has been reinforced by international recognition and gradual normalization with the Bretton Woods institutions. Yet the political gains remain fragile with Somalia undertaking a critical electoral process at the end of 2016 and early 2017. The success of this process, however, will help to consolidate those gains.

Since the formation of the current government in 2012, progress has been achieved in the political process in Somalia. The establishment of federal institutions continues in Somalia. Though many of these institutions are nascent, collective efforts are being made to strengthen them. The state formation process has also progressed substantially, resulting in agreement on the FMS, while the status of Mogadishu will need to be clarified through a constitutional review process.¹⁷ Several constitutional bodies necessary for the consolidation of the gains of transitional period have already been set up, including the National Independent Electoral Commission. Following the adoption of the New Deal Compact in September 2013, Somalia and its international partners developed and implemented an architecture for coordination, cooperation, and dialogue in all the sectors relevant for peacebuilding and state-building, including the security and justice sectors.

¹⁵The Intergovernmental Authority on Development (IGAD) is a trading bloc based in Djibouti. Its member states include: Djibouti, Eritrea, Ethiopia, Somalia, Sudan, South Sudan, Kenya, and Uganda. IGAD expanded its activities in 2008 with initiatives to improve the investment, trade, and banking environments of member states. The organization stressed the deployment of highly innovative programmes and mechanisms.

¹⁶ICRIC is a body of legal and technical experts which will focus on the drafting of proposed constitution amendments under the auspices of the parliamentary Provisional Constitution Review and Implementation Oversight Committee.

¹⁷The PER covers the established and emerging FMS but does not include Somaliland. In the text, reference is simply made to Federal Member States (FMS) whether they are already established or not and some of the earlier data graphics refer to Interim Administrations (e.g. Interim Jubbaland and Interim South West Administration) before they were formalized.

After two decades of civil war, Somalia remains on a challenging but positive trajectory. The FGS and the FMS face enormous challenges above and beyond the fragile political process. Somalia has a population of some 12.3 million¹⁸ including an estimated 1.1 million internally displaced persons. Approximately 1.2 million Somalis reside in refugee camps in neighboring countries. The fragility of the social and political fabric makes it vulnerable to other potential shocks, such as food insecurity, population movements, and natural disasters. Driven largely by conflict, insecurity, and by a weakened economy, an estimated 1.14 million Somalis continue to be unable to meet their basic food needs. An additional 3.9 million people are at risk of sliding into crisis, bringing the number of Somalis in need of humanitarian assistance to some 5 million.¹⁹

2.2 Sector Context and Sources of Conflict

A number of factors contribute to armed conflict, political violence, and insecurity in Somalia today. These include: (i) terrorism; (ii) political ‘inter-clan’ violence instigated by elites over power and resources; (iii) local communal clashes; and (iv) individual and criminal violence, including piracy, although this latter factor has greatly diminished.²⁰ The above categories are not mutually exclusive, as they can and do overlap, and at times change from one type to another. Yet, they have all been addressed in different ways by different actors, international and national, as well as being accorded differing importance.

To a large degree, the current security and justice context has largely been dominated by two related trends:

- (i) The threat posed by AS and the response of the joint AMISOM-Somali National Army (SNA) military offensives supported by the wider international community.
- (ii) The gradual consolidation of the Somali political settlement resulting in the establishment of legitimate governance institutions, as well as the formation of federated regional entities.

The paper will examine each trend after first a discussion of the overall data on conflict and violence.

2.2.1 Violence and Conflict: Key Flashpoints

The total number of violent incidents in Somalia has been fluctuating since 2011, while the number of related fatalities has shown an increasing trend.²¹ According to data gathered by the Armed Conflict Location & Event Data Project (ACLED),²² the monthly number of violent incidents across Somalia from

¹⁸ UNFPA 2014

¹⁹ <http://www.unocha.org/somalia/about-ocha-somalia/crisis-overview>

²⁰ Based on Menkhaus, *Conflict Assessment*, UN 2014, and Harborne and Mayr, *Fragility Assessment*, World Bank, 2013

²¹ Among the entities that monitor violence and conflict in Somalia are the UN (UN Department of Safety and Security daily and weekly reports) and the Observatory of Conflict and Violence (Hargeisa). However much of this information is not open-source and there are no agreed criteria for regular national recording of conflict and violence data. It remains difficult therefore to assess whether basic living conditions for Somali people, based upon peace and stability, are improving or not.

²² The raw ACLED data used for this analysis was accessed on 11/30/2016 and covers the time range from January 1, 2011 to November 26, 2016, <http://www.acleddata.com/data/>

January 2011 to November 2016²³ lay between 117 and 261. The graph provided below illustrates that the number of recorded incidents found its peak in mid-2013 and has since then declined, in particularly since mid-2016. However, it also reveals that the recorded fatalities have increased since 2011, reaching an absolute peak with over 800 conflict deaths in the month of June 2016.

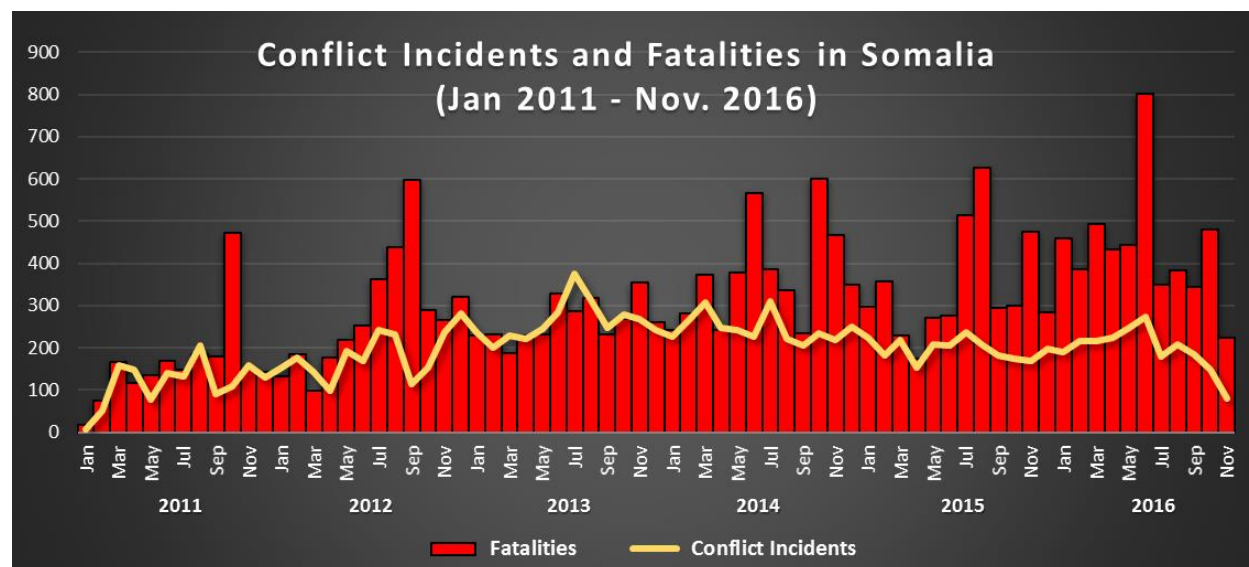


Figure 2. Conflict Incidents and Fatalities in Somalia (January 2011-November 2016)

Source: Created by Assessment team based on ACLED data (as of November 26, 2016)

The fatalities-to-incidents ratio, has increased during the past three years. As the following table shows, the number of recorded fatalities by conflict incident has continuously increased since 2013 and more than doubled, rising from about 1 average death per event in 2013 to 2.2 deaths per event in 2016. In other words, despite a decreasing trend in terms of the number of conflict incidents, the individual events have been taking larger death tolls over the last three years.

	Violent Incidents		Conflict Fatalities		
Year	Total number	Monthly average	Total number	Monthly average	Fatalities/ Incident Ratio
2011	1,405	117	1,953	163	1.39
2012	2,189	182	3,334	278	1.52
2013	3,134	261	3,153	263	1.01
2014	2,952	246	4,457	371	1.51
2015	2,358	197	4,096	341	1.74
2016	2,164	180	4,796	400	2.22
Total	14,202	197	21,789	303	1.53

²³ ACLED collects and codes reported information on *political violence*, with a focus on battles, civil and communal conflicts, violence against civilians, remote violence, rioting and protesting. *Political violence* is understood as “the use of force by a group with a political purpose or motivation.” ACLED Codebook, 2015, pp. 4 & 7. http://www.acleddata.com/wp-content/uploads/2015/01/ACLED_Codebook_2015.pdf

Table 1: Violent Incidents and Conflict Fatalities (2011-2016)

Source: Assessment team's calculations based on ACLED data (as of November 26, 2016)

The major driver behind the increase in events in the period 2012-2016 has been the counter-insurgency given the increase in operations undertaken by AMISOM with support from Somali forces particularly in southern parts of Somalia. Further, inter-clan conflict while small in comparison, remains a consistent source of violence. ²⁴

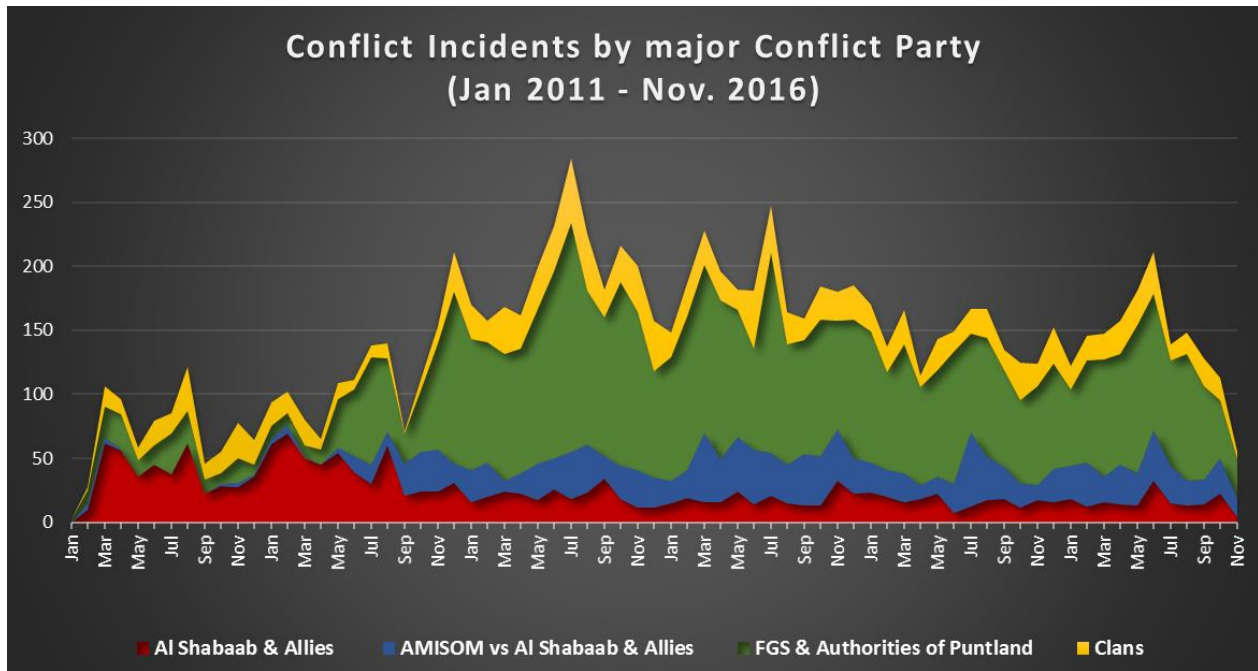


Figure 3. Conflict Incidents by Major Conflict Party

Source: Created by Assessment team based on ACLED data (as of November 26, 2016)

Over the past 5 years, the counter-insurgency forces have achieved a ratio of 4 to 1 attacks over those undertaken by AS. The table below provides the recorded numbers of attacks by type of conflict party, including clans and other or unidentified actors. The table reveals that the number of AS attacks has decreased to about a third between 2011 and 2016.

Number of recorded Conflict Incidents by Party initiating the Violence					
Year	Al Shabaab & Allies	AMISOM vs Al Shabaab	FGS/ Pland	Clans	Sum
2011	421	17	193	186	817
2012	508	159	559	159	1,385
2013	240	302	1,417	392	2,351
2014	220	423	1,287	311	2,241

²⁴ The category "AMISOM, FGS & Allies" comprises recorded attacks perpetrated by the following conflict actors: (i) Federal Government of Somalia and their Allies; (ii) Ahlu Sunna Waljama'a (ASWJ); (iii) International Forces; iv) Authorities of Puntland and their Allies; and (v) Authorities of Somaliland and their Allies'.

2015	197	291	1,009	253	1,750
2016	173	287	867	220	1,547
Sum	1,759	1,479	5,332	1,521	10,091

Table 2: Number of Recorded Conflicts by Party Initiating the Violence

Source: Assessment team's calculations based on ACLED data (as of November 26, 2016)

Despite some geographic shifts of conflict hotspots within South-Central, the majority of large-scale violence remained concentrated around Mogadishu and the neighbouring regions. Benadir, the region of the capital Mogadishu, Lower Juba, Lower Shabelle, Gedo, and Bay remained among the most violent regions throughout the period. Moreover, other regions, such as Hiiraan, Middle Shabelle, Middle Juba and particularly Mudug have seen significant increases of conflict intensity over the past year. Albeit Somaliland and Puntland have been generally more peaceful than South-Central Somalia, the Bari region in Puntland stands out with regard to conflict intensity, as the port city of Bossaso has continued to be major conflict hotspot over the years.

The hotspots of violence have spread within southern and central Somalia. Benadir region accounted for over 40 percent (836) of all recorded conflict fatalities in Somalia in 2011, this figure decreased to 'solely' 12 percent in 2016. At the same time, the proportion of fatalities counted in regions like Lower Shabelle and Lower Juba has doubled, while violence has multiplied in several other regions in the South of Somalia. The map below shows the conflict hotspots in South Somalia in 2015 and the first half of 2016, overlaid with areas under influence of Al Shabaab and their opponents, as of 2014.

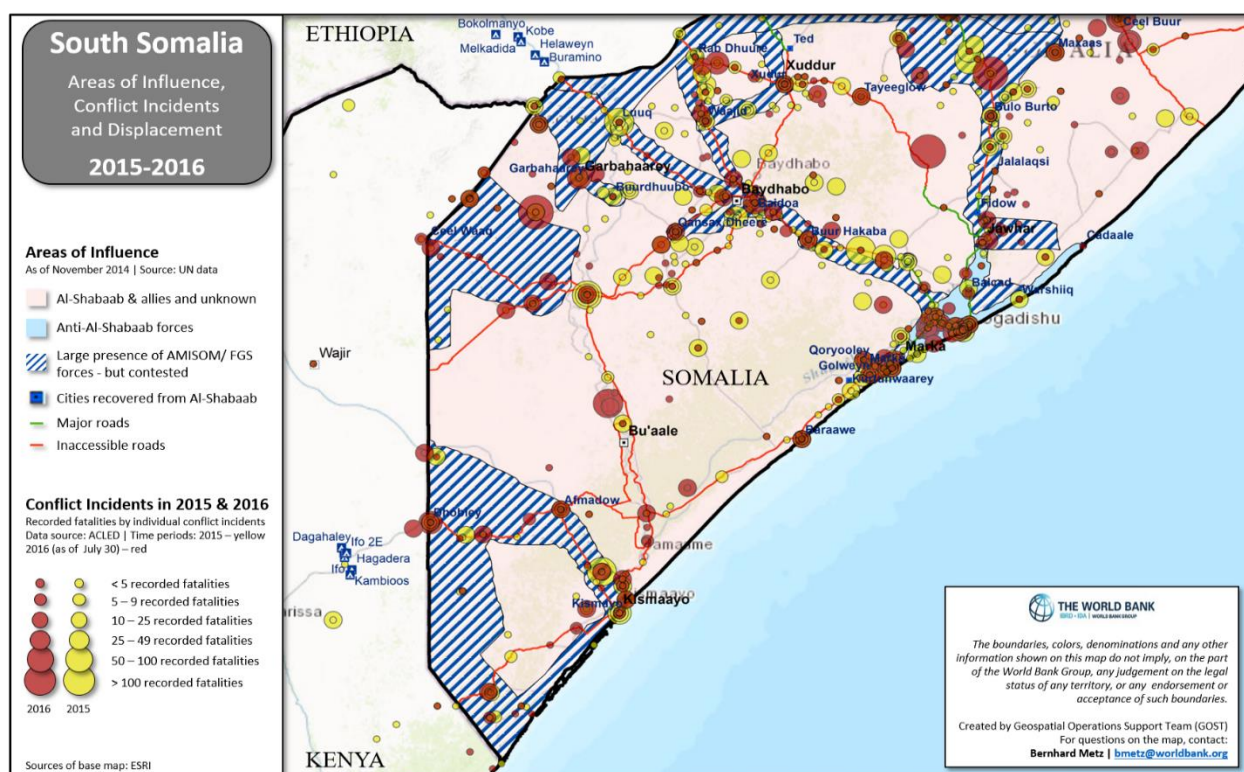


Figure 4. South Somalia Areas of Influence, Conflict Incidents, and Displacement

Source: Created by Assessment team based on ACLED data (as of July 30, 2016)

The following map shows the intensity of conflict events on a district level, in terms of recorded fatalities between 2011 and 2016 (as of November 26). This is overlaid with the locations of individual attacks carried out by Al-Shabaab and their allies.

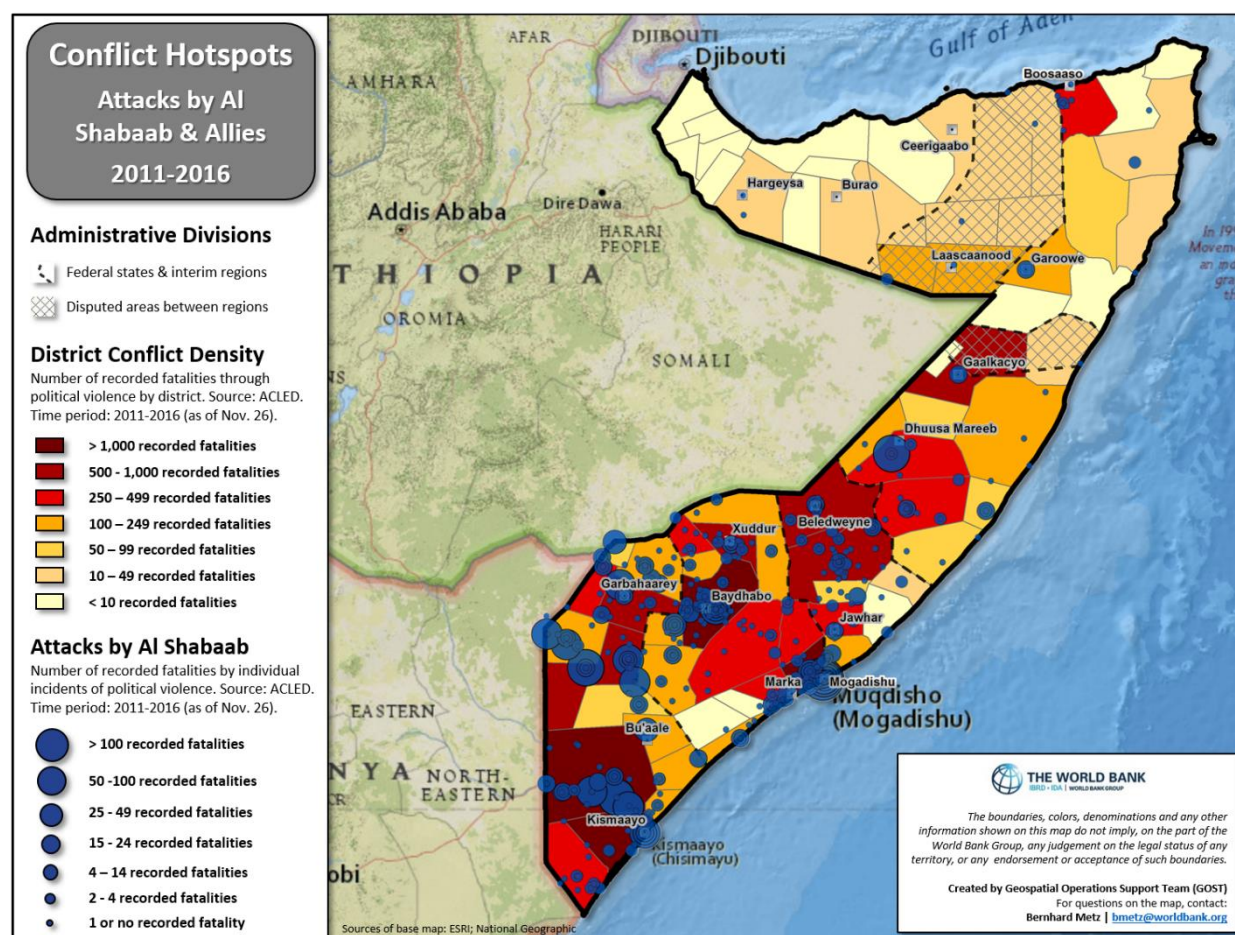


Figure 5. Conflict Hotspots

Source: Created by Assessment team based on ACLED data (as of November 26, 2016)

2.2.2 The Challenge of Al-Shabaab

AS has exerted temporary, and at times sustained, control over significant areas of Somali territory using guerrilla warfare and terrorist tactics against Somali and international actors. In areas where it has retained territorial control, it has sought to provide its particular governance, setting up political structures, court and policing functions, while also recruiting members of the local population, sometimes forcibly, to further its military and political objectives.

The key features of the movement are:

- (i) **Strategy:** AS has been greatly weakened, with many key leaders killed in a number of high profile air-borne strikes, and has been pushed out of all major population centers by AMISOM and Somali security forces. However, AS remains organizationally resilient and strong, and still poses three key threats in Somalia: (a) the control of extensive, primarily rural, territories in the southern and central

Somalia, where it governs and retains large freedom of movement; (b) the launch of asymmetrical attacks, designed to probe, terrorize, and undermine the Somali population's resolve, particularly in urban areas, such as Mogadishu, and occasionally conventional attacks against exposed military bases, as observed in Leego, Janaale, and El Adde; and (c) breaking the resolve of AMISOM and international efforts to stabilize the country. Due to overall losses, AS no longer commands the capability to be a mass movement competing with the FGS, although it retains some territorial footholds.²⁵ The primary threat of AS remains as a violent spoiler with an aim to block any progress by the FGS and the established and emerging FMS, demoralize the Somali population, and drive international peacekeepers and development/aid agencies out of Somalia.²⁶

- (ii) **Force numbers and territorial stronghold:** It is estimated that in 2015, AS had active fighters in the range of 5,000-8,000 under its command, including 300 *muhajiriin* (foreign fighters) operating out of its primary territorial havens, with 35 training camps in southern and central Somalia. Numbers are estimated to have reduced in 2016, following drone strikes, clashes with Galmudug and Puntland security forces during an attempted northward move in March 2016, and foreign fighters in particular moving to the Middle East to join the Islamic State. However, active and forced recruitment may have compensated such losses to some extent. AS also maintains its presence in Puntland's mountain areas, in particular in Galgala mountains (Bari region), which provides a good 'hideout' with an easy access to Bossaso and the greater region of the Horn and the Gulf.
- (iii) **Composition:** The group is comprised of a number of fluid semi-autonomous brigades that act independently from each other. In order to increase effectiveness in asymmetrical attacks, the use of small intelligence cells, *amniyaad*, particularly in urban areas, have taken on an increasing importance to launch attacks.²⁷
- (iv) **Regional remit:** Along with its affiliate in Kenya, known as Al Hijra, AS has expanded its footprint of suicide assaults and bombings in an attempt to weaken regional resolve to continue AMISOM offensives. These have included high profile incidents in Kampala, Uganda in July 2010, and in Kenyan cities of Nairobi, in September 2013 and Garissa, in April 2015.
- (v) **Financing:** At its peak of territorial control in 2011, it was estimated that AS had revenues in the range of \$70-100 million per year.²⁸ It has since suffered significant revenue losses, notably the port of Kismayo, which brought in taxes of approximately \$35-50 million a year. However, with a combination of foreign funding and local taxation in the territories under its control, financial resources have remained sufficient for AS to continue operations.

²⁵ There are also concerns that given internal splits within Al Shabaab, the movement may also be subject to links with global networks such as those associated with the Islamic State based in Iraq/ Syria.

²⁶ Menkhaus 2014

²⁷ Bryden, CSIS, 2014, Bryden, *The Decline and Fall of Al Sahaab: Think Again*, April 2015

²⁸ Keatinge, *The Role of Finance in Defeating Al Shabaab*, RUSI December 2014

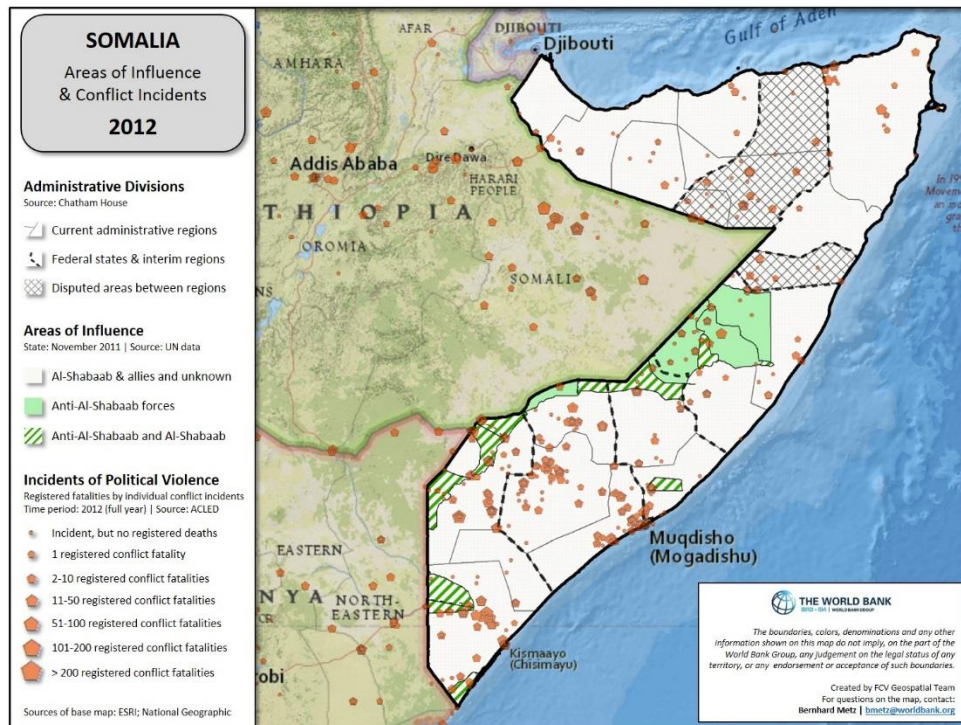


Figure 6. Areas of influence as of mid-2012

Source: Created by Assessment team based on ACLED data

Territorial control has shifted since 2012, with both AMISOM and FGS military offensives making in-roads into gaining coastal towns and access along main arterial routes.

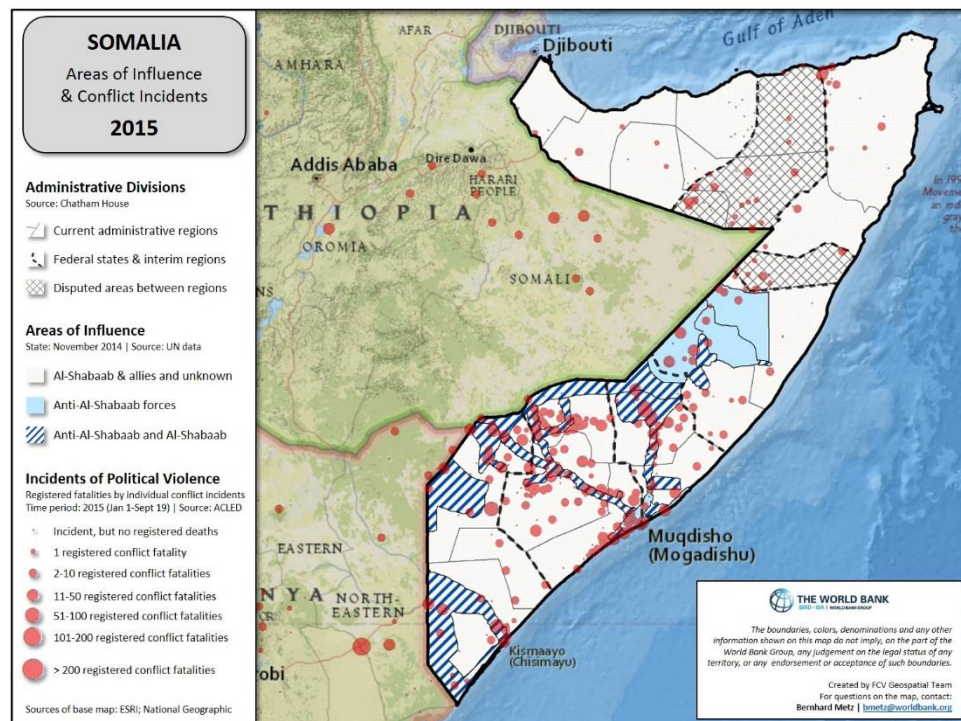


Figure 7. Areas of influence as of mid-2015

Source: Created by Assessment team based on ACLED data

2.2.3 Countering AS and expanding the FGS

International engagement in providing a large and complex security architecture of operational, financial, and training support has significantly contributed to the degrading of AS. In response to its increasing regional and global threat, the international community has established a number of complementary missions and support a Somali-led political-security process. Missions include: United Nations Assistance Mission in Somalia (UNSOM), AMISOM, United Nations Support Office for Somalia (UNSOS), United Arab Emirates (UAE) Training Mission, European Union Military Training Mission (EUTM), and the multinational cooperation for maritime security including anti-piracy off the coast of Somalia.²⁹ Bi-lateral security related missions further enhance the operational capacity of Somalia's security institutions.

Key features of the international intervention are as follows:

- (i) **Military offensives to extend the territory of the Somali Government:** In 2014, the UN Security Council authorized an increase in AMISOM troop strength from 17,731 to 22,126. Following the start of successful counterinsurgency operations in 2014, the UN and AU undertook a joint 'benchmarking exercise' in mid-2015 to identify future support, as well as the increasing role of the SNA and related Somalia forces. UNSCR 2245 of 2015 confirmed the provision of support to AMISOM, and also authorized limited logistical support to the SNA on joint operations with AMISOM, delivered through a UN Trust Fund. This includes the provision of food and water, fuel, transport, tents, defence stores and appropriate communications equipment to enable interoperability with AMISOM. In addition to AMISOM operations (Operations Eagle, Indian Ocean, Ocean Build, and Juba Corridor), Ethiopia and Kenya have also undertaken independent operations in their respective borderland areas.
- (ii) **International and national targeted counter-terrorism:** Given the global nature of conflict and the identification of AS as a terrorist organization, other actors have been increasingly engaged in the efforts to dismantling the group. At the national level, this includes agencies, such as the National Intelligence and Security Agency (NISA), which plays a significant role in diminishing AS overall ability to undertake terrorist actions, particularly around Mogadishu. At the international level, engagements also include considerable support from foreign intelligence agencies, use of international military assets³⁰ and occasional special operations forces.
- (iii) **Community Recovery and Extension of State Authority/Accountability (CRESTA/A):** In early 2016, the FGS Ministry of Interior and Federal Affairs initiated steps to update its stabilization strategy to reflect the current context, including the development of the emerging FMS. The new approach retains the same three core priorities: (a) security and rule of law, (b) governance and local reconciliation, and (c) socio-economic growth, in order to maintain a whole of Government approach to stabilization. However, it departs from the previous strategy by focusing on fragility and addressing underlying drivers of conflict across the aforementioned thematic areas in all districts in south central Somalia, rather than only those districts identified by the military to be recovered from AS. In doing so, the new strategy seeks to implement a broader approach linking community recovery with the ongoing federal state-building process. The Ministry leads this process

²⁹ CTF-150, CTF-151, EU-led Operation Atlanta, as well as bilateral China, Russia and India.

³⁰ Ty McCormick, Foreign Policy, July 2 2015

through its Wadajir National Framework for Local Governance, launched in March 2016, which promotes a more devolved approach at the state and community level on governance.

The Government's strategy continues to be reinforced by a number programmes, including the UN 'Support to Stabilization' project initiated in 2015. This joint project, undertaken by the Ministry and the UN, supports caretaker administrations and the formation of district councils in 13 districts recovered from AS. AMISOM and the UN continue to coordinate activities around 'community recovery and extension of state authority / accountability' (CRESTA/A). In addition, international partners lead a number of large stabilization programmes that are coordinated with FGS aiming at provision of basic social services and infrastructure in newly liberated areas.

- (iv) **Demobilization:** Other than the immediate threat posed by AS, the demobilization and reintegration of former AS fighters also poses a considerable challenge. The National Programme for the Treatment and Handling of Disengaged Combatants in Somalia regulates the support provided to the disengaged AS combatants for their reintegration back into the community.

Current planning assumes that Somali and international efforts will continue to degrade AS and dismantle its ability to control territory; reduced to a 'spoiler' threat it will continue to undertake assassinations and bomb attacks. These will impact the process of state development, including political milestones for elections and constitution drafting, but not derail it.

2.2.4 The Political Settlement and a Federal Governance Framework

Beyond AS, armed conflict in Somalia since the fall of the Barre regime in 1991, has largely been associated with a contestation over the nature, form, and control of a future Somali state between various elite-groupings. A marked manifestation of the 'fragmented' aspect of Somali conflict has been the creation of clan and sub-clan militias³¹ that have been the primary fighting forces in Somalia since the dissolution of Siad Barre's large army. Even today, despite the formation of more 'national' security forces under the control of the FGS, these are largely seen as an agglomeration of various clan-militias. The beginning of 2015, in particular, displayed a consistent trend of increasing rates of clan violence, leading to an increase in humanitarian challenges, political marginalization by more powerful clans, as well as clan-related conflict over power and resources, such as fertile land and infrastructure points (sea and airports).³²

A critical aspect of Somali human and national security, therefore, lies in resolution of these conflicts; this remains the major task of the current political process. The September 2012 formation of the FGS, together with the AMISOM-led military campaigns, created political momentum towards expanding and consolidating a federal Somali state. Since its establishment, the FGS has pursued a constitutional and political settlement process to incorporate regional factions that emerged in the preceding decades, with recent progress involving the FMS.

The finalization of the Constitution will define relationships between different political groups in Somalia, primarily between the centre and periphery/FGS and the FMS. One major challenge, as outlined

³¹ The analysis of such conflict has often been reduced to an analysis of clans; while clan identity has been an important instrument in mobilization it has not been the sole factor of inter-group conflict and has often been manipulated to mask other elite economic, political and ideological interests.

³² AMISOM Benchmarking report, page 9/ and ACLED

in Vision 2016,³³ is the articulation of an institutional structure for the existing fluid federal political arrangements that balances state and federal level power. FGS structures remain weak, affected by decades of war and competing regional agendas. Somalia's Vision 2016 focused on developing the constitution, federalism, elections, resource sharing, reforming government agencies, and good governance. These objectives represent a top priority for the FGS, while authorities will also need to discuss the establishment of a mutually-agreed set of rules for future elections and the formation of political parties.

As this political process develops, the *de facto* security force structure is evolving; the FGS is building a Somali National Army (SNA) while the FMS have their own regional security institutions. As part of the ongoing political agreements, consensus is being reached on the security arrangements; the security process being critical in terms of final determination of the structure and composition of the armed forces and the police and ultimately the state.

The pace of security sector development remains a careful balance between political and operational needs. The reality of state-building is the 'security dilemma': the FMS do not wish to give up their means of self-defence and survival via respective clan militias, while trust and confidence in the federal political process remains fragile. If the 'national' army, the SNA, remains perceived as essentially a clan-based organization then the FMS, and other groups, will be reluctant to relinquish the command and control of their own militia forces. At the same time, counterinsurgency operations continue placing more responsibility on the SNA and regional militias to work with AMISOM against AS.³⁴

2.2.5 Interpersonal Violence and Organized Crime

Given the years of armed conflict, entrenched violence and crime will continue in Somalia even if there is real progress in countering the insurgency and finalizing the political settlement. Data and trend analysis of violence at a more local level is extremely uneven; the best is provided by the Observatory on Conflict and Violence Prevention (OCVP), Hargeisa and occasional reporting from other NGOs.

Violence by clan militia has risen since 2012. Clan leaders have the potential to re-emerge as a significant threat in newly recovered areas. The beginning of 2015, in particular, displayed a consistent trend of high rates of clan violence, leading to an increase in humanitarian challenges, political marginalization by more powerful clans, as well as clan-related conflict over power and resources.³⁵ This upswing in violence and concomitant increase in reported fatalities continues, despite an overall decline in violence since 2013.³⁶ ACLED 2014 reporting notes that violence by militias comprised some 11.3 percent of all violent conflicts (down from 18.7 percent in June 2014) but significantly above the 2.5 year average (8.7 percent).³⁷

Perceptions of safety are varied throughout Somalia. Mogadishu provides a geographic/ temporal snapshot indicating gradual improvement in security albeit from a low baseline. A report from Saferworld, of August 2012,³⁸ noted that 93 percent of respondents marked an improvement in security from 2011. However, some 7 percent of households had experienced a violent death and 8 percent experienced

³³ Vision 2016 (outlining the President's forward vision for the country), Federal Government of Somalia

³⁴ AMISOM benchmarking report, page 5

³⁵ AMISOM Benchmarking report, p. 9

³⁶ ACLED, Conflict Trends No. 34, Real Time Analysis of African Political Violence, February 2015.

³⁷ ACLED, Conflict Trends, Real-time Trends of African Political Violence, August 2014

³⁸ *Mogadishu Rising ?* Saferworld, August 2012

torture in some kind of detention over the past year. In September 2014, a Heritage Institute for Policy Studies (HIPS) / OCVP Report³⁹ noted that over 50 percent of respondents noted a general improvement in security from 2013. More recently, an OCVP Report of 2016 showed notable improvements in perceptions of safety in Kismayo, as result of the new administration; more than half of the respondents (62 percent) felt very safe, 29 percent rather safe and 9 percent felt rather unsafe.

Localized crime and violence may occur as a result of issues including land and property disputes, family and business disputes leading to assault, robberies and theft, rape, and kidnapping. The common risk factors associated with inter-personal violence include presence of a large young population exposed to violence, PTSD and extensive mental health concerns, availability of firearms, poverty and unemployment, and poor education. Reducing clan violence will primarily depend on political progress as well as on physical security and the ability of the Somali security forces.⁴⁰

2.2.6 Maritime Security and Piracy

Somali-based piracy is on the decline. It has been more than four years since a large commercial vessel has been hijacked and held for ransom by Somali pirates. Following the trend in 2013, the total number of incidents caused by Somali-based pirates, reported to the International Maritime Organization (IMO), fell from 20 in 2013, to 3 in 2014, to zero in 2015. This represents a very significant development compared to the 237 ships targeted by Somali pirates in 2011, which was the pinnacle year for piracy off the Somali coast. Despite this trend, credible reports indicate that commercial ships have remained a target. In most cases, ships—through vigilance and situational awareness, and an assertive response – were successful in preventing boarding by attackers. As at December 2016, 13 hostages are still held captive. Suspicious activity is still common and accounts for a large proportion of activity in the Western Indian Ocean, with many false alarms.

While figures indicate declining trends in piracy, combined threat assessments by multi-national forces suggest that piracy will remain in a suppressed state provided collective response mechanisms by the international community, including regional actors, are maintained. For a sustainable solution, it is imperative that the existing root causes of piracy, such as a fragile economy, investment in livelihoods, illegal, unregulated and unreported fishing, and weak governance structures receive the continued attention of the FGS, along with support from the international community.

Furthermore, the recent instability in Yemen is yet to be fully understood, and may have profound security and other related implications for the region. There is also evidence that the organized criminal networks that run piracy operations are still intact. These groups pose a threat to the establishment of rule of law in the country. Information suggests that these syndicates are expanding their activities toward alternative illicit businesses that employ the maritime capability acquired and criminal business models developed by pirate networks over the years. The recent activities around Qandala in Puntland in late 2016 involving Daesh/ ISIS operatives indicate that connections are being established with their counterparts in southern Yemen.

The FGS has also taken some steps to strengthen its approach to maritime security. In June 2014, the FGS issued a proclamation to trace the country's Exclusive Economic Zone (EEZ), including a list of

³⁹ *Perceptions of Security and Justice in Mogadishu*, HIPS/ OCVP, August 2014

⁴⁰ Ibid, p. 11

geographical coordinated points defining the limits of that zone.⁴¹ The FGS has agreed to establish a maritime security architecture under the Somali National Security Council (NSC) in order to create linkages between various maritime focused forums across all activities related to the National Security Policy (NSP) and NDP. However, the development of the maritime security architecture has been slow, due to a lack of consensus on the Somali EEZ and the delineation of the roles and responsibilities between the maritime police, the coast guard/navy.⁴²

2.3 Regional Context

Somalia's western and southern neighbors, Ethiopia and Kenya, remain invested in Somalia's future. After intervening unilaterally in 2007, Ethiopia and Kenya both now participate in AMISOM and have the potential to play an increasingly positive role in improving security in Somalia. But decades of instability, coupled with historical links to particular Somali clans has left both countries cautious about rapid engagement with the FGS. For the FGS, a positive relationship with these neighbors could secure borders and reduce the need for external defence. More importantly, trade with Ethiopia and Kenya has the potential to spur much-needed revenue for national priorities.

