DRAFT REPORT

ON

MACRO -ECONOMIC ANALYSIS IN PUNTLAND

FUNDED BY UNDP/WORLD BANK

IMPLEMENTANTED BY PDRC

June 2004

Table of Contents

Introduction

Background

The economy of Somalia and other dimensions of its socio-cultural and political setting had always relied strongly on traditional and informal pillars and consequently had never been reflected authentically neither in official records of the former Somali governments nor in the previous colonial documentations that preceded the birth of the Somali Public in 1960. The modest efforts made in data collection and analysis that have been achieved, particularly during the last two decades of the existence of Somali government, have been destroyed following the collapse of the national state in early 1991. As is correctly stated in the World-Bank's Somalia Country Re-engagement Note, "Data collection and analysis have been severely affected by the fact that national institutions for data collection were one of the many casualties of the civil war"[1].

As part of the recent initiatives of compilation of statistical data for Somalia, Puntland Development Research Center (PDRC) undertook Macro-economic study on Puntland, in collaboration with UNDP/ World-Bank. Data gathering is crucial for any programming and planning purposes and is equally important tool for all local and international actors involved in the improvement of the quality of life in the region.

The study has been conducted by a team of 12 persons, under the overall coordination of a senior economist, resident in Puntland. The coordinator was assisted by two professional consultants, one economist and one educationist, in matters related to the supervision of primary data gathering and compilation of the draft reports of the two studies. Eight enumerators have spent one month period for gathering required primary data in different location, under the supervision of the two consultants. PDRC engaged also one consultant as a data processing associate. Finally all secretariat work was performed by junior graduate from Garowe based Puntland Community College (PCC).

Objectives of the study

The objectives of the Macro-economic Study consist of:

- To conduct Macroeconomic assessment study in Puntland regions
- To know the current Macroeconomic situation in the region to cover the sub sectors of education, health, sanitation, and water and food security.
- To cover main sectors of the Macro-economy in Puntland
- To recommend practical strategic interventions in the sector.

Area of Coverage of the study

PDRC office in Garowe has been used as the operational base of the study, while following locations were covered during collection of the primary data:

1. Bosaso and Galkacyo towns have been selected as appropriate places for urban household surveys. A total of 482 households have been interviewed in these cities.

[1] Country Re-engagement Note, World Bank/ UNDP, Somalia, 2003

2. Galdogob District, Mudug Region, was the site for pastoral household survey. The area received good rains during the last wet season and many pastoralists moved their herds to the area. A team of three enumerators and one supervisor visited five rural villages and walked by foot from nomadic hamlets to another in order to interview pastoral households. The team has managed to interview 60 households in seven days.
3. Primary data information had been gathered from fishing communities of Eil district, Nugal Region. During the survey the team covered four fishing sites, along Indian Ocean coast, and interviewed sixty fishermen involved in fishery production, fishery business and other related services. Seven days were spent in this exercise by four enumerators and one supervisor.

Methodology of the studies

In carrying out the study activities, the coordinator and his team employed three primary methods to provide required information for situation analysis:

1. The study coordinator and the professional consultants undertook extensive review of relevant official documents issued by the current administration and publications by international organizations and independent experts on the topics of the studies. The study refers also the previous publications of WSP inter-active research process and the outcome of PDRC research initiatives.

2. Right from the start, PDRC acknowledged the scarcity of the needed information's concerning relevant issues that are critical for development planning. On the basis of this assumption, the main emphasis of the studies was centered on gathering primary data. for better utilization of the designated time frame and allocated resources all questionnaires were designed to incorporate issues concerning the two study topics (macro and socio-economic). Consolidated multi-indicator survey questionnaires were sought to be appropriate instead of employing separate tools for each of the socio-economic and Macro-economic studies. During the planning stage of the assessment, a decision was taken to design distinct questionnaire/s to capture the differences that exist between urban and rural contexts of the Puntland region. The analytical approach to the fishery sector employed two questionnaires, one for fishery production and another for fishery business. Unlike the areas of urban and pastoral clusters, where the households were taken as the focus of the survey, the assessment of the fishery sector was centered on the personal roles played by selected interviewees in the production of marine resources.

3. The third approach the study intended to employ was to arrange focus group discussions and holding workshops for selected groups. The purpose of the third approach methodology is to combine the classical survey methodologies used during the first two stages of the study (primary and secondary data gathering) with a Participatory Action Research (PAR) approach of analysis. Selected participants from the current administration in Puntland, private sector, civil society and international actors had been invited in an inter-active dialogue to identify priority macro-economic issues. The outcome of planned focus group discussion and results from primary data analysis and review of the secondary information data were be

harmonized to produce integrated thematic paper of macro-economic analysis containing policy recommendations concerning the topics of the study.

Summary of the findings

This report is composed of five chapters. The first chapter provides general overview of the resource base of Puntland. The study found out that pastoral sector, which is the mainstay of the economy of Puntland, is encountering unprecedented crises characterized by immense depletion of livestock assets holdings of animal herders. Estimated figures of the livestock population have declined from an estimated stock of 29.5 million of heads in 2001 to 25.5 in 2002, and further to 13.2 million in 2003, according the study findings. In other words, more than half of the animal wealth of Puntland has perished in two years. Cattle stocks diminished for about three fourth from 2001 up to 2003.

The first chapter presents also the inventory list of small processing plants and other establishments that require certain level of skills that are not utilized by the primary sectors, as base line information for future industrialization of the regions. Finally, the chapter highlights the recent progress achieved in the area of telecommunication and appalling conditions of other public infrastructure, i.e. roads, ports and airports.

The second chapter is devoted to income and expenditure figures of Puntland population in 2003. The estimated total household income, according to the findings of the study survey, resulted about USD 276, 311,518, distributed into USD 143,491,686 obtained by urban dwellers and USD 132,819,832 earned by pastoral households. The average per-capita amounts USD 184.2, disaggregated into USD 281.1 for urban and 134.2 for pastoral. The study estimated the total expenditure incurred in Puntland, excluding Kat, about USD 290.2 million, distributed into USD 159 million and USD 131 million incurred by urban and pastoral communities, accordingly. The chapter provides also disaggregated measurement of total disposable income into different sources and total expenditure into items both in urban and pastoral contexts.

Relevant data on public finance are obtained through extensive review of official budget documents issued by the Ministry of Finance of Puntland administration, and presented in chapter three of this report. The general picture of revenue and expenditure trends of Puntland administration since its establishment in 1999, manifest stable increase. The total revenue collected by the administration in 2003 amounted to SOSH 253.2 billion, and is eight times higher from the level 1999. The latter consisted for about SOSH 30.8 billion.

Bosaso Port statistic figures have been useful to record major import export flows of Puntland since 1991. These consists the delivery of livestock, fish and frankincense products towards export, and import of the bulk of stable foods and all industrial products from overseas countries. Livestock export outflows to overseas countries, which have been important sources of hard currency earning throughout the civil period, have suffered concomitant crises from repetitive import bans by Saudi Arabia, competition from Berbera port, which has better facilities, and inadequate performance of local livestock exporters. Chapter four records up and downs of livestock export business in Puntland. Livestock export earnings has been estimated about USD 54 million in 1992, following the export of close to 1.2 millions of sheep and goats sold at average price of 45 Dollars per head. Camel and cattle are also exported through Bosaso port, since 1996. Export figures of fish and frankincense products are not reported because of lack of records to refer.

The final chapter is devoted to post-civil war financial regimes in Puntland. Puntland State Bank and several private remittance companies have been identified as the principal institutions that handle currency transactions. The bank is a state owned self-financing institution and, mainly, functions as the administration's treasury. After the outbreak of the civil war in Somalia and the consequent dissolution of state intervention of currency market, remittances companies have become major players of currency throughout Somalia and a major conduit of inflow and outflow of hard currency for stateless Somalia.

Chapter One
Economic dynamics of Puntland

1.0 General overview

Economic dynamics, in general terms, results from continuous and complex process of interplay of production methods and distribution pattern. The first level encompasses the process of continuous flow of resource generation, while the distribution framework defines the pertaining allocation of resource among social categories.

The elaboration of sound and comprehensive economic policy conceived to steer existing potentiality towards the achievement of economic growth is one of the major topics of macro-economic study. Growth in general is the percentage increase of annual output of goods and services of a given nation. In order to sustain improved living standard at least a yearly growth rate that matches with the natural growth of the population has to be achieved. Any growth rate below the natural increase of the population is an indicator of deteriorating quality of life. Moreover, negative growth, implying significant decline of out-put, below the natural population growth, leads to a parallel deterioration of the living conditions. Manifestations of prolonged negative growth in a country include shortened average life span, high mother and infant mortality rates, and out-migration of population to other places in search of opportunity.

The factors that contribute the achievement of economic growth include:

- Availability of national resources.
- Technological innovations
- Skilled labour force and
- Capital investment.

Puntland is a semi-arid area, with an average rainfall ranging from 50 to 200mm, and with no perennial rivers. As a result of water deficiency, Puntland territory is not appropriate for extensive farming. Although Puntland is the most likely to possess oil deposits, yet at speculative stage, because of the extensive oil exploration activities undertaken by foreign companies in Puntland regions before the civil war, nevertheless, no mineral resources of high value had been found in Puntland regions. The few ascertained mineral deposits include Tin in Majyahan (close to Bosaso) and Coal from Dhurbo, in Alula district.

Extensive studies of fishery stock assessment along the territorial waters of Somalia that have been conducted before the outbreak of the civil war are unanimous that Puntland coast contain abundant stock of valuable living marine resource. However, the actual economic contribution of the fishery is minimal, particular in respect to an immense stock suggested by previous assessments.

As a result of the above, range resources consist the mostly accessed natural resource base in Puntland. Animal husbandry has become the most adequate form of productive activity, under the above natural climatic conditions.

The narrowness of the space of natural resources which are accessible through the prevailing traditional production methods could be one of the factors that have contributed to the early migration of people from these regions to more fertile southern parts of

Somalia and to overseas, long time before the achievement of national independence. The highly centralized state structures inherited from colonial authorities, further consolidated by all successive national administration, and the consequent concentration of national resources expenditure in Mogadishu, intensified southward population movement.

This tendency continued till it has been reversed following the state collapse in Somalia and the outbreak of civil war in early eighties. In the immediate aftermath of civil strives a massive influx of returnee repopulated Puntland regions.

Taking into consideration that the present situation of national statelessness may protract, and bearing in mind that the likelihood of future national state will be based on the principles of decentralization, the need for sustained economic growth in Puntland is a self-imposing imperative.

Following sections will highlight the general picture of the present status of the natural resource base, through brief assessment of both accessed and untapped natural resources that can contribute potential growth in Puntland, pending the achievement of national statehood framework. A general sectoral profile of productive activities will be presented along with the respective organizational aspects of the major resource generation engagements.

The general outlook of this study is based on the assumption that the organizational aspect of economic dynamics contributes substantial added value to the resource base. In other words, country with relatively scarce resource but with advanced organizational standards, which Puntland lacks, could achieve better living standards compared to other countries rich in resources but lacking behind in terms of complex organizational matters. Organizational aspects include system of ownership, management skills, legal systems and market leverages

1.1 Livestock sector

Livestock sector is the mainstay of the economy of Puntland and in response to the arid environment a mobile grazing pattern has been adopted since centuries. The migratory grazing pattern implied loose demarcation of the pastoral lands into dry seasons and wet seasons grazing zones. Animals stayed during rain seasons around water deficit zones, like high plateaus of Sool and Hawd, while during the dry seasons were moved to low lands like valleys and coastal areas. The latter have relative abundance of water from shallow wells and natural springs.