To Somalia's north, however, the country remains vulnerable to spill-over from Yemen's civil war and the global jihadist competition between Al Qaeda and Islamic State. Given the increased presence of AS in Puntland, the crisis in Yemen has the potential to strengthen the relationship between AS and Al-Qaeda in the Arabian Peninsula (AQAP), including through the provision of weapons and expertise. Such links have already been created in the south west with the frequent collaboration between AS and its Kenyan counterpart Al Hijra.

2.4 International Context

The election of the FGS in late 2012 augured a new period in Somalia's history symbolized by increased international recognition. The country's politics remain in transition, as the constitution is finalized and center-periphery relations are settled. As the electoral process that started at the end of 2016 and is due to be completed early 2017 the the expectation is that international diplomatic, financial and security support to the FGS and FMS will continue.

In September 2013, the FGS and international community entered into a joint 'New Deal Somali Compact' to achieve a number of Peacebuilding and State-building Goals (PSGs), aimed to help Somalia move from fragility towards peace. The document articulates a number of complex priorities for Somalia from 2014-2016, ranging from political to economic, as well as social and regional, and maps out a path to recovery and long-term security through reconciliation of the disparate groups in the country, towards the creation of a representative government open to all Somalis. The outcomes in Compact are divided into 5 peace-building and state-building goals (PSGs), namely, political legitimacy, security, justice, economic revitalization, and revenues and reconstruction.⁴³ A new model for international engagement and support in Somalia is being finalized within the context of the National Development Plan (NDP), which is expected to take over from the New Deal Compact.

⁴¹ Under the UN Convention on the Law of the Sea, coastal States have sovereign rights in the exclusive economic zone with regard to national resources and some economic activities and exercise jurisdiction over marine science research and environmental protection.

⁴² Report of the UN Secretary-General (S/2014/330) and Political security stocktake paper, 16

⁴³ The Somali Compact (2014): <http://www.pbsbdialogue.org/The%20Somali%20Compact.pdf>

Expensive international commitments continue to underpin Somalia's political and security progress, which led to an agreement in mid-2016 by the principal international financial supporters of security sector (the 'S6': UN, EU, Turkey, UAE, UK, USA) that the introduction of a **Comprehensive Approach to Security (CAS)** was required. The CAS uses a five strand approach: (i) **Enabling AMISOM operations and enhancing AMISOM effectiveness** so that the threat of AS is reduced to a level that Somali security institutions can address them independently; (ii) **Accelerate the development of Somali security sector institutions** to achieve effective, accountable, affordable, and self-sustaining Somali security institutions with civilian oversight; (iii) **Community Recovery and Extension of State Authority/Accountability (CRESTA/A)** towards a tangible increase in citizen trust in government presence, improvement in the provision of services and greater security; (iv) **Prevention of and countering violent extremism (P/CVE)** towards resolution of conflict politically as opposed to through violence; and (v) **Enhancing the coherence of international partners' support** towards a clear partnership, with defined roles and responsibilities, between Somali Federal and regional member states on one side, and international partners delivering support to Somalia's security institutions on the other.

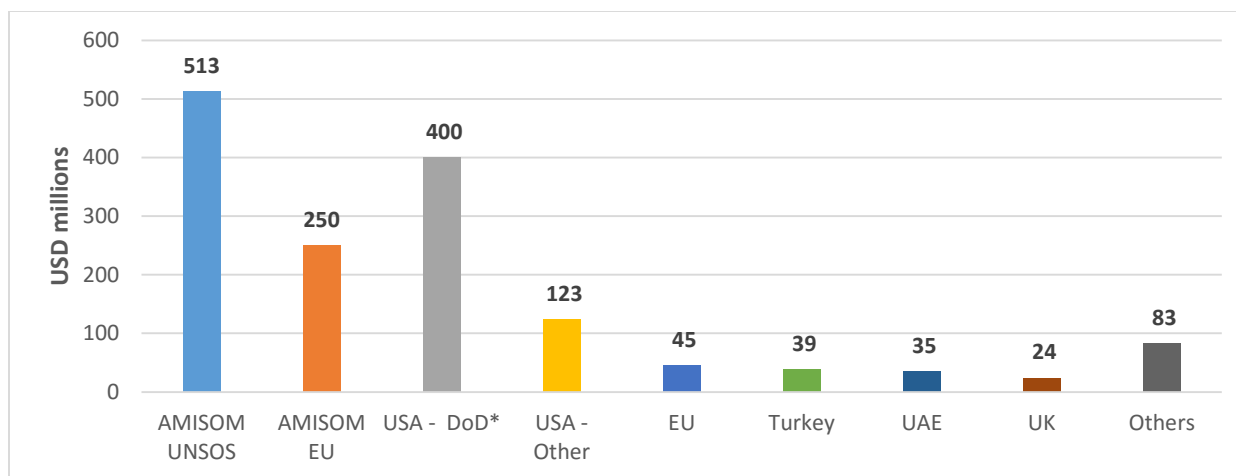
With regard to the anti-piracy efforts, these have been both government and private sector led, with the larger share of security costs estimated at up to \$18 billion a year falling to the private sector for increased insurance, on-board security and longer re-routing. This spending has reportedly been a major driver of the reduction in the number of incidents of piracy.⁴⁴ It is important to note that these anti-piracy contributions are primarily intended for safeguarding international waters, and therefore do not form part of public expenditure in Somalia, whether on or off-budget.

The total estimated international spending on security is some \$1.5 billion per year, summarized in Figure 4.⁴⁵ AMISOM joint military operations have been some \$750 - \$850 million per year, divided into EU financing of AMISOM, and provision of logistical support through UNSOS. The six largest international contributors to Somali security have organized themselves into an "S6" group to better coordinate their activities. The US is the largest S6 contributor, providing over \$500 million per year, of which around \$400 million is 'Somalia focused' but also spent in the wider Horn of Africa. The EU, Turkey, UAE and UK comprise the remainder of the S6 with approximately \$140 million of support per year, with other donors contributing approximately \$80 million.⁴⁶

⁴⁴ The losses to world trade as well as insurance, security and fuel costs were estimated at up to \$18 billion (The Pirates of Somalia: Ending the Threat, Rebuilding a Nation, 2013, World Bank); the costs of naval measures and added security for commercial ships was put at \$1.3 billion and \$1.1 billion per year respectively (The Economic Costs of Somali Piracy, One Earth Future Foundation, USA, 2011).

⁴⁵ These figures are based on staff estimates and do not include: costs relating to the anti-piracy measures as well as financing for covert operations and support provided by bilateral partners

⁴⁶ Note that Turkey's provision of general budgetary support of \$2 million per month (which to date has been highly unpredictable) is not included in these figures because it is not officially earmarked for security. In practice, the FGS chooses to link it to the payment of security sector salaries.



Note: *The \$400 million of funding from the USA's Department of Defence (DoD) is "Somalia focused" funding spent in the Horn of Africa.

Figure 8. International Financing of Security in Somalia

Source: Staff Estimates

The UN also continues to conduct a Monitoring Group for Somalia, overseeing the arms embargo first sanctioned in 1992. The Security Council first imposed a general and complete arms embargo on Somalia on January 23, 1992 in UNSC 733 and 751. The Somalia and Eritrea Monitoring Group (SEMG), which took over from the Panel of Experts in 2003, currently monitors the arms embargo and import and export of charcoal from Somalia. In March 2013, with the development of the FGS, the Security Council decided to partially lift the arms embargo on Somalia for deliveries of small caliber weaponry, military equipment or the provision of advice, and assistance or training, intended solely for the development of security forces of the FGS. Further, the FGS must report semi-annually to the Sanctions Committee of the Security Council full and accurate information on the structure, composition, strength, and disposition of its security forces, including the status of regional and allied militia forces, infrastructure in place for the safe storage of weapons and ammunitions, and the standard operating procedures guiding the management of weapons and ammunitions. With UNSOM and UNMAS assistance, the FGS has implemented a project that will result in a documented framework, system of work and accompanying set of procedures, equipment, and basic training for the marking, record keeping, management, distribution of small arms and light weapons, and ammunition in Somalia. Verification is undertaken through a third party consultancy and the FGS. The system will be owned and implemented by the FGS, with assistance from the international community providing specific technical advice and support.

2.5 Macroeconomic Context

Despite two decades of conflict, negligible infrastructure and limited governance, the economy of Somalia has continued to grow, largely due to the private and informal sectors. Somali entrepreneurs have adapted to a stateless, conflict-ridden economy, effectively reorienting the society away from the public sector dominated structure of the 1970s and 1980s. The private sector dominates trade, money transfer services, transport and telecommunications, and is largely funded by remittances from the diaspora. Estimates from the IMF and the World Bank have put Somalia's GDP in 2015 at \$5.95 billion in current dollar terms. The recent estimate of Somaliland's GDP by the World Bank puts it at about \$1.9

billion in 2015, with the balance of the country having about \$4 billion in GDP.⁴⁷ In the absence of state regulation and institutions, a vibrant informal sector has developed, boosted by approximately \$1.4 billion (as of 2015 – approximately 24 percent of GDP) in annual remittances from the roughly one million Somalis living outside the country.⁴⁸ New small financial institutions, such as mobile money accounts in place of formal bank accounts, have higher utilization in Somalia than in other parts of the world, with more than 10 percent of adults using a mobile money account instead of an account at a financial institution.⁴⁹

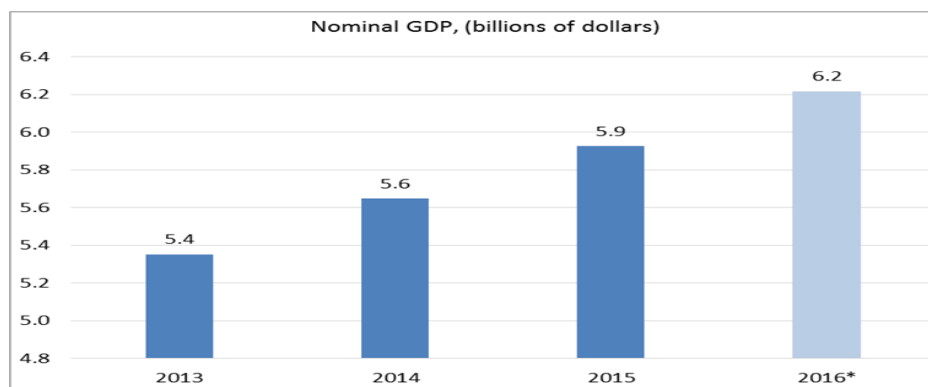
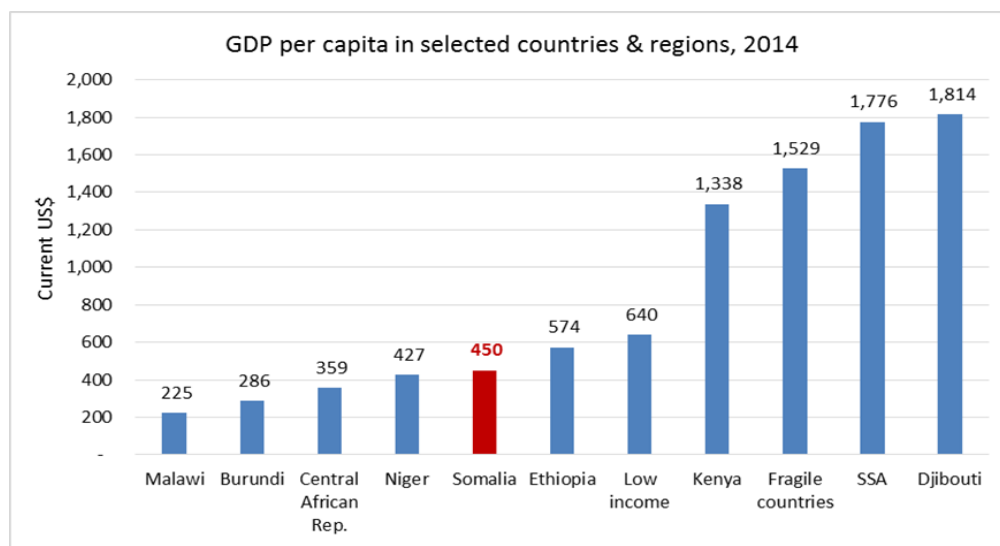


Figure 9. Somali GDP

Source: World Bank and IMF estimates

Nevertheless, despite economic recovery, Somalia remains as one of the poorest countries in the world. GDP per capita was estimated at \$450 in 2014, making Somalia the fifth poorest country in world. The entire country, including the relatively peaceful regions, has been negatively affected by the legacy of poor institutions and regulatory frameworks, weak governance, and limited public services delivery.



⁴⁷ Somalia Economic Update, World Bank, 2016

⁴⁸ "Family Ties: Remittances and Livelihoods Support in Puntland and Somaliland," June 5, 2013, Food Security and Nutrition Analysis Unit, Somalia, FAO, <http://goo.gl/eYJKA>

⁴⁹ UNCDF, "Massive Drop in Number of Unbanked," *The World Bank*, April 15, 2015, available at <http://www.uncdf.org/en/massive-drop-number-unbanked-says-new-report>

Figure 10. GDP per capita in selected African countries (2013)

Source: World Development Indicators and Staff Estimates

2.5.1 Domestic Expenditures

Public expenditure in Somalia is growing in importance but budget execution remains weak and sectoral allocations need readjustment. Recurrent expenditures account for almost all expenditure, with capital spending accounting for just 2 percent of total spending in 2015. Recurrent expenditure increased from \$117.4 million in 2013 to \$150.9 million in 2014, before declining to \$133.1 million in 2015; it averaged 3.4 percent of GDP during this period. Total expenditure in 2016 is estimated at \$246.3 million.

However, the basic norms of fiscal management are still developing as the government struggles with limited controls on expenditure, a lack of staffing controls, and *ad hoc* cash rationing. This has led to a structural budget deficit and arrears accumulation. Staff numbers, which account for the majority of expenditures, have limited functioning controls, generating significant increases in the salary bill. Salaries are also not paid consistently. For non-salary expenditures, in the absence of commitment controls in the SFMIS, line ministries are entering into commitments with suppliers for goods and services without necessarily having the cash available to pay. Arrears therefore accumulate rapidly in the form of unpaid salaries, obligations to pay suppliers, and short-term borrowing from the private sector.

In addition, almost no capital spending takes place with operating expenditures concentrated in the security sector and other sectors of government face cash rationing. FGS expenditures are dominated by wages and salaries, which accounted for 44 percent of expenditures in 2013 and 51 percent in 2014. The next-largest category of expenditure is goods and services, which accounted for 46 percent of expenditures in 2013 and 38 percent in 2014. Operating expenditures are concentrated primarily in the security sector; most line ministries have very little funding available for operating expenditures (for example, only 5 percent of education and 14 percent of health spending was dedicated to operating costs in 2014). Arrears, which totaled \$43 million at the end of 2014, are a problem across departments. They are particularly high in the armed forces.

The administrative and security sectors account for more than 85 percent of total spending. Together the economic and social services sectors account for only about 10 percent of total expenditure. Education and health combined received 1.8 percent of the budget (\$3.6 million, of which only about \$0.8 million was budgeted to health)—and only 65 percent of those funds were executed. Compensation of employees is projected to increase to 49 percent of total spending in 2016 (up from 41 percent in 2015), with goods and services falling to 33 percent (down from 44 percent in 2015). Budget execution in these expenditure categories declined, increasing arrears.

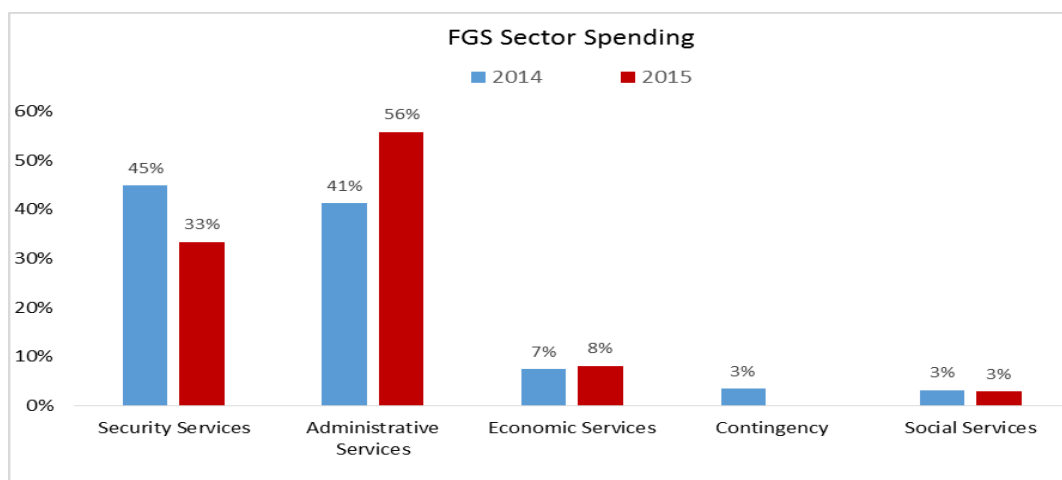


Figure 11. FGS Spending by Sector

Source: Somalia Ministry of Finance

At the regional level, healthy growth in both Puntland and Jubbaland has resulted in formalized revenues and expenditures. Puntland has had a relatively consistent public expenditure picture; in addition to security and administrative needs they also included some public financing of health and education expenditures (though Puntland security forces have not been paid for much of 2016). The Jubbaland Administration has reported on both revenue and expenditure and expects a greater formalization of both.

2.5.2 Domestic Revenues and Debt

Somalia's fiscal situation is improving. The Federal Government of Somalia (FGS) has presented a fiscal budget for parliamentary approval for four years in a row. Public expenditures have expanded significantly, from \$35.1 million in 2012 to \$135.4 million in 2015. Spending depends heavily on multilateral and bilateral donor inflows, which can be late or do not materialize, creating uncertainty in budget implementation.

Revenue mobilization improved over the past four years. Domestic revenue grew 36 percent in 2015, rising from \$84.3 million in 2014 to \$114.3 million in 2015, driven mainly by tax revenue, which contributed more than 70 percent of total revenue in 2012–15. Domestic revenue as a share of GDP remains very low, at just 2.8 percent of GDP, making it difficult to provide services. It is projected to increase 22 percent in 2016 to \$139.2 million. Past forecasts were unrealistically high, given the ongoing insecurity, a problem that led to ad hoc cash rationing. In addition, the basic norms of fiscal management remain weak. Unrealistic revenue projections and weak expenditure controls contribute to the accumulation of arrears, which reached \$67.7 million in 2015.

International trade taxes remain the key driver of domestic revenue, accounting for 62 percent of the total in 2015. Trade taxes grew 11 percent in 2015, to \$71 million. Nontax revenue tripled, to \$31.9 million, mainly as a result of new fees at airports and harbors and charges for visas and passports. Personal and corporate income brought in just \$1.9 million in 2015.

On-budget donor funding plummeted, falling from \$61 million in 2014 to \$27 million in 2015. As a result, total revenue declined 3 percent, to \$141 million, after having increased 24 percent the previous year.

Development partners' contributions to the budget have been critical, but they can be unpredictable, making it difficult to execute the budget. Only 32 percent of donor commitments were realized in 2015, down from 83 percent in 2014. Bilateral donors executed only 8 percent of their commitments in 2015; multilaterals executed 48 percent. Total donor funding was budgeted to increase to \$107 million in 2016.

The reform agendas in the regulatory environment and public financial management are complementary. The Telecommunications Act – if passed - will allow the FGS to raise taxes on the vibrant telecommunications sector; the public financial management bill should reduce revenue leakages and allow the government to exert control over expenditure. Once passed, these bills offer good opportunities to increase domestic revenue. Efforts supported by the World Bank and other donors should help improve revenue collection and administration. The FGS will also need to engage the donor community to increase the proportion of on-budget funding and its disbursement and to ensure that the vast majority off-budget funding flows through the Treasury systems.

Regional governments' revenue has been on an upward trajectory, despite a lack of diversity. In Puntland, since 2007 domestic revenues have increased by 92 percent from \$15.6 million to \$38.4 million, but have shown weakness, declining 6 percent in 2013. Most of the government revenues come from the customs, with related taxes on international trade contributing 63 percent in 2012 and 67 percent in 2013. This lack of diversity makes revenues vulnerable to external shocks. In Jubbaland, some efforts have been taken to formalize port and airport revenue. However, in 2015 only about \$10 million is reported to be included in the administrative budget. Nevertheless, the revenues from the port of Kismayo and the regional airports are likely to exceed these figures, but will only slowly become part of the formal Jubbaland budgets.

Somalia owes an estimated \$5.6 billion to multilateral and bilateral creditors and in debt distress. Relations with international creditors were frozen in the late 1980s, when financial policies slipped out of control. Because of significant arrears on past debt-servicing obligations, the lack of a fully functional national government, and the unstable security situation, Somalia neither borrowed nor serviced its public debt after the 1990s. Out of the \$5.6 billion Somalia owes \$1.54 billion (27 percent) to international financial institutions, mainly the World Bank, the International Monetary Fund, and the Arab Monetary Fund – of this amount, \$1.23 billion is accumulated arrears. Furthermore, Somalia also owes \$4.1 billion to bilateral creditors, of which \$2.5 billion is to Paris Club members (mainly the United States, the United Kingdom, the Russian Federation, France, Italy, and Japan) and \$1.6 billion is to non-Paris Club countries (including the United Arab Emirates, Saudi Arabia, and China).

Somalia, one of the world's poorest countries, is potentially eligible for the HIPC Debt Relief Initiative. Arrears to external creditors have blocked access to international financial resources to finance reconstruction. Somalia is working with its development partners to resolve the debt problem and is exploring ways to qualify for relief under the Heavily Indebted Poor Countries (HIPC) Initiative. It is also potentially eligible, after reaching the HIPC Completion Point, for additional debt relief under the Multilateral Debt Relief Initiative (MDRI) from the World Bank and African Development Bank debt and beyond-HIPC Relief from the IMF. Among the prerequisites for Somalia to reach Decision Point under the HIPC Initiative are that its external debt data be reconciled with creditor claims and that a debt management system be put into place. Somalia must therefore reconstruct its debt database that was completely destroyed during twenty-plus years of civil war. It must also rebuild the debt management capacity that was lost in the absence of a functioning government.

3. Evolution of the Security Sector

This section provides (i) an outline of the existing legal and policy framework; (ii) an overview of current formal security institutions within the framework of ‘defence’ and ‘internal security,’ including future plans and associated costs; and (iii) an overview of the informal security forces, such as militia and private security companies.

3.1 Legal and Policy Framework

3.1.1 National Security Policy

Typically, a SJPER assesses expenditures against existing public security sector policy and formal public sector institutions, such as a national army or police. However, large parts of security and justice provision in Somalia are provided by informal institutions (the local militia or clan-elder arbitration), with Somalia’s formal security institutions (Somali National Army (SNA)/Somali Police Force (SPF) slowly increasing their influence across the country. In turn, a fragmented polity prevented the conditions for an overarching national security strategy or policy framework to be agreed until mid-2016. The draft National Security Policy, as endorsed by the National Leadership Forum in June 2016, provides an important framework around which more a detailed discussion can be undertaken on the roles and responsibilities, as well as the size and shape of Somalia’s security institutions.

National security policy in recent years has largely been driven by immediate operational needs, primarily the military offensive against AS. Such operations have defined the development of Somalia’s security sector. With studies such as this SJPER, key security stakeholders have an opportunity to consider how national security sector coheres with the political process and formation of a federal Somali state, including relations between the FGS and the FMS. One of the objectives of this SJPER is to provide analysis and assessment, informing the development of a coherent and sustainable national security policy, founded upon a successful political settlement and finalization of the Somali Constitution.

Such a process has already started with the adoption of the Provisional Constitution in 2012. The Provisional Constitution outlines the basic structure of federal defence forces, an intelligence service, police at federal and state level, and prison forces, and requires them to follow the principles of respect for the rule of law, democratic governance, and fundamental rights, as well as transparency and accountability.⁵⁰ The armed forces have been assigned the mandate to guarantee the sovereignty and independence of the country and to defend its territorial integrity. The police has received the mandate to protect the lives, property, and the peace and security of the citizens and other residents of Somalia.⁵¹ It also provides for policing at the state level with the same mandate to protect; however this is function, in cooperation with the federal police force if need be, is a local function. International standards of policing such as professionalism, respect for rule of law and fundamental rights, and accountability are also set forth in the Provisional Constitution.

⁵⁰ Provisional Constitution, Arts 126 and 127.

⁵¹ The Federal Government of Somalia. 2012. The Federal Government of Somalia Provisional Constitution. The Federal Republic of Somalia, Mogadishu. Available at <http://unpos.unmissions.org/LinkClick.aspx?fileticket=RkJTOSpoMME=>

3.1.2 National Security Planning

In order to provide donor partners with a more coherent set of security plans, the FGS embarked on a planning process for both the military and police. In the absence of overarching national security plans, the plans that have emerged are the most important documents upon which this SJPER has based its costing projections are those for the security and justice apparatus in Somalia.

The *Guulwade* Plan was issued in April 2015 following the London Security Conference in September 2014. Partners called for a plan for the requirements of a 10,900 core of the SNA (21 battalions), seen as critical for joint operations with AMISOM while providing a baseline for longer-term capacity building of the SNA. The plan was endorsed by the international community, with the UN and other stakeholders tailoring support to ensure its implementation. The *Guulwade* Plan lays out what is required to equip and train the 10,900 SNA for joint operations. Non-lethal support is being provided by UNSOS to the 10,900 SNA; arms and ammunition are being provided through bi-lateral arrangement. The plan was meant to be fully implemented by March 2016; with best estimates indicating that the plan is at least 18 months behind schedule. To date, there has been a lack of real progress in the reform and capacity building of the Somali security forces (especially the SNA); despite extensive international support over the past several years, only a small proportion of the SNA has displayed the capacity to join the counterinsurgency alongside AMISOM.

For the police, the New Policing Model (NPM) was developed and endorsed by the National Leadership Forum in June 2016. Under the NPM, the draft *Heegan* Plan will be revised into an overarching strategic support plan for 2017-2025 to implement the NPM and align all ongoing and upcoming support activities.⁵²

A federal vision must contend with both strong traditional mechanisms as well as a ‘security dilemma’ that resists integration. While establishment of the NPM will provide a federated police system for the country, and also add to vertical integration, a challenging situation continues to prevail in which stakeholders are reluctant to ‘give up’ their means of ‘armed protection’ while the political settlement remains fragile. Implementation of the NPM will be an important next step in the provision of internal security and rule of law in Somalia. However, the specific relationship between regional militias and potential armed police, (Darawish) forces remains to be determined, seeking a balance between regional independence and federal security needs.⁵³

At the FMS level, various entities currently oversee and ‘deliver’ the security functions, ranging from military/police to militias, but their exact contribution to the security sector remains unclear. For example, Puntland’s transitional Constitution, adopted in 2012,⁵⁴ defines an armed force of: (i) Police; (ii) Darawish Police Force and (iii) the Custodial Corp,⁵⁵ which were expected to converge in accordance with

⁵² As the NPM was developed during the course of the PER we use the terms Heegan plan and NPM interchangeably.

⁵³ Darawish forces refer to a traditional Somali paramilitary force that is between a classic army and police in capability and tasking. The closest western counterpart would be the Italian Carabinieri or the French Gendarmerie.

⁵⁴ United Nations Security Council. 2012. *Report of the Secretary General on Somalia*. United Nations, New York, New York. Available at <http://www.securitycouncilreport.org/atf/cf/%7B65BFCF9B-6D27-4E9C-8CD3-CF6E4FF96FF9%7D/Somalia%20S%202012%20283.pdf>

⁵⁵ Puntland Regional Government. 2001. *Transitional Constitution of Puntland Regional Government*. Puntland. Available at <http://www.refworld.org/pdfid/4bc589e92.pdf>

the political agreements enshrined in the Vision 2016. Delays in the Constitutional process mean that this process will not start until 2017.

3.2 Overview of Defence and Internal Security Institutions

Somali security actors are a mix of formal, informal, and external institutions and actors covering a broad spectrum of security capabilities that are funded by a variety of domestic and external sources. An assessment of the sector confronts a number of key challenges:

- (i) **Formal public institutions remain underdeveloped while the polity is fragmented.** The gains of political settlements have started to consolidate state capacity, legitimacy, and authority. However, public institutions, including those belonging to the security sector remain under-resourced and are generally not perceived as legitimate by all the stakeholders.
- (ii) **Many security providers are still ‘informal,’ most commonly taking the form of groups of armed clan ‘militia’ across the country.** Even the SNA and SPF that comprise personnel financed from the national budget and external resources are perceived by many to be groups of different clan militia.⁵⁶
- (iii) **Although there are large normative differences between the police and military, in reality there appears little distinction between them.** Both elements provide static security in many areas, and make use of light force structures and light vehicles (commonly pick-up trucks with light machine-guns). The exception to this being the ‘near-retirement’ cadre of police that practiced during the Barre years.
- (iv) **Counting security personnel is a complex task.** There are estimated to be between 550,000-750,000 weapons in Somalia (about 6.5/100 residents), and as such it is not easy to define who is, and who is not, a *security actor* in the country.⁵⁷ The total number of uniformed personnel is unclear, particularly as many are believed to wear multiple hats and vetting remains limited. Estimates suggest that the number of uniformed personnel are possibly as high as 95,000, of which approximately 40-45,000 are armed forces, not including AMISOM forces. The numbers are, however, extremely fluid and based on differing definitions, intermittent record keeping and shifting loyalties.
- (v) **Mobilization of forces in Somali conflict:** Somalia has been in conflict for over two decades, characterized by lesser or more intense periods of violence. This has impacted the way in which Somali forces fight and are compensated. In historically ‘stable periods’ many clan militias would comprise of a small, core, standing force to provide protection. These could be rapidly increased in times of open conflict, by deploying from the large reserves. While on standby, these reserves received some in-kind and financial support.
- (vi) **Many security personnel frequently change loyalty and command.** Many of the SNA units were previously clan militias that now come under the FGS administrative and budgetary control/ formal

⁵⁶ Menkhaus has noted a variety of non-state armed actors in Somalia including: (i) clan militias; (ii) clan paramilitaries; (iii) District Commissioner militias; (iv) business security militias; (v) personal protection units; (vi) local private security companies; and (vii) international private security companies.

⁵⁷ Small Arms Survey, 2007

SNA command and control, but have informally remained under the command and control of the clan they belong to. In turn, there is evidence that suggests, particularly in Mogadishu, that uniformed personnel are also used as security guards for private sector organizations, including security companies. Other reports suggest that uniform personnel can defect and re-join old clan militias and in certain instances AS. This fluid cycling of armed men is show in Figure 8.

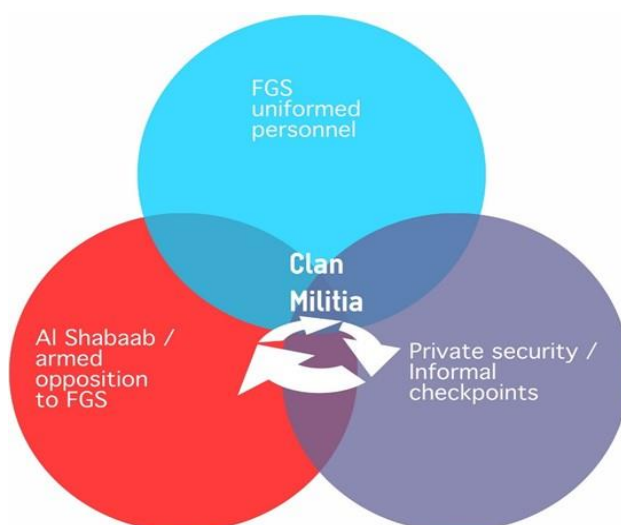


Figure 12. Potential overlapping loyalties of armed personnel

Source: Staff Estimates

Due to these complexities, security actors give different answers about the size of different armed forces in Somalia. The extant SJPER has attempted to address the issue in a few ways, such as:

- (i) Taking note of the exercise of registration of the SNA and SPF being undertaken by the FGS in conjunction with the international community. This exercise is primarily aimed at payroll reform, but will in time form a basis for a personnel database.
- (ii) Extracting information from the provision for ‘allowances security forces’ under the regular budgets of the regions/states to estimate the size of statutory or *de jure* forces; and
- (iii) Calling upon open-source and insights of various organizations working on Somalia.

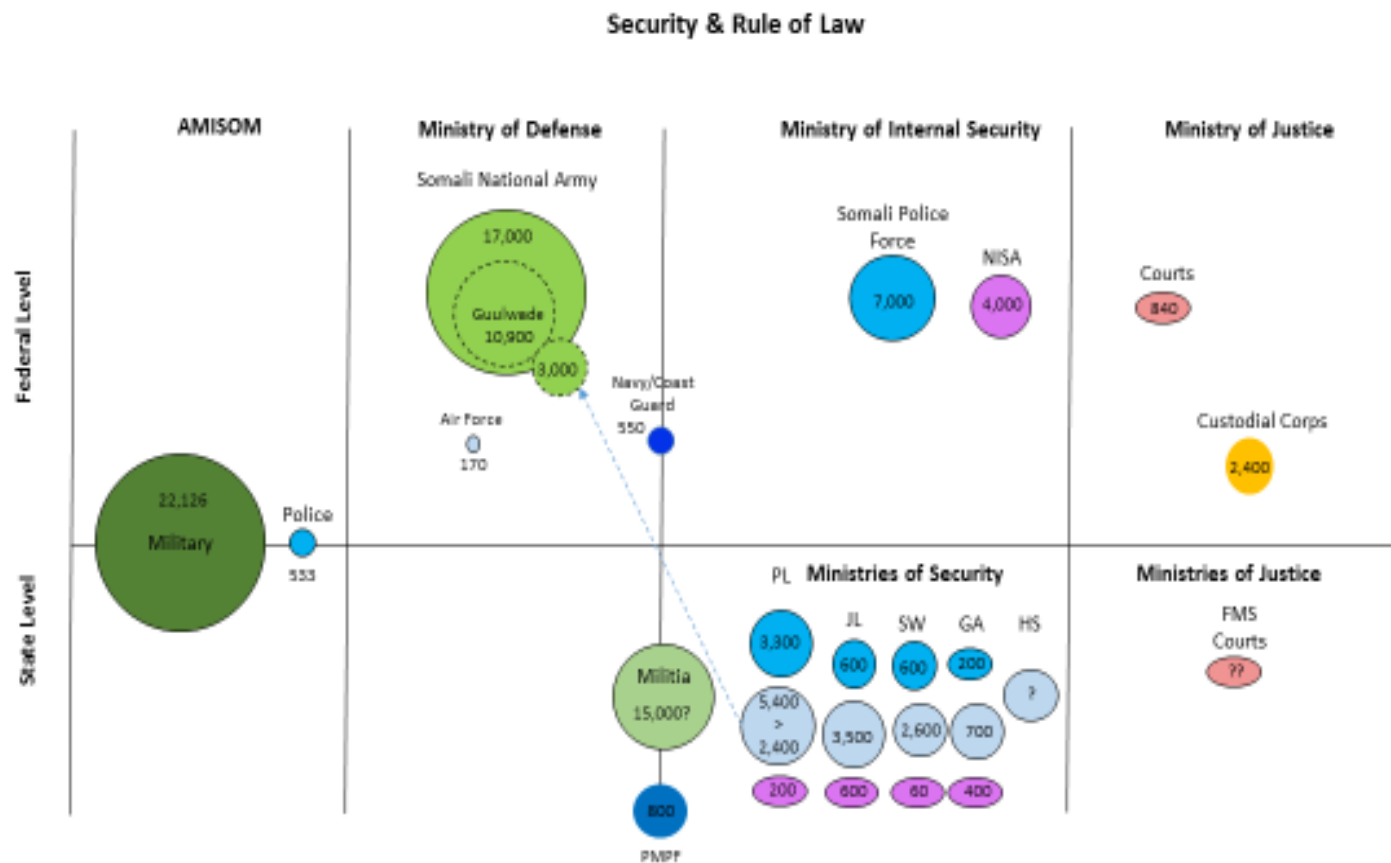


Figure 13. Formal and Informal Security and Armed Forces in Somalia

Source: Staff Estimates

The SJPER team has made a best attempt at pulling all the different formal and informal armed forces and groups into one representation in Figure 15. **A conservative estimate is that there are around 67,000 persons under arms in Somalia (not including insurgents) albeit given our analysis above there is some double-counting.** To note some of the key components in this figure includes:

- (i) The SNA at 17,000 is the official figure given by the Chief of Defence Forces in mid-2016 to the Peacebuilding and Statebuilding Goal 2 (PSG 2) 'Security' Working Group, representing FGS, FMS and international partners. However, the MoF budgets for around 23,000 including widows and orphans. The SNA figure will not be clear until the full registration and verification exercise using biometric data is finalized.
- (ii) The paramilitary forces also known as 'darawish' of which 3,000 from Puntland are scheduled to be 'rebadged' and join the SNA in 2017. These are currently indistinguishable from militia but there is a policy discussion to have these formalized into a separate series of rapid reaction forces at the regional level different from the army and the police.
- (iii) The militia which are not part of any formal institution, including armed groups such as the pro-FGS Ahlu Sunna Wal Jama (ASWJ) militia based in Galmaadug which numbers some 4,500. The final figure for militia will not be confirmed until the militia integration process has been completed.

The FGS, with the support of international community, also identified necessary lines of security sector development through the PSG 2 WG. The strategic objective of PSG 2 was to "establish unified, capable, accountable and rights-based Somali Federal security institutions providing basic safety and security for its citizens." Four priority lines of efforts were agreed to focus support to: (i) strengthen the capacity and accountability of security institutions to recover territory, stabilize and provide basic safety and security; (ii) integrate security forces into Federal institutions; (iii) implement national programme for the treatment and handling of disengaged combatants; and (d) develop an effective maritime security strategy within the framework of the Maritime Resource and Security Strategy.⁵⁸ In addition, the New Deal Compact identifies police functions under both PSG 2 and PSG-3 'Justice,' to the extent that PSG 3 touches upon the rule of law and preservation and enforcement of justice. This work is expected to be taken forward in 2017 through implementation of the National Security Policy (NSP) and NDP.

3.3 Defence

The defence forces of Somalia were initially made up of the army, navy/coast guard, air force, and police, collectively referred to as Somali Armed Forces (SAF). In the post-independence period, it grew to become among the largest military force in Africa. Due to patrimonial and repressive state policies, the military had begun to disintegrate by 1988. Following the start of the civil war in 1991, the SNA and all other military and security forces were dissolved. In 2004, a gradual process of reconstituting the military was set in motion with the establishment of the Transitional Federal Government (TFG). The SAF are now overseen by the Ministry of Defence and consist of the SNA, Somali National Air Force (SNAF), and Somali Navy/Coast Guard, but are at different stages of institutional development. The SPF and NISA are no longer part of the defence forces of Somalia, and are under the aegis of the Ministry of Internal Security.

Overlapping political and security events are driving a discussion about the future size of the SAF:

⁵⁸ Federal Government of Somalia. 2014. The Federal Republic of Somalia Somali Compact. The Federal Republic of Somalia, Mogadishu. Available at <http://www.pbsbdialogue.org/The%20Somali%20Compact.pdf>

- (i) The security strategy endorsed by the UN Security Council (UNSCR 2124 of 2013) describes a scenario in which the SNA would progressively take over the military offensive as AMISOM downsizes and eventually withdraws.⁵⁹
- (ii) The integration of militias into the SNA through a FGS-led political engagement process with the FMS that would determine respective numbers. It is important to note that integration of different clans is a key factor in the future development of the SAF, and particularly the SNA, which is at risk of manipulation by conflicting clan interests.
- (iii) The likely political agreement for power and economic sharing through the constitutional and electoral process that will define the distribution of security forces at the regional and federal levels.

The *Guulwade* Plan was written outside the framework of an endorsed draft NSP. With the endorsement of the draft NSP by the National Leadership Forum (NLF), a detailed assessment/development plan will need to inform a National Defence Strategy. This is expected to lead to publication of a 'Defence Action Plan', with the *Guulwade* Plan potentially utilized as a foundation from which further planning to shape the size and capabilities within the SNA can take place.

There is presently no definitive policy that defines the size and disposition of SAF, although models have been outlined in the NSP and consultations between the FGS and the FMS are ongoing. In view of the proposed drawdown of AMISOM starting in 2018, the NSP indicates that the SNA could be modelled on a force size of up to 18,000. However, the transition to a steady state of establishment requires greater clarity and discussion, due to the need to consider militia integration within the process. Somalia also has about 170 Air Force personnel, but no aviation assets, and a Navy/Coastguard of approximately 550 personnel. An upgrade across the defence forces would require significant equipment, infrastructure, training and operational capability, and the affordability of a force of this size will be central to the eventual structure. Furthermore, the FGS will have to consider the role and size of the defence forces and police in a post AMISOM environment where maintenance of law and order with domestic resources will be of paramount importance.

As the financial resources of the FGS are acutely limited, off-budget support is normally offered by the external donors. The biggest challenge currently facing the FGS within the security sector is the lack of salary/allowance payments to personnel, although infrastructure and equipment costs may generate potentially higher costs. The majority of the security sector is not paid according to the FGS defined government pay scales, and the international community is working closely with the FGS in order to bring continuity of salary/allowance payments.