Livestock numbers registered unprecedented increase during the first decade after state collapse. Animal population figures worked out by War-Torn society (WSP) through extrapolation of livestock numbers of 1988, suggest that the total animal population of NES (Mudug, Nugal and Bari) in 1998 could be estimated close to 21 million heads of sheep and goats, camels and cattle. Regions of Sool and Sanaag were not considered at that time

Unlike the more southern regions of Somalia, where large number of cattle is herded, in Puntland the majority of the animal population consists of sheep and goats, followed by camels. Some households in the region raise also cattle. Following figures exhibited in table 1.1 are calculated through extrapolation of 1989 animal population figures and indicate that during this period of 10 years sheep and goats have registered an increase of 2.2 times, while camels and cattle augmented in number at rates of 1.5 and 1.6 times, respectively.

Table 1.1 Livestock numbers in NES in1988 and estimates of 1998

Type of Animal	1988	1998
Goats	5,664,524	12,461,952
Sheep	2,879,722	6,335,388
Camels	983,528	1,475,292
Cattle	271,310	434,096
Total	9,799,084	20,706,728

Source: economic transformation towards a regulated economy, WSP publication, 2000.

Starting from the first year of the new century, an inverse tendency of livestock de-stocking overturned the stable growth of animal populations that have been taking place in Puntland since the end of the last century.

Based on the interviewed pastoral households, this study worked out animal population figures concerning average pastoral household size and composition, as exhibited in tables 1.2, from 2001 up to 2003.

Table 1.2 Average household herd size and composition, 2001-2003

Species	**2001**	**2002**	**2003**
Shoats	229	191	92
Camels	35	31	21
Cattle	25	21	6

Source: Study survey questionnaire, December 2003

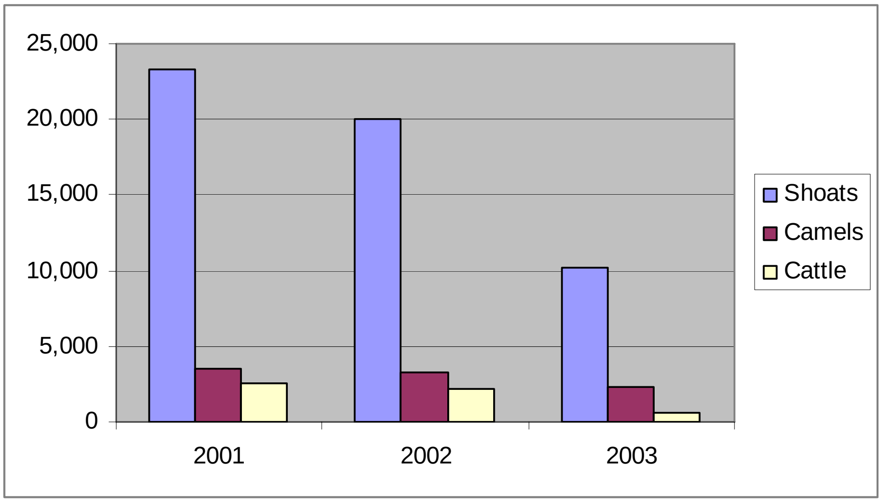
Assuming that the above average household herd figures is representative, the total animal population in Puntland, including Sool and Sanag, as of 2001 to 2003 is illustrated in table 1.3.

Table 1.3 Total animal population figures ('000), 2001-2003

Species	**2001**	**2002**	**2003**
Shoats	23,358	20,055	10,212
Camels	3,570	3,225	2,331
Cattle	2,550	2,205	667
Total	**29,478**	**25,485**	**13,210**

Source: Study survey questionnaire, December 2003

Chart 1.1 Total animal population figures (000), 2001-2003



Source: Study survey questionnaire, December 2003

The above animal population figures are based on the findings of this study, and suggest that the total number of live animals herded in all five regions of Puntland taken together, in 2003, about 13 million of heads, compared to the 21 million heads that existed in the three regions of the former North East in 1998. In other words, the currently estimated total animal population of all regions of Puntland is 36 percent less of the stocking level of Bari, Nugal and Mudug five years ago.

Table 1.4 demonstrates that animal population has been reduced for about 55% from 2001 to 2003. In other words, more than half of total animal wealth has perished in two years. The magnitude of wealth depletion that occurred in Puntland in two years is very high, since the percentage of decrease of total animal population ignores the failure of animal herders to obtain natural animal increases during the same period because of the drastic reduction of the calving rates of shoats, camels and cattle.

Table 1.4 Distribution total de-stoking rates (%), 2001-2003

Species	2001-2002	2002-2003	2001-2003
Shoats	14	49	56
Camels	10	28	35
Cattle	14	70	74
Total	**13.5**	**48.0**	**55,0**

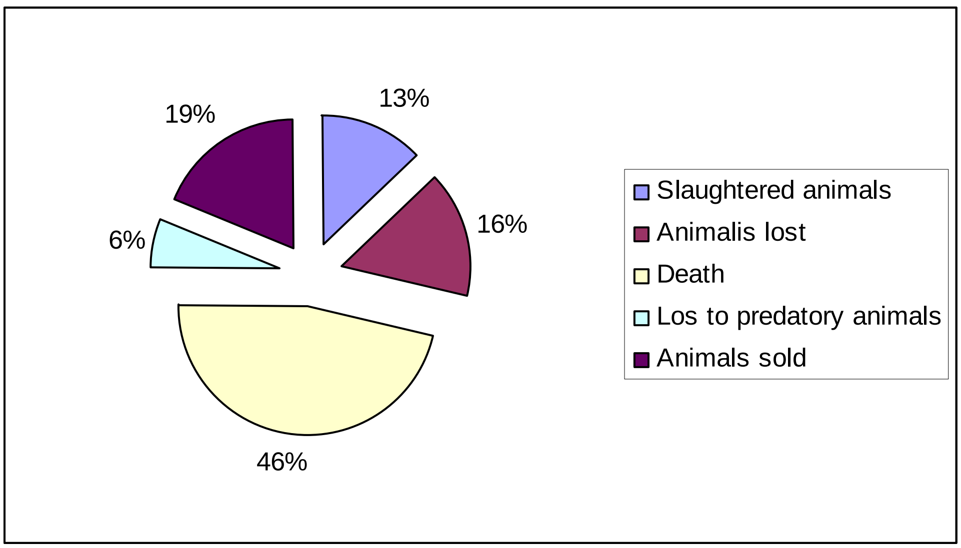
Source: Study survey questionnaire, December 2003

The repercussion of the adversities varies between different species. Cattle stocks suffered highest losses, in comparison to shoats and camels. The decline of cattle population ranged 14% in 2002 in reference to 2001; while it sharpened to alarming rate measured around 70% by the end of 2003 in comparison to 2002. Moreover, only in two years, 2001 to 2003, close to two third of cattle have been lost under difficult drought circumstances phased by pastoral economy.

Sheep and goats have decreased 14% and 49% in 2002 and 2003, respectively. This down sliding tendency is measured at 56% of decrease of shoats between 2001 and 2003. The camel population seems relatively less affected by the drought in respect to cattle and shoats. Camels have registered 35% of decrease in two years; however the survivors include immature animals because most of the pack camels and milching she-camels have suffered serious losses.

Non-economic off-takes accounted 62% of the total decrease of animal population in 2003, of these 43% died because of the severity of the current drought (Pie chart 1.1). Other non-economic off-takes included animals eaten by predatory animals and others that went astray. The latter off-takes constituted 5% and 14%, respectively. Interviewed pastoralists attributed the high percentage of animals that went astray because of the inability of herders to fulfill all commitments imposed by the drought. Some people have to go to urban towns to seek support from relatives, others have to go in search of water, herds have to be split and for all these tasks there is no sufficient manpower within the households to take care of all animals.

Chart 1.2 Total Livestock off take in 2003



Source: Study survey questionnaire, December 2003

Further de-stocking rates were likely to happen from the end of 2003 up to Gu' rains scheduled on April-May 2004. The delay or failure of the next rains will probably result into general destitution of the overwhelming majority of the pastoral population.

1.2 Fishery sector

Since the length of coastal stretch of Puntland is about km 1200 corresponding to over one third of the entire Somali coast consisting of km 3300, the fishery sector is second most important economic sector and in the future could play a decisive role in any effort geared toward the advancement of the regional economy. The Puntland segment of the Somali coast, particularly the area between Ras-Gardefui and Ras-ma'abar (Bender Beila), is considered as one of the areas that have the highest density of living marine resources on the Indian Ocean.

Stock assessment studies conducted in Somalia before the collapse of the central government agree on the availability of estimated fishery in Somali waters around 646,000 metric tons of different fish species. As is seen on table 1.5, Sixty three percent of this stock is found within the range of the coast of Puntland.

Table 1.5 Estimated levels of fish stock (‘000 metric tons)

Type of species	Entire Somali Coast	Puntland Stocks
Small pelagic fish	570	359
Large pelagic fish	16	11
Demersal	60	38
Total	**646**	**408**

Source: Economic transformation towards a regulated economy, WSP, 2000

Although the area is reach of valuable commercial fish, only two types of fishery landings are conducted along Puntland coast. The first is high seas fishing and is conducted by foreign vessels enjoying authorization permit provided by Puntland authority. This study did not obtain reference material nor first hand information concerning the number of vessels entering Puntland seas, type of licenses, actual landings, royalties collected and general terms of agreement between Puntland administration and expatriate owners of foreign vessels fishing in Puntland seas. Transparency and public accountability are lacking .

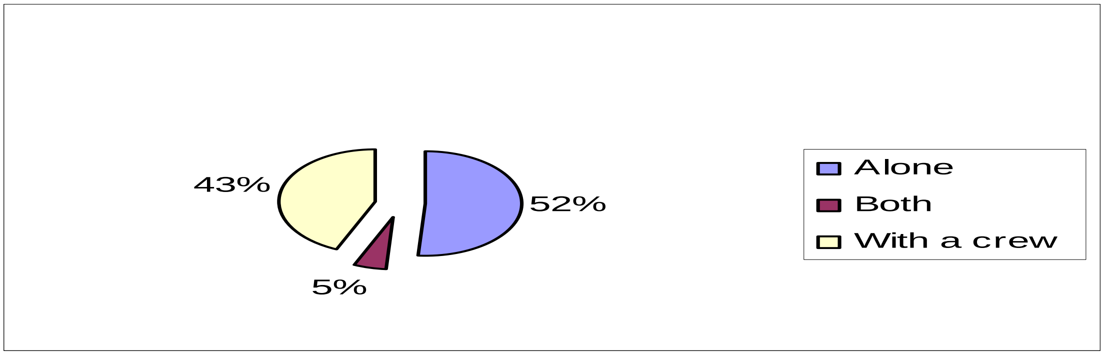
The study managed to gather primary data on the second type of fishing activities, consisting artisanal fishing. The currently employed fishing technology does not allow conducting round year artisanal fishing operation throughout Puntland coast.

There are two fishery seasons totaling 8 months. The first season starts on January and lasts up to mid April, while the second commences on the final part of August and closes on November. Because of strong seasonal winds that blow throughout the coastal areas, artisanal fishing activities are discontinued for two intervals during each annual calendar. The long off season starts by mid April and ends by the last weak of August, while the month of December is a short off season period. At the beginning of fishing season interested traders mobilize operational capital and required assets to fishing sites. These include ration, fuel, cash money and truck mounted freezers. Self employed fishermen and other employment seekers move also to coastal areas. Small traders, specially women operate makeshift house restaurants, tea shops and kiosks move along with other categories.

Fish production is a task that requires high physical ability and early skill training, and by virtue of that, fish production is in the male domain. Ninety five percent of the producer respondents were male and five percent female. However, women are involved in almost all the other business activities in the fishing sites such as; all catering, maid servitude, lobster processing etc.

The surveyor team interviewed thirty seven fishermen on the fishing modes. Interviewed fishermen, as is shown in chart 1.3, responded that 52% of the producers fish individually, while 43% are arranged in various crews ranging from four to six sailors. The remaining 5% practice both modalities, according the circumstances.

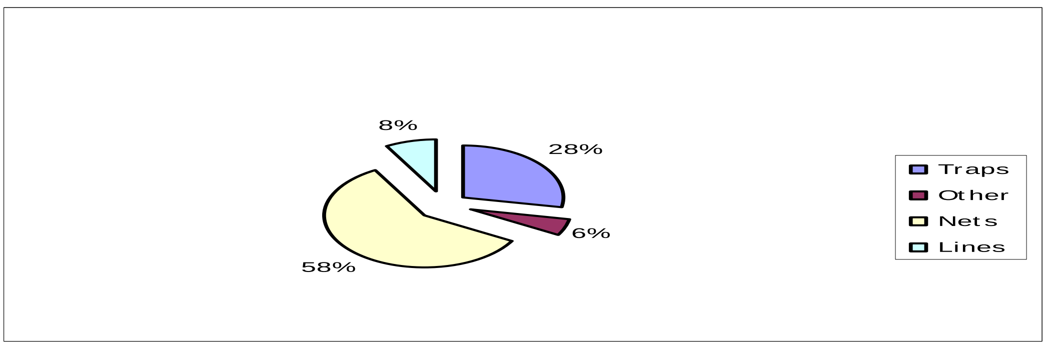
Bye Chart 1.3 Distribution of fishing modalities (%



Source: study survey questionnaire, December 2003

Individually fishing producers have been asked to mention the type of fishing gears employed during operation. Accordingly, 43% of the thirty six interviewed fishermen use nets, followed by 28% which uses traps. The remaining 8% and 6% of interviewed harvesters use lines and other non specified type of gears, respectively, as shown in the Pie chart 1.4.

Chart 1.4 Distribution of individual fishermen by type of fishing gears (%)



Source: Study survey questionnaire, December 2003

The study found out that 97% of fishing crafts are motor boats, with only 3% being traditional canoes. The distribution of ownership of fishing crafts and fishing gears are exhibited in table 1.6 and suggests that 85% and 82.5% of the fishing crafts and fishing gears belong to the producers. On the other hand, investor own only 15% and 17.5% of these types of assets.

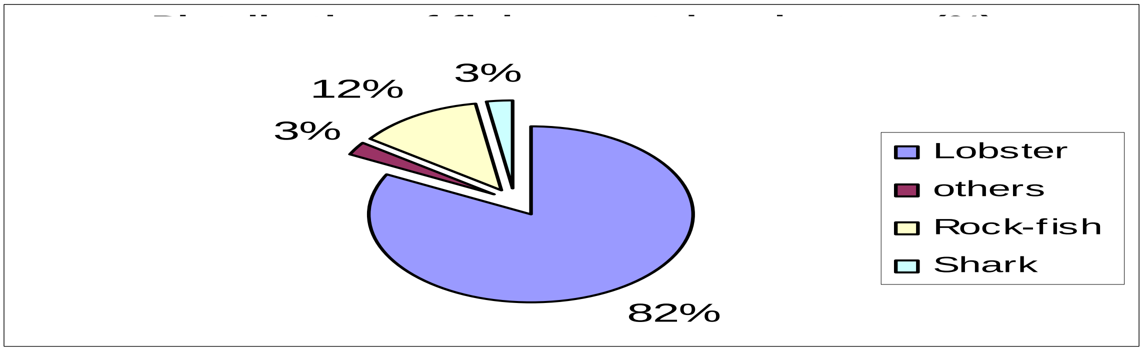
Table 1.6 Distribution of the ownership of fishing crafts (%)

Ownership	Fishing crafts	Fishing gears
Investor	15	17.5
Producer	85	82.5
Total	**100**	**100**

Source: Study survey questionnaire, December 2003

Lobster catches constitute 82% of fishing landings followed by rock fish, consisting of 12% of total catches. The Shark fish harvesting, which previously occupied the second place in terms of volume of landings, has now been reduced to 3% of the total harvest in 2003. This may result from decline stocks of shark fish due to more than a decade of intensive fishing. The harvesting of rock fish has now superseded shark fish collection because of the introduction of deep freezing methods.

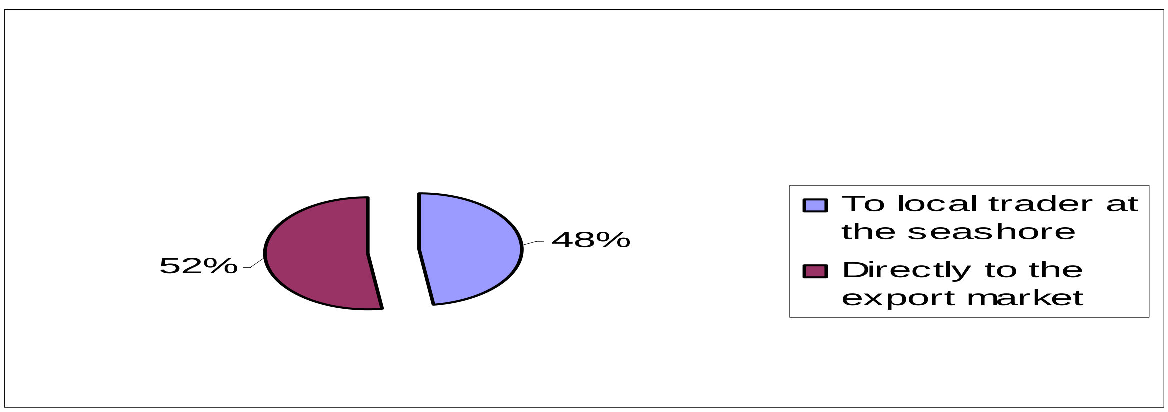
Bye Chart 1.5 Distribution of catches by fish species (%)



Source: Study survey questionnaire, December 2003

The volume of catches is mainly destined to export through direct delivery by the producers themselves to export and by selling it to a local trader at the sea shore. The percentage distribution of these is 52% to 48% as is seen in the Pie Chart 1.6.

Chart 1.6 Distribution of fishery catches by destination %



Source: Study survey questionnaire, December 2003

1.3 Frankincense

Frankincense trees are spread over a vast mountainous territory in Puntland. At present, two types of commercial frankincense are collected—*maydi (Boswellia frereania)* from *yagcar* trees and *beeyo* from *moxor* trees *(Boswellia sacra)*. Maydi frankincense is produced only in Somalia, while different varieties of beeyo are produced in Ethiopia (Ogaden region), Eritrea, Oman and India. There is no census on the number of trees and the volume of the potential output in Somalia. Before the collapse of the central government, the state-owned Frankincense Development Agency estimated that some 10,000 families were engaged in collecting and producing frankincense in Somalia (Bari and Sanaag regions).

Coulter (1987) estimated the annual production of *maydi* at 1000 metric tons and *beeyo* at 300 metric tons at most.. Discussion with many traders involved in the frankincense business suggests that the present level of production in the northeast is roughly 500 metric tons, indicating that this important sector is presently exploited at 40% of its potential yield. The exploitation of other commiphora woodland products, which grow in the inland area, is totally neglected. Other commercially exploitable trees include *Opopanox,* a source of gum; *Myrrh, and Arabian Gum*. In the past, these products had an export value comparable to that of *maydi* and *beeyo*.

1.4 Nascent industry

Following the above description of the prevailing economic activities in the region, it is evident that the economy of the area is based on the production of primary sectors and trade. The emerging service sector which is confined in telecommunication and money handling plays backstopping role to the primary sectors.

Although the main feature of the economy is characterized by absence of industrial sector, below are listed recently commissioned small plants and other establishments that require certain level of skills that are not utilized by main economic sectors of the region. These kinds of enterprises, though small in scale, have been singled out because of their distinctiveness from the prevailing traditional production methods. The contribution to production output and its absorptive capacity of work force is negligible; nevertheless, this sector can be a good indicator for base line level for future industrialization of the region. The mushrooming of house construction in the region has encouraged the establishment of multipurpose workshops performing carpentry, welding and production of brick blocks. These workshops produce household and office furniture, wood and metal made doors and windows and large size metallic door gates. The workshops mainly supply the households but some of them receive occasional contracts from the international organizations for the provision of furniture for the schools and offices. In Galkacyo six workshops of that kind have been identified. The average manpower employed by these kind of establishment is about 15 persons per unit and whenever they receive big orders from international organizations or from local clients they hire extra-personal. In Bosaso similar workshops are over fifteen, while very few operate in Gardo and Garowe.

Car repairing workshops is one of the most innovative services in the region. 12 large workshops capable of repairing electrical and mechanical defects are found in Bosaso, while two other workshops can fix the structural defects of the engine and use lathe-machine. In Galkayo the number of car repairing workshops are about 6 while in Garowe and Gardo three and four similar places are available, respectively. It is important to note that in Garowe there is one workshop owned by creative technicians who have assembled windmills that are used for irrigation purposes by some of the farms placed at the vicinity of the town. The average employment of these enterprises is about 15 persons per workshop. On top of that, there is uncounted number of units that can repair minor car servicing, like electrical and tier repairing.

Electric bakeries are found in Bosaso, Garowe and Galkacyo and supply bread and different kind of biscuits and cookies. Similar plant exits in Galkayo, although the biggest share of bread market is supplied by traditional bakeries. The latter are small bakeries of spherical shape and made of stone, mad and cement, normally manned by one or two persons. These kinds of bakeries use fuel wood and supply the bigger share of bread market.

Water processing plants started in the region beginning from 1995, following the establishment of small plant called Firdowsa in Bosaso. About 11 plants of water processing plants are currently operational in Puntland. Twenty five plants that produce ice exist in major towns of Puntland, but mostly concentrated in Bosaso. These kinds of plants supply electricity to neighborhood households. Table 1.7 shows the type of industrial and number of plants that has been recently established in Puntland.

Table 1.7 Number of processing plants in Puntland, 2002

Type of industry	Number of plants
Water processing	11
Ice production	25
Spaghetti	1
Fish canning	2
Tannery	3
Powder soap	1
Slaughtering house (fresh meat export)	1
Beverages	5
House fixtures making/Aluminum	1
Total	50

Source: Ministry of Commerce and Industry, 2002

Italpasta factory which produces macaroni variety of Spaghetti had been operational in Bosaso since 2000. The plant average daily output is 4.5 tons of macaroni packaged in plastic bags of 5 kg each. The factory works all day round divided in two shifts of 12 hours each and employs 10 laborers per shift, in addition to the factory manger and the chief accountant. According the factory manger the quality of macaroni produced by Italpasta Factory is highly preferred in the market and their deliveries reach up to Beledweyne in South and up to Yerowe in Northwest.

The bulk of the row skins and hides exported by Somalia pass through Bosaso port, mainly because of its vicinity to Dubai which the main first recipient market of destination of these products. Persons involved in this business, informed that Somali hides skin are re-exported to Pakistan and processed at tanneries of that country, and only afterwards re-exported to final destination markets, which are mainly European countries.

Only recently had a small tannery that uses traditional methods been established in Bosaso at the end of 1999 by a group of returnees. The group, before embarking on this business, has under signed article of association of the company. The document states that the name of the company is Al-Rahma leather plant, and that one of the share holders had advanced the initial capital that will be paid gradually from the company profits. It is further stated that after the re-payment of the initial liability, the company profits shall be equally shared by the company owners, including the provider of the initial capital.

The plant processes only camel skins and receives the entire amount needed from Bosaso slaughter centers. As has been informed by the plant management team, on the average, 22 heads of camels are slaughtered every day in Bosaso as supply source of part of the meat consumed in the town. At the beginning the plant had been receiving the row materials free of charge because the skins were thrown away, and required the collection from the dumping sides at the outskirts of the city. However, when the demand of the product has been disclosed they are now charged SOSH 4000 (US$ 0.22) per skin composed of sides, legs and neck.

The processing method is simple and consists of merging the skin in surface pits in order to soften and ease the removal of the wool. This is followed by a second step whereby clean pieces of skin are put into another pit contained diluted **chromo,** and remain one day. Finally, in order to wash out the residual chromo over the surface of the skin, the products pass through another pit containing only clean water. After that the skin is sun dried and brought to store for sale. The entire process takes five to seven days.

The plant employs 19 persons, including the shareholders that are actual managers of plant as well as senior technicians. The plant supplies local shoemakers and its deliveries reach up to Burao, North West.