3.3.1 Ministry of Defence

The Provisional Constitution of Somalia stipulates that the armed forces are to be integrated under civilian political control. The Ministry of Defence has a critical role to play in providing oversight and management of the defence forces. However, due to lack of capacity and unclear roles and responsibilities,

⁵⁹ Report of the Joint African Union – United Nations Mission on the Benchmarks for a United Nations Peacekeeping Operation in Somalia and recommendations on the next steps in the military campaign. 30 June 2015, Page 25.

the MoD is unable to currently exercise effective governance of the defence sector. The Ministry has approximately 30 people on its payroll, with the ambitious, but as yet unendorsed and unfunded reform plan, “ MOD Development Plan,” recommending staffing levels of just under 100 people (both civilian and military), spread across five internal departments and a secretariat of the Director General. As such, the SNA is largely independent of Ministerial control.

International partners have developed plans to assist in the capacity building of the MoD. These plans include support from the European Union Training Mission (EUTM) to establish the appropriate planning and policy elements with effective public financial management capacity.⁶⁰ Yet, recruitment of civil servants is slow and capacity delivery programmes are at an early stage of implementation. Similarly, Turkey and the United States are implementing similar initiatives in the MoD and SNA Headquarters.

3.3.2 Somali National Army

Following the collapse of SAF in 1991, only very limited military capabilities have been developed to-date. The SNA is still at an early stage of development, but has an ambitious mission to accomplish, with the SNA leadership emphasizing the importance of transforming the SNA from a militia based force to a professional force. **The initial plan to build the capacities of Somalia’s security institutions was mapped out in the Somalia National Stabilization and Security Plan (NSSP), 2011-2014 launched in 2010.** However, serious efforts to grow and develop the SNA began in 2009 involving neighboring states and the EUTM based in Uganda. Turkey has also delivered a large number of residential courses for SAF personnel in Turkey over a number of years. The importance of capacity-building of the SNA in order to improve its contribution to military operations is fully recognized by the international community. The SNA may best be described as light infantry fighters. The partial lifting of the long-standing arms embargo following UNSCR 2093 of 2013 allowed the improved arming of government forces, resulting in the SNA being equipped with a limited range and number of small arms. Due to a shortage of resources the SNA are only capable of operating mostly on a light scale for a limited period.

The SNA is struggling to counter criticism of it being a clan-based regional militia force fighting under the SNA banner to counter AS. In the field, the SNA is generally organized into transitional battalion structures that were agreed in 2012, with each numbering between 300-500 soldiers, and 3-4 battalions grouped in to a brigade, and 2-3 brigades in a sector force. The battalions are largely based on clan groupings, with numbers varying from battalion to battalion. The soldiers are also not generally familiar with the modern combat tactics, while there is a lack of suitably trained mid-level commanders. The transitional nature of the current structure reflects the requirement to encourage pro-government forces to integrate into the SNA to fight and degrade AS alongside AMISOM, and as such, adherence to the transitional structure varies. In addition to the transitional battalion structures a small range of specialist capabilities, such as military intelligence, engineers, military police, logistics, civil-military cooperation, and medical have been established, but still require significant development.

A mobile and effective strike force (“Danab”) has been established that has achieved important tactical success, thereby gaining increasingly favorable comments for its military capability. Plans have also recently been agreed by the NSC to establish a multi-clan brigade of 1500 soldiers. These moves for ‘regionally-based’ strike forces are also reflected in the relative high capability of the Puntland Darawish forces, a number of which are scheduled to be absorbed into the SNA in 2017.

⁶⁰ EU project proposal for strategic planning with the Ministry of Defence, 2016

The SNA has a fledgling logistical support system, and very limited capacity to distribute combat supplies to the forces dispersed outside of Benadir. Presently, UNSOS provides the majority of operational logistical support to those SNA engaging in joint operations, with some wider international community infrastructure and logistic support delivered to non-joint operations forces.

No definitive account of the current size and disposition of SNA is presently available. Presentations by the SNA to the international community in mid-2015 stated that the SAF (including the Navy/Coastguard and Air Force) comprised 19,440 personnel grouped into 2804 officers and 17,356 soldiers, which was revised to 17,000 at a PSG 2 Working Group in mid-2016. Widows, orphans, and dependents stand at approximately 3,000. The FGS 2016 budget separately estimates salary payments to 21,499 soldiers, including officers and enlisted personnel.

Name of the Unit	Officers	Soldiers	Total
April 12	836	6,134	6,970
Independent Units*	1,026	4,470	5,496
Division 21	94	1,774	1,868
Division 60	128	4,978	5,106
Total	2,084	17,356	19,440

**Including Navy, Coastguard, Air Force and General Staff.*

Table 3. Headcount of SNA

Source: Staff interviews

International partners are seeking to strengthen the SNA in view of the pending draw-down of AMISOM. Considerable effort has been spent on ‘training and equipping’ Somali national forces; as yet the FGS and its FMS does not have an independent professional merit-based accountable armed force. Staff estimates (with no established records) that some 30-40,000 Somalis have received some-kind of military training over the last ten years from international partners.

Going forward, the *Guulwade (Victory) Plan* was formulated to properly equip, train and support a SNA force size of 10,900. The estimated cost of essential lethal and non-lethal support for the *Guulwade* Plan is estimated at \$121M over a two year period, as reflected in the table below:

Resources	Estimated Cost (\$)
Non-lethal Support	84,133,400
Lethal Support	9,987,524
8 Training Centers	8,000,000
4 Medical facilities	3,600,000
5 Barracks	16,000,000
Grand Total	\$121,720,924

Table 4. Resource costs

Source: Staff estimates

Progress on the *Guulwade* Plan and targeted support to the SNA is directly linked to the development of the National Integration Commission (NIC). The NIC has been tasked with integrating militia within

established and emerging FMS boundaries and greater clarity on how this corresponds to AMISOM boundaries is the subject of discussions.

Puntland and Galmudug have each announced a proposed contribution of 3,000 personnel from their respective regional armed forces into the SNA, with final arrangements being made for the integration of the Puntland 3,000. The *Guulwade* Plan specifically notes the potential inclusion of Puntland security forces (locally known as Darawish), with agreement that 3,000 will be integrated into the SNA, over and above the 10,900, while discussions on the Galmudug offer are ongoing.

Guulwade Plan					
Equipment Types	Total Requirement	SNA Holding	Uplift Requirement	Per Unit Cost	Total Cost
Weapons					\$ 1,670,296.86
HMG	412	340	72	\$ 10,000.00	\$ 715,871.62
RPG	738	610	128	\$ 300.00	\$ 38,530.73
PKM	799	660	139	\$ 3,000.00	\$ 416,889.92
AK-47	9563	7900	1663	\$ 300.00	\$ 499,004.59
Ammunition					\$ 782,995.05
HMG	37043	30600	6443	\$ 4.00	\$ 25,771.38
RPG	13292	10980	2312	\$ 100.00	\$ 231,184.40
PKM	1917512	1584000	333512	\$ 0.50	\$ 166,755.96
AK-47	5164208	4266000	898208	\$ 0.40	\$ 359,283.30
Vehicles					\$ 10,151,271.35
Pick-Up	228	188	40	\$ 27,000.00	\$ 1,068,753.98
Technical	251	207	44	\$ 35,000.00	\$ 1,525,438.22
MRAP	90	74	16	\$ 64,000.00	\$ 997,167.12
Truck	300	248	52	\$ 65,000.00	\$ 3,394,073.76
Ambulance	51	42	9	\$ 40,000.00	\$ 353,724.77
Fuel truck	51	42	9	\$ 65,000.00	\$ 574,802.74
Water Truck	102	84	18	\$ 65,000.00	\$ 1,149,605.49
Workshop	25	21	4	\$ 106,000.00	\$ 468,686.01
Recovery Truck	25	21	4	\$ 140,000.00	\$ 619,019.26
Essential Military Equipment					\$ 2,410,887.41
30-Man Tent	102	84	18	\$ 5,000.00	\$ 88,431.19
10-Man Tent	381	315	66	\$ 3,300.00	\$ 218,867.09
2-Man Tent	5847	4830	1017	\$ 30.00	\$ 30,508.76
Defence Pack	102	84	18	\$ 5,000.00	\$ 88,431.19
HESCO Bags	12711	10500	2211	\$ 290.00	\$ 641,126.15
Field Kitchens	102	84	18	\$ 3,000.00	\$ 53,058.71
Generators	102	84	18	\$ 7,150.00	\$ 126,456.60
HF Radios	102	84	18	\$ 15,000.00	\$ 265,293.57
VHF Manpack	363	300	63	\$ 10,000.00	\$ 631,651.93
VHF Hand-Held	1271	1050	221	\$ 1,000.00	\$ 221,077.98
Computers	203	168	35	\$ 1,000.00	\$ 35,372.48
Printers	203	168	35	\$ 300.00	\$ 10,611.74
Infrastructure					\$ 8,843,119.27
Level 1 Medical Facility Construction	6	5	1	\$ 3,600,000.00	\$ 3,789,908.26
Training Centers	10	8	2	\$ 1,000,000.00	\$ 1,684,403.67
Barracks	6	5	1	\$ 3,200,000.00	\$ 3,368,807.34
Total Equipment Costs	\$ 15,015,450.66				
Annual Infrastructure Costs (Assuming 3 year)	\$ 2,947,706.42				
Total Infrastructure Costs	\$ 8,843,119.27				
Total Capital Costs	\$ 23,858,569.93				
# soldiers	13195				
# High Operations	0				

Table 5. Guulwade Plan as Proposed Summer 2015

Source: UNSOM

3.3.3 Somali Navy/Coast Guard

Somalia has the longest coastline on the mainland African continent of over 3300 kilometres, which has the potential to play a critical role in rebuilding Somalia. The Somali Maritime Resource and Security Strategy has broadly guided development in this sector.⁶¹ However, the sector suffers from a lack of cohesion and coordination, as well as being a source of contention between the FGS and the FMS due to immense revenue potential of the seas.

The Somali Navy/Coast Guard is the naval branch of the SAF. Somalia's Navy was established in conjunction with the Italian Navy in the pre-independence era, which also helped the Somali Navy maintain security in Somali waters. Post-independence, the Somali Navy was further developed in 1965 with the assistance of Soviet military advisers. Its mandate was to protect Somali waters, including the Exclusive Economic Zone, with bases in Berbera, on the Gulf of Aden, and Kismayo, with a static radar facility in Merca. Much of the naval equipment fell into disrepair during the civil war, and the navy has not been operational since 1991.

Despite the need to protect the coastal line, the Navy/Coast Guard is underdeveloped and, therefore not capable of protecting the Somali coast on its own. The Navy/Coast Guard has presently around 550 personnel (including 140 officers). The naval inventory of Somali Navy/Coast Guard includes five boats. Currently none of the Somali security forces have maritime assets that can reach beyond 12 nautical miles (Territorial Seas), and hence the need to utilize international maritime assets to secure the Somali EEZ.

The FGS recognizes the importance of development of a Somali Navy/Coast Guard to patrol its coastal waters. The FGS has already developed a draft Coast Guard Bill with the assistance of EUCAP Nestor and UNSOM. The Bill is presently with the National Security Council (NSC) for review. Following the approval from NSC, the Bill will be submitted to the Council of Ministers and then to the Parliament for enactment. The Somali Navy and Coast Guard Working Group (NCGWG) has been tasked to assist the Somali Navy/Coast Guard in developing a 'train and equip' plan called Naqude Plan for the Navy/Coast Guard, on the lines of *Gulwade* Plan.

Puntland and Somaliland have limited maritime capabilities. Currently, there are two entities operating in the region, including the Bossaso Port Police and Puntland Maritime Police Force (PMPF), which receive support from the United Arab Emirates. The PMPF consists of 800-1000 personnel and operates 12 RHIBs (Rigid-hulled inflatable boats). In addition, the PMPF utilizes two helicopters. The Port Police comprises 200 personnel, who operate small boats in the waters directly around Bossaso Port. The Somaliland Coast Guard (SCG) functions under the Ministry of Interior, with approximately 700 personnel and an inventory of eleven patrol boats with limited sea worthiness.

3.3.4 Somali National Air Force

Prior to the civil war, Somalia operated an air force with a mixture of fast jets, fixed-wing transport aircraft and helicopters, with external support for training and logistics provided by partners, such as Russia and Italy. Somali military aircraft were based at a number of airfields throughout the country but

⁶¹ The Federal Government of Somalia. 2013. Somali Maritime Resource and Security Strategy. The Federal Republic of Somalia. Mogadishu. Available at http://oceansbeyondpiracy.org/sites/default/files/attachments/SomaliMaritimeStrategyFINAL_2.pdf

all were destroyed during the conflict and there is now little remaining of the infrastructure or expertise necessary to re-create a Somali military flying capability.

The Somali National Air Force (SNAF) is not currently operational and has no aircraft. It comprises approximately 170 personnel (40-50 officers ranging from second lieutenant to colonel and 120-130 Non-Commissioned Officers and Airmen). Turkey is delivering residential training to a group of young Somali air force personnel and intends to support the development of an aviation capability.

The SNAF is expected to only develop incrementally, as military flying operations are expensive to develop and sustain, and the training required for aircrews and maintenance staff is time-consuming and demanding. It is anticipated that it is likely to have tasks of conducting basic air transport and reconnaissance activities within the national air space.⁶² Currently, there are no detailed future plans for the SNAF, but the current planning assumption that is expanded on later in the SJPER provides for a very small number of aircraft in the medium term, e.g. two rotary and two fixed-wing.

3.4 Internal Security

3.4.1 Overview

‘Policing’ in Somalia, as a source of public order, security, and compliance with the law, is provided by a variety of formal and informal actors. The SPF) and the NISA are the primary official institutions at the national level that are responsible for providing internal security and public order. Informally, a range of non-state actors, including clan militias and private security groups, provide internal security.

Over recent decades, multiple policing entities have replaced a previously centralized police service. The policing situation in Puntland appears relatively stable compared to the rest of Somalia, with an established state police organization, best described as emergent with poor training, little equipment, limited infrastructure, and restricted operating capabilities. The other FMS, by contrast, have less formal institutional level policing, with the SPF serving primarily in Mogadishu and the Benadir region, where it is frequently contested by armed militias and AS. There are also other entities across Somalia that carry out policing functions (e.g., clan militias), reflective of the nascent stage of the state formation process in these regions.

The size, composition, and quality of internal security actors in Somalia vary across established and emerging FMS. The current SPF draws personnel from a combination of backgrounds and skills, including officers who had served in the police during the Barre regime and members of militias, community security and other armed groups that have joined the police in recent years. Overall they lack standardized training and often the most basic policing skills, and as a result often find it difficult to effectively manage domestic policing requirements in accordance with international standards. Reports of poor performance, corruption, and abuse are common for both the formal and informal police organizations — an unsurprising fact given the varied threats, militarized environment, and general lack of training and accountability mechanisms.

The agreement on a NPM between the FGS and the FMS, endorsed by the National Leadership Forum in June 2016, is the basis for guiding Somalia’s transition to a federated policing model and in shifting

⁶² Political-security Stocktaking paper, SJPER, Reference Group paper, UN and World Bank staff, 2015

the policing focus towards a more community oriented approach based on the rule of law. It is essential that the emerging federated policing structure engages with civil society and with the other security sector institutions to more effectively deal with the AS threat, to combat terrorism and to establish state-based policing services for the local community. Consequently, police capacity to enforce the rule of law and to use force in a lawful and proportionate way and only when necessary are areas that require on-going support. A police service that is capable of providing basic policing services to their community is more likely to win the trust of the local population and will also more effectively respond to the current security threats. Further, the extent to which a federated policing model can be effective in providing and sustaining community security will allow AMISOM and SNA military forces to focus more on the role that they are structured and trained for, i.e., military operations against AS.⁶³

The role of Police continues to evolve as Somalia moves from informal to formal lines of authority and responsibility, with the police typically sharing functions between internal security and access to justice, making them integral actors in providing both security and justice to Somalis. Over the medium to longer term, oversight and accountability mechanisms will become increasingly important to prevent abuse of power. Even in peaceful and stable environments, and certainly in conflict environments where the rule of law is weak and the police have little to no training, standards, or administration, police quality is essential to sustained security. Accountability requires at a minimum: (i) civilian control over the police; (ii) a police service that provides effective service delivery to the public (and takes seriously reports of misconduct) in order to generate public trust; and (iii) reducing corruption.⁶⁴

3.4.2 Ministry of Internal Security

The SPF and NISA fall under the authority of the Ministry of Internal Security (MoIS). Compared to the size of these collective organizations, the MoIS is relatively small with a total staff of approximately 80, although the distribution between MoIS staff responsible for the police compared to NISA (and other MoIS-directed internal security organizations) is unclear. Currently there is a ratio of 1 MoIS staff per 110 SPF or NISA officers.⁶⁵ While significantly better than the ratio for the Ministry of Defence (1 MoD staff member per 480 armed forces),⁶⁶ the MoIS is still understaffed and its capacity overall remains relatively low. According to their most recent budget, the FGS pays an average salary to MoIS staff of \$8,610 per year, with a total yearly operations budget of \$8,160 per capita.

Just as the demand for a larger and more professional police will grow as the insurgency threat from AS diminishes, so too will the MoIS need to become a more capable administrative and coordinating body for the police. Recognizing this imperative, the international community has already begun to provide support for the MoIS's training, equipment, and HR systems, including through the UN Joint Somalia Rule of Law Programme for 2014-2017. The number of MoIS staff will also need to grow, if only to keep pace with the expected growth of the future federal police. According to the recent political agreement on the NPM, the police in the FMS will report to their State Ministers of Security.

3.4.3 Somali Police

⁶³ Report of the Joint African Union: United Nations Mission on the Benchmarks for a UN Peacekeeping Operation and Assessment of AMISOM and Somali National Security Forces, 30 June 2015.

⁶⁴ UNODC, Handbook on Police Accountability, Oversight and Integrity, Criminal Justice Handbook Series, 2011.

⁶⁵ Assuming 6,146 SPF and an estimate of 3,000 NISA officers.

⁶⁶ Assuming 50 MoD staff for 24,095 armed forces.

The focus of the Somali Police aspires to move from counterinsurgency to other basic policing tasks, such as criminal investigation, public order, and crime prevention, all of which are critical to sustainable security. However, both the Somali Police and informal regional security actors lack functional divisions that define specializations and roles, and they therefore primarily play multiple and overlapping roles. The Somali Police and the regional security actors do not cover many core functions, such as investigations and support functions, training, and logistics adequately. While the Somali Police maintain investigation divisions, only a minority of officers are able to perform this function in practice. In Puntland specifically, the police undertake basic civilian policing roles with higher-level security and counter-terrorism roles assigned to the Darawish.⁶⁷ In general, regional states often refer to security forces, rather than military forces, which are often deployed for ‘policing’ tasks. Darawish are referred to in similar terms, which complicates the discussion about whether they are to be considered future police or military. The NPM clearly articulates police Darawish units at the Federal and at the State level.

Until recently, international support to policing has been limited, particularly relative to support for the military. From 2009 to mid-2015, a total of 4,383 Somali police were trained by AMISOM in a wide range of areas, including basic policing, criminal investigations, sexual and gender-based violence, human rights, community-based policing, public order management, EOD/IED disposal, counter-terrorism, protection of judicial personnel, and practical skills such as radio communications.⁶⁸ However, internationally provided training for police has mostly been rudimentary and unevenly applied on the whole, with limited cooperation among the international community and Somali actors, and the scope of training inadequate vis-a-vis the training need.

Given the shifting focus from conflict to stabilization, the international community is increasing its focus on policing, as evidenced by the steps taken to support the drafting of a strategic plan for the police, known as the *Heegan (Readiness) Plan*, and the *Non-Lethal Support Package to the Somali Police*. Targeted police support packages that includes funding from the UK, and operational support from AMISOM, has enabled the vetting, training and equipping of 1,200 police graduates in two of the FMS. AMISOM has also recognized the need to rebalance its forces to provide more police units in operations and training support of the Somali Police, which reflects a shift in its strategic focus from a militarized policing approach towards consolidation and stabilization operations.

Future Expansion of the police at the Federal and State level

A critical challenge for the FGS and FMS has been to develop the NPM and a strategic support plan. The *Heegan Plan* for the Somali Police was originally proposed to be what the *Guulwade Plan* is to the SNA: a consensus-based plan, with support from the federal and FMS authorities that sets short to medium term targets needed to respond to current threats, and which seeks donor support in order to achieve the baseline targets. However, the draft *Heegan Plan* presented in 2015 was not endorsed by the international community due to a number of factors: lack of inclusiveness of the FMS; an agreed policing model; failing to clarify reporting lines, command and demarcation of control between the FGS and the established and

⁶⁷ The history of Darawish or Darawishta dates back to 1899 when clans had mobilized against the occupation by foreign powers. The Darawish became legendary and a symbol of national pride. The National Leadership Forum has recently expressed its willingness to incorporate Darawish as a rapid response mobile police unit at Federal and at State level. The Police Commissioner of Puntland has supported this approach by stating that the members of Darawish who wish to join the armed forces will have to leave the Darawish.

⁶⁸ Report of the Joint African Union: United Nations Mission on the Benchmarks for a UN Peacekeeping Operation and Assessment of AMISOM and Somali National Security Forces, 30 June 2015.

emerging FMS. To address these issues the design of a New Policing Model was initiated, which led to a political agreement in mid-2016, while work began and continues to revise the *Heegan* Plan to ensure greater consultation and co-ownership with the established and emerging FMS.

In parallel with the *Heegan* review process, the UN is in the process of developing a non-lethal support package for the Somali Police. This proposal will attempt to identify key areas of support to the Somali Police in introducing a federated policing system and will include basic non-lethal equipment⁶⁹ and logistical support, including water, food, interpreters, and course materials for AMISOM-led police recruit training.

It remains difficult to project the size and composition of the Somali Police beyond 2016. Recent consultations with FMS reconfirmed that the diverse policing needs and capabilities and the different resources available to finance policing means that it is very likely there will be different police staffing levels in each FMS. To assist the SJPER, a figure of 17,000 has been used as the future baseline for modelling, as briefed to partners when the draft *Heegan* Plan was introduced in March 2015. This reflects an estimated 7,000 police at the federal level and 2,000 at the FMS level. It should be noted, however, that the current number of police officials in the Puntland Police is approximately 3,300, and it is unlikely that this number will change given the Puntland Police is an established policing institution operating in a higher capacity to provide basic policing services at this time when compared to other jurisdictions. Discussions with the Jubbaland Administration in October 2016 established their intention to build their State policing numbers to 2,400. The three remaining FMS are in the process of building their policing institutions and it is estimated that the required police staffing levels will average out to approximately 2,000 in each State, which means that a figure of approximately 18,500 police officers may be considered for policing functions in future years.

3.4.4 National Intelligence and Security Agency (NISA)

The National Intelligence of Somalia Agency (NISA) operates under the framework of the MoIS but its exact roles and responsibilities remain opaque. NISA is engaged with various elements of security, including both policing and militarized operations. Regional administrations are also developing their own intelligence agencies with methods of command and control or lines of reporting to the central government remaining absent.

Figures on the size of NISA as provided by the MoF at 4,500 appear high. NISA also includes the Gashaan (*the shield*) units comprising the Alpha and Bravo groups totaling some 150 personnel, whose salaries are reported at \$200 per month. Agency personnel are primarily resourced from external intelligence actors. NISA has been receiving a relatively high percentage of budget allocations in the FGS Budget over recent years, ranging around 4.5-5.0 percent of the total budget allocation during 2013-15.

3.4.5 Informal Structures and Private Security Companies

In the absence of state institutions, non-state actors, including local militias and private security companies (PSCs), have been instrumental in the dispensation of both security and insecurity. In recent years, the number of PSCs has grown rapidly and there are currently 13 Somali companies registered with

⁶⁹ Equipment required to undertake “basic police functions” (e.g. uniforms, radios, bulletproof vests and renovated stations) as well as certain essential specialized tasks such as basic crime scene investigation kits).

the MoIS, which oversees the sector. MoIS has reportedly registered approximately 600 individuals working for PSCs. To register a PSC, MoIS first conducts an assessment to ensure it is a legitimate business, evaluates weapons management/storage, operations, and conditions for the guard forces and makes a decision whether to give authorization. The MoIS has set the maximum number of weapons allowed for a single company to 60-70. In addition, staff is checked to verify that they are not working for the Somali security forces, although the information is not cross-referenced with biometric databases.

It is unclear what occurs when companies do not meet the screening criteria, and how weapons are removed or registered. The implication is that by not being registered, there are some limits on the ability to operate, but there is little enforcement of non-authorized security forces.

The MoIS has developed a plan for a more comprehensive regulation of the industry. This includes a three-day training for security personnel on regulations, safety, and use of force, as well as monitoring, investigation of violations, and regulation of radio frequencies, but the MoIS lacks the capacity to implement.

Feedback from Somali PSCs indicates that there are no communication channels for companies or citizens to register complaints with the authorities. It has been suggested that rather than submitting complaints to the Government, third party arbitration of such complaints, or an ombudsman role by an independent PSC Association, would be the preferred option. Some PSCs have suggested that an independent third party, such as the Mogadishu Chamber of Commerce, could serve as a neutral facilitator to bring the companies together around non-controversial topics, in order to build trust and cooperation. The topics would be based solely on better business models, rather than tactics or other sensitive information, including, for example, standardization of uniforms, taxation/registration fees, and regulation of specialized equipment, such as weapons and personal protection equipment and licensing of armored vehicles.

Similarly private security companies, which have developed ‘ad hoc,’ are likely to continue to develop security capacity, particularly for the private sector. While the SNA and SPF are legally prohibited from working for private security companies, reports indicate that some of their personnel do so in addition to their work with the government. The PER will not be able to address the issues relating to financial sustainability and cost effectiveness of private security companies as they operate outside the public sphere.

3.5 Militia integration

In addition to the statutory sector institutions there are many non-statutory actors, including militias with strong local and clan affiliations. The distinction between these militias and governmental forces is often blurred and there is anecdotal evidence that SNA soldiers at times undertake security assignments for clan leaders.⁷⁰ The re-capture of territory from AS and the formation of FMS structures is being accompanied by a policy of militia integration into the SNA. A case in point is the agreement that founded Jubbaland, which is based upon the integration of Jubaland militias into the SNA.⁷¹ The FGS’ approved SNA budget for 2015 included financing for an additional 5,000 personnel, representing militias being integrated into the SNA payroll. The numbers of armed personnel in non-AS militias/armed groups that

⁷⁰ Stocktaking Paper on Funding Flows (2015)

⁷¹ Provisions of the Agreement Between the Federal Government of Somalia and Jubba Delegation on the Management of Security Forces and Militias Integration (Art. 3)

could be either integrated into the SNA or demobilized through force reduction is uncertain, but is believed to be above 10,000. Assuming a significant portion of these militia come onto the SNA payroll, this represents a significant fiscal challenge for the FGS to plan for and manage.⁷²

The FGS established the National Integration Commission (NIC) in March 2015, under the auspices of the Ministry of Defence, for a holistic approach to wide-scale integration of local and regional militias into unified national security forces. The Commission is comprised of representatives from the Offices of the President and Prime Minister, Ministry of Defence, SNA, and each of the regional administrations. The Commission identified a total of 21,706 personnel to form part of the SNA, with the first priority being to identify the 10,900 SNA personnel in a position to receive targeted support from the international community, as per the endorsed *Guulwade* Plan and in accordance with United Nations Security Council Resolution 2124 (2013).

The work of the NIC remains a fundamentally delicate political process based on clan dynamics, with negotiations in the Jubbas founded upon the need to directly confront AS in the immediate term, while ensuring broad-based clan inclusivity in the longer-term. The FGS has welcomed the continued support of the international community on this key priority as a number of political and logistical challenges remain. While NIC remains primarily focused on SNA integration, the FGS recognizes the importance of an accompanying police-recruitment strategy.

The size and scope of militia integration will have significant budget implications, particularly if the SNA becomes the primary vehicle for employment. The SNA is the highest cost force in the security sector, due to the required maintenance, training, and equipping. Increasing the size of the SNA to accommodate regional and clan political agreements could cost as much as \$150 million extra per year to the FGS budget in the near term a gap that could potentially grow to about \$200 million per year (see Chapter 5). Somalia will therefore need to consider the experience of other countries transitioning from conflict, including initiating a discussion of the impact of security sector reform initiatives, draw-downs and formal disarmament, demobilization, rehabilitation, and reintegration (DDRR). The options are discussed further below and their costs considered for an illustrative scenario in Chapter 5.

3.6 Demobilization, Disarmament, Rehabilitation, and Reintegration (DDRR)

Disengaged AS combatants are provided support under the National Programme for Treatment and Handling of Disengaged Combatants in Somalia. The MoIS is the focal point for providing the support to the disengaged combatants with the involvement of other government ministries and agencies. International partners manage transitional facilities located in Mogadishu, Beletweyne, Kismayo and Baidoa. Some twenty reinsertion projects have been externally financed to provide short term jobs for about 1,000 former AS combatants and members of the respective local community in four regions.

DDRR will need to ensure that it is responsive to the experience of children and under-age combatants, allegedly used by all parties. With respect to the statutory security institutions, the number of children recruited through formal structures is, however, considered low, and most likely much lower than among non-statutory actors, including militias that are expected to integrate with the SNA. As an illustration, of the 1,350 militia that were screened by NIC (on the basis of age, clan association, family, and militia affiliation) during the integration exercise conducted in Jubbaland in the spring of 2015 to form part of the Lower Jubba force, only 36 minors were identified. In the absence of AU and UN military observers,

⁷² Stocktaking Paper on Funding Flows (2015)

and owing to the security situation, there is no effective independent monitoring mechanism in-place to determine the scope, scale and cost of DDRR for child combatants. Without factual information, estimates on the cost of disarming, demobilizing and re-integrating former child combatants in Somalia would be extremely difficult. Currently, the UN is relying on a network of monitors comprising of non-governmental organizations.

4. Evolution of the Justice Sector

This section provides: (i) an overview of the institutions comprising the criminal justice sector in Somalia; and (ii) a discussion of the drivers and constraints that will affect the future development of the sector. While criminal justice is an important facet of security, the courts and the legal profession also play a key role in delivering civil and administrative justice, important components of law and order and accountable governance. The justice sector currently suffers from a lack of legal coherence and limited capacity, and until agreement is reached on the justice architecture, its structure remains amorphous. Given the small size of the sector, in fiscal terms, compared with the military and police, decisions on its future structure have not gained as much attention. However, the sector represents institutions (both formal and informal) that are critical for citizens' security and justice provision as well as the holding of security providers accountable. (A paper was prepared as background to this chapter on the political economy of the sector⁷³).

4.1 Sources of Law

Justice in Somalia is dispensed according to disparate sources of law, creating inconsistent legal outcomes. The law derives from at least four sources, including a legislative framework that follows both the Italian (civil law) and British (common law) legal traditions, customary *xeer* principles, and *Shari'a* law (within which there are divergent opinions as to whether Salafi or Shafi'i interpretation should prevail). While the Provisional Constitution determines that the law must comply with *Shari'a* principles, no determination has been made on how this would work in practice in the intersection of legislation and *Shari'a*, in the structure of the judiciary or in the qualifications or appointment of judges. Similarly, the choice between common and civil law traditions also implies the possibility of different judicial structures, different roles for the prosecutor within the criminal justice process and a different approach to the division of responsibilities between the executive and the judiciary. Not surprisingly in this context, judges are believed to rule according to their own specific legal educational and social background.

Outlined below are the formal or public institutions that are designated by the Provisional Constitution to undertake criminal justice functions in Somalia (note the focus of the report is on criminal justice and not wider justice responsibilities).

4.2 Somalia Police Force

Criminal investigations are a critical factor in the delivery of justice, and represent a specialized and technical undertaking. The evolution of the SPF was discussed in the preceding chapter. Criminal investigations are generally conducted by police assigned to police stations or by the Criminal Investigation Department (CID) when the offence under investigation involves a penalty of three or more years' imprisonment. The CID headquarters is in Mogadishu and its current strength is 202 officers.⁷⁴ The Department has six divisions, four performing specialized tasks namely investigations, forensics,

⁷³ Berg, Gundel, Ibrahim, *The Political Economy of Justice in Somalia*, World Bank, April 2016

⁷⁴ As of October 2016.

information gathering, and drugs and two performing support functions, namely human resources, logistics and finance.

Only a small number of SPF-designated CID officers have completed a basic CID investigator training course; the majority of those designated as CID officers have not attended. However, the U.S. Department of State's Bureau of International Narcotics and Law Enforcement Affairs (INL) is funding a project to train, equip, and mentor 125 CID investigators, and to support the establishment of an improved forensic department. The CID generally lacks capability to conduct investigations in a professional manner outside Mogadishu.

The police must coordinate closely with prosecution services in order to efficiently prosecute cases in a timely manner and to prevent prolonged detention. Support is currently being provided to MoIS and to the FMS to revise the *Heegan* Plan so that it provides a clear strategy to enhance formal cooperation between the police and the justice sector to promote greater efficiencies in the criminal justice system.

4.3 Prosecution

As the link between the police and the judiciary, prosecutors play a key role in reducing impunity. The Law on Judicial Organization of 1962 sets out the basic mission of the Attorney-General's Office (AGO) to direct criminal investigations, initiate and conduct criminal proceedings and to conduct civil proceedings in matters determined to be of public interest. By law, prosecutors also exercise overall supervision over prisons, although this has not been translated into practice.

The Provisional Constitution does not provide for the AGO whereas the Law on Judicial Organization, which was enacted long before the development of the federal state, assumes a unified prosecutorial system. Issues on division of competencies between federal and member state prosecution services, as well as related organizational issues, will be part of upcoming discussions on the justice model architecture. In the meantime, the AGO at Federal level has made some progress in terms of setting up its internal processes, with an operational plan developed in early 2016, a case management system established and gender responsive units being set up within its structure. Attorneys-General have recently been appointed in South West and in Jubbaland FMS.

4.4 Judiciary

4.4.1 Introduction

A functional and legitimate court system requires independent and impartial tribunals to try criminal cases and resolve disputes, as well as Ministries of Justice, judicial oversight mechanisms and the provision of legal aid. The Provisional Constitution vests judicial authority in the courts, gives independence to the judiciary and provides for three levels of judicial authority – the Constitutional Court, federal courts and federal member state level courts. The Federal High Court is the highest court at federal level, while the FMS high courts are the highest judicial authority at that level. No further detail is given on structure or jurisdiction, and the Law on Judicial Organization of 1962 is still followed. Involving as it does two different branches of government, the judiciary and the executive, as well as the private sector (the legal profession), the structure of a justice system is particularly complex and sensitive, and in Somalia control of the sector between the executive and the judiciary is still competed.

4.4.2 Traditional versus Formal Justice Services

The formal court system is perceived as expensive, inaccessible and prone to manipulation, with Somalis relying primarily on traditional or clan-based forums to resolve disputes (*xeer*). Traditional elders are usually the key authorities for any kind of conflict resolution or justice service, relying primarily on the authority of their clan or militia to enforce their judgments. This appears to be true even within urban areas where there is a choice of using the formal court system, while outside urban areas the lack of courts means that there is little choice of forum. In Benadir Region, a study revealed that payments required to process a case go far beyond the legally mandated court fees, and court users report that judicial decisions are often subject to political and economic pressures.⁷⁵ A real or perceived lack of judicial independence, including a clan-based appointment process, limits the ability of those who do not fall under the protection of a dominant clan and vulnerable or marginalized groups (such as women or internally displaced persons) to access an impartial tribunal within the formal court structure, although the same comment may be made about their ability to find justice within the customary system.

4.4.3 Court System

As noted, only the most rudimentary judicial structure is outlined in the Provisional Constitution. The Constitutional Court is yet to be formed, the regional courts are still in various stages of establishment, and there is lack of clarity as to what constitutes a federal-level court or a member state-level court, and how the different levels of court will relate to one another. However, work is ongoing involving the Ministry of Justice, Supreme Court and Adjutant General's Office (AGO) to develop and cost different models for discussion. The choice is among a 'dual' system (with separate systems of courts in the member states and for the federal level); a 'unified' system in which courts deal with both federal and FMS state matters; and a mixed system with elements of both. Workshops on developing and costing a viable justice and corrections model were held in March and December 2016 in an effort to promote consensus among justice actors at FGS and FMS levels.

Further, military courts continue to dominate in many areas, particularly in respect of cases involving AS. Under a state of emergency in 2011, the TFG gave military courts exceptional jurisdiction over crimes carried out in Mogadishu for a period of three months. Military courts, which fall under the Ministry of Defence, continue to process criminal cases when an arrest is made by NISA and some civilian judges reportedly send cases to military courts for fear for their own safety. Between 2007 and 2013, 27 FGS judiciary staff were assassinated (ten judges in 2013 alone), and there were twelve unsuccessful attempts, although there has been a recent decline in assassinations. Military prosecutors and judges reportedly have little, if any, legal or judicial training and are known for quick decisions, often leading to executions. According to Human Rights Watch, military court proceedings restrict defendants' rights to obtain counsel of their choice, prepare and present their defence, receive a public hearing, not incriminate themselves, and appeal their conviction to a higher court.⁷⁶

The level of education and professional skills of judges remain a challenge. Among the 305 judges in Mogadishu identified in 2013, nearly 50 percent did not hold a law degree, although some claimed to have experience practicing Shari'a (Islamic law) or to have studied in Sudan or Egypt have professional skills competencies. However, the situation is slowly changing and there are now law schools in Somalia conferring degrees, e.g. in South West, all of the 30 judges appointed in May 2016 undertook a written

⁷⁵ J. Gundel, L.A. Berg and Y. Ibrahim, Working Paper: Political Economy of Justice in Somalia, 2015.

⁷⁶ Human Rights Watch, The Courts of "Absolute Power": Fair Trial Violations by Somalia's Military Court, 2014.

examination and hold either a law or sharia law degree.⁷⁷ Nevertheless, in the absence of an induction training programme, the majority of judges are still being appointed straight out of law school without specific professional training or mentorship. Other judges from the Siad Barre period have also been recently re-appointed without any refresher training.

Some FMS, such as South West and Jubbaland, have indicated a wish to establish courts in each district.

Currently, according to official sources, there are two functional districts courts in HirShabelle, six in South West, eight in Jubbaland; one in Hirshabelle and one in Galmudug. Many of these outside Benadir region and Puntland only started functioning recently, and their capacity and capability are necessarily limited. Caseload information from these courts is not current, not available or not reliable, so no estimate can be given of the number of cases being dealt with by court, by judge or by population. Figures for Somaliland give an approximation of 138 civil cases and 102 criminal cases annually per 100,000 inhabitants.

The numbers of judges and prosecutors per head of population are low compared with other countries.

According to data from the Ministry of Justice and Ministry of Finance, the FGS and FMS courts and AGO comprises of around 200 judges, 70 prosecutors, 16 lawyers, and at least 439 support staff— about 725 people in total,⁷⁸ although this figure has not been independently verified. The 200 judges would give a ratio of 2 per 100,000 inhabitants and 70 prosecutors a ratio of 0.70 per 100,000 inhabitants, both of which are relatively low.⁷⁹ However, this figure is potentially misleading in that the established courts do not cover the full geographic distribution of the population of Somalia, resulting in the ratio of judges and prosecutors to the population actually covered being potentially higher.

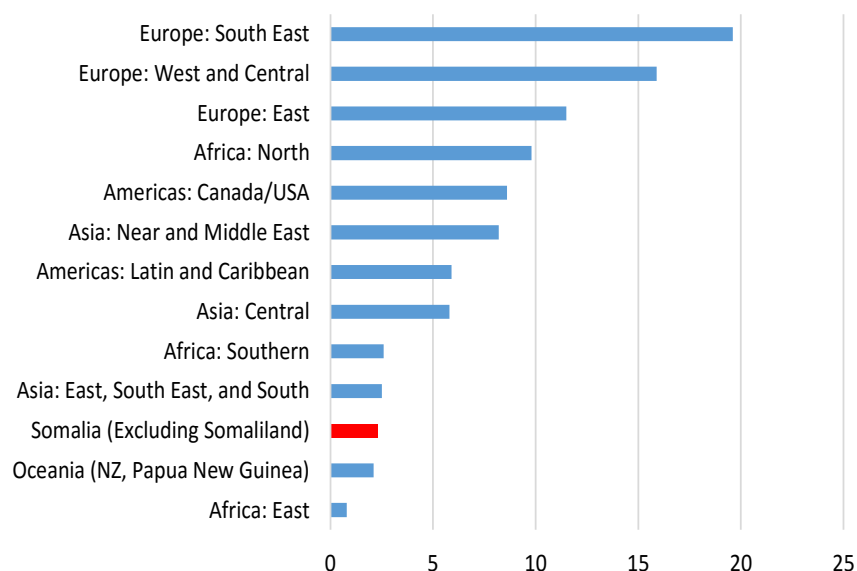


Figure 14. Professional judges per 100,000 population (medians)

Source: Adapted from “International Statistics on Crime and Justice,” UNODC and HEUNI, pp. 117 – 118

⁷⁷ Gundel et al, *ibid*.

⁷⁸ Note that these numbers are compiled from a variety of different sources – including the Ministry of Justice counts and FGS Revised Budgets – that are not always consistent, and therefore only represent approximations.