In order to address livestock export crises, following the livestock import ban by Saudi authority, the idea of constructing slaughterhouse in Galkayo came on the surface. Before undertaking the project, the interested traders approached UNCTAD office in Bosaso and asked to provide advice on the specifications of the slaughterhouse appropriate for the delivery of good quality chilled meat. The representative officer of UNCTAD visited UAE for that purpose and passed the necessary information to interested traders.

Based on the information supplied by the then UNCTAD resident representative, the construction of slaughterhouse in Galkayo was commissioned by Puntland traders and completed by the end of the year 2000. The plant can prepare for export 700 heads of young sheep and goats of average weight of eight kg per each in eight hours. The number of required workers for such operations is estimated to be around 70 persons, plus about 30 induced employment opportunities. Three shift cycle of the plant will create job for about 300 people

1.5 Telecommunication and power Generation

Telecommunication is the vast expanding service in the region and several companies employing modern technology are now operating in all major towns situated along the tarmac road as well important rural villages in the hinterland. These companies provide landline telephone networks, e-mail and internet services, and cellular phones. New telecommunications companies have also recently started wireless e-mail and internet services in Bosaso, Garowe, Galkayo and Las Anod.

1.6 Other public utilities (roads, ports, airports)

There are two principal highways in the Puntland. The longest one consists of 700-kilometre tarmac road linking the area to Mogadishu, in the south; while the shorter another tarmac road runs from Garowe to the northwest. The tarmac road that runs between Galkayo has a length of 240 kilometres and has been financed and constructed by China from 1973 to 1978. The other section that connects Garowe to Bosaso extends along 460 kilometres was financed by Italy and constructed by two Italian companies and was completed only a few months before the turmoil. All other routes that link the highway with other parts of the Puntland are rough roads. Trucks can go at relatively high speed to some destinations, while other sections of the road are rough and passage can be termed difficult.

The condition of the rough and dusty roads gets worse when getting closer to the coastal area where steep mountains, large-sized gravel stones and sand dunes restrict traffic. Some parts of Kandala and Alula districts can be reached only by boat and during the monsoon winds are even sea-locked.

The only port facility in Puntland is the Bosaso harbour. It consists of one Ro-Ro (roll-on roll-off) berth 175 metres long, with a draught of 12 metres at high tide and 8 metres at low tide. No other ports or jetties have been constructed along the entire Puntland coastline. Nor is port equipped with loading and unloading facilities. Goods transportation to and from Bosaso is very expensive as the larger ships cannot berth at the port. Only small wooden dhows with a capacity of between 350-800 tons can berth at the port and that makes the cost per ton very high.

The Galkayo airstrip was the only one in the region to receive major civil construction work before the collapse of the military regime. It has an asphalt runway 3000 metres long and 50 metres wide and a parallel compacted earth runway of similar size. The airstrip was equipped with an underground refuelling system, communication facilities, air tower and terminals (control panels, passenger halls, stores and offices). All structures and facilities except the runway were looted or badly damaged during the civil conflict. The runway itself has a middle section of about 500 metres that needs. The runway needs completes re-surfacing and facility rebuilding.

The Bosaso airstrip is not asphalt but several earth-compacting works have been undertaken in the last two years, with European Union funding. Air traffic instruments have been installed while other improvements are under way, including erection of a fence around the airport perimeter. However, terminal facilities are in appalling condition and extremely inadequate.

1.7 Ownership System

The characteristic features of the economy of Puntland consist of lack of distinction between 'households' and 'firms'. The households are at the same time owners of the production factors and mangers of respective firms.

The economy entry point paper, produced by War-torn Society (WSP) in 1999 through participatory research, defined the economy of Puntland as a system of "family enterprises, sole traders and "atomistic" producers—all of whom are usually small and dispersed and therefore unable to take decisions that could have significant impact at Sectoral, inter-Sectoral or/and at area levels"[1].

The sole proprietorship system that prevails in the area "is literally an individual in business. The proprietor owns or obtains the materials and capital equipment used in the operation of the business and personally services its operations"[2].

Such kind of economic make-up makes difficult to conceptualise a model that explains the various links through which flow of continuous generation of resources is performed, hence complicates the task of planning and mobilising potential sources of new injections into economy in order to induce the achievement of higher growth rates.

[1] Transformations towards regulated economy, WSP, 2000
[2] (McConnell and Campbell 1984 p 101)

The prevalence of sole proprietorship system blocks the emergence of two basic factors for economic modernisation. These are:

(i) Mushrooming of production and business companies with distinct legal personality endowed with financial and managerial autonomy, independently from the owners of production factors.

(ii) Specialised factor markets, i.e. capital, labour and land markets.

The lack of transition of the ownership system into corporate business prolongs the permanence on small scale production and petty trade engagements and denies accessibility to modern management skills and resource mobilisation. Under the prevalence of sole proprietorship system the economy stagnates around the subsistence level without leaving any margin for savings. The translation of the household savings into new productive investments needs efficient financial market capable of raising money capital by selling stock share and bonds, which allow the firms to tap the saving of thousands of households and individuals

1.8 discussion and conclusions

The status of the resource base of Puntland suggests that chances for economic growth, under the prevailing production methods, are bleak. The traditional nature of the prevalent mode of production in the region is an evident parameter of the lack of both technological progress and qualified labour force. The acute deficiency of financial investment capital is related, in the first place, to the low levels of income of the majority of the population and the existence of large number of the population living in a situation of absolute poverty, which are literally deprived of reliable source of income. This situation of low income of the general populace does not leave margin of saving that can be translated to net investments. The low level of the aggregate demand, caused by the meagre incomes of the population, does not create incentive for new investments. On top of these, favourable conditions that could attract Direct Foreign Investments (FDI) are not in place at the moment.

Although the natural resource base of the region and its real potential for expansion has not been so far subjected to a comprehensive assessment, general observation of the status of the primary production sectors indicate the presence of serious challenges.

The grazing resources of the region are over taxed and it is not rational to pursue further expansion of the stocking rate beyond its present level, while the low level of rainfall does not allow large-scale agricultural production. The two other economic productive activities in the region, fishery and frankincense, are endowed with expandable margin of their production potential. Although some of the species like spiny lobster and shark fish show signs of declining stock, it is presumed that the level of harvesting of pelagic and demersal fish is still below the sustainable yield. Previous resource assessment studies of Puntland indicate that this sector "is presently exploited at 40% of its potential"[1]. In addition there are varieties of incense products that grow in the hinterland that are not exploited probably because of lack of proper marketing.

[1] Transformations towards a regulated economy, WSP Somali Program, 2000, page 20.

Chapter Two
Income and Expenditure

2.0 Preliminary Assumptions.

The staggering vacuum of statistical information in Somalia poses serious challenges to any macro-economic analysis efforts. In the first place, the total dissolution of all features of statehood implies that even the basics of economic parlance had become out of context in present reality in Somalia. The use of terms like Gross National Product (GNP) in the current situation of Somalia, where the state has totally weathered away, may be fairly taken as a deliberate misnomer. The current situation does not only create intellectual paradox but reflects the annihilation of all pr-requisites that are essential to address and take decisions concerning the livelihood of majority of the population.

Pending the achievement of functional National statehood in Somalia, it is an inescapable challenge to explore, amid temporarily, workable framework that can help the delivery of analytical tools for assessing the living standards of Somali communities in different parts of the country.

This study attempts to provide estimate figures of the status of resource flow in Puntland for the year 2003. The measurement of important components of Gross National Product (GNP) like capital consumption, profits, balance of payment and other categories that form the aggregate demand are not provided here. Other issues that are disregarded include non-marketed items like pastoral household's own production of food, production of garment by urban households and all kind of household chores.

The main focus of the study is to estimate the likelihood of the **Total Disposable Income (Y_d)** through simple household survey methodology. In conventional pure Macro-economic analysis, the determination of Personal Disposable Income is an important measure that is useful for analyzing consumer behavior and is usually defined at the later stage of measurement of national income and output. In other words, the value computation of a nation's wealth starts by figuring out the total value of all goods and services of a given year without making specific reference to the contribution of previous investments (capital consumption), tax collections, undistributed profits and household residual income. In other words disposable income is the net residual income after the subtraction of value of the **depreciation, income Taxes and non distributed profits.**

The omission of the initial and intermediate stages of the national accounting systems by this study is not an arbitrary choice but due to the nature of the economic setting of Puntland. The distinctive feature of Puntland economy is the apparent lack of noticeable capital investment. Moreover, there is no Direct Tax collection mechanism that operates in Puntland because of the absence of company and personal income statement obligations. The only exception which can be made, is the ten percentage deduction applied on the salaries of the security and administrative employees of Puntland administration. The budgetary contribution of this component consisted only 1.6 % of the total stated revenue of Puntland administration in 2003 fiscal year.

In view of the above: $\mathbf{Y_d = Y_h + G_n + D_n}$**;** whereas

Total Disposable Income **(**$\mathbf{Y_d}$) is the sum of Total Households incomes **(**$\mathbf{Y_h}$), Net Government Revenue ($\mathbf{G_n}$), and Net Donation ($\mathbf{D_n}$).

Net government income, in this context, explains the residual income retained by Puntland administration after the deduction of the income raised by the administration through indirect tax collection; while net donations are the direct contributions of the international assistance to the rehabilitation and development of essential services. These include various investments in rehabilitation/construction of schools, health facilities and water points, supply of educational kits to schools and essential drugs and equipments to primary heath care centers and hospitlas.

In order to avoid double accounting errors, the salaries paid by Puntland administration to security and administrative personal are included in the list of household's incomes, consequently the latter is excluded from the net government revenue. In the same manner, incomes generated through employment of local staff by international organizations and through leasing contracts of houses and vehicles between local clients and international organizations are subtracted from that total monetary value of the international contribution received by Puntland, while measuring net donations.

The present study is not in a position to identify the value contributed by the other two components that make the total disposable income **(**$\mathbf{Y_d}$**)**, together with the total household incomes. Net government income (G_n) results from the financial share of Puntland administration from money printing concessions to local businessmen, and collected royalties paid by foreign vessels in exchange of fishing rights along territorial waters of Puntland following the issue of fishing licenses by Puntland administration.

Since the official budget of Puntland administration does not reveal such figures neither in its revenue nor in its expenditure headings, the amount of the respective financial capital raised by Puntland administration from those kinds of deals could be determined only after the disclosure of respective figures by Puntland authority. The measurement of the level of total amount of net donations needs also compilation of the productive input of all international organizations that conduct rehabilitation and development programs in Puntland.

Taking into consideration that the identification of missing variables not only need further continuation and enhancement of applied macro-economic knowledge, but also transparent attitude of the administration, the following analytical tools are based on a temporary assumption of:

$\mathbf{Y_d = Y_h}$ Whereas; **Total Disposable income is identical with total household income.**

As per corollary of the above, this study provides understated figures of the total output and respective value of total income.

2.1 Total household income

The estimated total household income from the findings of the study survey resulted USD 276, 311,518, distributed into USD 143, 491,686 obtained by urban dwellers and USD 132,819,832 earned by pastoral households (table 2.1). Although pastoral population constitutes about 66% of population; it nevertheless accounts only 48% of total households, compared to 52% of total household income earned by urban dwellers despite the latter being only 34% of the total population of Puntland. Total household income of Puntland for the year 2003 corresponds 18.4% of the total household income of Somalia for the year 2002, estimated at USD 1.5 billion according the Socio-economic study on Somalia conducted by Somalia Watching Brief on 2002[1].

Table 2.1 Total income and its sources, 2003, in USD

Income source	Urban	Pastoral	Total
Self-employment	76,285,322	53,460,000	129,745,322
Employment to others	38,355,785	2,883,053	41,238,838
Assets	17,340,000	39,502,887	56,842,887
Remittances	10,200,000	23,580,340	33,780,340
Other sources	1,310,579	13,393,552	14,704,131
Total	**143,491,686**	**132,819,832**	**276,311,518**

Source: Study survey questionnaire, 2003

The average per-capita income, as is shown on table 2.2, amounts USD **184.2** disaggregated into $ 281.4 for the urban and $ 134.2 for pastoral.

Table 2.2 Per-capita income and its sources, in USD

Income source	Urban	Pastoral	Total
Self-employment	149.6	54.0	86.5
Employment to others	75.2	2.9	27.5
Assets	34.0	39.9	37.9
Remittances	20.0	23.8	22.5
Other sources	2.6	13.5	9.8
Total	**281.4**	**134.2**	**184.2**

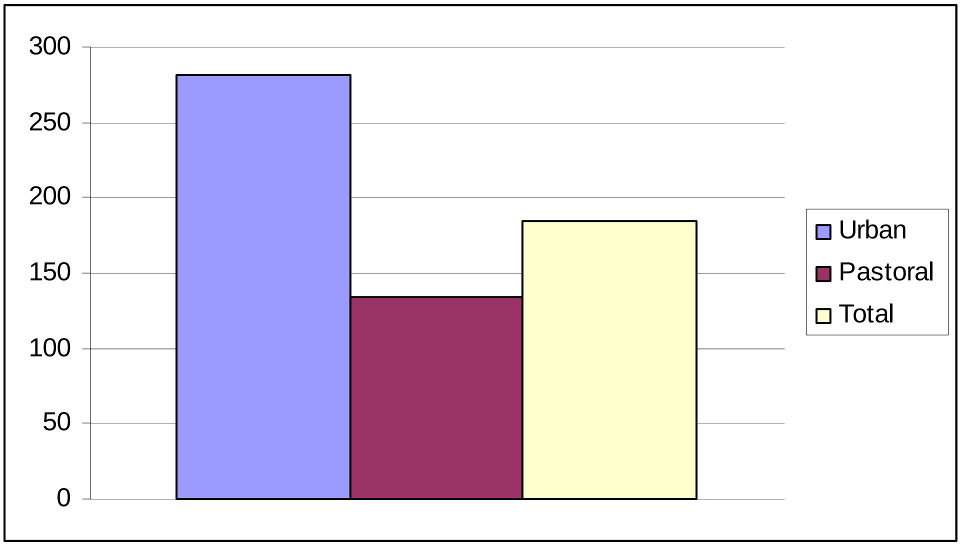
Source: Study questionnaire survey, December 2003

The last year socio-economic study of Somalia provided positive assessment of the post-civil war economic performance of Puntland, compared to other regions undergoing conflicts[2]. However, the findings of this study contradict such positive results in respect to the status of the economy of Puntland in 2003.

[1] Socio-Economic Survey 2002, Somalia; Report No.1 Somalia Watching Brief, 2003; PP 22.
[2] Ibd. Pp. 23

The regional distribution of per-capita income of the previous national socio-economic study found out that three out of five constituent regions of Puntland had an overage per-capita income above the overall national average amount, the latter amounting USD 226. The relatively better off regions of Puntland were Sanag, in the first place, followed by Bari and Sool; while Nugal and Mudug were had a per-capita income below the national average figure.

Chart 2.1 Per-capita income and its sources, in USD



Source: Study questionnaire survey, December 2003

The current level of per-capita income of Puntland, that lags behind for about USD 42 from the average national figure of 2002, is an indicator/factor of serious negative growth of Puntland during 2003. The over-whelming weight of the economic decline has been shouldered by nomadic pastoralists, as illustrated by about 110% gap of urban per-capita income ($**281.4)** over the pastoral ($**134.2).**

2.2 Sources of Household Income

Table 2.3 shows the percentage distribution of household income by different sources, and indicates that self-employment activities generate the biggest share of income earned by Puntland households. These consists of various activities performed by household members including management of small business firms in urban towns and pastoral villages, herding activities and frankincense collection and all other productive undertakings.

Income from self-employment activities contribute 47% of overall household budgets, urban and pastoral taken together, followed by income from assets (20.6%). Wage employment accounts, according to survey results, about 15% of the total household incomes, while the share of remittances is about 12.2%. Finally, interviewed households mentioned that about 5.3% of their total income came from unspecified sources.

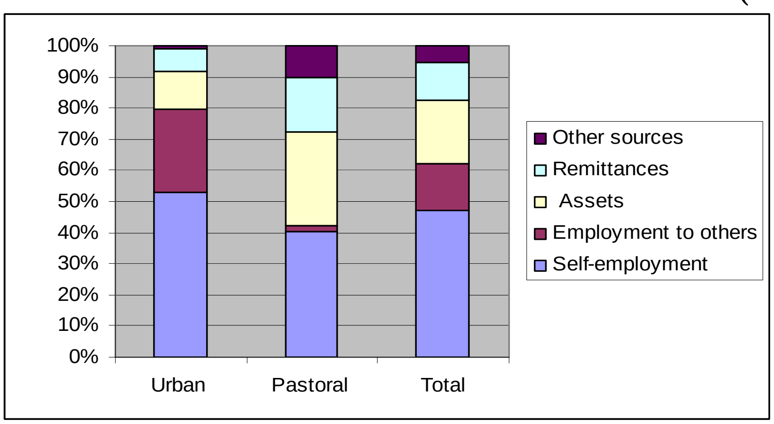
Table 2.3 Distribution of sources of household income (%)

Income source	Urban	Pastoral	Total
Self-employment	53.2	40.2	47.0
Employment to others	26.7	2.2	15.0
Assets	12.1	29.7	20.6
Remittances	7.1	17.7	12.2
Other sources	1	10.1	5.3
Total	**100.0**	**100.0**	**100.0**

Source: Study survey questionnaire, 2003

The distribution of sources of household income is another parameter reflecting the relative disadvantage of pastoral communities in comparison to urban population. Self-employment activities generated 53.2% and 40.2% of urban and pastoral households, respectively, in 2003, while FASU food security monitoring reports indicated that in a normal year the revenue from the sale of livestock and livestock products, on the average, generates 60 - 70% of pastoral household's cash flow. Income from wage employment contributed only 2.2% to pastoral household's budget, mostly from construction activities in pastoral villages.

Chart 2.2 Distribution of sources of household income (%)



Source: Study survey questionnaire, 2003

As result of the drought-induced negative turn over of the animal husbandry, non-livestock incomes constituted the bulk of the incomes earned by pastoral communities during 2003. The incidence of the non-livestock incomes over the total pastoral household incomes was measured at 57.5% in 2003. This was distributed into 29.7%, 17.7% and 10.1% from assets, remittances and non specified sources.

2.3 Total expenditure

The study acknowledges the existence of two productive investment expenditures, consisting construction of housing and rehabilitation and development of essential social services. The first type of investment is calculated by computing the value of imported construction materials and adding 25% of additional expenditure covering cost of labour and other local material. The value of investment in fishery and small processing facilities industry is very small and will be a small fraction to the per-capita expenditure figures. The second type of investment, as was mentioned earlier, needs further elaboration of the input of different international organizations into consolidated account of net donation. Moreover the study did not come across to any productive investment incurred by Puntland administration, as of 2003.

As per consequence of the above: TE = C + I; whereas

The total expenditure is composed of the total expenditure on consumer goods and services and net investment. The latter to be specific is limited to investment in construction.

Table 2.4 shows approximate figures of total household expenditure incurred during 2003. The total expenditure on goods and services, excluding expenditure on Kat, amounted of USD 290,192,142, distributed to $ 159,076,542 and $131,115,600 incurred by urban and pastoral communities, respectively.

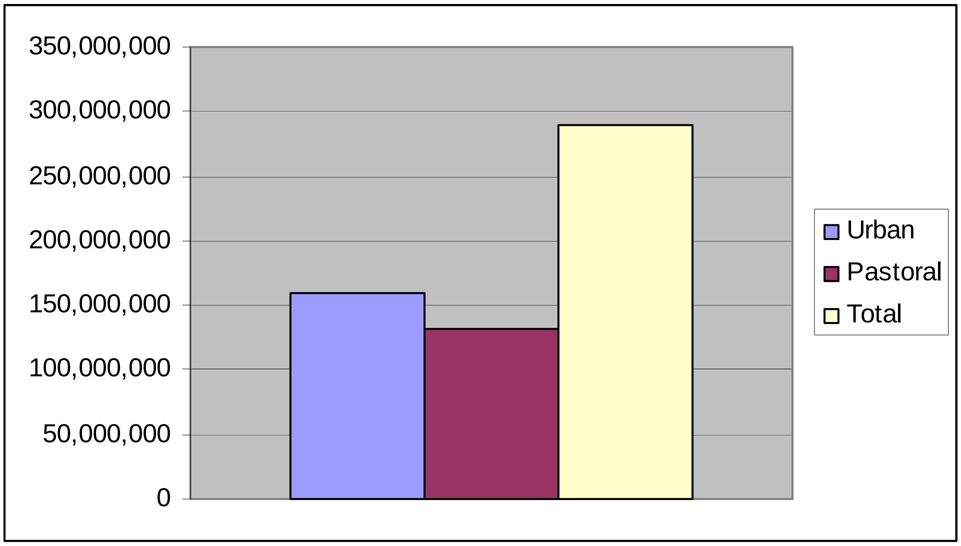
Table 2.4 Total household expenditure on goods and services, 2003, in USD

Item	**Urban**	**Pastoral**	**Total**
Food Items	63,240,000	66,330,000	129,570,000
HH goods (TV, utensils, furniture, etc)	2,863,542	732,600	3,596,142
Education	12,546,000	4,950,000	17,496,000
Health	37,740,000	14,949,000	52,689,000
Communication	8,211,000	1,980,000	10,191,000
Transport	4,080,000	9,900,000	13,980,000
Lighting	5,457,000	1,287,000	6,744,000
Clothes	5,457,000	7,920,000	13,377,000
Water	2,244,000	8,019,000	10,263,000
Rent	2,142,000	-	2,142,000
Other expenditures	15,096,000	15,048,000	30,144,000
Total	**159,076,542**	**131,115,600**	**290,192,142**

Source: Study questionnaire survey, 2003

The expenditure on consumer goods and services only, exceeds about USD 14 million to the stated total household income. This is probably attributed to under estimation of household incomes by the respondents, rather that over statement of households expenditure. While pastoral households spent USD 1.7 million of respective total income, town population incurred $15.5 million on top of their total household income.

Chart 2.3 Total household expenditure on goods and services, 2003, in USD



Source: Study questionnaire survey, 2003

Table 2.5 shows the distribution of household expenditure by different items and indicates that expenditure on food items accounted to 45% of total expenditure on consumer goods and service.

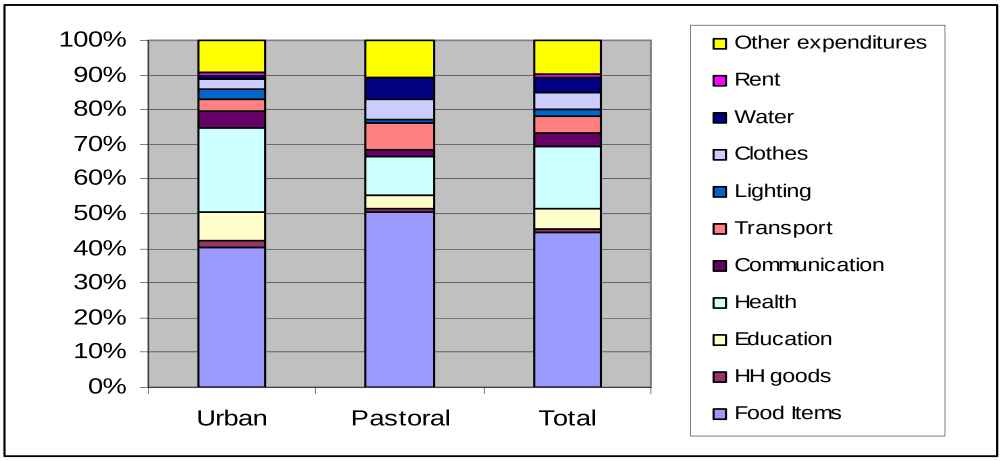
Table 2.5 Distribution total HH expenditure of goods and service by items (%)

Item	**Urban**	**Pastoral**	**Total**
Food Items	40	51	45
HH goods (TV, utensils, furniture, etc)	2	1	1
Education	8	4	6
Health	24	11	18
Communication	5	2	4
Transport	3	8	5
Lighting	3	1	2
Clothes	3	6	5
Water	1	6	4
Rent	1	0	1
Other expenditures	9	11	10
Total	**100**	**100**	**100**

Source: Study questionnaire survey, 2003

Relative expenditure on food by urban and pastoral households equaled 40% and 51% of total respective expenditures.
The relative disadvantage of pastoral communities in Puntland could be clearly seen by the distribution of the respective figures of per-capita expenditure on different consumer spending items. Table 2.6 shows that the per-capita expenditure on food equaled USD 124 and USD 67 for urban and pastoral settlements, respectively.