⁷⁹ S. Harrendorf, M. Heiskanen, S. Malby (eds.), *International Statistics on Crime and Justice*, UNODC and HEUNI, pp. 117 - 118.

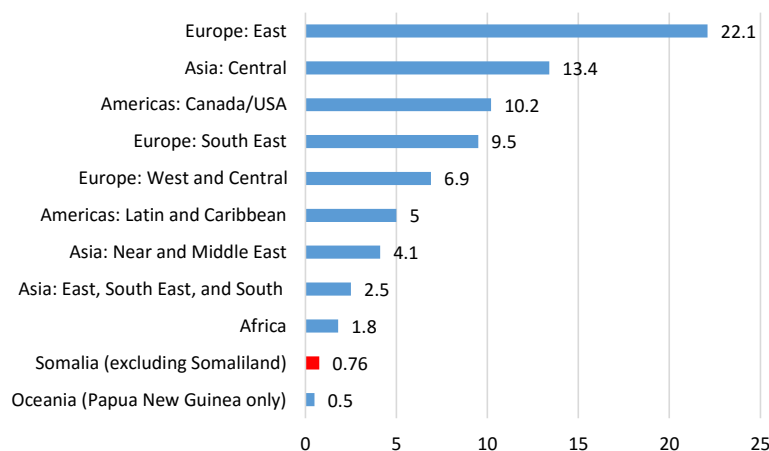


Figure 15. Prosecutors per 100,000 population by regions and sub-regions (medians)

Source: Adapted from "International Statistics on Crime and Justice," UNODC and HEUNI, pp. 117 - 118

Given the small size of the judiciary, its cost is low relative to the military and police budgets. Wages for the federal courts, including Benadir courts, are expected to be paid from the FGS budget, with judges and prosecutors receiving a salary ranging from \$900 per month for judges at the district court to \$2,000 for a judge at the Supreme Court, while court registrars receive a monthly salary of \$600. In Jubbaland, judges receive a monthly salary of \$1200, prosecutors \$1,000 and court registrars \$800; however, salaries are not regularly paid and court personnel received their last salary in May 2016. Jubbaland Ministry of Justice also has a small budget of around \$600,000, which includes the court budget and covers some of the court operating costs. However, court staff have not been paid since April 2016. In South West, there is no budget allocated to the justice sector and therefore none of the staff have received a salary since their appointment in June 2016. Anecdotal reports suggest that a substantial portion of operational costs and in some cases court staff income are covered by official and unofficial court fees. Court fees vary significantly by region and by nature of the dispute. For example, in Benadir, a plaintiff must pay \$150 for a land dispute case and five per cent of the value of the disputed subject matter in other civil cases. In Bay region, fees can vary from \$5 to \$100 according to the plaintiff or the complexity of the case. In Jubbaland, court fees can range from \$30 for registering a marriage contract to \$100 for filing a land dispute case or \$300 for registering a property.

Regions	Government	Supported by International Community	TOTAL
Federal Level	40	40	80
Somaliland	85	5	90
Puntland	88	-	88
SW	15	12 (interns)	27
Jubbaland	32	12 (interns)	44
Total	260	69	282

Table 6. Ministry of Justice Personnel

Source: Staff Analysis

4.5 Management and Oversight of the Judiciary

The role of the Ministry of Justice (MoJ) is not defined by law. The Provisional Constitution establishes a Judicial Services Commission (JSC) to appoint and discipline Federal members of the judiciary, decide on their remuneration and on other work matters of the judiciary. Each subnational entity is to have its own state Ministry of Justice. Puntland and South West each have a Judicial Services Commission or Council, responsible for the appointment, dismissal and discipline of judges, while they are still to be established in Galmudug and Jubbland, according to their own Provisional Constitutions. The unclear delineation of management and oversight responsibilities between the MoJ and the JSC will need to be resolved as part of discussions on the justice architecture, as should the need to have a JSC in each FMS.

4.6 Legal Aid

Legal aid in criminal cases is limited to the services provided by a small number of NGOs. Although the Provisional Constitution guarantees a right to free legal assistance in the case of indigence, in practice, legal aid is rarely available at any stage of the criminal justice process. To address the lack of legal, institutional and policy frameworks on the provision of legal aid services, a Somalia National Legal Aid Policy was developed in June 2016 outlining strategies for ensuring that vulnerable people receive legal aid. Over recent years, the Association of Somalia Women Lawyers (ASWL), Somali Women's Development Centre (SWDC), and Coalition of Grass-root Women Organisations (COGWO) have provided free legal aid services through lawyers and paralegals for vulnerable groups including women and IDPs in Mogadishu and some areas in southern Somalia. The Somalia Joint Rule of Law Programme includes expanding mobile courts and legal aid to the subnational entities and newly recovered areas from AS, as security permits.

4.7 Corrections and the Prison System

As the security situation stabilizes, and the police and judiciary grow and become more effective at investigating, arresting and prosecuting alleged perpetrators, the demand placed upon the corrections sector will also increase.

While the corrections sector has received some international support, including technical advisory and training services for custodial staff, prison infrastructure assessments, and infrastructure build and repair (primarily at Mogadishu Central Prison), it is faced with extremely challenging conditions. According to various reports,⁸⁰ prisons are generally very old and the conditions extremely harsh. Underfunding means that prisons are unable to feed, clothe or meet other needs of the prisoners, leading to overcrowding, poor sanitation, and lack of health care, among other human rights concerns. There are also reports of juveniles and women being detained without trial⁸¹ and concerns regarding the adequacy of security controls in several prisons.

The FGS Custodial Corps, under the authority of the Ministry of Justice, manages prisons and corrections facilities. It is also responsible for the security of government buildings and orphanages. The FGS Custodial Corps staff is estimated to have 1,625 custodial officers, who secure eight prisons in Berweyn, Bulobarde, Beletweyne, Afgoye, Xudur, Baidoa, Mogadishu, and Merca. The prison in Kismayo is staffed by the police.

⁸⁰ See e.g. UNPOS, UNICEF and UNODC, Assessment of the Prison System in Mogadishu, South Central Somalia, September 2012

⁸¹ U.S. Department of State, Country Report on Human Rights Practices for 2014: Somalia, 2015.

In addition, there are 793 Custodial Corps officers from Puntland covering four prisons in Garowe, Bossaso, Qardho, and Galkayo. However, details of where these officers work and in what capacity is scarce, with many believed to be inactive. According to the most recent budget numbers, the salary for a Custodial Corps officer is \$100 per month, plus \$50 per month or the equivalent in food rations, with the operational budget reflecting \$1,400 per year per prisoner for FGS and \$815 for Puntland.

Prisoner data remains sparse and unreliable. Data for eleven of the functioning prisons indicates a total of 2,625 prisoners, with some estimates that around 22 percent are in pre-trial detention. Statistics for the remaining prisons are unavailable. While the exact number of prisoners is unknown, if the number of official custodial staff (approximately 2,400) is correct this represents approximately a 1:1 ratio of staff to prisoners. While there are no international guidelines on staff to prison ratios, as this will be dependent on parameters such as the type of prison (high security or open prisons) or the number of hours prison officers are on duty (8 or 12 hour shifts), good international practices tend to be around one custodial staff per four to six prisoners.⁸²

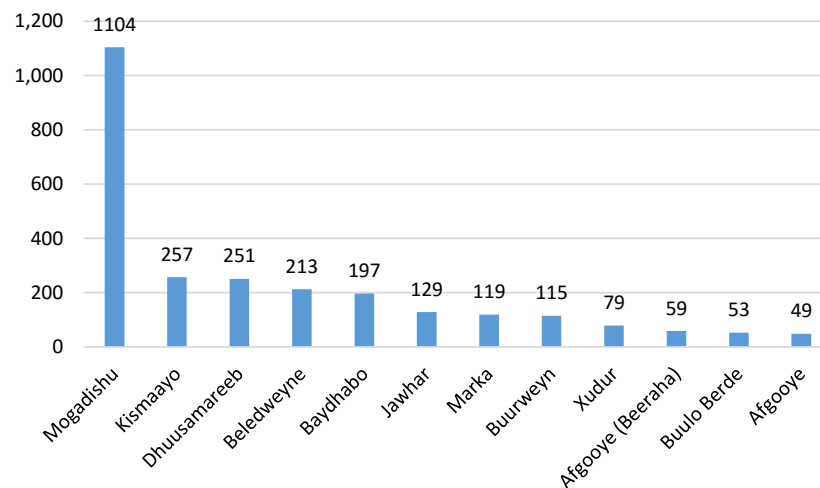


Figure 16: Number of prisoners by location

Source: September 28, 2015; FGS memo to UNSOM

⁸² Aebi, Marcelo F., and Natalia Delgrande. "Council of Europe annual penal statistics." Space 1 (2007): 2005.

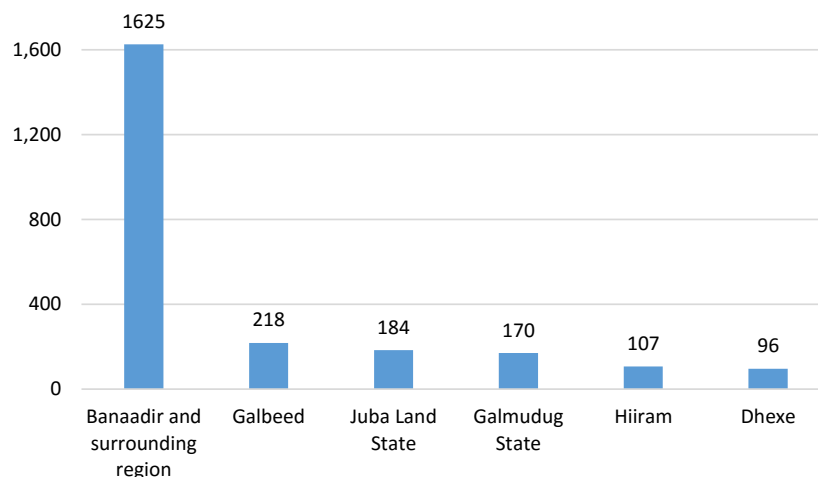


Figure 17: Numbers of custodial staff by location

Source: September 28, 2015; FGS memo to UNSOM

The MoJ is developing a plan to increase the capacity of the corrections system, the *Onkod Plan*. Like *Guulwade* for the SNA and *Heegan* for the SPF, it will provide a vision and objectives for the development of a *corrections* system, covering its size, costs, infrastructure, and training needs. The *Heegan* Plan provides useful direction that could be applied to development of the corrections sector, emphasizing that investment in basic infrastructure, equipment, and capacity-building should start in sub-Federal regional centres where small detention facilities are operational and judges and prosecutors have been appointed. The *Onkod Plan* will not be finalised until core decisions are taken about the structure of the sector and the division of federal and FMS responsibilities.

4.8 Drivers and Constraints to Development of the Justice Sector

The process of state formation and the evolution of security threats will place increasing demands on Somalia's justice institutions in establishing law and order. Post-conflict experience indicates there will be a growing criminal caseload and prison population as the capacity and the effectiveness of the civilian police increases and attention shifts to the rule of law. The types of crimes that will drive demand for criminal justice are likely to be those prevalent today, such as crimes of violence, including those stemming from land disputes, which are already tried through the formal court system in varying degrees. Criminality and residual violence also rise in post-conflict environments, as communities grapple with a pervasive culture of violence stemming from years of conflict, an abundance of arms, and the presence of ex-combatants.⁸³ In addition, an improving economy and expansion of governance will increase the demand on the civil and administrative sides, which already account for the greater portion of the judicial caseload. Other factors may also increase demand, including the success of current initiatives to expand judicial reach (e.g. via the mobile court programme) the spread of education and urbanization.

Plans at federal and FMS levels to reactivate all courts that existed before the collapse of the central government in 1991 will imply the construction or rehabilitation of 74 court buildings in total: the Supreme Court, the Constitutional Court, 10 regional courts and 62 district courts. Though renewing court

⁸³ UNODC, *Criminal Justice Reform in Post-Conflict States: A Guide for Practitioners*, 2011.

infrastructure is important, it must be appropriately prioritized within the context of other needed improvements to the justice system.

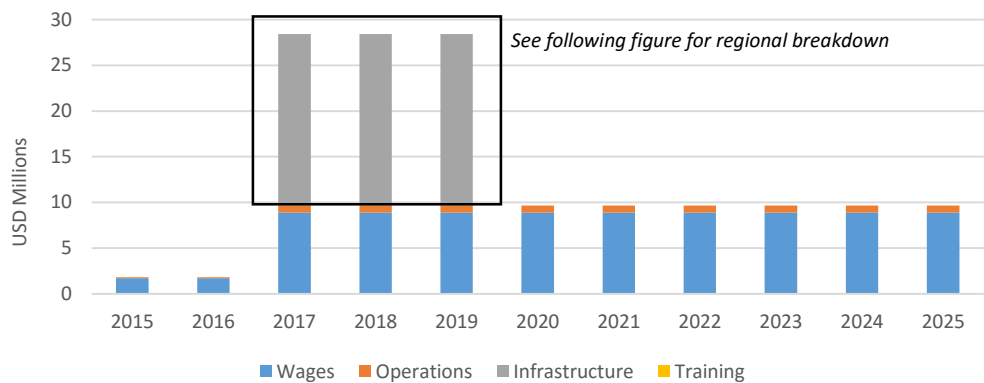


Figure 18. Total projected justice sector costs

Source: staff estimates based on FGS costings

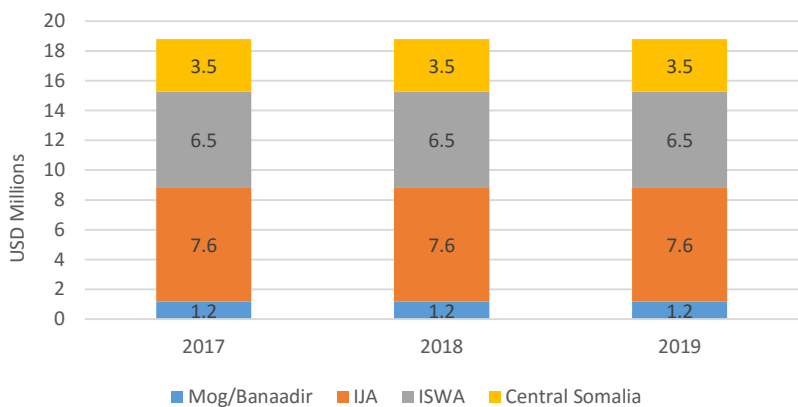


Figure 19: Infrastructure cost per region

Source: Staff estimates based on FGS costings

In particular, it is unlikely that Somalia has enough sufficiently qualified individuals to provide the judges, prosecutors, and defence counsel necessary for the formal justice system to function throughout Somalia, and human capacity limitations will therefore remain a significant constraint.

While the justice budget will need to be boosted to face the growing demands, the increasing number of cases will in turn generate more revenue through fines and court fees. This will require transparent and accountable finance mechanisms to be established, whether such revenues are treated independently within the judiciary or central to the budget system. Considering the weaknesses of public institutions, this is likely to take time.

While reaching agreement on the justice and corrections model architecture is vital, the division of responsibilities between the federal and state levels will not, in itself, change the overall judicial caseload or the number of prison inmates. The different costs of each model will result from institutional overheads and the efficiencies of scale that can be achieved from having fewer institutions. Issues such

as the minimum size of courts, where three judges are needed to sit on a criminal bench, will also be important factors in developing a costing of each model and determining priorities for which courts are established where and in what order.

Comparative international experiences suggest hybrid approaches as optimal for allocating cases among federal, customary, religious, and alternative dispute resolution systems. Traditional forms of dispute resolution already have the trust of the Somali people, especially in comparison to the formal court system. Therefore, relying on these mechanisms to provide justice, while building linkages between customary and formal justice, may represent one way of ensuring access to justice in the absence of full coverage of the formal system. The *Heegan* Plan endorses continued reliance on traditional dispute resolution mechanism for the short to medium term for lower-level offences. It encourages the MoJ and the AGO to engage with traditional leaders on developing criteria for determining the venue for different types of crime, in line with the traditional justice resolution policy that is in the process of being developed at the federal level. Recognizing the importance of these traditional mechanisms of dispute resolution, the MoJ, with the support of the international community, has established a Traditional Dispute Resolution Unit to determine linkages between the formal system and traditional or customary mechanisms. More recently, a policy on Traditional Dispute Resolution mechanisms was developed and validated during a workshop that included traditional elders and members of the judiciary from all parts of South Central Somalia. The policy is still awaiting adoption by the Council of Ministers. Such an approach would be a less costly solution while the formal system rebuilds and re-establishes trust with the Somali people.

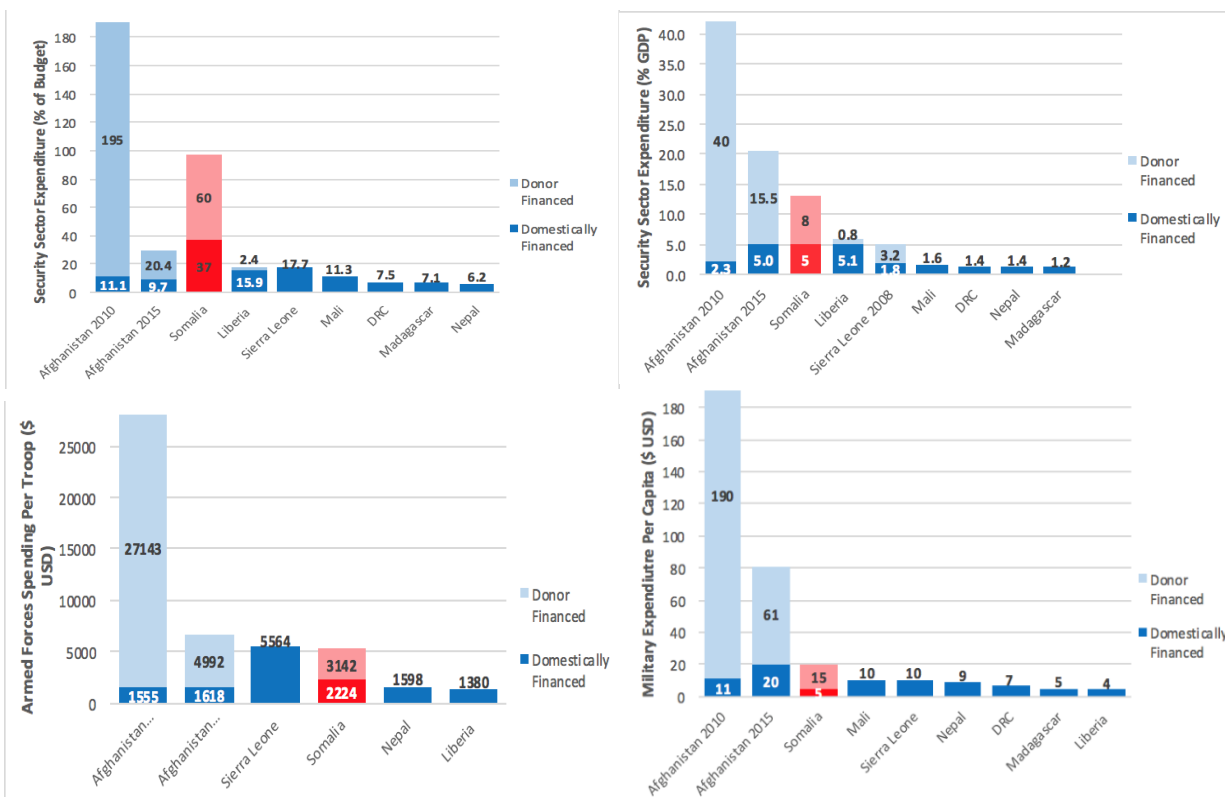
In the 2016 updated federal budget, the expenditure on the justice and corrections sector is \$10.54 million. Of this number \$4.78 million is designated for wages, of which \$1.95 million are designated for the Custodial Corps and the remaining \$2.83 million for the justice department staff and the courts. An additional \$1.02 million is allocated for allowances in the justice sector. An additional \$4.73 million is allocated for use of goods and services in the sector, of which \$2.89 million is for operations of the Custodial Corps and the remaining \$1.85 million is for operations in the justice sector. These funds are budgeted to support 1,625 members of the Custodial Corps and 482 staff of the MoJ, Benadir Court, Appeal Court, Judiciary Service Committee, Supreme Court and the offices of the Attorney General, Solicitor General and Auditor General. Since no plans have been finalised for the investment and reform in justice and corrections these figures are maintained constant in the out years of all projections and only adjusted for inflation.

5. Affordability and Financial Sustainability

In this chapter, we assess the affordability and sustainability of the security and justice sector against the current and projected costs as a proportion of budget revenue and GDP over a ten year period (2016-2025). The relation of security spending against the size of revenue and overall spending gives a view of the degree to which the security and justice concerns are accommodated in the FGS' budget. The ratio of spending to GDP gives a view of how much of the FGS provision of security is sized relative to the overall economy.⁸⁴ Finally, the per capita expenditure can provide an idea of how much the FGS is spending per provider/recipient of security, giving an assessment on efficiency.

5.1 Current Situation

The current affordability of the Somali security sector is a major challenge. Somalia is comparable to other conflict-affected states when military spending (excluding police and prisons) is related to the total population. Yet, in relation to the size of the economy, security spending is high. Only Afghanistan, in 2010 (at the height of the counterinsurgency surge and Afghan force build-up) and in 2015 (after the transfer of responsibility to Afghan forces) rates higher. Both with and without donor grants, Somalia spends more on the security sector as a percentage of budget than any other fragile state, except for Afghanistan.



⁸⁴ The SJPER calculated all amounts relating to affordability at the aggregate level on the understanding that the accounting of these sums is an important part of the ongoing fiscal-federal discussions between the FGS and FMS. The SJPER does not detail costs/ revenues at the FMS level due to ongoing dialogue on the sharing of functions and the sharing of budget.

Figure 20: Sustainability of the Somali military and international benchmarks

Source: Various SSR Databases, SIPRI, etC.

Security expenditure commands a large share of total public resources. This is compounded by very low total government revenues, combined with consistent revenue shortfalls during budget execution. Some of the major issues include non-payment or deferred payment of salaries, very low levels of operational spending, and limited funds for procurement (albeit limited by the arms embargo). This means that actual spending is consistently lower than budgeted levels, and subsequently the actual outcomes obtained by that spending possibly even lower. This funding pattern implies that if the security sector was to be fully funded at the level for the Somali National Army (SNA) to be an effective and independent force on the battlefield, these spending indicators would likely have to go up from their current levels.

The FGS has proposed a number of plans for the development of the security sector. As described in the previous chapter, these include the *Guulwade* Plan for the SNA and the *Heegan* Plan for policing (as adapted by the New Policing Model), outlined in the preceding chapters. These plans include provision of better operational and logistics support, specialized training, additional infrastructure, and hiring and mobilizing additional security sector personnel. Our estimates of future affordability are primarily based on costing out these plans. Where costs do not exist we have made approximations using proxies for a likely structure and cost of the sector. For example, in case of the cost for the Somali Coast Guard, we have used as a proxy the costs associated with the build-up of a coast guard in Liberia.⁸⁵

The ongoing conflict against Al-Shabaab (AS) adds to the complexity of this challenge. The Somali security sector is being built up essentially from scratch, requiring significant up-front provision of training, equipment and infrastructure. Even without that burden, the ongoing insurgency tends to increase the need for security spending: to fall to more manageable levels in its aftermath. For example, in other Sub-Saharan African conflict zones we have observed military spending rising to 4-5 percent of GDP during conflict and then falling below 2 percent after its conclusion, as seen below. It will therefore be important to also assess the ratio of security sector costs to GDP in order to understand how much of an economy-wide burden is implied with the proposed development plans, and how the long-term sustainment costs would compare in the post-conflict period.

⁸⁵ For more detail, see: Gompert, David C., et al. *Making Liberia Safe: Transformation of the National Security Sector*, RAND Corporation, Santa Monica, CA, 2007.

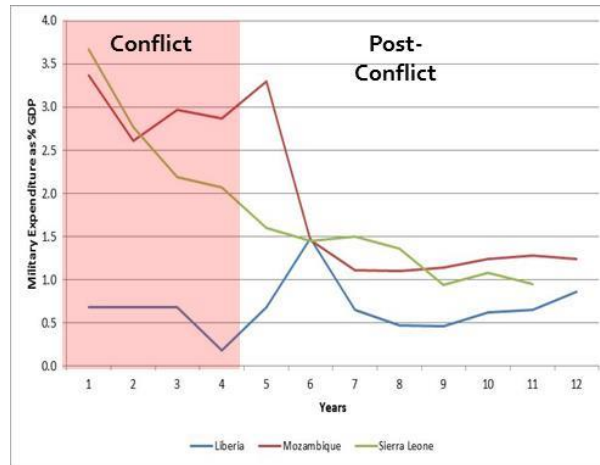


Figure 21. Military expenditure as percent of GDP during and after conflicts in Sub-Saharan Africa

Source: SJPER Funding Flows Background Paper.

While the comparison with the Sub-Saharan African peers is apt in a macroeconomic sense, the Somalia challenge is exceptional for two reasons:

- (i) The country is contending with a geopolitically consequential counterinsurgency that make it necessary to keep in mind the lessons of similar endeavors in Afghanistan and Iraq;
- (ii) The country is in a transition, leading to a 'mediated' federal state that involves all parties wishing to retain their armed force (as self-defence) while starting to form one security structure ('military integration') that has fiscal as well as political implications for the state.

5.1.1 Financing Counterinsurgencies

Counterinsurgencies in Iraq and Afghanistan are examples of crisis countries that require extensive external financing, technical and training support, and a combination of foreign internal defence and direct action by partner nations. Such support was characterized by significant volumes of external financing and carried similar financial management challenges to Somalia, due to the low levels of revenues available to relatively newly reestablished sovereign governments. In the case of Afghanistan, the relatively large levels of external support served to build a security sector that exceeds the capacity of the state to sustainably finance its operations, leading to a significant transition shock as the foreign troops were withdrawn and the significant sums curtailed.⁸⁶ In Iraq, the restarting of oil production cushioned that shock somewhat. However, the reliance on petroleum revenues and an incomplete political settlement combined with a cross-border spill-over of instability in Syria into Iraq led to a renewed financing and security sector performance challenge.⁸⁷ Such *internationalized* counter-insurgencies pose questions around the sustainability of both external and domestic financing as well as the utility of non-military options that may be more cost-effective.⁸⁸

⁸⁶ For more detail, see the World Bank's *Afghanistan Public Expenditure Review 2010, Second Generation of Public Expenditure Reforms*, April 2010, and the *Transitions Economics* report, 2012

⁸⁷ See discussion in *Republic of Iraq Public Expenditure Review*, World Bank 2014

⁸⁸ See for example arguments in Campbell and Weitz, *Non-Military Strategies for Countering Islamist Terrorism*, The Princeton Project Papers, Woodrow Wilson School, 2006

5.1.2 Financing Military integration

Military integration is commonly used by states as a component of war-to-peace transitions.⁸⁹ These processes are likely to be attempted particularly when there is inter-alia military parity between different belligerents including the government, when countries are poor, and when there is external mediation.⁹⁰ All these factors apply to Somalia. However, as much as military integration can be at the forefront of peacebuilding efforts, it can have a negative impact on a government's fiscal space and therefore its ability to govern. This has been the case in Burundi,⁹¹ as well as in South Sudan.

South Sudan in particular has lessons for Somalia. Following a multi-decade struggle for independence South Sudan reached the point of settlement with numerous, often ethnically based, armed factions still in the field. In the course of the state building process, security sector reform was largely built around the integration of the various armed groups into the Sudan's People Liberation Army (SPLA).⁹² This process resulted in a formation of an over-sized security sector that consumed at least 40 percent of the national budget (and over 60 percent of government salaries) which was itself considerably higher as percent of GDP than in Somalia (government revenues represented 25 percent of GDP in 2013) due to extensive oil and gas revenues.⁹³ This large level of security sector spend provided rents for major political networks that had vested interests in maintaining such a large security apparatus that some estimated at over 300,000 persons.⁹⁴ The lack of an effective security reform process and a gradual draw-down of armed forces contributed to the resumption of conflict and civil war in late 2013 that is ongoing.

Given these lessons, the subsequent analysis of the Somali security sector is framed in several ways:

- (i) **It evaluates the affordability of the security sector in terms of the impact of various development scenarios on the consolidated fiscal balance of the general government.** This balance is constructed by comparing a set of plausible revenue scenarios against a bottom-up costing of the sector options.
- (ii) **It assumes a continued level of external support to the security sector at levels similar to 2016.** While international aid in similar cases often supported security sector transitions, the ongoing support was not larger in the aftermath of a transition than it was before it, and the analysis assumes a flat level of grant support.
- (iii) **The sustainability analysis is agnostic in terms of the future potential transition from AMISOM and the security situation.** *Guulwade* and other plans are based on implicit assumptions of transition and handover at some point (albeit incremental) from an externally-led (such as by AMISOM) to Somali-led counter-insurgency. In turn, it is assumed that even if AS is substantively suppressed in the coming years, security forces are likely to maintain a field-based presence for the foreseeable future implying increased costs of operations (fuel, maintenance, food, and ammunition).

⁸⁹ Licklider Ed, *New Armies from Old, Merging Competing Militaries After Civil Wars*, April 2014

⁹⁰ Hartzell, *Mixed Motives? Explaining the Decision to Integrate Militaries at Civil War's End*, in Licklider, *ibid*

⁹¹ Burundi Public Expenditure Review, World Bank, 2012

⁹² See discussion in the South Sudan SSR Background Note, by DCAF-ISSAT, Updated 14.01.2016.

⁹³ IMF Article IV, Republic of South Sudan, December 2014

⁹⁴ Human Security Baseline Assessment for South Sudan, *Failures and Opportunities: Rethinking DDR in South Sudan*, May 2011

- (iv) **The issues of militia integration and/or DDR and advanced capability development are addressed in case specific scenarios.** The South Sudanese model of incorporating a significant number of militias/armed groups into the security sector payroll (though not necessarily into operations) is evaluated as part of an alternative scenario, while notional DDR and costs are evaluated in a separate case study. Similarly the development of air and maritime capabilities are dealt with in notional case studies as well, along with the challenges of an aging security sector payroll.

5.2 Cost Projections

Future security costs were projected through a bottom-up costing of the existing force compositions and future plans. The unit costs for the various elements of the security and justice sector are presented in Annex I, and the projection methodology is in Annex II. The costs are inflated at a constant 3 percent annual rate, to account for likely inflation and associated wage growth.

This PER takes three cost scenarios based on the implementation of these plans with some add-ons arising from the endorsed National Security Policy (NSP) and discussions with the FGS and other key stakeholders. The three cost scenarios are: (i) a baseline; (ii) alternative scenario 1; and (iii) alternative scenario 2.

COSTING SCENARIO	SUMMARY
• Baseline	Basic costs for 14,000 SNA including full costing of <i>Guulwade</i> / and implementation of <i>Heegan</i> adjusted for NPM – including 12,000 police/ and Civil service and justice expansion
• Alternative 1	Baseline plus the <i>Guulwade</i> Plan-level of equipment and other cost centers to 18,000 existing personnel, and adds some 4,500 paramilitary members (Darawish) at the federal level equipped in the <i>Guulwade</i> -like package reflecting their paramilitary role, but with <i>Heegan</i> -type infrastructure.
• Alternative 2	Baseline and Alternative Scenario 1 plus an additional 15,000 SNA recruits added through militia integration, paid the same level as regular SNA troops; but no costs for their training and equipment to <i>Guulwade</i> -levels.

5.2.1 Baseline Scenario

The baseline estimate is based on funding the NSP Option 2 including support to the main security and justice sectors' development plans described in the previous chapters (wages and rations, operating costs of fuel, training, and ammunitions, and infrastructure and equipment costs). Costs are calculated by multiplying the personnel numbers within various elements of the sector by wage and operational unit costs to obtain the recurrent costs. The capital costs, for both infrastructure and equipment were calculated as outlined in those plans, and in certain cases the disbursements associated with these investments were spread over several years, as indicated in the table below.

Baseline	Initial year	Structure
Military (<i>Guulwade</i>)	2016	<ul style="list-style-type: none"> FGS Security Budget cost of approximately 14,000 Somali Armed Force salary and rations (at a cost of \$210 per head⁹⁵) operating costs and capital costs for <i>Guulwade</i> (10,900 troops)

⁹⁵ As detailed in Chapter Five – this sum includes \$50 FGS salary, \$60 for food rations and \$100 donor financed stipend per month for the average soldier.

		<ul style="list-style-type: none"> • Increase in operations costs to \$2,300 per troop for 14,000 troops from the first year onwards • \$64 million worth of equipment in the first year • Infrastructure disbursed in equal tranches of \$14 million over three years
Police (Heegan/ New Policing Model)	2016	<ul style="list-style-type: none"> • Financing existing SPF/state policing elements, including newly recruited 1,200 state police: 12,000 at \$ 210 per head • For SPF/regional policing elements, operating costs and capital/equipment costs reflected in original <i>Heegan</i> Plan for 12,000. • Major equipment procurement in year 2 and 3 (\$10 million) and subsequent procurement commensurate with new recruitment (\$1 million/ year) • Infrastructure investment in the second year (\$7.5 million) along with investments commensurate with personnel growth thereafter • Additional operational costs starting in the second year totaling ~\$17 million
Civil Service	2016	<ul style="list-style-type: none"> • SJJ related civil service (MoD, MoIS, MoJ and regional ministries) staff are expanded toward a benchmark ratio vis-à-vis operational staff at a rate of 25 percent per year • Equipping a portion of the personnel in the second year, followed by steady maintenance costs
Justice	2016	<ul style="list-style-type: none"> • Growth of personnel and operational costs (~\$10 million per year) • Infrastructure investment starting in the first year spread between the federal and regional levels at about \$18 million per year

Table 7. Cost Structure of Various Security and Justice Sector Development Plans

Source: Staff Analysis

The cost profile of the baseline assumptions generated is presented below. The 2016 costs are taken from the 2016 budget update and do not reflect the full funding of the sectors. Another critical assumption underlying this projection is that the costs accrued, e.g. wages, are actually paid within the given fiscal year. When the costs are aggregated into major categories, the relationship between the early investment in equipment and infrastructure and the later recurrent operations and wage costs becomes apparent. Notably, the costs of the security and justice sector more than double in the first two years as a result of the expansion and equipping of the sector in line with *Gulwade* and estimations from the NPM adapted *Heegan* plan. These costs are shown to be in both the recurrent (wages and operations) as well as capital investment (equipment and infrastructure) categories, though the latter dominate the spending next several years, slowly tapering off as the announced plans are fulfilled. Given the different nature of each category of cost, Baseline Scenario costs are divided in the figures below between (i) personnel costs (including rations) and (ii) operating and capital costs.

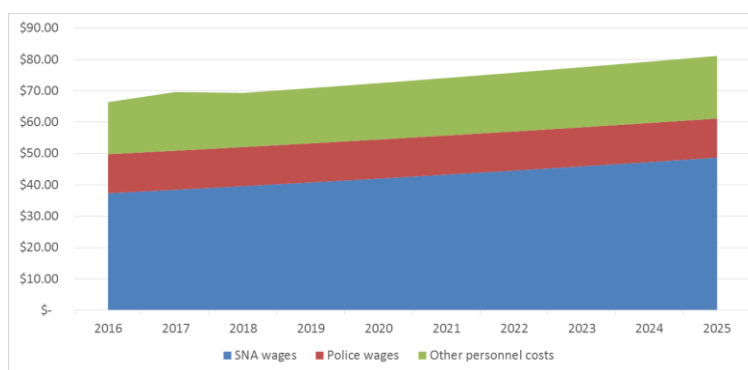


Figure 22. Security Sector Baseline Scenario – Personnel Costs (wages, salaries, rations, \$ million)

Source: Staff Estimates

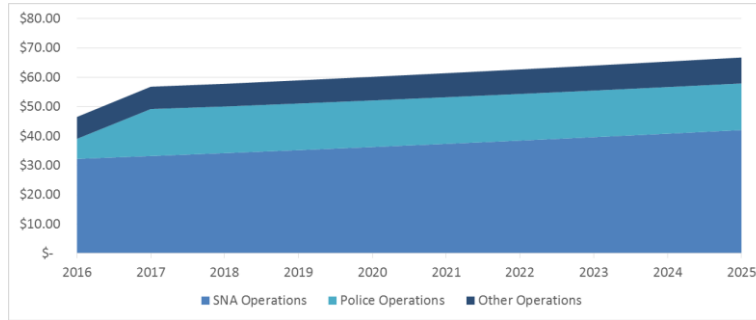


Figure 23. Security Sector Baseline Scenario—Operating Costs (\$ million)

Source: Staff Estimates

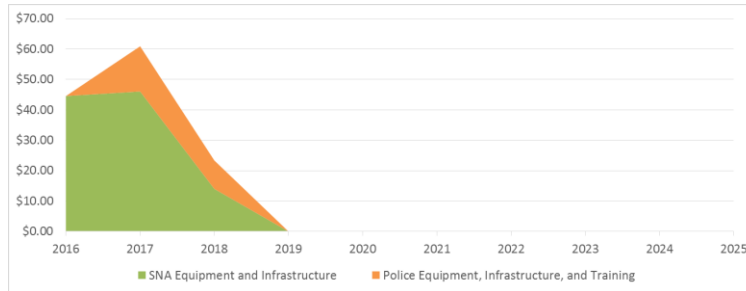


Figure 24. Security Sector Baseline Scenario - Capital Costs (\$ million)

Source: Staff Estimates

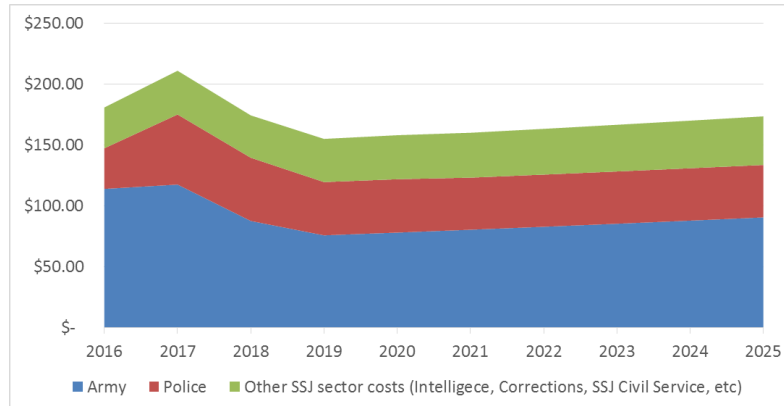


Figure 25. Security Sector Baseline Scenario – Combined Costs (\$million)

Source: Staff Estimates

5.2.2 Alternative Scenarios

Two other cost profiles are calculated in addition to the top of the baseline projection. These are:

- (i) **Alternative Scenario 1:** the Baseline plus the *Gulwade* Plan-level of equipment and other cost centers to 18,000 existing personnel, and adds some 4,500 paramilitary members (Darawish) at the

federal level equipped in the *Guulwade*-like package reflecting their paramilitary role, but with *Heegan*-type infrastructure; and

- (ii) **Alternative Scenario 2:** the Baseline and Alternative Scenario 1 plus an additional 15,000 SNA recruits added through militia integration. These personnel are paid the same level as regular SNA troops; however, there are no costs for their training and equipment to *Guulwade*-levels.

The table below indicates the pace of timing and structure of Alternative Scenario 1 and 2.

Alternative Scenario 1	Initial year	Structure
Baseline	2016	<ul style="list-style-type: none"> As indicated in Table 9
Military (<i>Guulwade</i> +)	2016	<ul style="list-style-type: none"> Baseline scenario with following modifications: 18,000 fully trained forces, equipped at full operating and capital unit costs, Personal equipment and training for 18,000 at the <i>Guulwade</i> plan standard Increase in operations costs to <i>Guulwade</i> levels for all remaining personnel (up to the total of 18,000) Additional equipment at the <i>Guulwade</i> standard for remaining personnel (~\$15M in the third year) Additional marginal infrastructure growth totaling ~\$3 million per year from the first to the third year
Police (Armed Police)	2016	<ul style="list-style-type: none"> Baseline scenario with following modifications: SPF/state policing elements: 12,500 + 4,500 Armed Police (Darawish) = 17,000 Police Additional equipment for the Armed Police forces (approximated from <i>Guulwade</i> plan materiel list) and annual operations costs to \$2,300 per capita Additional infrastructure investment for Armed Police facilities based on <i>Guulwade</i> equipment tables
Alternative Scenario 2	Initial year	Structure
Baseline + Alt Profile 1	2016	<ul style="list-style-type: none"> As indicated above and in Table 9 and above
Military (Militia integration)	2016	<ul style="list-style-type: none"> Additional 15,000 from militia integration, only paid \$210 per month, no operating or training expenses

Table 8. Alternative Scenarios Structure

Source: Staff Analysis

The two following charts show the structure of the cost layers in the two alternative scenarios. We see that the upfront equipment and infrastructure cost of both scenarios increase compared to the baseline on account of the larger forces, both in the SNA column with additional troops and with the additional Darawish armed police troops under the armed police block. Furthermore, we see that the “tail” sustainment costs also become elevated in the outer years compared to the baseline. We also note how the Alternative Scenario 2, with the inclusion of 15,000-militia integration option, elevates the overall costs of the wage bill. These steadily climbing costs exceed even the build-up levels in the 2020s. This type of a scenario can be considered an illustration of the costs of creating political solutions by bringing large numbers of regional or militia forces “on budget,” as was done in South Sudan.

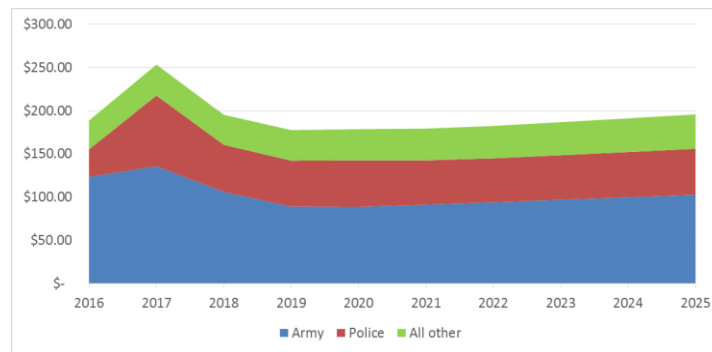


Figure 26. Security Sector Alternative Scenario 1 (\$ million)

Source: Staff Estimates

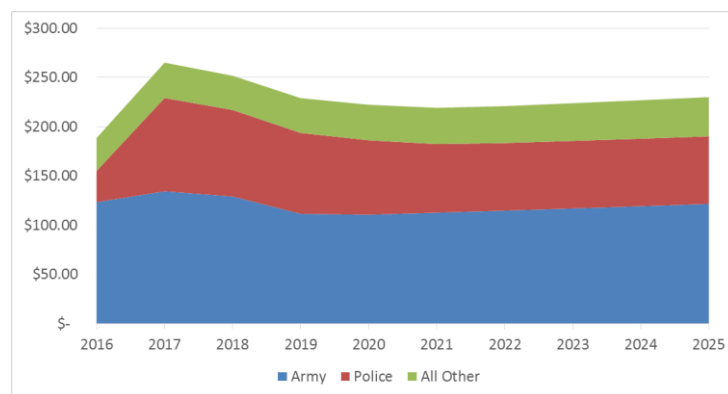


Figure 27. Security Sector Alternative Scenario 2 (\$ million)

Source: Staff Estimates

The costs associated with the justice sector are captured independently in the projections. Justice sector costs are divided between wages and operations, on both a federal and regional level. Wages represent the majority of the assumed costs for the sector, with the federal budget shouldering the majority of the costs.

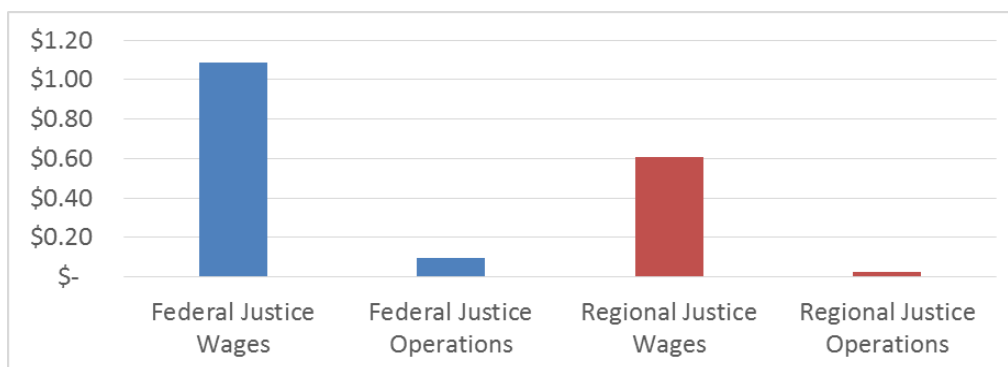


Figure 28. Justice Sector Costs (\$ million)

Source: Staff Estimates

The costs of all three scenarios is shown in the chart below, along with the cost of the justice sector.

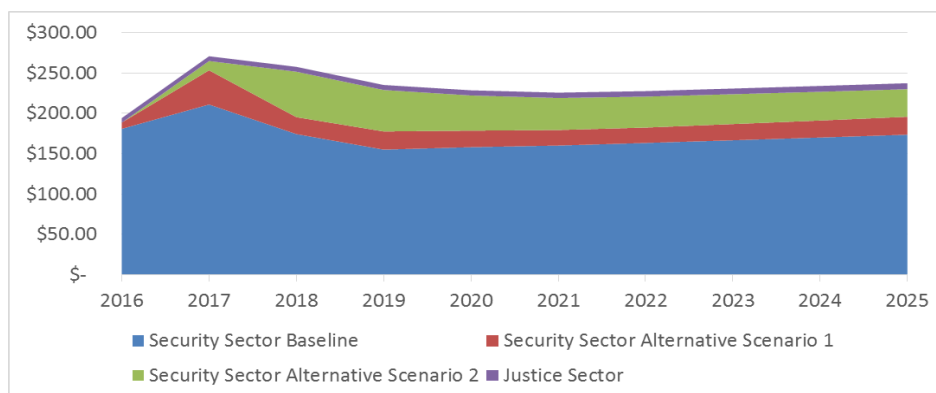


Figure 29. Consolidated Security and Justice Sector Costs

Source: Staff Estimates

However, In order to get a better sense of the likely budgetary balance we will also have to take into account non-SSJ expenditures. Currently, the bulk of non-security spending is in civil servant and political appointee compensation (salaries and allowances), with very modest expenditure on operation of government agencies and extremely limited public services. In 2016, 37 percent of total expenditure went to wages and salaries; goods and services consumed another 33 percent, while less than 10 percent budgeted for capital investment. There is essentially no human or sustainable development budget. As the state institutions develop and as greater levels of public services are provided or co-financed by the state, the civil service wage and operations expenditure is likely to increase due to a growth in headcount. However, in order to isolate the effect of the security sector policies we will hold the non-security sector expenditures constant at the 2016 level, while growing the wage rates at a constant 3 percent per year.

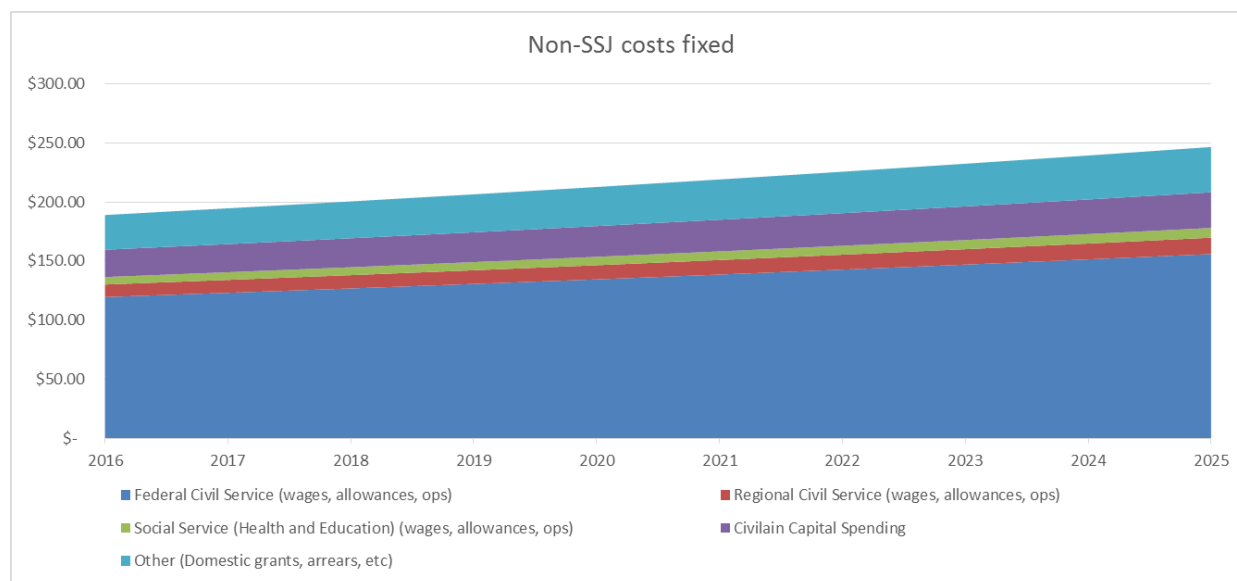


Figure 30. Projected Non-Security Sector Costs (\$ million)

Source: Staff Estimates

The non-security sector will be the same across the three scenarios. This is not to say that this budget is expected to remain constant. However, to reduce the number of variables we will treat it as such. Development and state-building financing needs will be discussed in a separate costing case study at the end of the chapter. The overall financial projection for public sector expenditure is shown below.

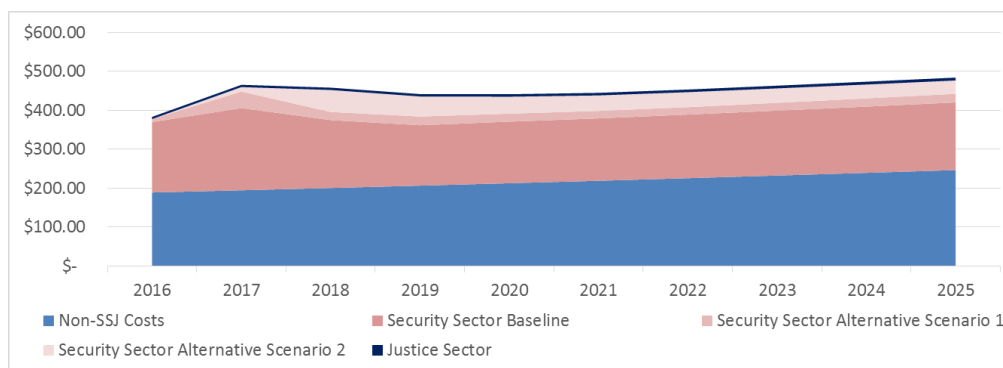


Figure 31: Projected General Government Expenditures (\$ million)

Source: Staff Estimates

5.3 Specific Costing Case Studies

The essence of public policy is in the consideration of tradeoffs under a fiscal constraint. While the SJPER is focused on the security and justice sectors, the considerations of tradeoffs are likely to involve options that go beyond the three core scenarios. These building blocks of future public policy are likely to include:

- (i) Non-security sector development including strengthening administration capacity of the state, building up the capacity to provide education and healthcare services and a range of possible infrastructure and capital spending investments.
- (ii) Other security sector options including the development of maritime and air arms for the security sector, a potential DDR campaign and the introduction of a pension system in the SSJ sector. We examine the potential cost of each; these can be examined in detail by policy makers but the PER does not factor in these additional costs to the model projections in this chapter.

5.3.1 Development budget

State building in Somalia is likely to require a growth in the depth and breadth of service provision to the population. This will result in an increase in the headcount in the public sector. Starting from a very low base of just under 10,000 non-security sector employees in 2015, we assume that the non-security/non-justice public sector employment would grow in a linear manner to 30 percent of average Low Income Country rate of public sector employees by 2026. This level of staffing would mean a tenfold increase in headcount, and yet would still represent a very low level of public service employment relative to international benchmarks.⁹⁶ The growth in headcount would be expected to occur largely in the administrative staff and health and education service providers. This level of growth would imply that by

⁹⁶ Clements et al, "Evaluating Government Employment and Compensation." Technical Notes and Manual, Fiscal Affairs Department, International Monetary Fund, September 20109.

2026, the federal and regional would support almost 90,000 public sector employees. Just over half of that number would serve in health and education services.

On the capital investment side, after more than almost a quarter century of neglect, the development and reconstruction needs of Somalia are vast. In 2006, a joint infrastructure needs assessment estimated that the immediate reconstruction needs of Somali are \$500 million over the first two years followed by another \$800 million over the following three years.⁹⁷ While such assessments requires updating it is undoubtedly clear that Somalia will have to grow its capital investment. Nevertheless, in FY2015 the domestically funded capital budget was \$14 million and in 2016 it is budgeted at \$23 million; it is clear that scaling up such investment levels will take some time. In comparison, most governments in Sub-Saharan Africa spend about 6–12 percent of their GDP each year on infrastructure, understood as comprising ICT, power, roads, water, and sanitation. In fragile, low income countries this percentage was lower at 3.44 percent of GDP⁹⁸ While this number can vary widely, to remain on the conservative side in the initial years, we grow the spending levels at a linear rate toward a level of ~\$250 million or 3.44 percent of GDP in 2025. It is to be expected that were Somalia to achieve HIPC debt relief, multilateral financing would be available albeit much of the finance will come from the Somali budget. The nominal expenditure on wage and capital portions of this notional development budget is below.

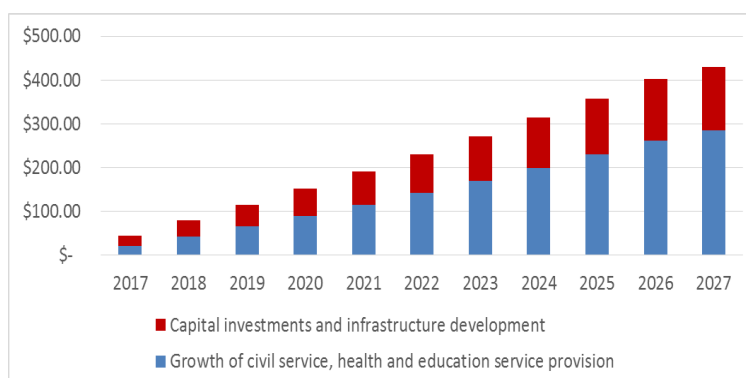


Figure 32. Projected Growth Non-Security Sector Costs – Development Budget (\$ million)

Source: Staff Estimates

5.3.2 Navy/Coast Guard

The development of a Navy/Coast Guard is likely to become a growing priority for the FGS in the coming years. In addition to the well-publicized challenges Somalia and its waters have faced with the scourge of piracy in recent years, revenue generation and natural resource concerns may also provide an impetus for growing a maritime service. Somalia fisheries are under severe pressure from illegal, unregulated and unreported fishing, and given the reliance on trade revenue collected at ports, combating smuggling are likely to combine to form a strong motivation to extend the reach of the state deeper into the maritime realm. There are already certain capabilities in Puntland and the port of Bossaso, along with reportedly underutilized capabilities in Mogadishu. The costing below illustrates the continued operating costs of the existing assets and the addition of 16 boats, sized to gradually extend the range and the capability of the current port-focused forces, along with associated equipment envisioned to be operated by an extra 700 personnel. This additional capability is modeled on the 8 boat package provided to the Liberian Government during the reconstruction of their security sector. The

⁹⁷ Galli, Fabio. “Somali Needs Assessment.” Infrastructure Cluster Report, the World Bank, September 2006.

⁹⁸ Briceño-Garmendia, Cecilia, Karlis Smits, and Vivien Foster, “Financing Public Infrastructure in Sub-Saharan Africa: Patterns and Emerging Issues, Africa Infrastructure Country Diagnostic, Background Paper 15, World Bank 20209

capability would also be divided between two main ports and those would require a reconstruction of the port facilities. The costs are divided between upfront investments for the boats, port facilities and supporting equipment and ongoing annualized wage bill and costs to operate those boats, as seen below.

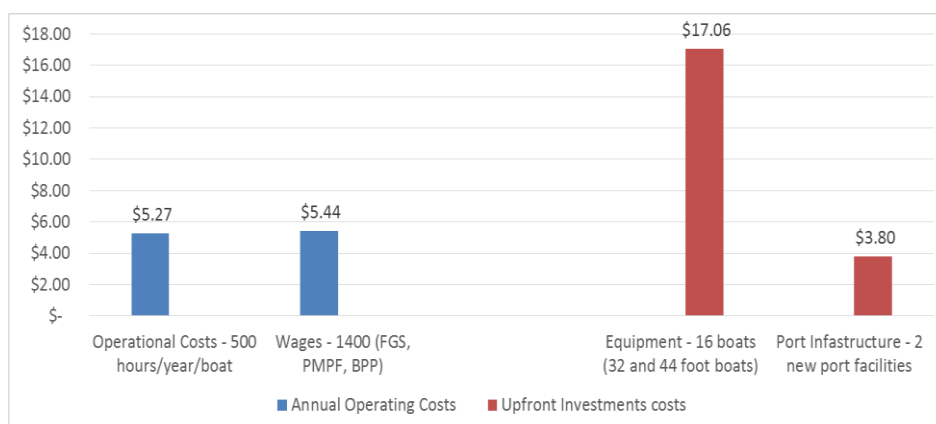


Figure 33. Costs of Building Up and Operating a Maritime Security Capability (\$ million)

Source: Staff Estimates

5.3.3 Air Force

Building an air force is usually considered to be a complex proposition, particularly in Sub-Saharan Africa. Indeed, numerous African countries have struggled with building and sustaining an air force, ranging from the poorest to some of the richest (e.g. South Africa). The upfront price tag can be very high and more often than not the initial capabilities procured prove to be overambitious and difficult to sustain. Challenges to sustainment of an aviation capability can be many, from the need to fund for regular and substantive operational utilization or regular training in order to sustain proficiency, to the difficulty of retaining qualified pilot and technician talent away from the lure of the private sector. It is perhaps telling that even AMISOM has faced difficulties in deploying an aviation capability within Somalia.

Nevertheless operating even a modest Air Force can have significant benefits. The ability to provide vertical movement, rapid resupply, search, rescue, and medical evacuation, and patrol activity add significantly to the flexibility of a counterinsurgency. Furthermore, adding aviation capabilities is a significant multiplier in the effectiveness of Coast Guard operations. Finally, the morale and signaling value of “flying the flag” should not be underestimated. While Somalia had a large air force prior to the fall of the regime, that capability has effectively been erased and the personnel have at this point aged out of effective age of reactivation for line service. Nevertheless, efforts have been made to begin the process of training a small cadre of Air Force officers and enlisted, largely with the help of Turkey. While the exact scope of this training remains unclear, a notional budget for a small air arm with two medium utility helicopters (Mil Mi-17) and two light utility helicopters (Britten Norman Islander) crewed by 10 pilots and with 15 skilled maintenance technicians has been developed.

Upfront equipment and training costs can be substantial. Shortcuts can be had around this constraint (e.g. by procuring second hand equipment) but short term gains are often offset by subsequent higher operational costs and reduced availability. Additionally, costs of initial training for pilots and engineers are included in the upfront costs, along with upgrades to the airfield facilities and the necessary maintenance equipment. Once the aircraft are procured and personnel trained the costs of operation are dependent on the utilization rate and the per flight hour cost (at \$2,500 per flight hour the turboshaft Mi-17 helicopters are much more expensive to operate compared to the piston engine Islanders which average around \$500 per flight hour), and

a very conservative estimate for the cost of operation based on a modest number of flight hours flown per year per aircraft (250 for the Mi-17s and 500 for the Islanders). These are then combined with the wage costs for the 150 or so members of the air force and rare skill bonuses for the pilots and technicians has been provided.

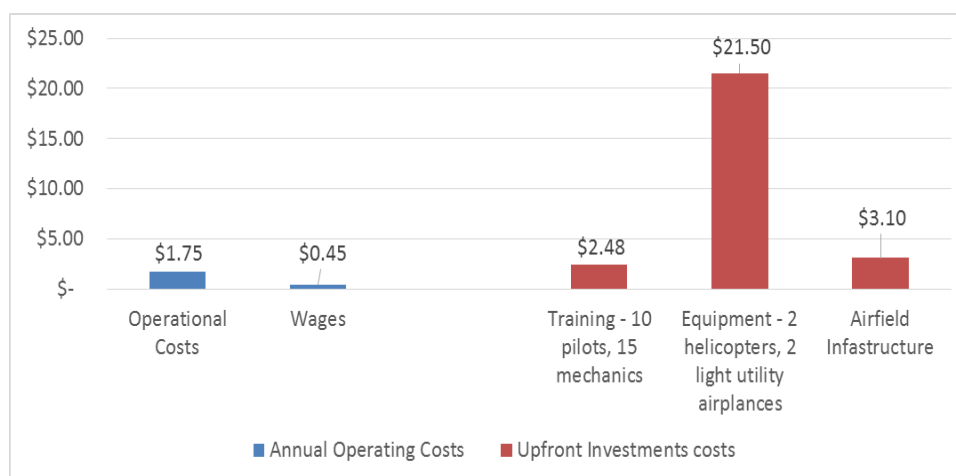


Figure 34. Costs of Building Up and Operating a Small Air Force (\$ million)

Source: Staff Estimates

5.3.4 Disarmament Demobilization and Reintegration (DDR) Process

While the Alternative Scenario 2 provides for the possibility of integrating some 15,000 militia, nevertheless retaining them on the payroll indefinitely is not only fiscally inefficient, but also may be militarily dangerous as they represent an armed force which the state is likely to have relatively little control over. Therefore, a DDR-type operation may be called upon. While the cost of taking one former combatant through the full DDR process is some \$2,026 (adjusted for inflation given what is known about the global DDR operations in 2009)⁹⁹, whether or not they are already integrated into security payrolls will be determined by the type and cost of the programme. The chart below shows that the DDR costs are relatively static (and proportional to size of the force undergoing the process). However, if the militiamen are already integrated into the payroll, presumably they still need to be paid. Therefore, depending on the speed at which DDR is implemented will determine the total cost of the programme, as in some cases at least 1/3 of the militia would be paid for all three years of the programme while they await their demobilization. The comparison of these costs are seen below.

⁹⁹ Caremes, Albert et al, "Analysis of Demobilization, Disarmament, and Reintegration Programmes existing the World in 2005," Escuela Cultura de Pau, Spain, February 2006

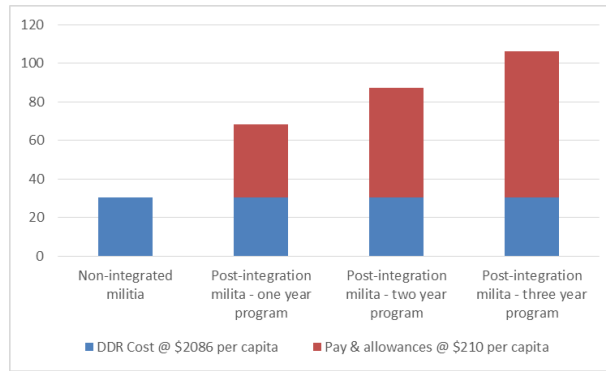


Figure 35. Integrated Militia - DDR Costs (\$ million) To Vary Contingent on Pace of Implementation

Source: Staff Estimates

5.3.5 Pensions

The SNA and Somali police have a number of individuals who may soon be or already are above a reasonable retirement age for military personnel. The data from UNOPS stipend system shows the current age distribution of the SNA and SPF. We see that in both cases, about 10 percent are over the age of 55-65.

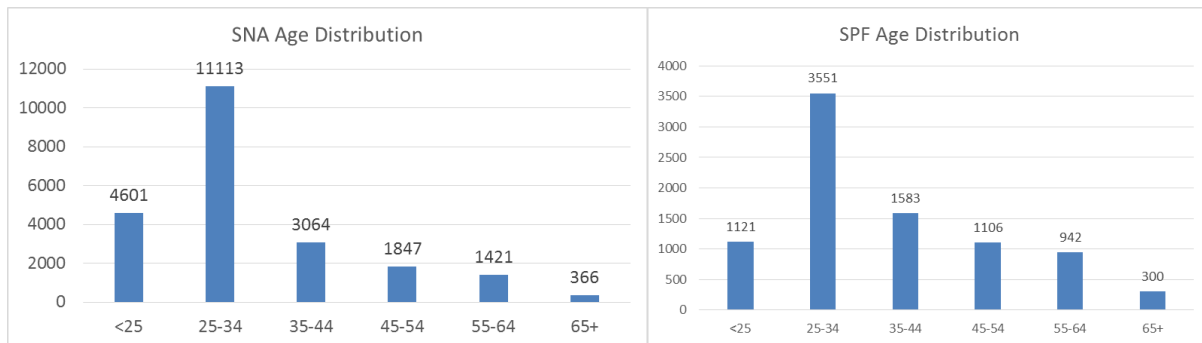


Figure 36: Age Distribution of SNA and SPF

Source: UNOPS 2015

If we assume a continued (albeit flat) rate of pension at about \$160 – we see the growth of the pension costs. The two data lines show the costs of a plan assuming the pension age is set at 55 or at 65 years.

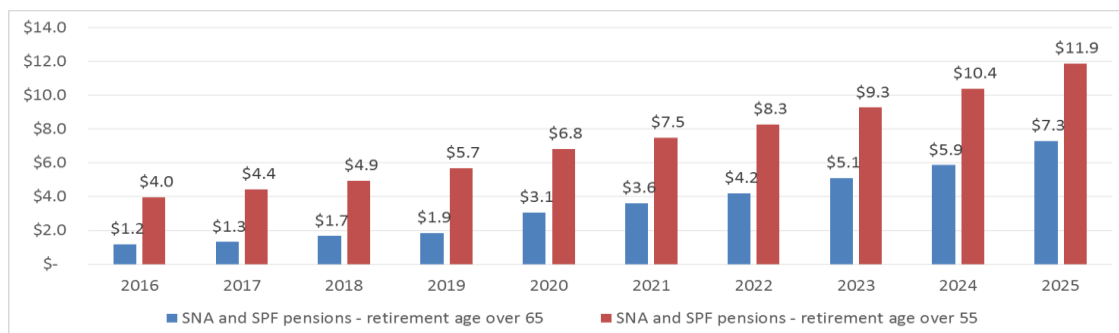


Figure 37. Projected Pensions Costs for the Security Sector (\$ million)

Source: Staff Estimates

In sum, the SJPER assesses three cost scenarios (Baseline, Alternative 1 and Alternative 2) in which the main cost-driver and variable is the number of persons on the payroll. In addition, and not included in the scenarios, the PER briefly considers other costs that the FGS may have to consider in examining the expenditure policy issues moving forward.

Finally, before the PER considers the revenue projections, it should be noted that these costs are in aggregate and they do not distinguish between whether these costs are borne at the FGS or the FMS level.

5.4 GDP and Revenue Projections

In order to evaluate affordability, it is necessary to compare projected future costs with projected future revenues. To this end, projections regarding the future trajectory of GDP, revenue, and on-budget grants have been made. The current estimates for these three sets of variables are as follows.

Category/year	2013	2014	2015	2016
Nominal GDP (\$ million) – <i>without Somaliland</i>	3,695	3,935	4,031	4,205
Nominal GDP growth during the year	6.49%	2.43%	4.33%	6%
Total federal on-budget revenue	117.4	145.3	141.2	246.3
Tax revenue – federal	65.1	73.8	82.4	107.8
Non-tax revenue – federal	4.1	10.5	31.9	31.5
International on-budget grants – federal	41.7	61.0	26.9	107.1
Loans	6.6	0.0	0.0	0.0
Regional on-budget revenue total	46.9	44.7	50.0	69.0
<i>Puntland revenue</i>	40.9	38.7	40.0	52.3
<i>Jubbaland revenue</i>	6.0	6.0	10.0	16.7
General Government Revenues - <i>without Somaliland</i>	164.3	190.0	191.2	304.8
percent GDP	4.4%	4.8%	4.7%	7.2%

Table 9. Current Macro-Fiscal Indicators

Source: World Bank Somalia Country Economic Update, 2016

Much of the discussion of the revenue and expenditure levels will be conducted using revenue to GDP and expenditure to GDP benchmarks, and to project these into the future the PER has assumed two different GDP growth paths from the current estimate of \$4.2 billion (for Somalia without Somaliland). In general, the estimates of national accounts for Somalia are highly uncertain. Comprehensive statistics exist through 1990. In 2002, a United Nations Development Programme estimated the household per capita income at \$226. In 2014, the International Monetary Fund and the World Bank produced a set of preliminary national accounts based on household surveys.¹⁰⁰ For the purposes of the PER, the IMF's

¹⁰⁰ See further discussion in the Somalia Economic Update 2015, World Bank, October 2015 (Available at: <http://documents.worldbank.org/curated/en/2015/11/25468667/somalia-economic-update-transition-amid-risks-special-focus-intergovernmental-fiscal-relations> and the Somali Economic Update, 2016

World Economic Outlook projection¹⁰¹ (which averages 8.2 percent GDP growth for Somalia until 2025) as the high case GDP growth scenario has been used. This projection appears fairly optimistic and disagrees with the FGS' own estimates. Hence, two additional forward projections have been prepared – the central scenario set at 6 percent growth, which broadly represents an extension of recent trends and is the target for Somalia's Sustainable Development Goal (SDG) number 1. An alternative path grows Somalia's economy to 3 percent per year, aligned with the baseline in the National Development Plan, while the GDP related ratios will be presented using the central (6 percent) case.

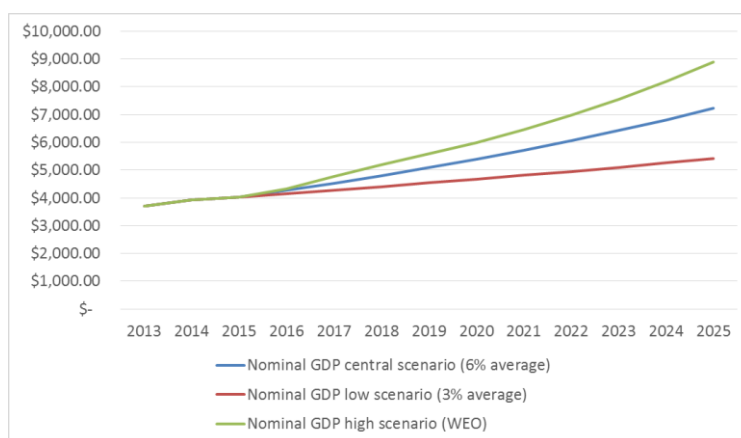


Figure 38. GDP Projections for Somalia (\$ million)

Source: Somalia National Development Plan and IMF WEO, 2015

In general, Somali domestic revenue yields are very low. Due to weak administrative capacity and poor compliance, Somalia's revenue systems tap a much smaller share of economic activity than do the systems of neighboring countries or other fragile countries. Duties, which require less administrative capacity than direct taxation, are the largest source of revenue at both the federal and state levels. That said, Somalia has significantly improved its tax performance since 2012 without undertaking any significant reforms and with only minimal effort to increase mobilization. Revenue remains very low by international standards—just 1.9 percent of GDP in 2015 (table 12) but it has increased. Total revenue increased 22.3 percent between 2013 and 2015, rising from \$117.4 million to \$141.2 million. Domestic revenue increased 50.8 percent in the same period, from \$75.8 million to \$114.3 million.

Country	2003–08	2009	2010	2011	2012	2013	2014	2015
Afghanistan	6.7	10.3	11	11.2	10.1	9.8	8.5	10.1
Burundi	14.0	13.9	14.5	16.2	15.6	14.2	14.6	10.3
Congo, DR	8.3	10.7	12.1	11.8	14.4	12.9	13.3	13.6
Kenya	16.8	18.1	19.2	19	18.7	19.3	19.4	19.8
Liberia	15.2	20.6	25	24.3	26	25	23.5	21.3
Sierra Leone	8.8	9.1	9.9	11.5	11.4	10.8	10.1	10.6
Somalia	—	—	—	—	0.6	1.4	1.5	1.9
Sub-Saharan Africa average	24.1	19.8	20.6	23.3	21.8	20.1	19.4	17.9

¹⁰¹ The International Monetary Fund maintains a global economic model, the updates of which are published semi-annually. IMF Article IV projections feed from this database.

Table 10. Central government tax revenues as percent of GDP in selected countries, 2003–15

Sources: IMF 2014 and Ministry of Finance Appropriation Act, 2015–2016.

Greater domestic revenue is needed to fill the development finance gap and for state building. Domestic revenue offers Somalia a promising and sustainable source of home-grown development finance. Mobilizing revenue matters for generating public income – and for state building. Building capacity to raise revenue through taxes is particularly crucial in Somalia, as it reduces dependence on aid and helps finance basic service delivery, which is needed to strengthen the contract between the government and its citizens, and can fortify intra-society relationships. This is an onerous, but doable task and several countries have significantly improved their tax performance over relatively short periods. Many lower-income countries, including Somalia, increased their tax ratios by 2–4 percent of GDP in the short run.¹⁰²

In its 2016 Economic Update, the World Bank developed a range of reforms that could be implemented in the short term (within two years), medium term (two to five years), and long term (more than five years) and developed associated scenarios.¹⁰³ The SJPER utilizes this work to provide a consistent set of World Bank revenue projections. These reforms were focused on the FGS, though the FMS would face similar challenges. Under the baseline scenario, the FGS continues to operate as it has in the past, taking no meaningful reform action. FGS revenues reach \$166 million in 2019 (3.3 percent of GDP), an increase of 0.5 percent of GDP, and \$221 million (3.6 percent of GDP) in 2022, an increase of 0.8 percentage points. If short-term measures are taken, revenues more than double, reaching \$305 million (6 percent of GDP) by 2019 and \$481 million (7.9 percent of GDP) by 2022, an increase of 3.9 percentage points. The Economic Update further discusses a range of medium and long-term measures that can keep growing the revenue base. In the PER we do not assess the impact of these measures. Given that part of the security sector is funded from regional budgets, the PER projects the growth of those regions where data is available (i.e. Puntland and Jubbaland) along with that of the FGS.

It must be noted that even before the civil war Somalia had very low domestic revenue mobilization. The deterioration of domestic revenue began in the 1980s. In the first half of the decade, the tax to GDP ratio was about 10 percent, then it declined to 5–6 percent, one of the lowest rates in the world. As domestic revenue shrunk—mainly because of growing noncompliance by taxpayers—the government became increasingly dependent on external support, which was often motivated by Cold War geopolitical considerations.¹⁰⁴ Therefore, the process of building an internally-funded and sustainable financing model for the Somali state is likely to be a prolonged endeavor, in part because the population has not come to expect the level of services that most governments deliver in SSA. While this has resulted in other benefits, such as a relatively thriving private sector, it represents a particular governance and legitimacy challenge.

Ratio	1985	1986	1987	1988	1989
Revenue/GDP	6.0	7.8	5.3	5.6	5.3
Tax/GDP	5.3	6.9	4.6	4.4	4.7
Non-tax revenue/GDP	0.7	0.9	0.7	1.2	0.6
Grants/GDP	8.5	15.2	15.6	12.2	26.5

Table 11. Selected revenue ratios in Somalia, 1985–89 (percent)

¹⁰² IMF, 2011

¹⁰³ See 2016 Somalia Economic Update, the World Bank, for detailed description of measures to be taken.

¹⁰⁴ Somalia Country Economic Memorandum, 1990

The financing of the Somali public sector (including security) is an especially critical and sensitive piece of the revenue matrix. Somalia has a long history of relying on external sources of revenue. Even currently, the FGS budget includes \$107 million in on-budget external grants. Beyond the budget there is almost a \$1 billion in overseas development assistance which is not discussed here, along with a vast amount spent on the external provision of security in and around Somalia (as discussed in Chapter 1). Going forward, the PER models the level of on-budget bilateral and multilateral grants remaining at approximately the current level (in nominal terms). As the future path of this financing is uncertain and dependent on the goodwill of donors, the PER estimates a notional value of \$100 million annually in on-budget bilateral grants through the projected period. Most of this funding is earmarked and thus not fully available for covering shortfalls of general funds.¹⁰⁵

As it will prove to be important in highlighting the role of external grants in the fiscal sustainability of the sector during the period of transition, the PER adds an additional sensitivity test of off-budget security sector grants. There are indications in the donor community that additional funding beyond that included in the FGS budget may be available for financing development plans like the *Guulwade* and *Heegan*, in preparation for the drawdown of AMISOM. To model this, the PER includes fixed amounts for the equipment and infrastructure under those plans in an additional “security sector trust fund category.” This revenue is modeled at \$130 million throughout the projection period (starting in 2016), and tested as a sensitivity analysis of the two core revenue scenarios – baseline and short-term financing.¹⁰⁶

The figures below show the nominal amounts of revenue under the two scenarios. It is important to note that the lower scenario is likely to be representative of a status quo Somalia in the case that the country fails to reach a political settlement. The higher central scenario is intended to represent the results of a reform-oriented government implementing an ambitious short term agenda. The potential additional security sector financing above and beyond the on-budget grants and domestic revenue growth is shown in bright red and will be used for sensitivity analysis in the affordability section. The revenue to GDP graph shows the revenue paths, complete with the sensitivity to off-budget security financing of \$130 million per year shown in dashed lines.

A critical assumption in the modelling is that the FGS will be able to meet the total on-budget revenues set out by the 2016 budget. The level of \$246 million (including grants of \$107 million) is ambitious and represents a 74 percent year over year increase compared to 2015 actuals.

¹⁰⁵ Another potential consideration on affordability is the potential for Somalia to receive debt relief, and thus gain access to concessional financing and grants from multilateral institutions. Approval of The Heavily Indebted Poor Countries (HIPC) and the Multilateral Debt Relief (MDR) initiatives providing debt-relief, would unlock access to the World Bank as well as other multilateral development institutions including the African Development Bank/African Development Fund, the Islamic Development Bank and its Islamic Solidarity Fund for Development, along with other international resources. While the exact scope of available financing is likely to depend on a range of factors, not the least of which is the quality of governance in Somalia, for the purpose of this PER we assume it is likely that the HIPC decision point is not to be approved before 2017 meaning that disbursements are unlikely to follow immediately. Moreover, the financing from these sources is likely to be in part earmarked for specific non-security investment projects rather than un-earmarked. In general about 25 percent of IDA financing goes to budget support operations which provide un-earmarked lump sum funds in support of policy reforms. However, the offsetting nature of such financing may provide additional fiscal space for other public sector spending.

¹⁰⁶ Note that this figure is highly sensitive to assumptions about the pace of equipment procurement and training, start year of the programme and disbursement profile of infrastructure investments.

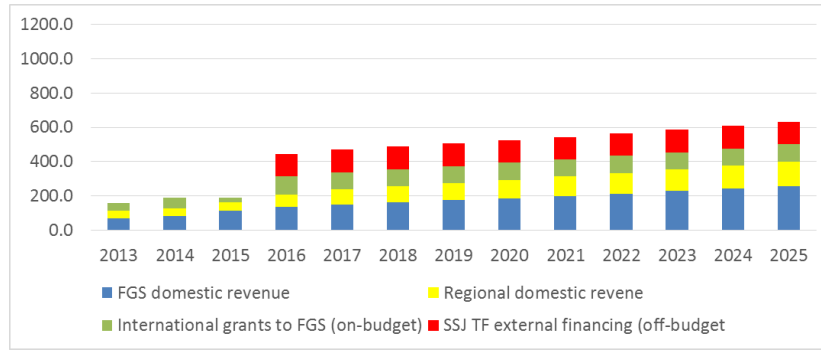


Figure 39. Nominal Revenues by Category under Status Quo Scenario (\$ million)

Source: Staff Estimates

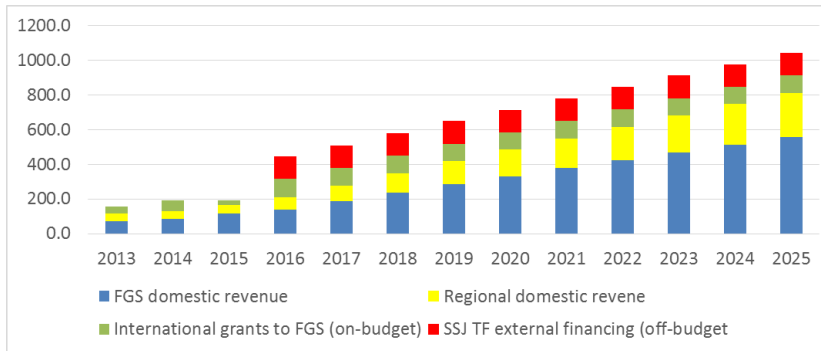


Figure 40. Nominal Revenues by Category under Reform Scenario (\$ million)

Source: Staff Estimates

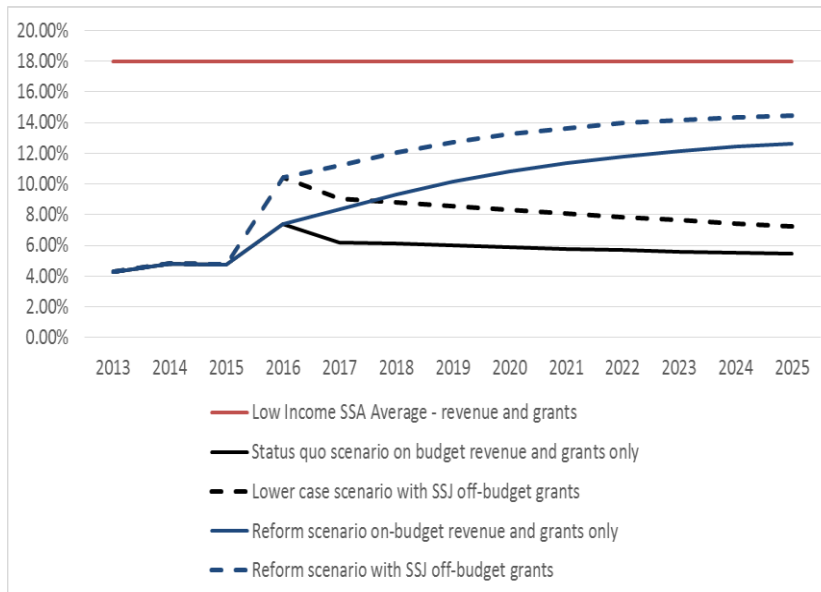


Figure 41. Projected Revenue Paths Compared with post-conflict and SSA benchmarks

Source: Staff Estimates

5.5 Comparison of Scenarios

Based on our projections it can be observed that, from a fiscal standpoint, the challenge of the Somali security sector affordability can be divided into two sets of issues: (i) short term affordability and (ii) long-term development displacement. In the short term, the Somali security sector faces a range of security challenges, political settlement and state-building demands that require resource commitments that are significant compared to the limited means of the Somali state. Short term revenue potential is so limited, that it creates a policy constraint, necessitating a reliance on external financing which can be uncertain, creating a risk of investing in large security initiatives. In the longer term – several years from now – the PER assumes that revenue generation is likely to catch up with the current needs and open up fiscal space even based on domestic revenues. Given the development needs of the Somali people, the lack of service provision and the low levels of infrastructure, the challenge is likely to change into one based on the tradeoffs between security and development. Development needs are such that the FGS and FMS will likely face increasing pressure to start such initiatives sooner than the resources are available for both, especially since community buy-in and development initiatives are necessary for a successful counterinsurgency. Similarly, it is important to identify the effect that current initiatives may have on fiscal sustainability down the line.