Chart 2.4 Distribution total HH expenditure of goods and service by items (%)



Source: Study questionnaire survey, 2003

Although the low income of the pastoralist is major limiting factor of their access to food, compared to urban dwellers; the different pricing scales of imported foods greatly depresses the purchasing power of pastoral communities. As an example, a bag of kg 50 of rice was sold at SOSH 240,000, in Bosaso, while it was sold at SOSH 270,000 in distant pastoral villages. This difference of SOSH 30,000 is due to transport costs and mark-ups along the delivery chain of imported goods from Bosaso to final delivery places.

The expenditure on health is the second main expenditure item after food. Eighteen percent (18%) of total household expenditure has been spent on the payment of different health services.

Table 2.6 Distribution of Per-capita expenditure by items, 2003, in USD

Item	Urban	Pastoral	Total
Food Items	124.0	67.0	86.38
HH goods (TV, utensils, furniture, etc)	5.6	0.74	2.40
Education	24.6	5.0	11.66
Health	74.0	15.1	35.13
Communication	16.1	2.0	6.79
Transport	8.0	**10**	9.32
Lighting	10.7	1.3	4.50
Clothes	10.7	8.0	8.92
Water	4.4	8.1	6.84
Rent	**4.2**		1.43
Other expenditures	29.6	15.2	20.10
Total	**311.9**	**132.4**	**193.46**

Source: study questionnaire survey, 2003

Although pastoral household expenditure include purchase of veterinary drugs, nevertheless different ratio of health spending equaled 24% and 11% for urban and pastoral areas. Expenditure ratio of water equaled 1% and 6% in respect to total expenditure of urban and pastoral households. The higher expenditure ratio on water by pastoral households, compared to urban dwellers, is due to the inclusion of livestock water consumption and cost of water trucking as a result of the current drought. Similarly, pastoralists incurred higher expenditure on transport (6%) compared to urban households expenditure (1%), due to frequent long distance trucking of people and animals during 2003 from dry to wet areas by households that afforded cost of transport. The higher death rate of burden-camels and competition between households by taking animals immediately to those areas that received early rains for early herd recovery, made necessary to use trucks for household translocation.

The imported volume of **Kat** totaled Kg 2.6 million, divided into kg 1.1 million **Meru** variety from Kenya and kg 1.5 million of **Hareeri** Variety from Ethiopia[1]. With an average market price of $ 12 per kg, this gives a total expenditure of 30 million USD per year on Kat. This amount corresponds to a per-capita expenditure of $ 20 on Kat. In other words the per-capita expenditure on Kat is close to the total estimation of the expenditure on education, water and housing.

To conclude, the estimated figures on total household expenditure on consumer goods and services, inclusive the expenditure of Kat equaled USD 320 million in 2003.

2.4 Income distribution and incidence of poverty.

The present preliminary income distribution analysis provides clear illustration of differential gaps of different income levels within income bands of urban communities. For example, only 6% of the urban population gets 26% of total urban household income, whereas 75 % of urban population gets only 42% of total urban household income. This latter category, which constitutes three fourth of the urban population could be classified as people living in a situation of extreme poverty because of the respective per-capita income rated less than USD 1 per day measured at purchasing Power Parity (PPP) for international comparisons and aggregation.

General poverty estimates in urban areas based on the number of people living on less that $2 per day are 94% of the urban population. According o this measure, except 30,600 persons, the rest of urban populations are living in a situation of general poverty. Moreover, the population below extreme poverty line living less than USD 210 annual per-capita incomes consists 53% of the total urban population.

The economic situation of pastoral households is extremely critical and could be described as an overwhelming extreme poverty. Only 2% of total pastoral populations are found living over general poverty line, the rest being subject to extreme deprivation of basic necessities.

2.5 Discussion and conclusions

[1] Facts and figures, Ministry of Planning and Statistics of Puntland, 2003.

The findings of income and expenditure analysis are preliminary and need further in-depth investigation through expanded sampling and smoothing techniques of deferential incomes and expenditure rates between different categories of the population. Despite being exploratory, the preliminary figures worked out by this study suggest serious economic crises in Puntland. This can be summarized on the following:

- Marked negative growth of Puntland economy in 2003 compared to situation of 2002.
- Debacle on pastoral economy and looming outbreak of famine in pastoral areas.
- The negative trickle-down effect of shrinking economic trade off of the pastoral economy in urban areas.
- As per consequence of the above, it is presumable that Puntland is on the verge of general economic collapse.

Chapter three
Public finance

3.0 General considerations

Public finance is a specific branch of economic discipline specialized on theoretical and practical matters of government intervention in the economy. Since 1998 Puntland achieved substantial institutional advancement following the establishment of mandated government structures, despite the absence of national state for Somalia.

The economic impacts of Puntland administration, since its establishment in mid 1998 needs separate assignments and collection of quantitative and qualitative data covering the assessment of economic implications of six years of exercise of Puntland administration.

The study team did not come across any policy positions that define guiding principles and strategy visions in respect to both the justifications for revenue collection and expenditure goals. Consequently this study is not attempting to make value judgments of Puntland administration's resource utilization. Nevertheless, it is noteworthy to underline that lack of short, medium and long term stated aims and strategic policies in pursuing the achievement of state goals.

Following sections aim to scrutinize revenue and expenditure dynamics of Puntland administration since 1999, i.e., its first fiscal year. Financial entries of different levels of Puntland administration include:

(i) Budgetary financing, which includes all kinds of financial revenues and expenditures incorporated in official budget.
(ii) Collection of levies, as an extra budgetary financing imposed on tax payers in order to cover the operational costs of autonomous agencies of Puntland administration.
(iii) Municipal taxes collection by limited city councils (Bosaso, Galkacyo).
(iv) Royalties and service charges in favor of the administration against permission of money printing to client businessmen.

Following sections will try to analyze budgetary financing figures issued by the Ministry of Finance of Puntland administration. Since any documentation regarding how the revenue collected through levies is spent by respective institutions, only the revenue side of the levies will reviewed. Finally, municipal tax collection, Royalties and service charges on money printing are informational gaps that need to be disclosed by successive studies on this same subject.

3.1 Budgetary financing

Budget preparations passes through five consecutive stages:

- The first step consists of the submission of projections of expenditure needs of ministerial departments to the ministry of finance.
- The second step is taken by the ministry of finance by preparing draft text of the budget to the council of ministers.

- Council of ministers debates over draft text of the budget, and after necessary changes are done on the first draft of the budget, undersigns interim approval of draft budget
- Afterwards the House of Representatives of Puntland debates over the council of ministers proposed budget and after the necessary changes are done the House of Representatives approves through majority vote.
- Finally, Puntland president issues, final degrees, as a legal act which legislates the budget as binding law defining revenue and expenditure entries of Puntland administration.

The financial year of Puntland administration, officially, starts the first January of each year and ends the 31st December of the same year. The budget, as per general standard, is composed of revenue and expenditure sides and is a kind of public statement of government accounts. At the beginning of each year expected revenues and expenditures are laid down; while by the end of each year the budget department provides final measurement of the actual revenue obtained from different sources and actual expenditures incurred by the government during the same year.

The discrepancy between projected and actual revenue and expenditures is part of normal budgeting practices. In other words both the actual total revenue and total expenditure may exceed or fall short of projected estimations. In other words the government may rise more or less of the level of revenue expected; similarly many state institutions may incur over or under expenditure of the allocated funds. Discrepancies between projected and actual entries of state budget could be attributed either to circumstantial events or to poor budgeting skills, or the occurrence of both.

3.2 Revenue side

The analysis of the revenue side figures is based on official budget documents and information supplied by tax collection authorities, under the ministry of finance of Puntland administration.

The general picture of the revenue trends is reported on table 3.1, and manifest stable increase of annual influx of revenue in the treasury of the administration, albeit with different rate, from 1999 to 2000. The highest percentage increase has been achieved in 2000, with a record of 157%, following the increase of the total actual revenue from SOSH 30.8 billion in 1999 to SOSH 79.7 billion in 2003.

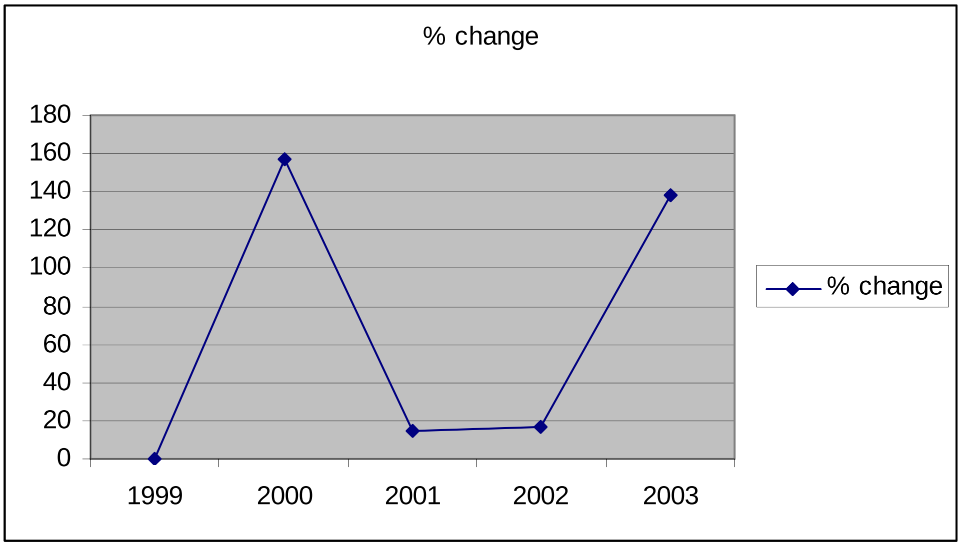
The speed of cash inflow into the administration's budget has been relented with a percentage increase of 14.3% and 17.0% in 2001 and 2002, respectively. Once again, a spectacular increase of the total nominal actual revenue has been achieved in 2003, following an increase of revenue from about 106 billions to over SOSH 253 billions. This corresponds of a net increase of 138%.

Table 3.1 Revenue trends 1999-2000, in SOSH, in millions.

Year	Annual budget in SOSH	% change
1999	30,820	0
2000	7 9,300	157
2001	90,700	14.3
2002	106,055	17.0
2003	253,200	138

Source: Compiled from official budget statements, Ministry of finance, Puntland administration.

Chart 3.1 Revenue trends 1999-2000, in SOSH, in millions.



Source: Compiled from official budget statements, Ministry of finance, Puntland administration.

The speedy increase of cash inflow into the administration's treasury in the year 2000 was due to the early public enthusiasm for the establishment of civil administration in Puntland after eight years of lethargic SSDF rule in North-east Somalia, and the introduction of more systematic revenue collection system. However, the political crises within Puntland starting from early 2001 and its degeneration into military confrontation that continued until May 2003, impacted negatively on the revenue collection ability of the administration. As a result of the internal strive within Puntland; it was possible to obtain modest increase rates during 2001 and 2002, amid over hundred percent of increase of custom duties and port service charges. As an example, tax tariffs on food items (sugar, rice, and flower) have been increased from SOSH 6000 to SOSH 13, 000 as of June 19, 2002[1]. Similarly a custom duty on imported new Toyota Land-cruiser has been increased from SOSH 7.4 million to SOSH 17.2 million.