The subsequent analysis outlines the tradeoffs facing the Somali decision-makers and their international partners. In the first instance, the PER evaluates the fiscal balance and thus affordability of the various cost scenarios in first five years and then over the ten year period. The PER identifies the surplus/deficit, then outlines the indicative five and ten year costs of additional security and development options that may consume those surpluses. Ultimately, this is a fairly static view that does not take into account the relative priorities of the Somali government. However, the Ministry of Finance should work to develop the capability and the process for supporting such planning. The figure below summarizes the fiscal balance and affordability of the cost scenarios given revenue assumptions, in order of affordability.

Scenario	Affordability Projection	Notes on Cost Scenarios																								
Status Quo Revenue	<p>Status Quo Revenues and On-budget grants</p> <table><thead><tr><th>Year</th><th>Baseline</th><th>Alternate 1</th><th>Alternate 2</th></tr></thead><tbody><tr><td>2016</td><td>-\$50.00</td><td>-\$60.00</td><td>-\$70.00</td></tr><tr><td>2017</td><td>-\$60.00</td><td>-\$100.00</td><td>-\$120.00</td></tr><tr><td>2018</td><td>-\$20.00</td><td>-\$40.00</td><td>-\$80.00</td></tr><tr><td>2019</td><td>\$10.00</td><td>-\$10.00</td><td>-\$50.00</td></tr><tr><td>2020</td><td>\$20.00</td><td>\$0.00</td><td>-\$40.00</td></tr></tbody></table>	Year	Baseline	Alternate 1	Alternate 2	2016	-\$50.00	-\$60.00	-\$70.00	2017	-\$60.00	-\$100.00	-\$120.00	2018	-\$20.00	-\$40.00	-\$80.00	2019	\$10.00	-\$10.00	-\$50.00	2020	\$20.00	\$0.00	-\$40.00	<p>All scenarios - Unaffordable - None of the cost scenarios are affordable in the short term under the status quo scenario for revenues and grants, indicating that if revenues do not improve, Somali government is likely to require constant external support</p>
Year	Baseline	Alternate 1	Alternate 2																							
2016	-\$50.00	-\$60.00	-\$70.00																							
2017	-\$60.00	-\$100.00	-\$120.00																							
2018	-\$20.00	-\$40.00	-\$80.00																							
2019	\$10.00	-\$10.00	-\$50.00																							
2020	\$20.00	\$0.00	-\$40.00																							
Reform Revenue	<p>Reform Revenues and On-budget grants</p> <table><thead><tr><th>Year</th><th>Baseline</th><th>Alternate 1</th><th>Alternate 2</th></tr></thead><tbody><tr><td>2016</td><td>-\$50.00</td><td>-\$60.00</td><td>-\$70.00</td></tr><tr><td>2017</td><td>-\$20.00</td><td>-\$40.00</td><td>-\$60.00</td></tr><tr><td>2018</td><td>\$50.00</td><td>\$30.00</td><td>\$10.00</td></tr><tr><td>2019</td><td>\$150.00</td><td>\$120.00</td><td>\$80.00</td></tr><tr><td>2020</td><td>\$200.00</td><td>\$180.00</td><td>\$150.00</td></tr></tbody></table>	Year	Baseline	Alternate 1	Alternate 2	2016	-\$50.00	-\$60.00	-\$70.00	2017	-\$20.00	-\$40.00	-\$60.00	2018	\$50.00	\$30.00	\$10.00	2019	\$150.00	\$120.00	\$80.00	2020	\$200.00	\$180.00	\$150.00	<p>All – Marginally Affordable: If the Somali implements revenue reform, it may be able to independently finance these initiatives starting in 2018. By either rescheduling, slowing down the pace of their introduction or reducing their ambition they may become affordable. Very little room is left for all other initiatives.</p>
Year	Baseline	Alternate 1	Alternate 2																							
2016	-\$50.00	-\$60.00	-\$70.00																							
2017	-\$20.00	-\$40.00	-\$60.00																							
2018	\$50.00	\$30.00	\$10.00																							
2019	\$150.00	\$120.00	\$80.00																							
2020	\$200.00	\$180.00	\$150.00																							

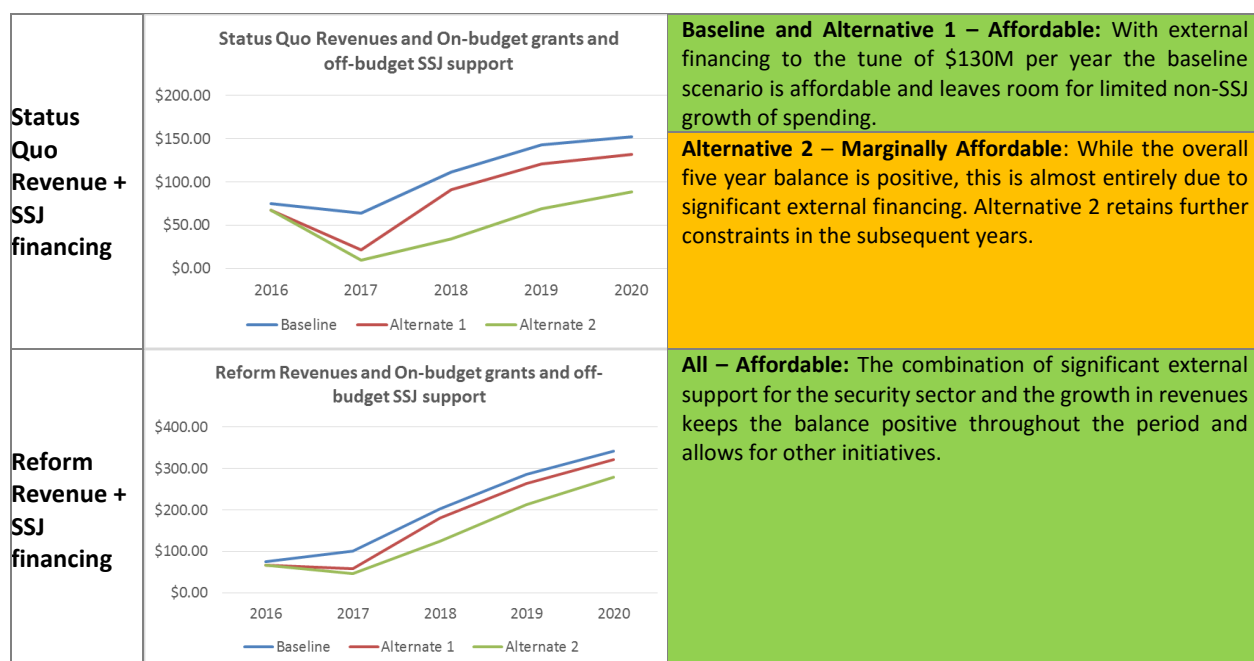


Figure 42. Projected 5-year Somali Fiscal Balance

Source: Staff Estimates

Based on the above analysis, it can be seen that in the short term, in order to implement the consolidation of the security sector the government is likely to require external support above and beyond what is in the budget, no matter the revenue initiatives. However, with reform initiatives, such support can be scaled back relatively quickly or could be replaced with similar levels of non-security financing (e.g. on budget development assistance and post-HIPC financing, if feasible) to enable the faster implementation of non-security development initiatives. The table below summarizes the five year costs, cumulative surplus/deficit for the period and the affordability rating for each option.

Five year costs of the Security and Justice Sector	5-year National Budget ¹⁰⁷	Cumulative 5-year surplus/deficit (2016-2020, \$million)			
		Status Quo Revenue	Reform Revenue	Status Quo Revenue + SSJ financing	Reform Revenue + SSJ financing
Baseline scenario	\$1,883.03	-\$102.39	\$358.73	\$547.61	\$1,008.73
Alternative scenario 1	\$1,997.25	-\$216.62	\$244.50	\$433.38	\$894.50
Alternative scenario 2	\$2,159.96	-\$379.33	\$81.80	\$270.67	\$731.80

Table 12. Summary of 5-year cost and affordability for SSJPER scenarios

Source: Staff Estimates

¹⁰⁷ The sum for the National Budget represents: (i) the increased costs for security and justice and (ii) the current costs relating to non-security expenditures, remaining constant save for inflation.

When a longer term (ten year) perspective is used it can be seen that a part of the affordability concern is driven by the timing mismatch between security and justice-development initiatives and revenue growth. While in the long term the fiscal balances turns positive under all scenarios, the fact that the government may be in the red for a number of years before achieving that, or if the post-security investment fiscal space is too small to enable meaningful growth of the non-security sector means that these are actually unaffordable scenarios, as outlined below ranked on the basis of affordability.

Scenario	Affordability Projection	Notes on Cost Scenarios
Status Quo Revenue		All – Unaffordable: None of the cost scenarios are affordable in the long-term either. While the baseline scenario under the low revenue scenario, with a growing affordability crisis emerging over the 10-year time horizon.
Status Quo Revenue + SSJ financing		All – Marginally Affordable: With significant external support Somalia would remain fiscally solvent throughout the period even without revenue reform. However, the security sector would crowd out fiscal space for any expansion of public services or investment. In fact from 2018 onwards there would be only about \$100M per year in fiscal space to work with which is insufficient and the Somali state would essentially be a pass-through entity for the security sector and other forms of state-building would have to be privatized or outsourced.
Reform Revenue		All – Affordable: While Somalia would face significant affordability challenges in 2017 and 2018 (in the alternative 2 scenario), the medium to long term revenue growth gives options for rescheduling the start date of those initiatives to better fit the available revenue. It also narrows the range of external SSJ bridge financing to a period from 2017-2019 even under the most aggressive expansion assumptions. In the long term the scenario enables some growth in provision of services and investments.
Reform Revenue + SSJ financing		All – Affordable: In the fiscally ideal scenario that external sources continue funding the Somali security sector and that the government also implements revenue reform, the fiscal balance remains positive and SSJ growth (under any scenario) is affordable and leaves fiscal space for non-security development. However, it is difficult to imagine that external donors would keep providing SSJ-dedicated resources at that rate with improving revenues, so those are likely to either be a bridge financing option or would take the form of development finance in the medium to long term.

Figure 43. Projected 10-year Somali Fiscal Balance

Source: Staff Estimates

Based on the above analysis, in the long term, the primary determinant of affordability is actually the generation of domestic revenues. While initial investments may indeed require additional short term external financing, especially if the Somali government is to improve its credibility with the population and start to deliver non-security services to the population, this is not a long-term sustainable approach. Indeed, the only sustainable way is for the government to grow its internal capacity rather than have its security be dependent upon donors. The table below summarizes the 10 year costs, cumulative surplus/deficit for the period and the affordability rating for each option.

Ten year costs of the Security and Justice Sector	Cumulative 10-year (2016-2025) National Budget ¹⁰⁸	Cumulative 10-year surplus/deficit (2016-2025, \$million)			
		Status Quo Revenue	Status Quo Revenue + SSJ financing	Reform Revenue	Reform Revenue + SSJ financing
Baseline scenario	\$3,880.22	\$4.97	\$2,266.27	\$1,479.59	\$3,566.27
Alternative scenario 1	\$4,096.27	-\$36.46	\$2,050.23	\$1,263.54	\$3,350.23
Alternative scenario 2	\$4,444.00	-\$384.19	\$1,702.50	\$915.81	\$3,002.50

Table 13. Summary of 10-year cost and affordability for SSJPER scenarios

Source: Staff Estimates

The discussion above referred frequently to the fiscal space for non-security applications and other security initiatives, so it is useful to understand the scale of these costs and how they compare to the security affordability projection. Ultimately, public policy is a question of tradeoffs and it is therefore useful to understand what is being given up when pursuing a particular policy. The table below outlines the total five and ten year costs of additional initiatives discussed in section 5.3 and by those specifications – development budget (broken down into components), the cost of technical arms (Coast Guard and Air Force), and DDR and development of a pensions programme.

Initiative	Cumulative 5 year costs	Cumulative 10 year costs
Development budget	\$562.2	\$2,566.8
<i>Growth of civil service, health and education service provision</i>	\$337.2	\$1,625.1
<i>Capital investments and infrastructure development</i>	\$246.2	\$963.0
Coast Guard development	\$34.7	\$96.2
Air arm development	\$35.9	\$47.5
DDR programme for 15,000 militia		
<i>No integration into the SNA/SPF before DDR</i>	\$30.4	\$30.4
<i>With integration into SNA/SPF before DDR (10 years of pay in Alt.2 scenario)</i>	\$68.2	\$68.2

¹⁰⁸ The sum for the National Budget represents: (i) the increased costs for security and justice and (ii) the current costs relating to non-security expenditures, remaining constant save for inflation.

SSJ pension programme costs		
<i>Age of eligibility over 65</i>	\$9.1	\$35.1
<i>Age of eligibility over 55</i>	\$25.8	\$73.1

Table 14. Five and ten year costs (\$ million) of selected cost case studies

Source: Staff Estimates

These scenarios do not represent policy recommendations. Instead they are meant to illustrate what is possible to actively manage the spending in a strategic manner. In reality such plans would need to be managed actively every year in a close-coordination with operations on the ground, projected availability of fiscal resources, desired military strategy, and non-security priorities and initiatives. This type of management would require a close working relationship between the military (e.g. MoD and SNA), financial (MoF), and political elements (Parliament, President/Prime Minister’s Office and the Office of the National Security Advisor) of the Somali government. To implement this a “centre of government” capability could be established to manage this interaction between fiscal, political and security considerations.

6. Public Financial Management

6.1 Introduction

Somalia continues to face major challenges in overcoming the legacy of two decades of sustained conflict. Yet, progress is now being made, with the FGS embarking on some important structural, legislative, and institutional reforms, albeit in what is an extremely challenging context. Building a public financial management (PFM) system is one of the key reforms being undertaken, and one of the central efforts to re-establish itself as a functioning entity after decades of conflict. PFM reform is critical because without a well-functioning public financial system, a government cannot collect and account for resources effectively, deliver services, and gain the trust and confidence of the population. PFM institutions and systems govern how governments collect, allocate, spend, and account for public money.

A sound PFM system is a fundamental foundation for efficient provision of public services. It ensures collected revenues are well spent on service delivery and provision of public goods. When the flow of funds is working properly without loopholes for corruption and mismanagement, good financial governance is much more likely, since available resources are utilized for the intended purposes.

Somalia's governance is extremely weak, ranking at the bottom of the World Governance Indicators on all six measures in 2015 (Figure 62). The pathway towards 'good enough' financial governance will remain difficult, long, and vulnerable to setbacks. International experience shows that it is never a smooth, linear progression, nor is it easy to effect change very quickly. The 2011 World Development Report (WDR) on *Conflict, Security and Development* reminded us that the fastest transformations of institutional quality in fragile and conflict affected countries have taken a generation. Yet, some progress has been made and important lessons have been learned by both government and development partners in recent years.

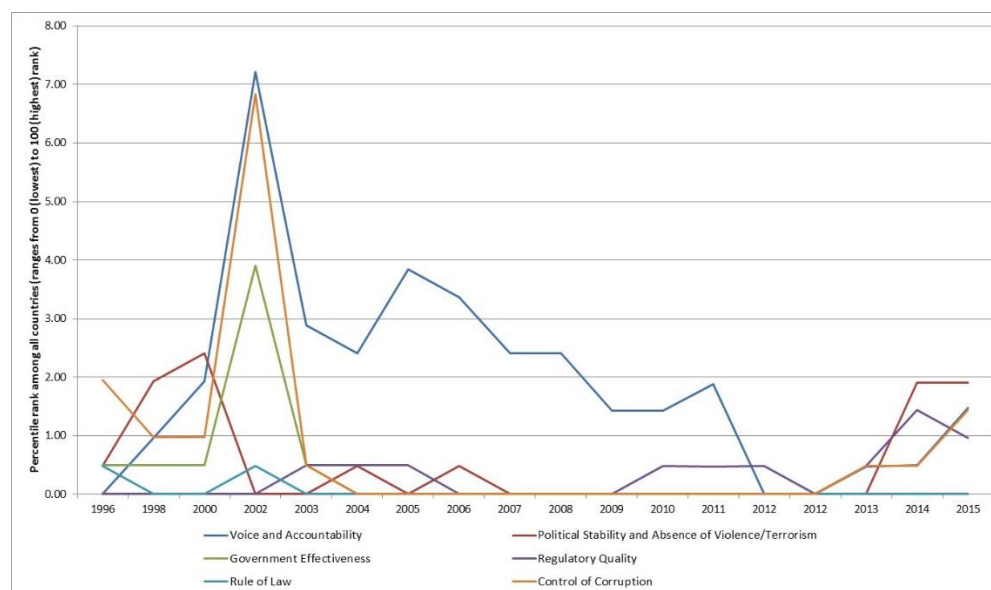


Figure 44: Somalia Ranked Bottom on all Six World Governance Indicators in 2015, Small Improvement in Last Two Years

Source: World Governance Indicators

This Chapter examines federal PFM systems in Somalia with specific focus on the security and justice sectors and key reform priorities across the stages of the PFM cycle, as shown in Figure 63. The chapter begins with a brief background on PFM progress in Somalia. This is followed by a detailed discussion of the primary stages of the PFM cycle, focusing specifically on the security and justice sectors. These stages comprise: (i) strategy, policy, and budget planning; (ii) budget execution and control; (iii) procurement and asset management (covering systems for managing capital or investment within the sector); and (iv) accounting and reporting. In addition, a number of cross-cutting issues are addressed, including: (i) the legal framework; (ii) oversight arrangements; and (iii) external support and donor practices.

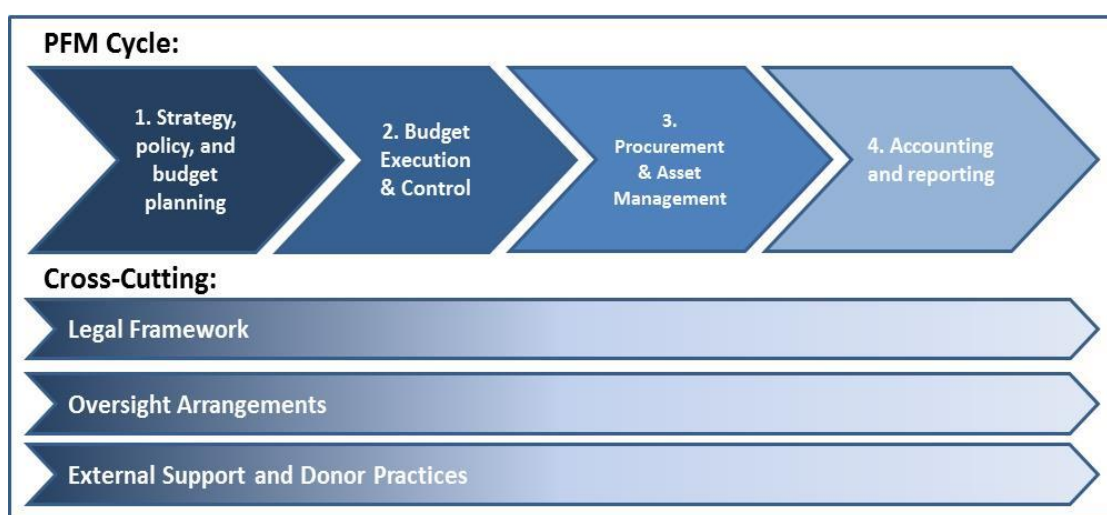


Figure 45: Simplified Representation of the PFM Cycle

Source: Staff Analysis

6.2 Overview of the PFM System

6.2.1 Historical Context

Somalia's PFM systems, even prior to state collapse, were found to be far from normal standards of 'good practice'. A World Bank public expenditure review, conducted in the final years of the Siad Barre regime, concluded that:

*The problems with government expenditures, however, go beyond external shocks... and the unfortunate fact that the civil strife has led to large amounts of resources being devoted to defence. There are serious problems with the Government's management of its expenditures in terms of its size relative to domestic revenues, appropriateness of the allocation, and the efficiency of the institutions and processes by which expenditures are planned, budgeted, allocated, monitored and accounted for.*¹⁰⁹

The report goes on to document weaknesses across the budget cycle.

As well as being inefficient, PFM systems under the Siad Barre regime were also highly centralized. This is because they were designed to service a unitary state, whereas the institutions emerging today are highly decentralized, with multiple concurrent revenue collection (including customs) by federal and sub-

¹⁰⁹ World Bank, 1991.

national governments. Thus, historical PFM systems were not only weak, but also ill-suited to the challenges of modern Somalia, where considerable revenue and expenditure powers reside at subnational level in the emerging practices.¹¹⁰ There is no historical experience in Somalia with the management of a federal fiscal architecture that will be required to make a national PFM system function, for example the practice of decision-making on resource allocation through inter-governmental bodies, or the practice of devolving external audit to the level at which funds are legally approved.

The long conflict did not destroy Somalia’s federal-level PFM systems, but left highly resilient informal legacy systems. The pre-war context is therefore very important because it continues to influence federal-level PFM practices in the present day. A government-led self-assessment of PFM undertaken in 2013 showed that many basic pre-war operating capabilities remain in place, although they are neither effective nor efficient. For example, some basic manual payment processes in the Office of the Auditor General (OAG) were carried over from the Siad Barre regime. Central agencies such as the Ministries of Finance and Planning, the Central Bank of Somalia (CBS) and line ministries suffered from extreme degradation of their physical infrastructure and human capital.

These legacy systems have become highly personalized and informal, and have at times been the focus of systematic corruption. The PFM Self-Assessment, and other political economy analyses, have documented this extensively¹¹¹ For example, through the ‘*fadlan*’ (‘please’) system, key leaders authorized individual payments outside the formal budget execution process.¹¹² Overall, this means that effective PFM reform at the federal level needs to take into account legacy systems and practices, and have a theory of change that explicitly addresses them, rather than seeking to start from scratch.

6.2.2 Recent Reform Efforts

Despite this challenging context, there have been concerted efforts to rebuild key financial institutions in Somalia, with international support, since the mid-2000s. These efforts intensified with the establishment of the FGS in August 2012. The World Bank is supporting a wide range of PFM strengthening activities, while recognizing that its efforts face important political risks and security risks. The underlying philosophy is that through increasing formalization of systems and associated investments in human capacity, the FGS PFM system will become increasingly effective and efficient, and that over time corrupt practices and other systemic inefficiencies will become less prevalent.

In 2013, the FGS’s PFM system was characterized by problems at both the systemic and operational levels.¹¹³ At the systemic level, there was a *difficult control environment* and a *lack of good governance culture and experience*. At the operational level, PFM systems were found to be rudimentary and PFM processes and controls were neither formalized, nor well understood by those responsible for their operation. Line ministries appeared to nominally follow protocol and budgets set by the Ministry of Finance, although actual practices frequently vary. While efforts are under way to modernize the PFM

¹¹⁰ See the World Bank (2015) “Somalia Economic Update: Transition Amid Risks, with a Special Focus on Intergovernmental Fiscal Relations,” for a more detailed discussion on inter-governmental fiscal relations in Somalia.

¹¹¹ See for example the Report of the Monitoring Group on Somalia and Eritrea, pursuant to UNSC resolution 2111 (2013), Somalia, UN.

¹¹² June 2013 SEMG, *ibid*.

¹¹³ FGS PFM Self-Assessment, 2013.

legal framework, “the government operates on legacy regulatory frameworks including those dating back to the 1960s.”¹¹⁴

International experience of post-conflict PFM reform emphasizes the need for a common assessment of the PFM system and associated reform challenges (Box 1). This process began relatively early in the life of the FGS, with the government’s commitment towards PFM reform evident in the PFM self-assessment exercise undertaken early in 2013, and leadership prioritization of PFM as part of the FGS’ ‘Six Pillar’ plan. More recently, the Ministry of Finance has produced a ‘Public Finance Reform Strategy and Action Plan: 2016 – 2020’¹¹⁵ which was completed in June 2016 as the first structural benchmark to be delivered under the IMF Staff Monitored Programme which commenced in May 2016.¹¹⁶

While it is still early in the life of the FGS, a number of recent PFM reform milestones have been realized. Figure 63 presents the recent evolution of FGS PFM systems with a particular emphasis on budget execution controls. At the end of the Transitional Federal Government (TFG), fiduciary controls were almost non-existent, with cash released from the Central Bank (CBS) without issuance of cheques. It reflects how progress has been made in gradually strengthening *ex ante* controls around the civil service payroll and operating expenditures, including the introduction of an automated Somalia financial management information system (SFMIS) and associated commitment controls to seek to prevent ministries and agencies from entering into financial obligations when budgeted funds are not available.

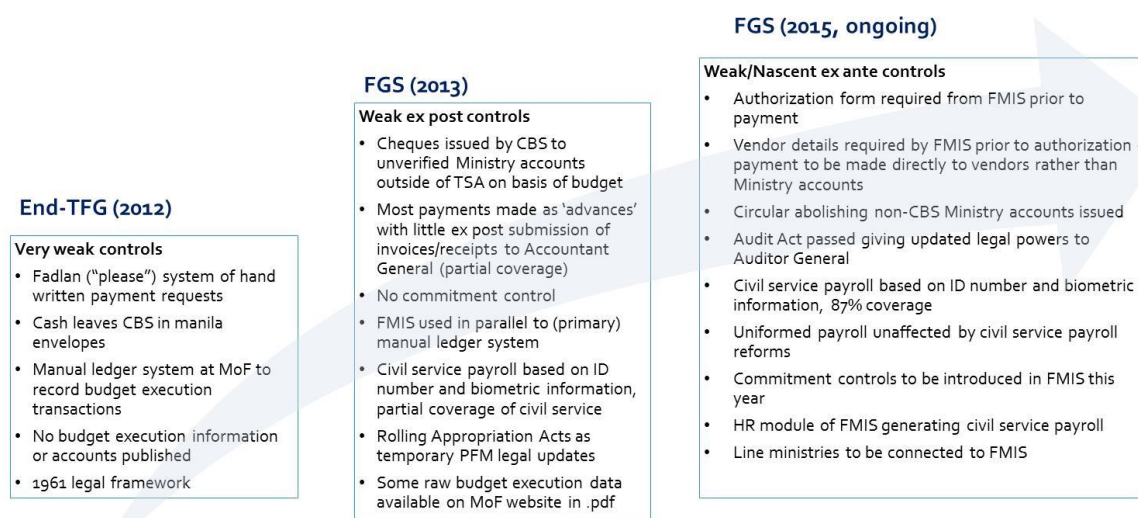


Figure 46: Recent PFM Reform Milestones at FGS Level

Source: Staff Analysis

In addition to technical level reforms, institutional arrangements have also been put in place to help mitigate high-level financial governance risks. The FGS and the international community agreed to develop a Financial Governance Committee (FGC) to strengthen financial governance through the provision of expert advice and technical support. The FGC is configured as a joint committee comprised

¹¹⁴ SFF1, pp. 6-7.

¹¹⁵ MoF 2016

¹¹⁶ An SMP is an informal agreement between country authorities and Fund staff to monitor the implementation of the authorities’ economic programme. The SMP followed the completion in July 2015 of the first Article IV report since November 1989.

of FGS members and independent experts appointed by the international community. The FGC has enabled a dialogue to be established on financial governance issues. It has also enabled FGS to share confidential contracts with the FGC's IFI representatives for advice, including on security sector food supply contracts.¹¹⁷ Subsequent to the FGC's establishment, some progress has been seen in financial governance in the areas it has been focusing on, particularly as it relates to renegotiation or cancellation of some, though not all, of the concessions contracts shared by FGS, the establishment of an Interim National Procurement Board (INPB), measures to strengthen the CBS, and steps towards a more transparent asset recovery process. These actions have in turn led to some improvement in external confidence in the FGS's commitment to better financial governance, but the gains remain fragile.

6.2.3 Learning from International Experience

There are a number of lessons from international experience on PFM reform in fragile states that Somalia can draw upon. Recent work on PFM reform in fragile states highlights a number of issues to take into consideration when analyzing PFM systems and reform priorities, as set out in Box 1.¹¹⁸ One major finding is that significant progress in PFM reform is possible in low capacity post-conflict settings. This is particularly true in cases where governments seek international recognition or access to major provision of aid or debt relief, such as under the Heavily Indebted Poor Country (HIPC) Initiative. This is highly relevant for Somalia's pursuit of debt relief to address its estimated outstanding debt of \$5.3 billion (equivalent to around 100 percent of GDP). A key precondition for access will be the FGS' ability to demonstrate a credible 'track record' on fiscal and public financial management, through engagement with the World Bank, and through performance under the IMF Staff Monitored Programme (SMP), and the joint mechanism for high level dialogue on financial governance matters, the FGC.

While steps were made early to push for PFM reform, this has only more recently begun to extend to the security and justice sectors, which are not well integrated into PFM processes, and had not been subject to a comprehensive PFM review prior to this PER. The recent preparation of a consolidated security budget for 2016, showing both FGS and donor funding to the sector, was an extremely positive step forwards. Further, the Ministry of Finance, financial support from the UK and EU in 2016, was leading work with the SNA and SPF on the development of a reformed payroll process that can regularly deliver salaries to security personnel with robust fiduciary controls to ensure enhanced transparency, accountability and civilian oversight of financial flows to the security sector. This is directly linked to a structural benchmark under the IMF SMP to "*complete a report on the process and design of an electronic payment system for the Somali National Army and Police with biometric screening*" by March 2017.

International experience suggests that reforms of organic budget laws tend to happen over a period of time rather than early in the process, so rushing to adopt new laws too early is not necessary in many cases. Passage of the PFM Bill has stalled in the federal parliament, which faces a backlog of multiple pieces of legislation. However, international experience suggests that in the meantime significant progress can be made in building core systems, with the comprehensive PFM laws to consolidate emerging good practices once conditions become more suitable for their passage.

¹¹⁷ See 3rd Public Sector Contracts, Concessions and Procurement Report, FGC, August 30th, 2016.

¹¹⁸ World Bank 2012.

Box 1: Findings on PFM Reforms in Post-Conflict Countries Relevant to Somalia

PFM has become a primary area of donor engagement in post-conflict environments. Progress in PFM reform is seen as a confidence-building measure and an important signal of governments' willingness to re-orient often scarce resources toward fighting poverty and achieving greater resilience. Because of its signaling role, progress in PFM reforms is also considered as a country's *quid pro quo* for receiving sustained and significant aid flows.

Post-conflict environments present challenging contexts for reform. New and unstable political settlements, persistent insecurity and weak institutional capacity in some cases, a limited pool of skilled people in most cases, and a lack of citizen confidence in state institutions are all frequent markers of such environments. High levels of international engagement, including significant technical assistance, external aid, and security support are also common features. Overall, significant progress with improving PFM is possible in post-conflict countries despite post conflict legacies, including very low human capacity, levels of continuing insecurity, absence of any prehistory of independent statehood, and acute levels of underdevelopment.

A key determinant of PFM reform success is the degree of political commitment, which in turn is driven by donor incentives and governments' goals. Governments that seek international recognition, or access to major provision of aid, or debt relief (such as HIPC) are more likely to let, or make, PFM reform happen. Relative to governments' motivation, constraints related to capacity and continuing fragility exist but are secondary, at least in the short term. These constraints can be circumvented. However, the incentives that motivate political commitment can be temporary and could decrease once goals such as HIPC completion have been achieved.

The patterns emerging from the analysis of how reforms have been pursued do not suggest one single best practice or sequence. However, four practices are worth highlighting: (i) shared analysis and coordination among development partners; (ii) reforms of organic budget laws tend to happen over a period of time rather than early in the process, so rushing adoption of new laws too early is not necessary; (iii) budget execution reforms tend to be more successful, while some rethinking of reform approaches to budget planning and control and accountability (in particular procurement practices, internal controls, and internal audit) may be needed; and (iv) while capacity can be short-circuited through substitution, developing sustainable capacity remains a challenge and needs greater and more sustained attention.

Importantly, success of PFM reforms is less clearly associated with progress on broader state-building goals and service delivery improvements than expected. In some of the countries, PFM progress has gone hand-in-hand with wider state strengthening and better control of corruption. However, in others PFM progress has been made, but overall governance and state capacity did not improve. Furthermore, there is no clear relationship between strengthening PFM and achieving improved service delivery. Improvements in service delivery tend to happen across the board and do not correlate with PFM reform progress.

New budget legislation was not needed to initiate PFM reforms, but did help consolidate the reform effort. The cross-country evidence reveals a focus on building core systems before introducing a comprehensive new PFM law. In some cases, specific piecemeal amendments were made to existing laws and directives to permit changes in PFM practices. Wholesale revisions to organic budget legislation took several years to emerge in some cases and required extensive engagement among government, donors, and legislatures.

Source: World Bank (2012) 'Public Financial Management Reforms in Post-Conflict Countries: Synthesis Report'

In addition, a number of security public expenditure reviews and similar analytical work undertaken in post-conflict settings have a number of relevant lessons for Somalia (see Box 2). A major finding from many such reviews is that the security sectors are nearly always poorly integrated into wider PFM reform efforts initiated from the centre of government. Payroll management systems for uniformed personnel in particular are in many cases separate from wider government payroll processes and associated controls and have significant weaknesses. Further, very large volumes of off-budget donor funding flows can complicate sector budget planning processes, as the core government budget process is typically only used to allocate a small proportion of total expenditure, and is often heavily dominated by payroll costs. The recent engagement of the Ministry of Finance in the joint FGS-donor Peacebuilding & State-building Goal (PSG) 2 'Security' sector working group, and ongoing security sector payroll reform efforts,

demonstrate that good progress is being made on beginning to link security sector PFM reform efforts with reforms at the centre of government.

Box 2: Key Findings on PFM from Security Sector Reviews

Sierra Leone Security Sector Expenditure Review (2006): The most important message emerging from this analysis of security sector expenditures is that the security sector needs to be appropriately integrated into all aspects of Sierra Leone's PFM system. Although it is recognized that substantial gains have been made in this direction, further support is required to enhance medium-term fiscal framework (MTFF), annual budget formulation, staffing and payroll management, financial management and controls, and external scrutiny, among others. There is no long-term justification for treating the security sector as a separate system, and not subjecting it to established budgetary and fiduciary processes. A particular concern here is the high levels of external off-budget support for the sector. While such support is of substantial importance to the GoSL, with less than 1 percent of development spending on-budget, making fiscal forecasts and building a comprehensive approach becomes extremely difficult.

Democratic Republic of Congo: The EU's Support to Security System Reform (2010): Within the past five years, the European Union Security Sector Reform Mission (EUSEC), in collaboration with Congolese institutions and other EU actors, has undertaken some notable reform projects. The first among these was the Chain of Payments project, which undertook mending the porous and corrupted Armed Forces of the DRC (FARDC) salary system and decoupling wage distribution lines from the army's official chain of command. A census of the army was established, generating a biometric account of all soldiers on the FARDC payroll and issuing military IDs, a process that has been ongoing for five years. This system was supported by the creation and maintenance of a central database, IT equipment and training to use the system.

Liberia PER Note: Meeting the Challenges of the UNMIL Security Transition (2013): In 2006, the UN Security Council authorized a phased drawdown and withdrawal of the United Nations Mission in Liberia (UNMIL) troop contingent, with key operations to be transferred to the national authorities. However, the transition is imposing a clear and pressing challenge for the government. At issue is the ability of, and speed at which, national security agencies can take on the functions currently being performed by UNMIL in an environment of competing development needs with limited fiscal space. The transition is also constrained by low public confidence in the Liberian security apparatus, which is due in part to weak professional integrity and corruption. Given these challenges, it is clear that the government will not be able to absorb the full anticipated cost of security operations expected to be transferred from UNMIL. The government should embrace the recently introduced medium-term expenditure framework (MTEF) that emphasizes a strategic focus on the security sector from the top-down. Such an approach calls for prioritization of the transferred security functions based on a national strategic policy that accounts for a limited resource envelope. In the meantime, the deepening of reform should be encouraged to improve coordination, financial accountability, and oversight.

Afghanistan Public Expenditure Review (2010): The five major constraints on budget formulation are: (i) the absence of strategies, policies and operational plans; (ii) very weak government input on decisions regarding the size and equipping of the security; (iii) limited budget formulation capacities in Ministry of Defence (MoD) and ministry of Interior (MoI); (iv) and inadequate timeframe for budget formulation; and (v) weak linkage between the Medium-Term Fiscal Framework (MTFF) and security budgeting, particularly on non-wage security costs. Wages and salaries, especially for 'ghost' policemen and soldiers, are key issues in budget execution and auditing. Salary payments are processed manually in both the MoD and MoI, and audit capacities are underdeveloped. MoD and MoI have introduced an electronic database linked to an electronic payments system. Though a positive step, the electronic system by itself will not fully solve the problem.

Six priorities to improve the security sector PFM are: (i) pursue current entry points for developing a more strategic approach to Afghan National Army (ANA) and Afghan National Police (ANP); (ii) integrate MoD and MoI more fully into the government-wide PFM systems; (iii) continue efforts to enhance the capacity of MoD and MoI staff to engage effectively in all parts of the budget cycle; (iv) intensify efforts to eliminate vulnerabilities to corruption especially on wages and salaries in MoD and MoI; (v) strengthen external oversight; and (vi) In consultation with donors, arrange predictable medium-term financial support from the international community for the fiscal sustainability of the security sector.

Sources: Middlebrook & Miller (2006) 'Sierra Leone Security Sector Expenditure Review (SS-ER)'. More and Price (2010) 'The EU's Support to Security System Reform in the Democratic Republic of Congo: Perceptions from the Field in Spring 2010.' World Bank & UN (2013) 'Liberia Public Expenditure Review Note, Africa Region, Meeting the Challenges of the UNMIL Security Transition.' Ball & Ishihara (2010) Working Paper 4 for Afghanistan Public Expenditure Review 2010 Second Generation of Public Expenditure Reforms Security Sector

Comprehensive public expenditure reviews in the justice sector are far less common than in the security sector. Box 3 presents selected findings on PFM from justice sector reviews in Croatia and Serbia. Despite the far more stable governance environments in these countries, a number of findings have parallels with PER background findings in Somalia's justice sector¹¹⁹ including weak budget planning processes, dominance of wages and salaries in the budget, and accumulation of arrears during budget execution, all characteristics of PFM in Somalia's justice sector. Further, a common PFM challenge in the justice sector arises from unclear mandates between the Ministry of Justice and the judiciary for budget management.

Box 3: Key Findings on PFM from Justice Sector Reviews

Republic of Croatia Justice Sector Public Expenditure and Institutional Review (2014)

Strengthening aspects of expenditure management could generate performance improvements, while also yielding cost savings, including:

- The lack of a strategic budget planning and development element and weaknesses in sector public financial management practices impede sector ability to allocate and use resources efficiently.
- Sector budget execution tends to be unpredictable and subject to excessive controls. Budget control is at the fourth digit of the economic article classification and is exercised across the entire operating unit. The result is an unpredictable level of budgetary resources available from one month to the next.
- It would be desirable to strengthen capital management capacity. This would cover long-term capital planning, developing realistic budgets, assessing the validity of capital spending requests, improving contracting documents pertaining to capital projects, strengthening project procurement and execution, developing and maintaining a facilities and project database, and reporting on facility quality.

Serbia Judicial Functional Review (2014)

- Budget planning and resource allocation are not linked to service delivery needs. Rather, it is based on historical allocations of inputs, which are adjusted rarely in reaction to extraordinary events, such as the reorganization of the court network or emergencies that may disrupt judicial work.
- The resource mix favors personnel over all else. The large wage bill crowds out other expenditures, including in much-needed areas such as training, ICT and infrastructure.
- The courts are generating massive and growing arrears. The main reason for accumulating arrears is poor planning in the budget preparation process and the legislative reform process. Frequently, new legislation imposes increased requirements on courts and other agencies to deliver services or fund costs of legal procedures.
- The divided management authority and lack of clear division of responsibility and accountability over judicial budget poses coordination challenges for financial management.
- Financial systems are fragmented and outdated. Multiple financial management systems operate simultaneously, and staff are required to enter and transfer data between systems manually.

Sources: World Bank (2014) Serbia Judicial Functional Review.

World Bank (2014) Republic of Croatia, Justice Sector Public Expenditure and Institutional Review

6.3 Legal Framework

The legal framework that governs FGS PFM is both patchy and outdated. The existing PFM law and regulations were enacted in 1961, with some amendments made in 1971, and draw heavily on the Italian approach to public finance management systems and laws. Findings of the 2013 FGS PFM self-assessment indicated that the existing PFM legal framework is inadequate for addressing the PFM challenges in Somalia in a comprehensive manner and that its application was very limited. Further, the existing legal framework is outdated, inadequate and requires modernization.

¹¹⁹ World Bank 2014

***De facto* PFM practice now diverges substantially from the *de jure* legal framework.** Coupled with the progressive informalization and personalization of PFM systems during the years of civil conflict, the outdated legal framework has created a context where *de facto* PFM practices diverge substantially from the *de jure* legal framework—illustrated in a stylized way in Figure 65. This is important because it means that simply passing new laws will not be adequate to alter ingrained *de facto* PFM practices. Moreover, the international evidence on PFM reform in post-conflict settings suggests that passing comprehensive PFM laws should not necessarily be seen as a precondition for successful PFM reform. It has been more important to focus on strengthening systems and procedures prior to passing comprehensive PFM laws in other countries.¹²⁰

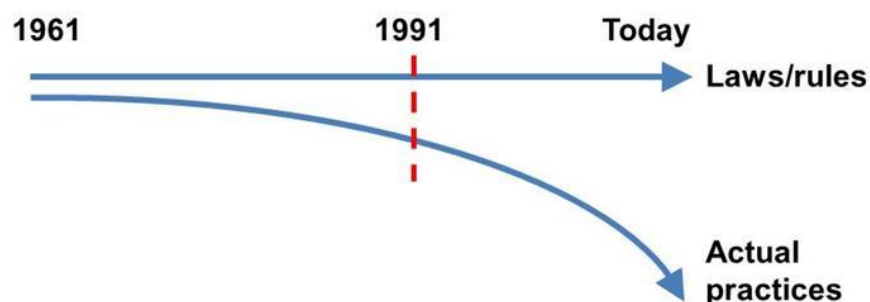


Figure 47: Practice has diverged from *de jure* law due to the lack of formalization of PFM practices and the increasingly outdated legal framework.

Sources: Staff Analysis

Efforts are underway to update the legal and regulatory framework, but a number of key laws and regulations exist as draft Bills that have been approved by Cabinet but are yet to be passed by Parliament. Table 18 provides an overview of the emerging legal and regulatory framework at the federal level. The Public Procurement, Concessions and Disposal Bill, and Anti-Money Laundering Bill were passed in December 2015 (but still await presidential ratification), but the Public Finance Bill, an Anti-Corruption Bill, and the Telecoms Bill (which would, if passed and implemented, substantially augment FGS revenues) all awaited parliamentary approval, as of December 2016. The very first activity proposed under the Public Finance Reform Strategy and Action Plan is to “*enact the Public Finance Management Bill*” which was been awaiting parliamentary approval for many months. A legal and regulatory framework for concessions management is currently being developed with the support of the FGC.

Some important components of the PFM legal framework have been enacted by the Federal Parliament more recently, notably the Central Bank of Somalia Act (2011) and the Audit Act (2015). One of the core legal instruments for PFM at present is the annual Appropriation Act, passed on an annual basis by Parliament, but also both the legal authorization to spend as set out in the appropriation tables and key legal provisions for the execution of the annual budget. This includes legal provisions on many items that would typically be covered in a more comprehensive PFM law, including budget transfers, supplementary appropriations, arrears management, cash management, disbursements out of the single treasury account, commitments, payments for goods and services, and reporting requirements. This is consistent with the ‘systems and procedures first, comprehensive laws second’ approach seen in some other post-conflict PFM reform settings.

¹²⁰ World Bank 2012 and Box 1.

	Laws	Regulations	Policies and Procedures
Collect and manage revenue & other resources	- Revenue and Taxation Law ✕	- Revenue & Taxation Administration Regulations ✕ - Sector specific regulations i.e. ICT ✕	- Aid Management Policy ✕ - Use of Country Systems Policies and Procedures ✕/✓ - Revenue & Tax admin. procedures ✕ - External assistance procedures manual ✓
Manage national economic policies	- Anti-Money Laundering Law ✓	- Anti-Money Laundering regulations ✕ - Asset Recovery Management ✕ - Financial Intelligence Unit regulations ✕	- Fiscal Federation Policy ✕ - Debt Relief roadmap ✕/✓
Deliver reliable and efficient payments	- PFM Law ✕ - Procurement Law ✓ - Budget Appropriation Act ✓	- PFM regulations ✕ - Banking Payment System regulations ✕/✓ - Security sector expenditure procedures ✕	- Financial procedures manual ✓ - Procurement procedures ✕/✓ - Government-to-business/civil servants payment procedures ✓
Strengthen controls and oversight	- PFM Law ✕		- Management Reporting ✕
Develop and manage credible and prudent fiscal strategies and budgets	- Budget Appropriation Act ✓		- Asset Management ✕

Note: ✓ = in place; ✕/✓ = partially in place; ✕ = not in place

Table 16: Status of legal and regulatory framework in Somalia

Sources: MoF (2016, p. 26)

6.4 Planning and Budgeting

There are very weak links between sector plans and strategies, and the present FGS budget. There are a number of security sector strategic planning documents/processes, notably the *Guulwade* Plan for the SNA and *Heegan* Plan for the SPF. These plans represent important steps in the direction of more joined up operational planning in the security sector, although it is important to recognise that the *Guulwade* Plan is primarily focused on enabling joint operations with AMISOM, and only applies to 10,900 personnel of the total SNA personnel strength, whereas the 2016 budget reflects the desire on the part of the FGS to support 20,790 active personnel (plus 3,052 orphans also on the payroll). The key challenge is that both plans focus heavily on fundraising for unfunded operational costs and capital needs, and have limited linkages to the core recurrent costs of existing security operations – including allowances and rations— and hence do not address key linkages to the FGS budget, including questions of fiscal sustainability and militia integration in particular. Further, not all sector development partners have agreed to bring their assistance within this planning framework, some preferring to operate outside it. This is compounded by the coordination challenges associated with linking the planning processes for the AMISOM forces, with a separate chain of command, distinct from the SNA. This PER represents the first known attempt to map the total costs of security provision in Somalia across the entire sector.

Since the formation of the FGS, annual budgets have been routinely prepared and approved by parliament through Appropriation Acts. These have typically been approved in time to guide spending during the new financial year, and provide coverage of government's planned expenditures in the security and justice sectors. This part of the annual PFM cycle is—from a process perspective—relatively well developed, with clear delineation of responsibilities between the Ministry of Finance (budget preparation), Council of Ministers (draft budget approval) and parliament (debate and passage of the budget and Appropriation Act). The Ministry of Finance still seeks to adhere to the budget calendar set out in the 1961 Finance Law, which requires that the Ministry of Finance must prepare the draft estimated budget by September 30 each year (Art. 11). Once approved by the Council of Ministers, this should then be presented to parliament at least two months before the end of the financial year, i.e. by October 31 (Art. 13). The major challenge presented by this process is the increase in expenditures (and associated

inflation of revenue forecasts to offset these) during cabinet and parliamentary approval, a challenge that a PFM Act may help to address by ensuring that if parliamentarians propose expenditure increases, they must also find offsetting cuts elsewhere in the budget.

A major step towards the better linkage of off-budget funding flows with the sector budget planning process has been taken with the preparation of a consolidated ‘security sector budget’ as part of the FGS 2016 budget documents. Initiated by the Ministry of Finance, this seeks to map the total recurrent costs required to pay and feed the existing complement of uniformed personnel (SNA, police, custodial corps and NISA), as well as some basic operating expenditures. It then seeks to match these costs to sources of funding from domestic revenues, on-treasury donor funds, and off-treasury donor funds. Some effort to incorporate costs associated with militia integration in Jubbaland and Puntland during 2016 has also been made, with the addition of some 6,000 additional soldiers to the SNA budget. This means that, for the first time, the FGS has presented in one place the consolidated recurrent costs associated with the existing level of security provision in the security sector. It has already provided an important platform for a more coherent and transparent FGS-donor dialogue about fiscal gaps in the sector, although in-year cutbacks to stipends during 2016 have occurred due to the lack of transparency by the FGS and a failure to provide enrollment lists that can be scrutinized by the donors.

The more holistic approach adopted in the consolidated security sector budget has also resulted in some savings for the FGS, as it means donors are now financing some items previously financed by domestic revenue. The budgetary impact of these changes, provided that they are agreed to by development partners, is for the share of security related costs to decrease from 45 percent in 2014 (actual outturn) to 35 percent in 2016 (projection). Unfortunately, the fiscal space created by the new security funding protocol has been mainly applied to increased salary costs of government, rather than to finance ‘programmatic spending’ for non-salary service delivery, such as on health, education, and social protection: these categories are receiving only very limited on-budget assistance in 2016.¹²¹

		Number	Salary	Stipend	Total	\$ 99,209,480 Total	\$ 76,309,280 FGS Funded	\$ 25,330,200 Donor funded
SNA	Officers	2,084	various	-	\$ 8,265,000		\$ 8,265,000	
	Soldiers	18,706	\$ 50	\$ 100	\$ 31,240,800		\$ 11,223,600	\$ 22,447,200
	Orphans	3,052	\$ 100	-	\$ 3,662,400		\$ 3,662,400	
	Food	23,842	\$ 60		\$ 17,166,240		\$ 17,166,240	
	Costs				\$ 2,976,000		\$ 2,976,000	
						\$ 63,310,440	\$ 43,293,240	\$ 22,447,200
Police	Officers	218	\$ 50	various	\$ 601,800		\$ 130,800	\$ 471,000
	Police	6,510	\$ 50	\$ 100	\$ 11,718,000		\$ 9,306,000	\$ 2,412,000
	Orphans	1,050	\$ 100		\$ 1,260,000		\$ 1,260,000	
	Food	7,778	\$ 60		\$ 5,600,160		\$ 5,600,160	
	Costs				\$ 852,000		\$ 852,000	
						\$ 20,031,960	\$ 17,148,960	\$ 2,883,000
Custodian Corps	Allowances	1,625	\$ 50	100	\$ 2,925,000		\$ 2,925,000	
	Food		\$ 60		\$ 2,250,000		\$ 2,250,000	
	Costs				\$ 636,000		\$ 636,000	
						\$ 5,811,000	\$ 5,811,000	\$ -
National Security Force	Allowances		\$ 50	100	\$ 5,488,000		\$ 5,488,000	
	Food		\$ 60		\$ 3,217,680		\$ 3,217,680	
	Costs				\$ 1,350,400		\$ 1,350,400	
						\$ 10,056,080	\$ 10,056,080	\$ -

Table 17: Consolidated Budget for the Security Sector, 2016

¹²¹ Ministry of Finance Budget Framework Paper, 2015.

Source: MoF presentation to SDRF, November 18 2015

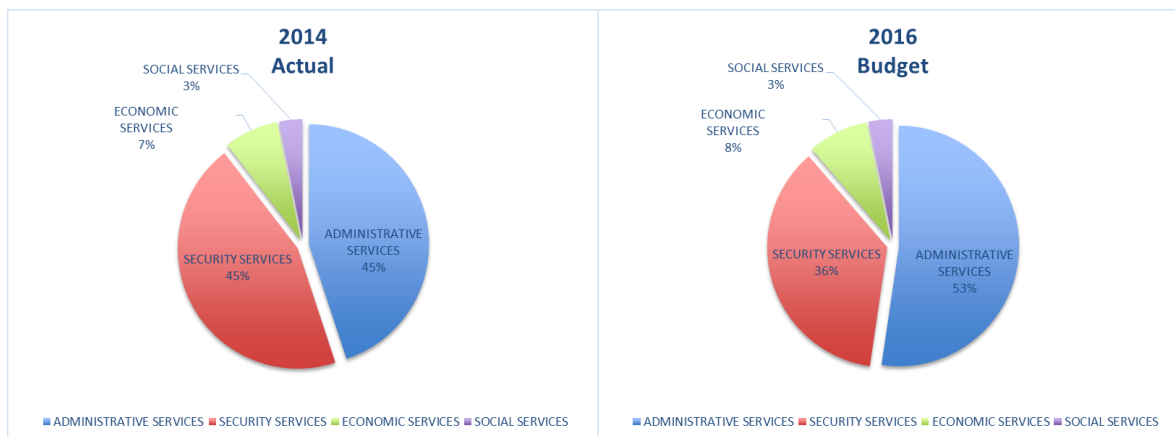


Figure 48: Consolidated Security Sector Budget has reduced the share of on-treasury resources dedicated to security

Source: Ministry of Finance, 2015

FGS budgets are prepared on a line item basis and do not contain any narrative information about the intended purpose or outputs associated with sector expenditures. Budgets for security and justice—in particular the large allocations for the SNA and SPF—tend to be highly aggregated across a few codes, with expenditures heavily focused on allowances and allocations for rations. The FGS officially only pays uniformed personnel “allowances”, as it recognizes that it is not meeting its obligations to the security sector personnel, even though these payments are in effect a salary. Rations are budgeted as “Other Expenditures” under operating expenditures. Fiscal space is so severely limited that there is very little resourcing for operational activities once allowances and rations are catered for. Budgeting for the security and justice sectors is essentially an exercise in adding up annual allowances (\$50 per capita, except for officers’ pay-scales and orphans who receive \$100) and rations (\$60 per capita across all ranks) for uniformed personnel rather than a meaningful operational planning exercise. Table 20 illustrates this with regard to the SNA, where allowances and rations payments account for approximately 98 percent of expenditure. Figures 66 and 67 show security sector budget as a whole and justice sector budget.

Item	Number of Personnel	Monthly Allowance (USD)	Total Monthly Allowances (USD)	Total Annual Allowances (USD)
Officers' Allowances	2,028	332	672,350	8,068,200
Soldiers' Allowances	19,471	100	1,947,100	23,365,200
Total Allowances	21,499	122	2,619,450	31,433,400
Rations	21,499	60	1,289,940	15,479,280
Grand total			3,909,390	46,912,680
Allowances and rations as % of Total SNA Budget				98%

Table 18: Limited fiscal space means that the Armed Forces (SNA) budget is dominated by allowances and rations payments (2015 budget data)

Source: FGS budget documents

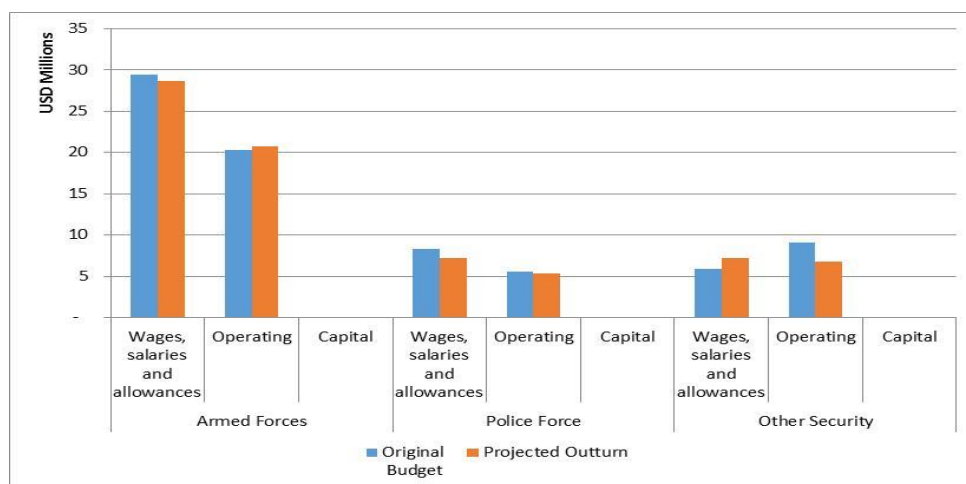


Figure 49: Security sector budget is dominated by the Armed Forces, and almost entirely comprises allowances and rations payments (2014)

Source: 2014 FGS Budget and SFMIS budget execution data

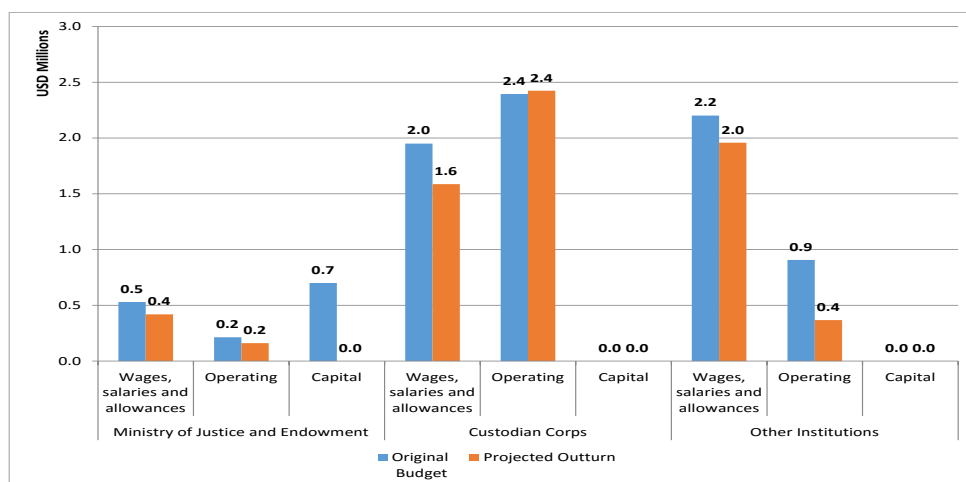


Figure 50: Justice Sector budget is dominated by the Custodial Corps, and is predominantly used to finance allowances and rations payments (2014)

Source: 2014 FGS Budget and SFMIS budget execution data

Most operational and capital expenditure in the security sector is supported by donors and takes place outside of the formal budget planning process and associated accountability and oversight systems. While progress has been made on the preparation of a consolidated security sector budget, this focuses on core recurrent costs, and lacks detail on large off-budget operating and capital funding flows. This means that the design of security sector aid instruments is incredibly important for the effective functioning of the sector. In broader terms, development partners reported around \$700 million in aid for development in 2015 (excluding funding for the enforcement aspects of peacekeeping), of which 8 percent (\$57 million) is estimated to be channeled through the federal treasury.

6.5 Budget Execution and Control

Budget execution is privileged in the security sector, meaning that budget allocations understate resource allocations to the sector. During 2014, budget allocations to security amounted to 32 percent of the approved budget appropriation, but unrealistic revenue projections resulted in cash rationing, and security expenditures were protected with a 92 percent budget execution rate compared to a rate of 60 percent for other sectors; security therefore accounted for 52 percent of actual spending (see Figure 69).

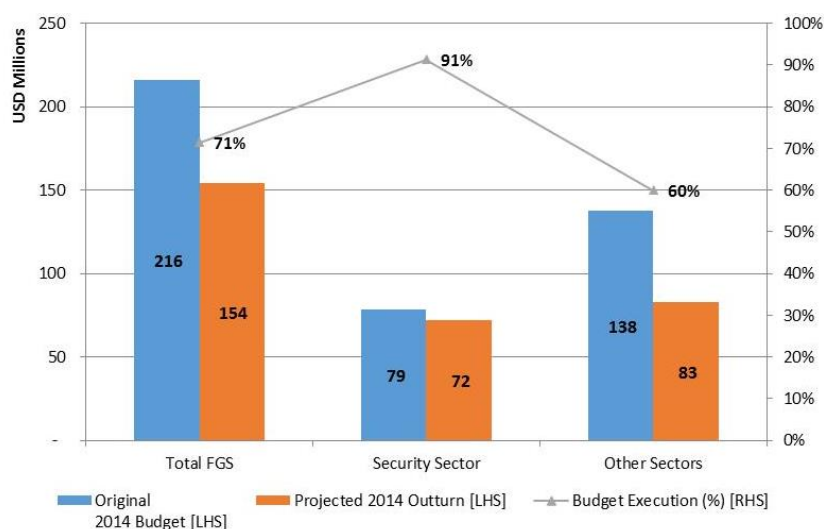


Figure 51: Unrealistic revenue projections result in cash rationing but security sector budget is protected at the expense of other sectors

Source: 2014 FGS Budget and SFMIS budget execution data

Cash management principles are formally set out in the annual Appropriation Act which sets total budgetary expenditure limits for the coming year. The rules for cash prioritisation (termed ‘sequestration’ rules in S.3.1 of the Appropriation Act) establish wage compensation payments to security force members as the highest priority, followed by other wage compensation payments, with settlement of arrears listed as the lowest priority.¹²² Yet, these rules are not always followed, underlining the weak adherence to legal instruments in PFM practices. For example, a number of large arrears payments were made in the first quarters of 2015 and 2016 respectively, despite cash rationing being in place due to lower than expected revenues, at the expense of payment of allowances and rations for uniformed personnel, and putting severe pressure on the FGS’ ability to remain on-track with the IMF SMP.¹²³

Despite recent reforms, the FGS operates using a weak, legacy payments process that does not yet meet international standards. Inability to deliver reliable payments is a huge challenge that may jeopardize relationships with suppliers of goods and services, as well as with international donors who are currently providing critical financial support to the FGS to keep it functioning.¹²⁴ At present almost all payments to

¹²² In the event that cash balances are inadequate to meet expenditure commitments, the descending order of priority for fulfilling budget commitments is: 1. Non-civilian base compensation of employees; 2. Civilian base compensation of employees; 3. Finance costs; 4. Non-discretionary non-salary payments; 5. Discretionary goods and services, and; 6. Discretionary expenditure; arrears and advances.

¹²³ See ministry of Finance, 2016 Budget Policy Framework Paper.

¹²⁴ MoF 2015.

the security sector are made in cash at the CBS.¹²⁵ It is very hard to say whether cash payments, after their release from the CBS, are used for the stated purpose by sector ministries and agencies (i.e. rations and allowances in the case of the security sector). Anecdotal evidence suggests that single individuals are responsible for the collection of a substantial share of cash for security sector budget execution.

Vendors have been registered on the SFMIS system, and a growing proportion of them receive their payments electronically direct to bank accounts. However, the majority of payments are still made in cash. Ministries and agencies must prepare an 'F16 Expenditure Warrant' in order to request release of funds for goods and services. Assuming the vendor is not paid electronically, cash releases are then made according to three possible mechanisms: (i) checks drawn on a ministry sub-account in the treasury to an individual representing the vendor; (ii) checks written to an organization; and (iii) checks written to government officials working in the respective entity owning the treasury sub-account. These officials are expected to make payments, at local levels, to their respective payees. This includes salary payments for large groups such as security personnel, as well as all other costs. Around half of the FGS budget was disbursed through the top-ten payees over 2013-2014.

Legacy processes for the management of cash releases by MDAs are informalized and an important focus of ongoing PFM reforms. There is extremely limited civilian oversight of budget execution beyond the main 'single treasury account' of government. Officially, there is an *ex post* reconciliation policy with regards to the advances to ministry sub-accounts of the treasury, meaning that previous payments are to be documented, with accountabilities (in the form of invoices and receipts) to be presented to the Accountant General before new advances are released. This policy has proven difficult to implement. As a result, cash advances to sub-accounts are partially reconciled, and PER interviewees questioned the reliability of receipts and invoices submitted in support of this reconciliation effort.

Overall, there is a lack of adequate fiduciary controls for non-salary expenditures, though there is evidence of recent improvement. These have been made in the latter quarter of 2015, and with the introduction of the integrated financial management information system (SFMIS). The number of unique payees is increasing year-on-year, while transaction size has also decreased and there is less concentration of vendors in a few agencies, all of which is indicative of a trend towards more direct payments of vendors.¹²⁶ During 2015, functionality was developed in SFMIS to support direct vendor payments and this is now operational. Work is presently underway to increase the use of this functionality, which is of very high importance in improving accountability and control in budget execution.

6.5.1 Payroll: Civil Service

Expenditures on salaries and allowances dominate the FGS budget, accounting for 51 percent of spending on 2014 and 47 percent of planned spending in 2016, and payroll systems are therefore key elements of the PFM system. Further, these numbers could be even larger if the potential for significant amounts of donor funding—currently delivered through parallel systems—to be channeled through country systems is realized. There are a number of different payroll systems in operation in the security and justice sectors at present. This section focuses on four main systems, namely those for the civil service, Armed Forces and Police, and donor stipends.

¹²⁵ MoF 2015.

¹²⁶ MoF 2015

The civil service payroll has been the focus of major reform efforts in recent years, aimed at strengthening controls and standardizing business processes so that donor funds could be used to finance a portion of the civil service wage bill. This work has been led by the Ministry of Finance, with early piloting of support from the Norwegian financed Special Financing Facility (SFF) starting in 2013, and since 2014 through the World Bank Recurrent Cost and Reform Finance Facility (RCRF). Rather than starting from scratch, this reform effort has worked with existing institutions and processes to better define, standardize and tighten the legacy HR and payroll systems. The civil service payroll is based on the National Civil Service Commission (NCSC) register, which comprises around 5,324 personnel.¹²⁷ Monthly payroll processing involves ministries, departments and agencies (MDAs) submitting monthly payroll requests to the Ministry of Finance using the ‘F3 Payment Voucher’.

At the MoF, payroll submissions from line ministries are then subject to multiple checks. First, the Accountant General’s Department checks against both the annual budget, and against a list of civil servants provided by the NCSC from its register. Second, the Auditor General’s office also performs a check on these pay lists. Once checked, the Accountant General uses the SFMIS to generate the monthly payroll, and forwards it to the Central Bank of Somalia (CBS). In 2014, the SFMIS was expanded to include a payroll module. This has helped to automate the process within the MoF, undertaking some checks automatically and strengthening the payroll execution process. The February 2015 FGS payroll was, for the first time, processed through the SFMIS payroll module-parallel to the established Excel-based approach. The SFMIS is now used to directly generate the civil service payroll on a monthly basis for more than 4,200 civil servants, of which, as at the end of 2015, around 3,800 were co-financed by RCRF.

The CBS is responsible for payroll execution, and delivers the monthly payroll to civil servants’ bank accounts. Initially, payment was in cash delivered at CBS. Civil servants were required to present a photographic identification card and provide finger print identification through a biometric system to collect their monthly salary payment in cash at the CBS in Mogadishu. The technical quality of the NCSC registry data is poor (for example, there are about 1,400 unique position titles, including alternative spellings and abbreviations), while the CBS payment data—the basis for final payments—are of a higher quality. This cash payment system was not scalable beyond the core civil service. Geographically disbursed civil servants had to collect their salary by travelling to Mogadishu in person, and the system was inappropriate for widely dispersed uniformed personnel in particular. It was also unusual for the central bank to act as payment agent for the civil service payroll, and was always envisaged as an interim arrangement. Since a settlement system between CBS and licensed commercial banks recently became operational, the civil service payroll has been executed through direct electronic transfers to individuals’ bank accounts, which are spread across six banks.

Compensation of civil servants is determined by FGS and set out in annual budget documents. The four major salary bands range from \$198 per month (grade D) to \$735 per month (grade A), and in addition certain positions are entitled to responsibility allowances (see Table 21). FGS policy on allowances is set out in the annual Budget Policy Framework Paper (BFP)—not always published—which assigns responsibility allowances based on positions and job functions, (there are no grade-based allowances) which in some cases can change from month-to-month for an individual civil servant depending on their assignment. The FGS should prepare a clearer policy framework for pay and grading, including payment of allowances. It is also important to note that the FGS civil service pay-scale is among the highest in East

¹²⁷ Personnel files are maintained by the NCSC and a complete file contains the following: Appointment Letter, Exam Board Submission, CV, Photo, Application Form (optional), Documents /Certifications From Institution (depending on Grade).

Africa in simple nominal terms —only Kenyan civil servants earn more, and only for higher grades. FGS salaries exceed those in Somaliland by two to three times, and those in Puntland by four to eight times depending upon grade (Figure 71), although cost of living adjustments may lessen these disparities.

Grade	Basic Gross Pay	Allowance	Tax Deductions
A	735	500 / 400	32.1 (4percent)
B/F	415	500 / 400	12.9 (3percent)
C/X	330		7.8 (2percent)
D	198		

Table 19: Monthly pay structure, by grade (\$)

Source: Ministry of Finance

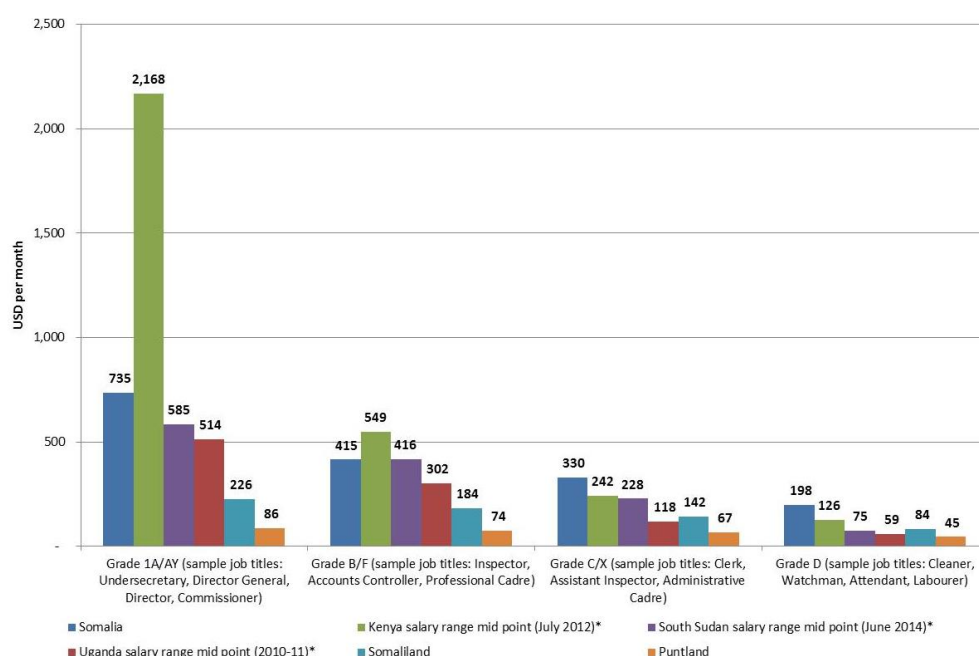


Figure 52: Somalia's Civil Service Salaries (\$ per month, excluding allowances)

Source: Adapted from Charlie Goldsmith Associates (2015), "Framework for the harmonization of salaries and incentives for civil servants and national technical advisors under a government-led capacity injection scheme: Review of evidence and recommendations."

The current civil service payroll process is a major improvement on practices in place prior to 2013, and subsequent reforms represent a major PFM reform success story. The civil service payroll was previously characterized by a far more informal and unreliable environment, where key procedures were not formalized and interpersonal relationships were essential to the functioning of processes. As a result of a significant reform effort by a small number of actors in government, supported by on-the-ground system strengthening technical assistance financed by donors, and the added incentive of on-system financial support, these processes were standardized, removing the element of judgment that was previously inherent in the process. Reform effort was heavily frontloaded at the outset, and followed up with the channeling of donor funding through the standardized systems, with a third party agent providing a dual monitoring and system strengthening function during payment execution. Rather than starting from

scratch, the reform “*integrated multiple existing systems, tweaked some, and built others new.*”¹²⁸ This has now resulted in a more timely and predictable payment of civil service salaries, as well as strengthened control and transparency of the payroll.

6.5.2 Payroll: Armed Forces

The payroll for the armed forces is directly managed by the SNA, and distributed among the sectors in which soldiers are active. There are only rudimentary manual processes in place, and almost no financial control or scrutiny is exerted by the Ministry of Finance, which has no way of tracking the monthly payroll process after the bulk cash amount is disbursed from CBS to the collecting SNA official. A positive recent development saw the SNA begin to share the military payroll with the MoF in order to request release of funds each month. The payroll list is Excel based. While some use of money transfer agencies is reportedly made to distribute the payroll, it is mainly based on cash transactions, raising security and logistical issues that are exacerbated by the geographically dispersed operations of the armed forces.

The current SNA salary payment process—as officially described by the SNA—begins with the Personnel Department providing an updated list of all the personnel that are eligible for salary for that given period to the Finance Department.¹²⁹ The Finance Department draft an F3 Payment Voucher to request the release of funds, which is signed by the head of finance and submitted to the Chief of Defence Forces (CDF) who verifies and signs off before sending to the MoF with copy to the MoD. The MoF then confirms if the amount requested by the SNA is currently available, and if so, a voucher is produced authorizing the release of the funds to the SNA. The funds are then transferred from the Treasury Single Account to the SNA sub-account and the Finance Department drafts a voucher authorizing the release of the funds. The CDF signs the voucher, since he only has the authority to release those funds and the Finance Department collects the funds in cash from CBS.¹³⁰ The Finance Department then distributes salary pay to the different units of the SNA. A review of the payment issued is conducted and a report is sent to MoF and MoD.

Basic systems and procedures such as reliable personnel databases and harmonized payment practices are weak. It is, under the present payroll arrangements, difficult for the FGS to demonstrate that soldiers in fact received their monthly allowance and rations entitlements as intended. There is no Ministry of Defence involvement in the management or processing of the Armed Forces payroll at present. Further, there is no clear payroll or HR policy to address the allocation of officers by grades, structure of the armed forces, or how to deal with promotions, absences, and deaths (the payroll currently acts as a social insurance programme, supporting 3,052 orphans).

Rank-and-file soldiers were until 2015 entitled, in theory, to \$100 per month plus a rations allowance equivalent to \$60 per month (\$30 to be received in cash, \$30 to be received in-kind), which was paid by the FGS. The 2016 budget reduced salary/allowances from \$100 to \$50 per capita, and as part of the consolidated security budget will seek to ensure a more comprehensive cover of donor stipends. Officers are scheduled to receive amounts ranging from \$250 for a Second Lieutenant to \$1,000 for a General, as set out in Table 22 below. As a result, the FGS is aiming for a core ‘package’ for rank-and-file soldiers will amount to \$210 per month (\$50 FGS salary/allowance, \$60 in rations, \$100 donor stipend).

¹²⁸ Abyrint 2015. Six weeks to build the payroll for civil servants in the FGS.

¹²⁹ See SNA (2015) Presentation to Salaries and Stipends Task Force, August 2015.

¹³⁰ Although anecdotal reports suggest that in practice the official collecting the cash is not from the Finance Department.

Item	Number of Personnel	Monthly Allowance (USD)	Total Annual Allowances (USD)
General	25	1,000	300,000
Colonel	139	600	1,000,800
Lieutenant Colonel	100	500	600,000
Major	173	400	830,400
Captain	261	350	1,096,200
First lieutenant	418	300	1,504,800
Second lieutenant	912	250	2,736,000
Total	2,028		8,068,200

Table 20: SNA Officers' Pay Scale

Source: SNA and Ministry of Finance

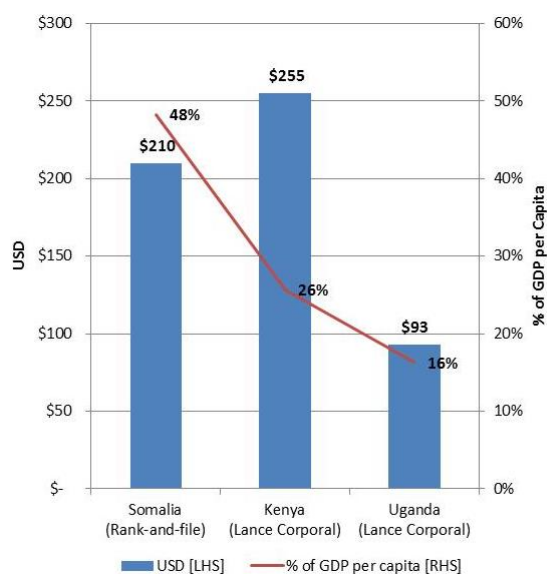


Figure 53: Rank-and-file uniformed personnel: remuneration in regional terms (including donor stipends)

Sources: Staff Analysis, Somalia Economic Update (2015), World Development Indicators

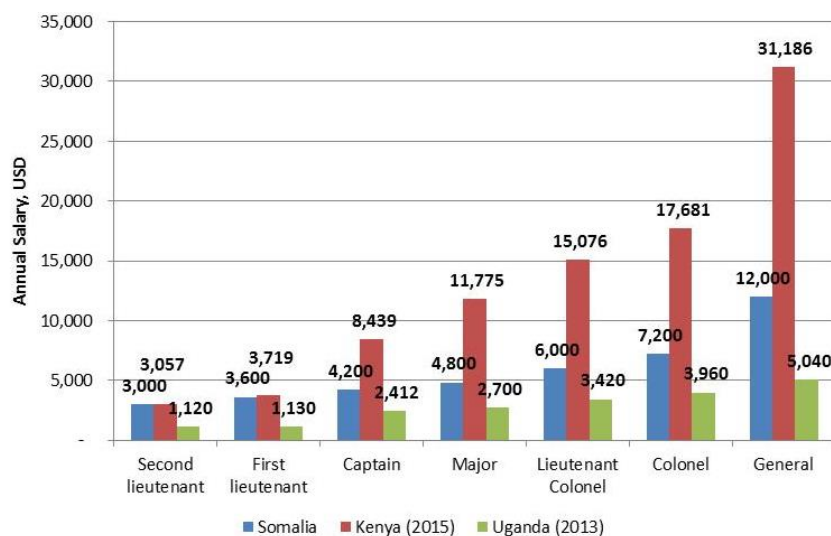


Figure 54. SNA Officers are Relatively Well Remunerated in Regional Terms, Excluding Donor Stipends

Source: Staff Analysis

6.5.3 Payroll: Police

The police payroll is managed directly by the SPF HQ Finance Department and is, as with the SNA, a stand-alone system separate from the SFMIS. Total police numbers are difficult to ascertain: the 2016 revised budget was based on an SPF payroll of 7,778, as set out in Table 19. In addition, there are a number of regional police forces which are in the process of being expanded through recruitment with donor support, including 600 in Jubaland, 600 in South West, and 200 in Galmudug.

Police officers at federal level (numbering around 218 according to the 2016 budget) are on a pay scale ranging from \$300 per month to \$2,500 per month. The remaining Ranks are entitled to a flat rate of \$100 per month, reduced to \$50 in 2016 in line with the reduction in SNA salaries. In 2016, as set out in the consolidated security budget, uniformed personnel moved to a \$210 per month package for rank-and-file. Even excluding donor stipends, basic police salaries compare relatively favorably with those in Kenya and Uganda, prior to any adjustment for cost of living or purchasing power, as illustrated in Figure 74.

Police Forces by Rank/Status

Category	Number
Officers	218
Police	6,510
Orphans	1,050
Total	7,778

Police Officers' Pay Scale

Rank	Number	Monthly Salary (USD)
Commissioner	1	2,500
Deputy Commissioner	1	2,000
Major General - Brigadier General	28	1,000
Colonel	94	600
Lt. Colonel	93	500
Major	132	450
Captain	99	400
Lieutenant	257	350
Second Lieutenant	405	300
Total Officers	1,110	

Table 21: Somalia Police Force Composition by Rank and Officers Pay-scale

Source: SPF presentation on Salaries and Stipends, August 2015

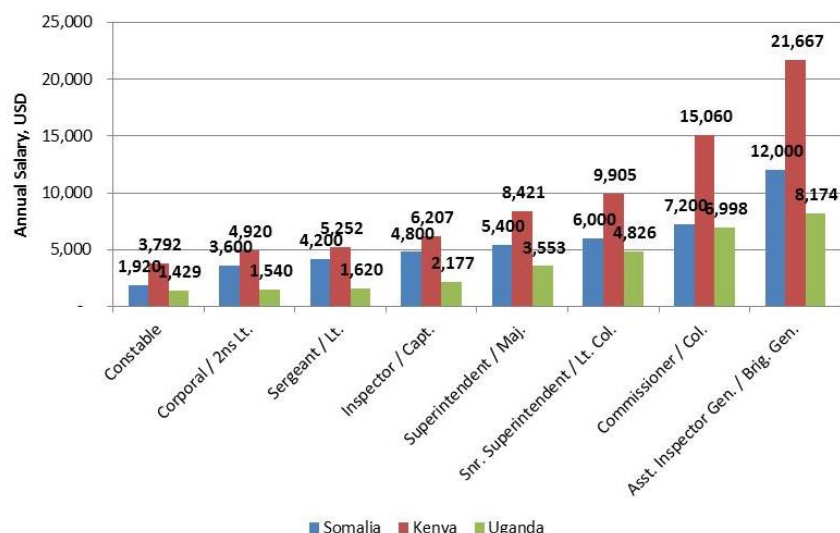


Figure 55: Somalia's Federal Police are Relatively Well Remunerated by Regional Standards, Excluding Donor Stipends
Source: SPF, Staff Analysis

The available information on the police payroll suggests that there has been some cross-fertilization between the police payroll system and the system for distribution of stipends. The process is summarized in SPF (2015) and Figure 75. Individual police officer payroll sheets are submitted to the Finance department for authorization. Payroll sheets contain officers' basic personnel and payroll details –i.e. ID, picture, salary, rank, station etc. The payroll sheet is authorized by four signatories including the station head and the finance head. Police personnel records are maintained by HQ Finance and Administration Departments. These records are maintained and updated each payroll cycle to indicate payment made and any changes (e.g. in status, rank, location). Once payroll sheets are verified and authorized, and records updated, officers are given a cashier note to collect their cash payment. Cash payments are made by authorized cashiers, who are separate from the administration department authorizing the payroll sheets, following a schedule which groups police stations into blocks.