The peace agreement between the current administration of Puntland and the armed oppositions group, once again increased revenue collection opportunities of the administration. The spectacular increase of the revenue side of the budget reflects the immediate positive impact of the reunification of political forces in Puntland in May 2003.

[1] Law No.1 R3 17.6.2002

In order to illustrate the dynamics of revenue side of annual revenue of Puntland administration, a distinction needs to be made between nominal revenue and real revenue. Nominal revenue is the total sum of all entries calculated on Somali Shilling, while the conversion of such amount into USD is its equivalent in real revenue terms.

Table 3.2 shows total real revenue figures of Puntland administration and respective annual exchange rates between USD and Somali Shilling.

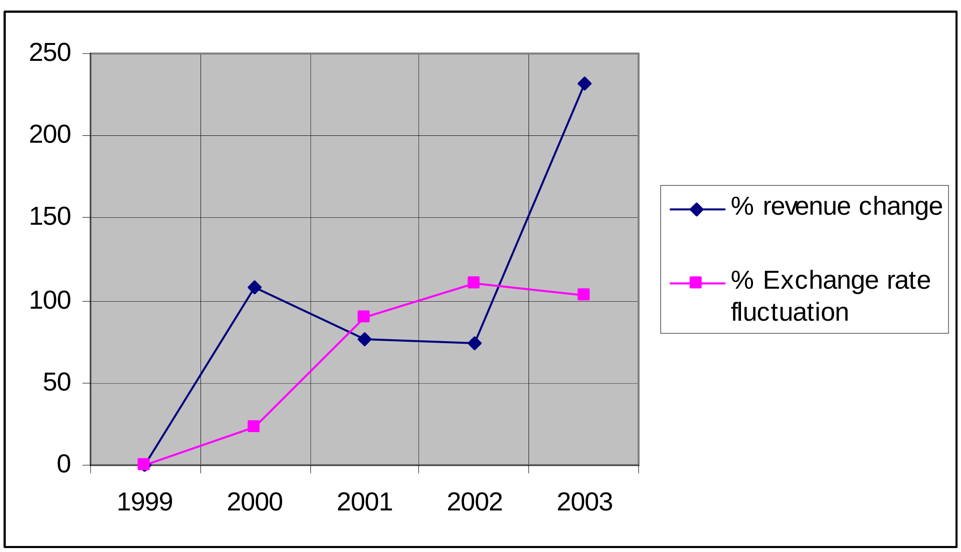
The total nominal revenue of Puntland administration increased from SOSH 30.8 billion in 1999 to SOSH 79.3 billions in 2000, while the real revenue moved from USD 3.8 million to USD 5.7 million during the same year. Table 3.2 shows that nominal total revenue increased 157% against an increase of 108% of real total revenue. This difference of increase rates of the nominal and real revenues is due to 23% depreciation of Somali Shilling in exchange of USD.

Table 3.2 Total real revenue trends, in USD, 1999-2003

Year	Annual revenue in USD	% revenue change	Exchange rate SOSH/USD	% Exchange rate fluctuation
1999	3,625,882		8,500	
2000	7,552,381	108	10,500	23.5
2001	5,182.857	-31.3	17,500	66.6
2002	5,050,224	-2.5	21,000	20.0
2003	13,000,000	157	19,480	-7.2

Source: compiled from Official Budget figures, Ministry of finance.

Chart 3.2 Total real revenue trends, in USD, 1999-2003



Source: compiled from Official Budget figures, Ministry of finance.

If the exchange rate between the currencies remained fixed at its level SOSH 8500 per Dollar, the real value would increase to USD 9.2 million, both real and nominal revenue achieving similar increase rates. In real terms, however, if we use the exchange rate of 1999 as a deflator index it shows that the market value of the total nominal revenue is equivalent to SOSH 64 billion. In other words, the real purchasing power of the 90.7 billion obtained by the administration in 2000 corresponded 64 billion at 1999 price indexes.

Total revenue is distributed into seven principal sources codified as Heads numbered from 1.1.0 to 7.1.0. Each principal head is further divided into several sub-heads. Expenditure tax contributed 68% and 71% of the total nominal revenue in 2002 and 2003. Total nominal revenue registered a net increase of over SOSH 147 billion in 2003 in respect to 2002. Close to 107 billion of such amount has been contributed through expenditure tax collection, or 72.6% of the total net increase.

Table 3.3 Total nominal revenue distribution by sources, SOSH, in millions.

Heads	2002	2003	Difference
1.1.0 Expenditure Tax	72,374	179,307	106,933
2.1.0 Indirect Tax	8,518	19,180	10,662
4.1.0 Income Tax	2,248	4,128	1,880
5.1.0 Government property Fees		4,829	4,829
6.1.0 Government Service Charges	22,909	27,436	4,528
7.1.0 Transfers and contributions		18,311	18,311
Total	**106,049**	**253,191**	**147,142**

The second revenue source, as per order of contribution, is government service charges (6.1.0). Sub-head items, under this head, include service charges levied on export and import transactions, and accounted 22% and 11% of total nominal revenue in 2002 and 2003, respectively. About SOSH 23 billion have been raised through government property fees (5.1.0), and transfers and contributions (7.1.0), distributed into SOSH 4.8 and SOSH 18.3 billion, respectively. These heads have been introduced in 2003, and covered 2% and 7% of the total revenue of 2003, and 3% and 12.4% of the net increase, respectively.

Table 3.4 distribution percentage increase by sources% (2002-3)

Heads	**2002**	**2003**	**% of increase**
1.1.0 Expenditure Tax	68	71	72.6
2.1.0 Indirect Tax	8	8	7.4
4.1.0 Income Tax	2	2	1.3
5.1.0 Government property Fees		2	3.3
6.1.0 Government Service Charges	22	11	3.0
7.1.0 Transfers and contributions		7	12.4
Total	**100**	**100**	**100**

The only income tax collected by Puntland Tax authority, consists deduction from the salaries and allowances of civil administration staff and security employees, and covered 2% of total revenue of each of the last two years.

General observation over the revenue sources suggests the following indications of the revenue base of Puntland authority:

- Lack of any public sector in the sphere of economy under the direct and indirect influence of the administration.
- The administration has no access to direct International Aid and loan through international financial institutions or/ and bilateral sources.
- The official budgetary financing does not make any indication of resort to any local financial borrowing, as a deficit spending measure, except on informal borrowing of goods and services from business groups during the administration's financial crisis. This type of deficit financing is not reflected in books

The above scenario of revenue collection gaps, explain that the revenue base of Puntland administration is exclusively centered on tax collection. Moreover, the tax collection system is not broadened but strictly narrowed to indirect taxation. The administration relies 98% of its revenue solely on indirect tax collection. It is noteworthy to underline that indirect collection system, itself, lacks the minimum of articulation to tap inland indirect collection potential.

Easily taxable activities are, therefore, import and export transactions. Bosaso port and Bosaso and Galkacyo airports are the vital import and export conduits for Puntland regions. However official budget documents do not show detailed breakdown of total revenue entry into the administrations central treasury from Galkacyo and Bosaso airports, while the revenue from Bosaso port alone amounted in SOSH of over 111.4 billion in 2002, distributed into 91.2[1] billion through import and export taxes, and 20 billion[2] as port charges. Paradoxically, such figure only exceeds the total actual revenue stated in official budget document. This explains that most likely all transactions of the revenue side of the budget are not duly recorded.

The strictly narrowed revenue base of the administration weakens its flexibility and maneuverability for more assertive and enhanced tax collection system. Due to such narrowed tax base, the level of revenue depends on the following two elements:

- The level of import export flows
- The level of tariffs and service charges on import and export flows.

Since the administration has no influence on the intensity of the import and export movements, its ability to raise revenue depends on the manipulation of the rate of tariffs and service charges on outgoing and incoming goods from within and from without Puntland. In other words, if the administration intends to maintain a level of revenue in phase of shrinking export/import movements the only possible option is to rise the level of

[1] Mohamud Salah Ahmed, Accountant of Bosaso Custom, 2002
[2] Hasan Said Ismail, Bosaso Port General Accountant

import and export tariffs and service charges. Similarly, if the administration intends to expand its commitments in terms of service delivery to the taxpayers, additional costs can also be met only through another round of increase of tariffs and service charges. Finally, the reliance on continuous upward of import and export tariffs and service charges is the only countermeasure to compensate the deterioration of the real revenue, following the spiral of inflationary tendency provoked by higher exchange rates of USD in exchange of Somali Shilling.

Since the establishment of Puntland administration in 1998, the level of import and export tariffs has been increased several occasions. The last step in that direction has been taken on mid June 2002, through presidential degree. On that occasion the level of tariffs and service charges has been increased over 120% in one go for most of goods.

3.3 Expenditure Side

The expenditure side of the budget of Puntland administration, like the revenue side, shows stable increase in nominal terms while in real terms regressed 5% and 2% in 2001 and 2002, respectively. Table 3.5 and table 3.6 show the highest expenditure rates have been incurred in 2000 and 2003, like the revenue patterns discussed in the previous section.

Table 3.5 Expenditure trends 1999-2003, in SOSH, in millions

Years	**Nominal expenditure In SOSH**	**Real expenditure In USD**
1999	24,800	2,917,647
2000	57,,000	5,428,571
2001	90,000	5,142,857
2002	105,000	5,042,619
2003	253,200	12,997,946

Source: Ministry of finance of Puntland.

Official budgets provide different descriptions in regard to various expenditure items. In the first place expenditure allocations are distributed into six major allocations. Table 3.7 describes these six expenditure heads and respective share of each head over the total expenditure incurred by the administration during the last two years. Salaries and allowances accounted 66% and 60% of the total expenditure in 2002 and 2003, respectively. Government service is also the second major expenditure item, after salaries and allowances.

Table 3.6 Percentage changes of total revenue in nominal and real terms (1999-2003)

years	**Nominal expenditure In SOSH.**	**real expenditure in USD**
1999-2000	**130**	**86**
2000-2001	**58**	**-5**
2001-2002	**18**	**-2**
2002-2003	**139**	**158**

Source: compiled by PDRC on the basis of data of Puntland Ministry of Finance

Other striking features of the revenue side of the budget include lack of record of the investment ventures undertaken by the administration through allocations described as capital investment expenditure. Financial provisions allocated under this head, as capital investment account, amounted to SOSH 12.5 billion, or about USD 600,000, for 2002 and 2003. However expenditure figures that have been committed by the administration on investment ventures are not described throughout the official budget documents.

Table 3.7 Distribution of expenditure items % - 2002-2004

Description	**2002**	**2003**
1. Salaries and Allowances	**66**	**60**
2. Government Service.	**19**	**10**
3. General expenditure	**3**	**10**
4. Payment arrears and service charges	**3**	**14**
5. Capital investment	**3**	**4**
6. Charities and Reserve	**6**	**2**
Total	**100**	**100**

Source: compiled by PDRC on the basis of data of Puntland Ministry of Finance

On the other hand, payment of arrears and debt services absorbed about 3% and 14% of total expenditure in 2002 and 2003, while there is no any mention of government borrowing in the revenue side of the budget.