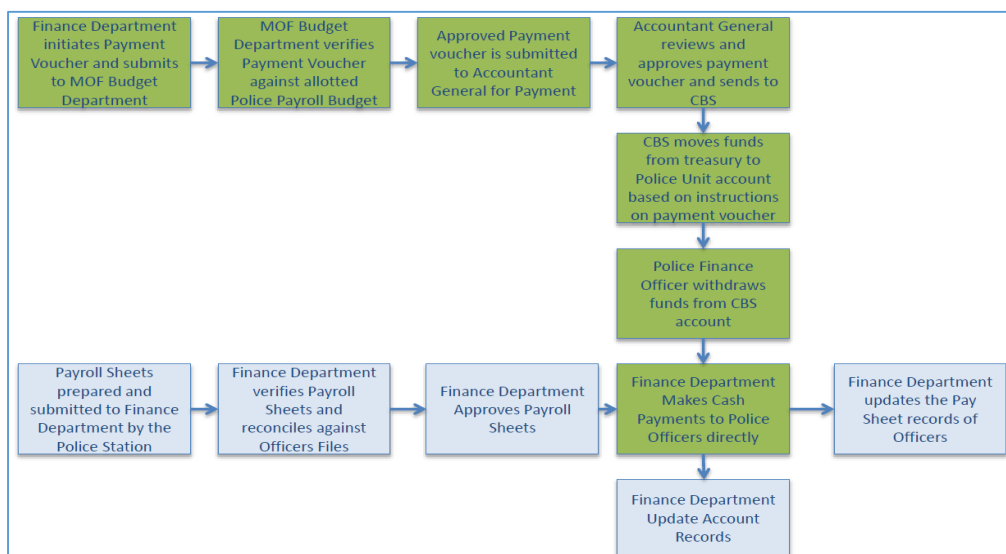


Figure 56: SPF Payroll Process (FGS)
Source: SPF presentation on Salaries and Stipends, August 2015

The police payroll system ‘as is’ has a number of strengths and weaknesses.¹³¹ On the plus side, detailed records maintained on police officers and files are updated each payroll cycle and payments are centralized and managed by Police HQ Finance. However, process is manual and cash intensive. Lack of automated registry/payment systems. Biometric records are not owned by police or used for government payment process. There is extremely limited oversight and reporting to either the MoIS or MoF.

6.5.4 Payroll: Donor Stipends

In parallel to the SNA and SPF systems for distributing its domestically financed salary/allowance and ration payments, donors have established separate systems for the payment of stipends. In addition to the SNA payroll, there are two separate donor-supported paylists for SNA personnel stipends: the United Nations Office for Project Services (UNOPS) manages one for the provision of US and UK funded stipends, and the other is implemented by a private agent for the delivery of United Arab Emirates stipends. At the present time, military stipends are disbursed in three Sectors, funded by the US Department of State and the UK Foreign & Commonwealth Office. The two remaining Sectors are funded by the United Arab Emirates. Efforts have been made to harmonize the amount of stipends paid and since the end of 2015, all donors have provided US\$100 per month. SPF stipends are funded by the EU. EU funds were successfully brought on-budget and on-treasury through the 2016 Revised Budget, a first for security sector stipends. Donor support to security sector stipends is set out in Table 24.

DONOR	FORCES	FORCES	SECTOR	METHOD OF PAYMENT
USA	SNA	10,000	1 & 5 and potential to expand to other FMS	Paid via UNOPS at various army base locations reached by UN aircraft. Reduced to 7,000 with further realignment expected to meet Guulwade Plan
UK	SNA	Up to 4,000. Currently at 3,000	3	Paid via UNOPS at various army base locations reached by UN aircraft.
UAE	SNA	10,000	2 & 4	Paid on location similar to UNOPS through Gorgor Solutions
EU	SPF	6,800	Mogadishu	Managed by UNOPS, channeled through Treasury
DFID	SPF	1,200	Jubbaland, SW Region, Beletweyne	Managed by UNOPS and paid electronically

Table 22: Stipends for Security Forces

Source: UNOPS 2015

UNOPS’s banking partner is Al Amal; Payment is made from a list provided by the SNA with the unit commanders responsible for getting their troops to the payment site on a certain day and time. AMISOM provides security and observers and UNSOS is critical in planning the necessary air assets required to take the pay teams to the remote locations. Those receiving stipends must be biometrically registered and soldiers must be registered as having received human rights and international humanitarian law training in line with the Human Rights Due Diligence (HRDDP) requirements.¹³²

¹³¹ SPF 2015.

¹³² Donors also now demand that biometric registration of personnel be required as a condition for payment and the international community through various Security Council resolutions insist upon human rights and international humanitarian law training for the SNA personnel, which is a key mitigating measure in reducing risk of violations as envisaged by the HRDDP. Without this (HRDDP) training, soldiers cannot be paid.

A comprehensive registration exercise for uniformed personnel has been undertaken by UNOPS, and is now directly linked to receipt of stipends. UNOPS currently operates a Human Recognition System (HRS), which is a sophisticated and flexible registration database of SNA, SPF, Custodial Corps (Corrections) and NISA personnel. The database captures employee biographic and biometric details (fingerprint and iris scan). The latter allows for each individual to be uniquely identified and compared across the database. In addition, the system has capability for tracking decentralized cash payments, any completed trainings and asset tracking.

The UNOPS registration process continues to collect biometric and biographical information on SNA, SPF, Custodial Corps and NISA personnel in support of the FGS, which provides an opportunity for improved Human Resource management. Registration of SNA personnel has been an ongoing process since 2011 (initially piloted by the UN Mine Action Service). A recertification exercise took place in 2016 to update current active duty soldiers and remove any inactive personnel. It is also intended to be used to collate information related to a planned movement to electronic transfers. UNOPS stipends are currently distributed in cash using HRS Pay Kits but work is ongoing to allow it to be executed through payment service providers such as banks (via bank accounts) or mobile money (mobile phone EVC payments). Successful pilots have been carried out, with 1,200 police now paid electronically in two FMS.

6.5.5 Security Sector PFM Reform Priorities: Payroll and Operating Systems

Payroll reform, along the lines of that realized within the civil service (i.e. including sufficient fiduciary safeguards to channel donor funds), is urgently needed for the SNA and SPF. This is indeed the very first commitment made in the President's press release on 9 September 2015 on security sector reform, which committed the FGS to *"Ensuring regular pay on a timely basis for national security sector personnel."* While the new consolidated security budget helps to address some of the challenges associated with fragmented sector funding flows, the maintenance of parallel government and donor payroll systems and under investment in the former reduces the efficiency, effectiveness and accountability of public spending in Somalia. Further, while the main priority is payroll-systems strengthening, given the volumes of funding involved, there is also an important reform agenda around establishing systems for non-salary expenditures, and in particular the competitive procurement of rations. These non-salary payment systems, including procurement policies and processes, will become increasingly important as the volume of funds and number of transactions in the sector increases over time.

The MoF is taking the lead in addressing the security sector payroll reform challenge, leading security sector payroll reform, with support from the UK and EU. This reform agenda should be fully supported by the international community as a means of improving the efficiency, effectiveness and accountability of security sector payroll and non-salary PFM systems, including strengthening linkages to ongoing whole-of-government PFM reforms.

Immediate reform priorities include defining clear eligibility criteria and using them to guide a process of re-registration of SNA personnel. There is also a need for a much clearer HR policy defining status of security forces, including treatment of orphans, disability, sick leave, etc. Third, a clear system design is required for the delivery of government payroll, and possible also on-treasury donor funding (as piloted for EU police stipends). As part of the proposed reforms, the MoF is proposing to move payroll management from the SNA and SPF to Payroll Management Units in the MoD and MoIS respectively (with suitably qualified staff to be recruited), to be complemented by trained teams to maintain complete databases of security personnel and mobile biometric teams to administer a biometric payroll process. Fundamentally, the maintenance of three separate and unreconciled databases for SNA personnel (SNA,

UNOPS and Gorgor Solutions) is a sub-optimal arrangement, and MoF-led efforts to build lasting integrated payroll and HR systems within FGS should be fully supported by international development partners operating in the sector.

Payment Cycle	Problem Statement - Key Issues/Gaps	Proposed Work Stream / Activities
1. Planning & Budgeting	Ongoing changes in force structure, forces and integration of soldiers Irregular and inconsistent payments Uncertainty of payroll policy to address scales/grades, structure, absences, deceased etc. Lack of information to support proper planning Significant off-budget expenditure not coordinated Limited civilian oversight	1.1 Single Payroll Policy outlining eligibility criteria, salary scales, treatment of leaves, deceased, etc. 1.2 Conduct financial governance review of security sector payments; each work-stream will commence with review activity and this will be consolidated into a single report 1.3 Develop consolidated payroll budget of salaries and stipends including scaled salaries 1.4 Establish regular payment schedule of salaries coordinated with stipends payments
2. Prepare Payroll (HR Database and Registration Process)	Absence of harmonized payroll/payment rules Absence of single database/system of all security personnel Inconsistent registration process Inadequate oversight structures of payroll	HR Database 2.1 Conduct review of the various databases/systems available (in use) to determine which best meets payroll needs 2.2 Develop/design data base attributes to ensure all required data is captured for both payroll and HR needs 2.3 Integration to FGS PFM systems 2.4 Proper handover to government; well-equipped and trained Registration Process 3.1 Design registration process with appropriate verification measures in place and link to automated payroll process 3.2 Develop registration guidelines and criteria that is linked to HR policy 3.3 Roll out registration of all SNA and SPF forces
3. Payroll Execution	Cash payments of salaries, lack of automated payment process Physical and security limitations of cash payments Poor national payment infrastructure Payment cash advances with limited oversight structures Limited civilian oversight	4.1 Design basic payroll processes supported by a biometric registration and payment 4.2 Develop basic organizational capabilities and workflows, including internal controls, for payroll processing in MoD, SNA, MOIS, SPF, MOF 4.3 Establish payroll oversight function within MOD and strengthen MOD to take on payroll responsibilities 4.4 Develop and implement payment capabilities and reach 4.5 Integration to national PFM and payment systems 4.6 Assessment and design for shift to automated payroll systems using bank transfers 4.7 Establish flow of funds mechanism for Police stipends (integration to country systems)
4. Reporting & Monitoring	Unstructured data and poor records Limited payment data recording practices Limited linkages to larger FGS PFM systems	5.1 Understand data production and circulation, data analysis 5.2 Design single reporting framework for government salaries and donor supported stipends 5.3 Reporting process design, alignment with FGS processes and oversight structures 5.4 Establish external monitoring mechanism for monitoring payment of Police Stipends
6. Budget execution of rations and operating costs	Lack of established non-salary payment processes and systems Lack of established procurement procedures and systems	6.1 Strengthen internal expenditure processes and link to larger PFM reforms of non-salary recurrent costs 6.2 Establish procurement procedures for selection and payment of vendors, specifically vendors delivering on food (rations), fuel, equipment

Table 23: Security Sector PFM Reform Priorities – Payroll and Operating Systems

Source: Adapted from Ministry of Finance (2015) "Security Sector Payroll Reform High Level Project Proposal, Working Draft."

6.5.6 Arrears Management

Uneven FGS revenue and grant collections make cash flow to the security and justice sectors highly unpredictable. This is indicative of poor FGS revenue administration and cash management. It also suggests significant arrears accumulation (since recurrent obligations remain almost identical from month-to-month). This was borne out in 2015, when significant arrears have accumulated.

Commitment control is extremely important for good PFM, as it ensures that FGS does not incur financial obligations it cannot afford to pay. Weak or absent commitment controls contribute to arrears accumulation, as ministries, departments, and agencies (MDAs) can enter into spending commitments without ensuring that cash is available to honor invoices. This results in the accumulation of arrears in the form of partially or wholly unfunded invoices, wages and salaries, loan repayments, or other financial obligations. Commitment control functionality was introduced within the FGS financial management system (SFMIS) in late 2015, and work is ongoing to build it into the associated FGS payment system processes and practices. Until this is established through SFMIS, commitment control only exists at a decentralized level in MDAs, based on direct relationships between MDAs and their finance officers and vendors. There is no consolidated information on outstanding commitments at present, and obligations are paid on an ad hoc basis by MDAs as and when cash becomes available to do so.

The implementation of commitment controls will provide the basis for the launching of an Arrears Management Plan to reduce the stock of arrears, a structural benchmark under the IMF Staff Monitored Programme (SMP). The current stock of arrears is hard to ascertain, in particular since there is currently no system in place for the systematic tracking of government liabilities; it is difficult to ascertain which goods and services have and have not been procured by for example the SNA. There appear to be four primary categories of arrears: (i) Borrowings in 2013 (\$6 million); (ii) Wage and Salary arrears; (iii) Goods and Services arrears from Ministries, Departments and Agencies; and (iv) Goods and Services arrears from arrangements made outside of the established PFM procedures of government, and not by MDAs.¹³³ While it's also hard to disaggregate the stock of arrears, it seems highly likely that the majority of the stock of arrears represent obligations to pay allowances and rations to the security sector. The Plan will comprise both a plan to clear the existing stock of arrears and a plan of action to prevent future accumulation of arrears, which is based on the full implementation of commitment controls in SFMIS which was completed during the last quarter of 2015.

6.6 Procurement

At present, the FGS procurement system is in its infancy, with some initial building blocks under development. The Public Procurement Concessions and Disposal of Assets Act was signed into law in August 2016. In the interim, the Council of Ministers has agreed to the establishment of an Interim National Procurement Board (INBP) with the responsibility for “reviewing and advising on government contracts and concessions; in particular, on whether the contracts serve in the best interest of the Somali state and its citizens and whether further renegotiations are required to achieve this objective.” The INBP is being appointed to perform its functions until such time as it is feasible to fully implement the provisions of the Procurement and Concessions Act. The draft Act provides for the establishment of an Inter-Ministerial Concessions Committee (IMCC) and a Public Procurement Agency. After the enactment of the

¹³³ Ministry of Finance, Draft Arrears Management Plan, 2014.

Procurement and Concessions Act, the INBP will be transitioned into a fully-fledged Inter-Ministerial Concessions Committee, which will then be the sole Committee responsible for award of concessions.

The bulk of FGS procurement for capital spending is conducted outside of standard FGS procedures and financed by donor funds. The security and justice sectors and wider government have almost no budget provision for capital spending, and so major procurements are rarely undertaken by FGS. However, much of the operating budget should be governed by procurement laws, regulations and procedures, and provisions to manage larger capital procurements in future should be put in place in anticipation of increased fiscal space.

While some nascent reforms are underway in the FGS there are no procurement systems or capacities within the security and justice MDAs. None of them have formal procurement systems; some procure only small-scale items on ad hoc basis, reimbursed in cash from the CBS or MDA funds. Others procure larger items but off the books or without going through proper channels even if an MDA is expected to pay for the items.¹³⁴

Almost all of the important large procurements in the security sector are managed by external actors and granted as in-kind support. While this may in the short-term be the best guarantee of Value for Money and procurement controls for external actors, it means that government institutions are unable to learn how procurement processes work and begin to develop the capacity to manage them in future. While it is unrealistic to expect donors to use non-existent procurement systems, and while caution regarding political economy considerations is needed, it would appear to be worthwhile exploring how the institutions in the sector can become more involved in planning for and participating in externally financed procurements, for example by acting as observers on procurement boards. Ultimately, security and justice institutions must be the custodians of these assets and it is arguable that incentives for sound asset management would be strengthened by earlier and deeper engagement in their procurement.

However, food rations procurement for security personnel is managed by the FGS; these were budgeted at \$28 million in the revised 2016 budget (11 percent of total expenditure). Large transactions are known to have taken place between Somalia's national security institutions and various suppliers in relation to 'rations' (i.e. basic foodstuffs) as well as logistics requirements (uniforms, fuel, spare parts, etc.). The FGC has concluded that "it appears unlikely that formal contracts exist" for these arrangements. The President's press release on security sector reform of September 2015 stated that "all tenders for logistics supplies will be carried out through the Interim Procurement Board," meaning that the substantial contracts for both food and logistics supplies must now be reviewed by the INPB, and in cases where the annual value of the contract exceeds \$5 million, by the FGC as well. The INPB, which has a five-person Board chaired by the Minister of Finance, was created to bridge the gap created by delays in the passage of the Public Procurement, Concessions and Disposal Act, and in order to broaden out and better institutionalize the Financial Governance Committee (FGC)'s work on procurement. Subsequently, the third Report on Contracts and Concessions of the FGC of August 2016 reported that the INPB had called for competitive bids for food supplies to the security forces. Further, rations contracts for the SPF and NISA have been awarded competitively, and subject to ex-post FGC review as they were signed by MoIS without seeking prior FGC or INPB review of the drafts. The FGC was at time of writing following up to ensure amendments to the contracts. Nonetheless, the fact that competitive tendering is now being used,

¹³⁴ The PER team was told, for example, that the SNA signed a contract to purchase four-wheeled vehicles without informing the Ministry of Defence until the vehicles arrived in Mogadishu port and MoD was asked to prepare an import document.

and that these tender processes are subject to independent review and amendment, is an important step in the right direction. Ultimately, the implementation of the provisions of the Public Procurement, Concessions and Disposal Act (signed into law by the President in August 2016) and the development of associated capacity in the security sector must be the long-term solution for procurement.

6.7 Accountability, Reporting, and Oversight Arrangements

6.7.1 Accountability and Reporting Framework

Somalia has suffered severe corruption due to lack of effective accountability mechanisms and networks that profit significantly from their absence. This undermines the process of stabilization and state formation. Continued predatory behavior by public and private actors in the political, economic, and security arenas have advanced mistrust among and between the state and society actors, and left a vacuum of public authority that has been filled by traditional authorities, religious leaders and rent-seeking networks of de facto authority.

The passing of the bill establishing the Anti-Corruption Commission in January 2015 is a positive step towards promoting accountability in the use of public resources. The FGS commitment on various occasions to the fight against corruption in Somalia—and the progressive interpretation of this mandate by the Attorney General of Somalia—are important steps. Additionally, CBS governance reform, the FGS' engagement with the Stolen Asset Recovery Initiative (StAR) on asset recovery, strengthened commitment to PFM reform and increased transparency regarding public contracts through the scrutiny of the FGC are important building blocks towards a more resilient and capable accountability system.

More importantly, successful security sector development in Somalia will rest on addressing the twin imperatives of increasing operational effectiveness of the security institutions, while also ensuring their effective governance and oversight. Past experience in Somalia testifies to the detrimental consequences of an unchecked security sector, which was institutionalized by narrow political and economic interests. Experience from other contemporary contexts also illustrates the adverse effects that weak management and governance of security institutions may result in. An effective system of accountability relies on both internal oversight mechanisms within each security institution, and on external oversight by parliament. Somalia is facing significant challenges on both accounts.

The Provisional Constitution calls for the establishment of several independent commissions including a National Security Commission. Yet to be established, the primary mandate of the proposed National Security Commission is the development of an integrated security framework. The Commission would “not be subject to the direction of any person or institution” but would submit its proposed security framework to Parliament to be reviewed and adopted. In particular, the mandate emphasizes use of a Human Security approach and strong participation by academics and civil society in the framework development, especially in public oversight, monitoring of security expenditure and a system for redress of abuses by security forces. The Commission is not an oversight committee, and would not have any type of executive, investigational role (i.e. such as an Ombudsman) but instead would create the policy framework for civilian oversight and public accountability.

The Commission would not have an overlapping role with the constitutionally mandated Ombudsman's Office, which is envisioned as an investigations authority as opposed to the Commission's policy development role. The Commission would create a policy framework for redress of abuses by security

forces that, presumably, the Ombudsman's Office would execute. The Ombudsman's Office has not yet been established.

The Military Court has been active within Mogadishu and around southern Somalia through a mobile unit. The Military Courts are authorized by presidential decree to try Al-Shabaab fighters, as well as any crimes occurring in state of emergency areas vacated by Al-Shabaab. Military prosecutors and judges reportedly have little if any legal or judicial training, and are known for their rapid decisions and executions. According to Human Rights Watch,¹³⁵ military court proceedings restrict defendants' rights to obtain counsel of their choice, prepare and present a defence, receive a public hearing, not incriminate themselves, and appeal a conviction to a higher court. More than a dozen of those convicted over the last year have been sentenced to death and executed. Despite interest in moving all terrorism cases into the civilian judicial system, obstacles include the absence of a specific law (presently in draft), as well as the security challenges for judges and prosecutors.¹³⁶

Asset management in the FGS provides an opportunity for collective accountability and reporting. Overall, the asset management system of the FGS is known to be weak. The PER team has been able to collect only a small amount of information on asset management in the security and justice sectors. Several security and justice MDAs report maintaining inventories of purchases (Box 4). There is no information on exactly what data are collected or what is done with these inventories.

Box 4: Asset management practices in security and justice institutions

Office of Attorney General: A register is kept of inventoried items. When items are purchased, a copy of the receipt is kept on file and additional copies are sent to the Accountant General's Office.

Courts: A registry is maintained of purchases. There appears to be no awareness of a defined protocol for conducting equipment inventory.

Ministry of Justice: All purchased items are registered and the records maintained by an office within the Ministry. There appears to be no awareness of a defined protocol for conducting equipment inventory.

Ministry of Defence: A database is kept of inventoried items as per inventory policy and maintained by the store management office.

Ministry of National Security: A registry is maintained of purchases. There appears to be no awareness of a defined protocol for conducting equipment inventory.

Somali Police Force: Inventory management is the responsibility of the Logistical Department. There was no awareness of a defined protocol for conducting equipment inventory.

Source: World Bank, 2014

There is, however, reason to suspect that security and justice assets management is weak, particularly in the security sector. The SEMG reports document the potential risk of diversion of resources provided to the FGS security sector for unintended use. The equipment and/or resources to procure the equipment are provided off-budget. The materiel may be sold or diverted to other armed groups.

¹³⁵ Human Rights Watch, *Courts of Absolute Power, Fair Trial Violations by Somalia's Military Court*, May 2014

¹³⁶ UN-World Bank Staff, Stocktaking paper: political-security context

6.7.2 Oversight Arrangements

Some progress in oversight institutions and processes has been made since the PFM self-assessment in 2013. The Office of the Auditor General (OAG) has been created and its key progress is evident in auditing the 2013 financial statements and submitting its report to Parliament in June 2014. It is important to note that the auditor general is appointed by, and reports to the President, hence weakening the independence and ability of OAG to function as a supreme audit institution. This can however be addressed through the Audit Bill which should ensure a more independent OAG.

Parliament's oversight role in budget formulation and execution is important. Parliament is taking initial steps in establishing its oversight role evident in approving large concession contracts and seeking to renegotiate or cancel a number of contracts that have been brought to its attention. Further, parliamentary committees have summoned ministers for questioning of these contracts. The Parliamentary Finance Committee conducted a public hearing on the 2012 audit report. While these are important steps towards securing a more active involvement in budget formulation and execution, more needs to be done. The current parliament has an opportunity to pass and use key draft bills including the PFM Law, Audit bill, Procurement Bill, Asset Management Bill, and other PFM legal frameworks in fast-tracking the overall PFM reform agenda.

7. Concluding Observations

The SJPER outlines a number of key findings with regard to the provision of a sustainable, effective, efficient, and accountable security and justice sector. Taking from these, it is not for the UN and the World Bank to recommend on how the FGS and the FMS should structure its security and justice sectors. However, what may be useful is to use of the findings of the SJPER to inform the ongoing policy dialogue given the strong inter-relationship between financing of the sector and its performance and functionality.

In particular, the SJPER highlights four main policy questions that need further interrogation by the key stakeholders (national and international); these relate to four factors that need careful balancing:

- (i) **The balance between international and national provision of security and justice services:** dialogue on this issue has already started, and with the scheduled draw-down of AMISOM due to start in 2018 it will be a key priority for the new government going forward. Discussions have been facilitated by, on one hand the key financial donors within the international community becoming more organized around the 'S6' coordination group, and on the other the FGS initiating steps to implement PFM reforms to encourage greater transparency and accountability. However, concrete action is now required to achieve the right balance; what international partners have called a 'paradigm shift' to prepare for AMISOM withdrawal.
- (ii) **The balance between a centralized and decentralized security and justice structure.** Dialogue around this central issue has started with the formation of the FMS and the agreement that FMS Presidents will join the National Security Council, as a key decision making body. The Provisional Constitution only provides the basic outline of a federal state; another priority for the new FGS and FMS will be concluding the details of a 'federated' approach to the security and justice sectors (as has begun to be described in the draft National Security Policy), as part of the National Security Architecture debate. Such an approach needs to articulate what functions are undertaken at the central level and those at the state level, and in turn how are these functions to be financed.
- (iii) **The balance between the size of the military and the police forces.** By international benchmarks, Somalia has a very low ratio of police per capita population. An option to consider would be changing the ratio of police to army forces in response to the changes in the security structure. This is particularly relevant given not only the challenges of the insurgency, but also local crime and violence, particularly relating to corruption.
- (iv) **The balance between differing sector objectives (first a counterinsurgency and second a demilitarization process as part of a war-to-peace and statebuilding transition) and available resources.** On one hand national security institutions are being called upon to take on greater responsibility for the counterinsurgency. On the other hand, after two decades of armed conflict (preceded by a historical period associated with a significantly large security apparatus) security institutions (formal and informal) will at some point undergo a gradual disarmament and stand-down as the country becomes more peaceful.

In contending with these key policy questions, decision-makers can turn to the SJPER for guidance. Particularly important for consideration are the following observations:

Sustainability: estimates for domestic security and justice expenditures range from about \$150-220 million per year over the coming ten year period, depending on the cost scenario. Given that FGS revenues are some \$246 million per year (as of 2016) including about \$100 million in non-security on-budget external grants, this is unsustainable unless there is a dramatic increase in domestic revenue and/ or external support.

Most costing options appear hard to finance within the projected resource envelope that Somalia is likely to accede to in the medium-term, even with continued international support. The main cost element originates from the growth, operation and equipping of military forces; at the other end of the spectrum the cost of criminal justice is relatively low. Such plans would eliminate the ability to grow a civil service, provide social services (like health care and education) and prevent any government-led economic development, leaving infrastructure reconstruction and growth almost entirely reliant upon international donors. Furthermore, depending on the revenue sharing and intergovernmental financing arrangements for regional security forces, budgetary stretch is highly likely to also extend to the FMS, where it may be even more acute given the likely constraints on sub-national revenue collection.

Sequencing: national stakeholders need to set clear priorities; given the tight resource constraints there will be inevitable trade-offs. The PER estimates that the current military and the police plans range from about \$150 to \$220 million per year. Additional costs refer to \$10 million a year for justice institutions and the hypothetical cumulative costs over 10 years of \$50 million for air arm development, \$100 million for the navy/coast guard, \$30-70 million for disarmament demobilization and reintegration and \$35-73 million for pensions in the police and military.

Given these competing demands and resource constraints, a modular approach will be required. The financial estimates carried out for the SJPER show that not one single measure will allow to meet the necessary funding levels, and therefore a combination of policies will be required to achieve affordability.

Effectiveness: the sector has been largely shaped by a war economy in which predation and taxation of civilians by 'armed forces' is prevalent. The security 'function' has been political-economic as much as provision of security and safety services. The increasing focus over the last ten years on the insurgency has resulted in operational exigencies overriding a more strategic approach to better defining the aims, structure and composition of the sector. The current practice of underfunding the salary, operations cost, and equipment creates not only government arrears but produced security institutions that are not only ineffective at providing security, but pose a long-term security liability. Fully-funding an unbalanced, over-staffed structure to a level that would make it operationally effective is financially unaffordable in the short to medium term and would create excessive and self-perpetuating costs of over-staffed institutions in the medium to long-term, crowding out all other activities of the government.

Going forward, it will be critical that the new government and partners use the positive steps taken in the draft National Security Policy in articulating the shape and composition of institutional structures, the relationship between centre and FMS and therefore put sector finances on a structurally sound path.

Efficiencies: The major efficiency issue the SJPER focused on is the uncontrolled and excess enrollment in the security forces. There is to date no formal enrollment of personnel into the SNA without at the micro-level vetting and profiling and at the macro-level any regard to fiscal sustainability. In turn, there is as yet no uniform and comprehensive registration and verification system for those who are enrolled.

Another key financial management issue is the regularity and integrity of payments. On the budget management side, weak domestic revenue forecast, combined with fragmented and parallel off-budget donor funding leads to poor revenue planning, which translates into difficulties in executing unrealistic and unreliable budgets. Lack of prioritized cash planning towards security personnel expenditure at the budget execution stage worsens the situation, leaving unpaid troops constituting a security threat. The solution involves a solid cash budget management system, based on more rigorous budget revenue projections, a stronger alignment of donor contribution with the budget planning process, stronger expenditure commitment control, and a prioritized cash management plan. Cash management issues related to the payment of security personnel expenditures derive from the highly manual and informal system to pay troops. The parallel systems put in place by donors for supplemental payments are likely to migrate to an electronic system and ways of ensuring convergence of approach will be necessary.

Less attention was given in the SJPER to the management of assets and procurement. Yet, it is clear that there are severe cost leakages in procurement, particularly as equipment and capital expenses are set to become sizeable. Given the severity of fiscal constraints for the security sector, a focus on reducing the cost per unit of service delivered is going to be an important part of a sound financial approach. Last, as the development of security and justice security sector will require higher levels of capital spending, for barracks, courts, fuel, equipment, the risk of cost leakage through the procurement process cannot be underestimated, unless substantial reforms and capacity enhancement are enacted.

Accountability: Another important finding of the SJPER is the need to strengthen the oversight of security sector expenditures. Internal oversight is weakened by the lack of a robust process for payroll validation, control and management, as well as the weakness of civilian oversight due to almost inexistent financial management capacity in the security sector ministries. The independence and capacity of the Office of the Auditor General is a universal issue, as is the need for greater involvement of the relevant Parliamentary committees in ensuring great scrutiny. There is also a need for the relatively significant sums coming from external partners to come on-budget and be subject to the same kind of accountability, but this is unlikely to occur until the FGS implements effective PFM measures to allay the concerns over transparency and more rigorous accountability systems.

During the process of the SJPER, the FGS has taken some concrete steps toward reform of the security sector, starting with the President's commitment in September 2015. These included the formation of a 'consolidated security budget', rendering greater transparency of overall spending, as well as the launching of a task force to reform salary and stipend payments to soldiers and police. Such a reform process is critical, in that it strengthens the legitimacy of a government involved in a counterinsurgency, and secondly, it is likely to encourage greater external support on-budget to the sector.

With a new government taking on such a reform process, international experience can also be helpful. The SJPER concludes by drawing on sector experience that may be of relevance to these critical decisions.

For the counterinsurgency:

Dialogue and counterinsurgencies: an *average* ten years is spent in successfully countering an insurgency. The existence of sanctuary and provision of external support have been identified as critical determinants for success or failure of an insurgency; government legitimacy is a critical indicator of the counter-insurgent/government success.¹³⁷ Processes in Northern Ireland in the late-1990s, with the Irish

¹³⁷ Connable, Ben, and Martin C. Libicki. *How insurgencies end*. Vol. 965. RAND Corporation, 2010.

Republican Army,¹³⁸ and in Spain, with the Basque ETA,¹³⁹ in the mid-2000s are indicative of innovative approaches that can fundamentally change the security posture of governments leading the counterinsurgency. In the case of AS, the ability to retain safe-haven is likely to depend on continued clan-based support, particularly as a significant segment of AS is based on regional and clan affiliation. While comprehensive accommodation may not be possible, it may be possible to dialogue with certain elements currently affiliated with AS. Not only could this precipitate a quicker and more successful resolution of the insurgency; it would also significantly alter the needs and costs associated with the security sector.¹⁴⁰

‘Policing’ counterinsurgencies: The initial wave of the security built up in Somalia has been focused on the military component to respond to the threat of AS. COIN research indicates that a classically trained army is ultimately less effective at the types of activities that a successful counterinsurgency requires, and that the local police is commonly under-equipped to deal with the threat. Many countries have found that in these situations a type of a paramilitary-trained police tends to be most effective, such as in the case of the Philippine Constabulary, Central Reserve Police Force in India, the Italian Carabinieri, or the Turkish Jandarma. The primary difference comes from the fact that the military is trained to seek out and destroy an opposing force, while the police is trained to investigate and detain. This difference is crucial as success comes about from penetrating the insurgent networks and obtaining the trust of the local population through effective provision of security.¹⁴¹ The shift in focus could be one of training and equipping a paramilitary police rather than a whole army. This could imply some re-hatting of some elements currently found within the SNA, and include police-style training of those forces. In turn, the FGS could consider a smaller, fully professionalized, mobile army including units at the regional level based around concepts like the Danab Battalion and the Puntland *darawish*. The use of small specialized forces at the FMS level could not only be potentially more cost-effective but also cohere with the ‘federated’ approach to the sector.

For demilitarization:

Consolidating the political settlement and militia integration: experience elsewhere suggests that success in political dialogue and consolidation of an inclusive political settlement may have a significant impact upon the size and composition of the security sector. In Somaliland, the political settlement came at a price, as a significant portion of the budget was initially expended upon militia compensation, but the peace dividend of nearly two decades of peace and stability has been enormous.¹⁴² Stand-down arrangements, creation of reserves and part-time elements may be a stepping-stone toward fulltime peace (many countries around the world have some form of a reserve structure).

MA large number of active Somali males could potentially belong to a militia, hence standard approaches to DDR, providing individual cash and in-kind entitlements, may not be appropriate in such a context. Based on a recent study of DDR-type initiatives, the cost of successful DDR tends to be around

¹³⁸ Cox, Michael, Adrian Guelke, and Fiona Stephen. *A farewell to arms? From "long war" to long peace in Northern Ireland*, Manchester University Press, 2000.

¹³⁹ Zabalo, Julen, and Mikel Saratxo. "ETA ceasefire: Armed struggle vs. political practice in Basque nationalism." *Ethnicities* (2015).

¹⁴⁰ Hassan, Muhsin. *Understanding Drivers of Violent Extremism: The Case of Al-Shabaab and Somali Youth*. CTC Sentinel 5, no. 8 (2012): 18-20.

¹⁴¹ Rabasa, Angel, et al. *Money in the Bank--Lessons Learned from Past Counterinsurgency (COIN) Operations*: RAND Counterinsurgency Study--Paper 4. Vol. 4. Rand Corporation, 2007.

¹⁴² Sarah Phillips, *Political Settlements and State Formation: The Case of Somaliland*, Developmental Leadership Program, December 2013

4.7 times the size per capita GDP of the economy in which the DDR occurs.¹⁴³ Given the size of the irregular militias in Somalia, that may prove to be a significant and unaffordable effort. In addition to adequate funding, relevant training, and sufficient time, a successful and sustainable DDR effort would also require a functioning legal system, a clear legislative framework, a depoliticized security sector and a growing economy demanding jobs.¹⁴⁴ Furthermore, Somalia has one of the world's largest youth bulges – with 70 percent of the population under 30 – the need for gainful employment and skills development is acute. As the situation stabilizes, solutions such as civilian brigades and national non-military service combined with job-training or skills-providing programmes may help reduce the rates of radicalization and violence, and provide a source of labor for the reconstruction of the country. Similar examples can be found in Kenya and Zambia, as well as the Youth Work Actions in post-World War II Yugoslavia.¹⁴⁵

A second aspect of force 'right-sizing' is implementing a sustainable pensions and dependents programme. This should be based on an analysis of the demographic structure of personnel, as well as the allowances provided to dependents (e.g. widows and orphans). The FGS would then be in a position to start providing alternative options particularly for those soldiers and police that are at retirement age.

For security sector reform:

There are a number of critical steps that are being taken with regard to the nexus between public finance and the security sector. These will need to be further developed by the new government:

In the short term over the next 24 months:

- (i) Improve budget management and donor funding mechanisms to achieve greater regularity of payments. This could ultimately lead to alignment of donor funding with country budgetary systems.
- (ii) Integrating a rigorous registration validation and screening process in the security forces and move security force payments from a manual cash-based process to a biometric based bank system integrated into the country financial management information system.
- (iii) Negotiate a fair inter-governmental fiscal rules for the transfer of costs between levels of government as part of an overall national security and justice strategy that provides for a balanced vertical and horizontal institutional structure with sufficient regards for the funding needs of police and justice.
- (iv) Establish yearly caps to militia integration based upon the available fiscal space while establishing a force-reduction framework with multiple options (pensions, reintegration, reserves etc) and windows.

In the medium 3-5 year term:

- (i) Achieve full financial oversight capacity by overseeing line ministry administrative staff.

¹⁴³ Willardson, Spencer. "Strategic intelligence during coin detention operations—relational data and understanding latent terror networks." *Defence & Security Analysis* 29, no. 1 (2013): 42-53 and Pendall, David W., Ronald Wilkes, and Timothy J. Robinson. *Cyberspace Operations in Support of Counterinsurgency Operations*. No. USA/ILW-95. Association of the United States Army, Arlington, VA, Institute of Land Warfare, 2013.

¹⁴⁴ Baranyi, Stephen, ed. *The paradoxes of peacebuilding post-9/11*. UBC Press, 2009.

¹⁴⁵ See Warner. *Titoism in action: the reforms in Yugoslavia after 1948*. University of California Press, 1958.

- (ii) Achieve full capacity of the National Audit Office to audit security and justice expenditures and sensitization and provision of material and global knowledge for the relevant Parliamentary committees.
- (iii) Establish a sound procurement and asset management system for capital expenditures and investments.

Sector reform is as much about international approaches; particularly when the greater portion of the sector is externally financed. Even at the peak of the upcoming security sector investment hump, the all in cost of the Somali security sector would reach only about 15 percent of the total estimated current cost of international security provision. A fraction of these resources, redeployed to support the indigenous forces could thus assist the government of Somalia in developing a domestic solution for its security challenges. Nevertheless, it is difficult to contemplate such a change without greater transparency and accountability in the operation of the security sector institutions and of vastly improved PFM systems.

The creation of the S6 donor coordination platform is a positive step in aligning the efforts of the key financial supporters of the security sector. The scope of the SJPER did not include an assessment of the effectiveness of international support. However, anecdotal evidence such as the training of some 30-40,000 military and police personnel over the last ten years with no recorded outcomes suggests that there must be greater coordination and coherent approaches even to the point of a common financial platform for the sector.

Justice reform has not been the focus of the SJPER; yet it is clear that most Somali communities use informal mechanisms for dispute resolution involving customary arbitration and law, *xeer*. Comparative international experience suggest that hybrid approaches be adopted to allocate cases among federal, customary, religious and alternative dispute resolution systems. The MoJ's plan of constructing, staffing, and reintegrating 73 additional courts will take a significant amount of time and face significant constraints in terms of human capacity limitations (it is not just about court buildings). In the meantime, the dispensation of justice will have to rely more on traditional forms of dispute resolution that already have the trust of Somalis, especially in comparison to the formal court system. Such an approach could also be less costly and able to fill in while the formal system rebuilds and re-establishes trust. In Somaliland, for instance, land cases are assigned to local governments which resolve cases through customary norms. The key to use of traditional or hybrid models will be to ensure alignment with international human rights standards, for instance, with respect to women's rights and access for minority or displaced populations, while allowing enough of their customary character to preserve their efficiency and trust with the public. Recognizing the importance of these traditional mechanisms of dispute resolution, the MoJ, with international support, has established a Traditional Dispute Resolution Unit to establish linkages between the formal and customary systems.

Monitoring and evaluations systems, and above all the measurement of violence and human security, needs to be strengthened. There are a number of innovative approaches including use of perception surveys (the Hargeisa based Observatory) and newspaper reporting (ACLED) that assist in measuring progress. However, given insecurity and violence are the greatest impediments to peace recovery and development it is remarkable that not more consideration is given to supporting better data and research so that governments and partners alike can measure security outcomes over time.

Annex I: Model Description

The model accompanying the Somali Security and Justice Sector Performance Evaluation Review was designed with the intention of representing breadth and flexibility to the future of the Somali security sector.

Most maneuvering of the model itself comes from the “Unit Costs” and “Output Options” tabs. The former is the primary resource for individual costs to the Security and Justice sectors, and is the tool through which changes in these costs should be maneuvered. The cells in this tab are linked throughout the model, so any change here should be reflected in the results automatically.

The “Output Options” tab is what provides the model flexibility in projecting future needs. Rows 12-19 are a series of dropdown boxes correlated with the different groups in the Security and Justice sectors. For each cell over the 10-year projection, one can choose the level of capability or each group, the options for which are listed in rows 2-8, columns B-J.

The content of these upgrades are reflected in the tabs named after each sector (e.g. “Civilian Police”. heretofore called sector tabs) and their corresponding worksheet tabs (e.g. “Police Equipment Worksheet”). Within the sector tabs, any cell in Yellow requires a number input, and any cell in red is linked and should therefore automatically change. These tabs provide an overview of a specific sector’s costs over time, depending on the choices made in the Output Options tab. The worksheet tabs correlate specifically to the equipment given to each sector when an upgrade occurs, based primarily upon personnel numbers, and the results are reflected on the sector tabs.

The Macro Fiscal side is represented in the “Revenue Scenarios” tab, which presents three different projections for Revenue and GDP: one based upon historical revenue growth, one based upon a Somaliland-like stabilization scenario, and a third assuming no governance improvement. When placed in comparison to the values from sector tabs, a picture of the country’s overall fiscal balance emerges. On the model, this balance is represented in numeric form on the “Total Costs and Balances” tab and in figure form on the “Fig Balance Chart” tab.