Further breakdown of expenditure allocations are distributed along institutional lines. The expenditure side of the budget describes provisions and power of authority to spend to seventeen institutions consisting: The presidency (1.1.0), House of Representatives, and fifteen ministerial departments (1.3.0 to 1.17.0)

Table 3.8 Distribution of total expenditure by government institutions, 2002- 2003 (in SOSH in Million)

Head	Institutions	2002	2003	Difference
1.1	Presidency	42,287	100,269	57,982
1.2	House of Representatives	2,190	5,466	3,276
1.3	Ministry of Finance	25,708	80,593	54,885
1.4	Ministry of interior	23,497	37,392	13,895
1.5	Ministry of Religious Affairs	4,118	6,989	2,871
1.6	Ministry of livestock and environment	899	1,781	883
1.7	Ministry of Public Works	1,374	4,384	3,010
1.8	Ministry of Health	2,501	2,286	-215
1.9	Ministry of Fishery and Ports	1,322	2,945	1,619
1.1	Ministry of International Relations		829	829
1.11	Ministry of Planning statistics	295	828	537
1.12	Ministry of Commerce and Industry	366	991	625
1.13	Ministry of Education	240	2,875	2,635
1.14	Ministry of labour and sports	470	1,748	1,277
1.15	Ministry of local government and rural		1,060,	1,060
1.16	Ministry of Rehabilitation De-mining and national reconciliation		1,140	1,140
1.17	Ministry of Information	7189	1,625	906
Total Expenditure		**105,984**	**253,200**	**147,216**

Source: compiled by PDRC on the basis of data of Puntland Ministry of Finance

Hierarchically, Para-military troops (Darawiish), the office of the general auditor, Government lawyer and the directorate of Energy, Water and Natural Resources are answerable to the presidency. Consequently expenditure allocations of these institutions are incorporated within the expenditure head of the presidency. The total expenditure incurred by the presidency and attached institutions amounted to SOSH 42.3 and 100.3 billion in 2002 and 2003, corresponding to 40% of total government expenditure in each year.

The second biggest expenditure share was allocated to Ministry of finance, after the presidency, with total provisions of SOSH 25.7 and 80.5 billion for each of the last two years. In percentage terms these equaled 24.2% and 32%, respectively. Salaries and allowances of police force are paid under the account of the Ministry of Interior (1.4.0). The provisions to the entire Department of the Interior increased from SOSH 23.5 billion in 2002 to SOSH 37.4 billion in 2003.

The above three institutions are responsible for general policy direction, security and respect of rule of law, and revenue collection and management. The ratio of the expenditure of these three institutions taken together over of the total expenditure of administration, in 2002 and 2003 resulted to 91.3: 105.9 and 218.5: 253.2 or 86 percent, thus leaving a left over of less than 14 percent to all other state institutions.

It is noteworthy that the Ministry of Health suffered budget cut in 2003 in respect to 2002. While all other institutions gained from swollen expenditure, the allocations to the Ministry of Health in 2003 have declined by SOSH 215 million in respect to the level of 2002.

The Ministries of Health, Education and Public works that are responsible for the improvement of essential services have obtained 3.9% and 3.8% from the total expenditures of 2002 and 2003. Likewise, the Ministries assigned to promote production and trade (Ministry of Livestock, Agriculture and Trade and Industry), received 2.4 and 2.2 percents from the total budget of the same period.

In general, table 3.9 shows the distribution of the expenditure side of the budget into expenditure on Government Services and Payment of Salaries and allowances. Expenditure on government services are intended to cover all operational costs of administrative departments, including transport, renting, office supplies and other smaller petty cash expenses.

Table 3.9 Distribution of total expenditure into Services and Salaries (%), 2002-2003

Year	Government services	Salaries and Allowances	Total
2002	34.1	65.9	100
2003	39.4	60.6	100
Difference	43.1	56.9	100

Source: Government annual budget documents, 2002-2003

The total number of civil service personnel increased from 1,141 government employees in 2002 to 1,659[1] in 2003, while the total number of Para-military (Darawiish) and Police is classified as security matter that the administration is avoiding to leak because of security precautions.

[1] Official budget Documents, 2002 and 2003, Ministry of Finance of Puntland.

Chapter Four
Import and export Economy

4.0 General overview

The economic feature of Puntland is characterized with export of bulk of domestic products to export and import of most of consumer goods from abroad. Since the collapse of Somali state, Countries laid along the Arabian Peninsula have become major economic partners of Somalia. Although these countries are not the end consumers of all products of Somali origin nevertheless these are transited through Arabian countries before they reach final destination. Similarly, Arabian countries are not countries of origin of most of the products imported by Somalis; however Somali importers are second hand purchasers from the warehouses at United Arab Emirates (UAE) or other countries located on the other side of the Arabian Sea.

The geographic location of Puntland gives relative advantage to these regions, particularly in respect to southern parts of Somalia, because of their vicinity to the countries that are major trade partners of Somalia. However the competing port of Berbera has better facilities and is closer to the Kingdom of Saudi Arabia, the major importer of Somali animals. Moreover, Somaliland livestock exporters have better business performance, in comparison to retailer exporters of Puntland. Consequently during livestock export thrive to Saudi Arabia, major flows are channeled to Berbera while at the same time food stables imported through Berbera port reach Puntland regions.

On the hand the vicinity of Puntland to UAE, Yemen and Oman gives relative advantage to Puntland in respect to many regions of Somalia. Before the recent decision of Ethiopia to close its border with Somaliland, non food items destined to Ethiopia and owned by Somaliland merchants where transited through Bosaso from UAE. Livestock export ban imposed by Saudi Arabia increased the prominence of Bosaso port over Berbera. As a result livestock export routes have been diverted via Bosaso.

Bosaso port is not only vital for the economy of Puntland regions but becomes important lifeline to northern and southern regions of Somalia particularly during periods of economic and political stresses. In the early years after the collapse of the Somali state and severe fighting in Mogadishu and Berbera, Bosaso port served many regions of Somalia.

4.1 Export trends

Three major categories of goods are often exported by Puntlanders through Bosaso port. These consist: (i) Livestock and livestock products; (ii) Fishery products and; (iii) incense products. Table 4.1 describes the major trends of the export of animals on hoof through Bosaso port since 1991 up to 2003.

The general trends of the export flow explain different situations that prevailed in Somalia. The first Export peaks of Shoats (Sheep and goats) have been achieved in 1992. Because of the general war situation that existed throughout Somalia in 1992, except Puntland, Bosaso port facility remained operational during the entire period. For, close to 1.2 million of sheep and goats from different regions of Somalia and eastern Ethiopia found their way to the Kingdom of Saudi Arabia (KSA) through Bosaso port.

4.1 Livestock export numbers (1991 -2003)

Year	Shoats (heads)	Camels (heads)	Cattle (heads)
1991	370,000		
1992	1,150,000		
1993	670,000		
1994	540,000		
1995	430,000		
1996	588,379	19,886	13,480
1997	494,320	13,935	17,675
1998	519,020	3,938	29, 492
1999	653,991	11,658	36,320
2000	571,455	8,177	27,604
2001	548,853	1,950	42,248
2002	1.412,450	9,720	53,313
2003	1.483,409	4,259	71,328

Source: Bosaso port movement statistics (1991-2003)

However, after the normalization of the situation in Somaliland, and particularly after the peaceful settlement of the second round of conflict in 1995, Berbera port attracted more export stocks than Bosaso. From 1993 till the imposition of first livestock import from Somalia by KSA in 1997, Bosaso export of sheep and goats started to decline to a lowest record of 430,000 heads in 1995. The level of final sale prices per head of shoat from Bosaso to KSA showed a corresponding drop with that of export numbers (table 4.2).
As a result of lower price per head of export small stock, the total export earning in 1995 from 430 thousand sheep and goats has been equal to USD 7.7 million in comparisons to the total export proceeds from 370 thousand that were exported to KSA in 1991.

Table 4.2 Livestock export numbers (1991–95)

Year	Sheep and goats exported (no)	Average export price (USD)	Livestock export earning (USD)
1991	370,000	25	9,250,000
1992	1,150,000	45	54,000,000
1993	670,000	30	20,000,000
1994	540,000	20	10,000,000
1995	430,000	15	6,720,000

Source: Bosaso Chamber of Commerce and Industry, figures circulated in June 1997, in occasion of African Child Day

The latter shipments have earned Somali exporters over USD 9 million, as a result of different export prices. In 1991 a head of exported stock was, on average exchanged with USD 25, in comparison to average unit price of USD 15 in 1995.

As a result of the crisis of the exportation of shoats by Bosaso port customers, urban traders sought alternative engagements, but always within the framework of livestock export. Active livestock exporters switched their business to cattle and camels. The export business of camels and cattle started in 1996 (see table 4.1) and continued since then uninterruptedly. However, unlike continued down stepping of camel export, cattle yearly export numbers had only declined about 23% in 2000 in respect to 1999, while in all other years it has maintained upward trend.

The livestock export ban on imports of Somali livestock by KSA in 1997 due to an alleged outbreak of Rift Valley Fervor (RVF), had a devastating economic impact on Somalia livestock business in general. Although the ban has been lifted in 1999, it was again re-imposed on October 2000 and is still in force.

The second livestock export peak of Bosaso has been achieved in 2003 with a record of close 1.5 million of exported sheep and goats. In recent years Bosaso has started to overtake from Berbera as the main port of livestock because of its vicinity to UAE and Oman. However, although the last year's Bosaso export has been fairly good, the loss of Saudi market reduced export values as prices in Yemen, Oman and UAE are not as good as those formerly received from KSA..The combined effects of the ban and dropping livestock export prices have created new financial incentive to export meat carcass instead of live animals. A fresh meat export abattoir has been established in Galkayo to airlift chilled meat to UAE, since 1999. Table 4.3 provides monthly slaughtered heads of young shoats for chilled meat exported since2000. Despite substantial investment in the establishment of abattoir, the meat export business is not apparently making speedy progress, particularly in respect to the export level of over 400 metric tons in 1999, which have required the slaughter of 650,000 heads young shoats between 4 to 12 months old.

Table 4.3 Monthly export of chilled meat from Galkacyo (in tons), 2000-2003

Months	2000	2001	2002	2003
January	6,900	6,950	38,000	28,241
February	6,900	14,497	38,050	18,714
March	6,900	14,497	34,975	27,500
April	6,900	14,947	36,977	25,438
May	6,900	14,447	34,925	25,825
June	6,700	14,347	34,825	24,034
July	6,700	28,842	32,362	25,967
August	6,700	28,742	32,012	22,788
September	6,500	28,642	32,212	28,250
October	6,700	45,130	32,212	28,866
November	6,500	45,331	33,755	30,745
December	6,900	37,900	33,783	15,384
Total	81,200	294,272	414,088	301,752

Source: facts and figures, Ministry of planning, Puntland Administration, 2003

Lobster catches was the largest export fish to Dubai, totaling 385 tons in September-April 2003/2004 with export value of USD 8.9 million.[1] Export figures of shark fins and shark meat are not available because fishery products are delivered to export through different routs which, unlike Bosaso port, do not keep regular records of import and export flows. Most of lobster and shark fins exports are airlifted to UAE, while exported shark meat cargoes are, often, shipped on dhows from uncontrolled coasts along the Indian Ocean to East Africa, through Mombassa port.

Similarly, export volume of frankincense had not been obtained because of lack of records to refer to. Bosaso port export figures on frankincense are underreported, because some of the export volume exits from open beach ports of Kandala and Alula districts. Some exporters use also air cargo to send incense products for export. The immediate destinations of frankincense products of Somali origin are UAE (90%) and Yemen (10%). However, the main end consumers of Beeyo (Baswellia Sacra) variety are the cosmetic and pharmaceutical industries in Europe, which usually buy the product in companies in Dubai and Aden; while Maydi products (baswellia frereania) are further graded in the first recipient countries, are delivered to KSA where it is chewed or burned as incense.

4.2 Imports trends

Imported items (except Kat), bought from foreign countries by Puntland on regular basis, constitute stable food items (sugar, rise, spaghetti and flour), construction materials, industrial goods and diesel. Table 4.4 shows that the total tonnage of the imports increased from 72,212 to 340,803 metric tons, corresponding close to four times, from 1997 to 2003. The proportion of food stables over the total annual tonnage of imported goods figured about 51% in 1997 and 42% in 2003.

Other food items are imported, like date, spaghetti, powder milk, etc, but included in general cargo. There is no any record of CIF import values; consequently it is difficult to define trade balances, in terms of the ratio of the value the total value of all items of imports over the corresponding earning from the total exported goods

Table 4.4 Import figures in tons, 1997-2003

Items	1997	1998	1999	2000	2001	2002	2003
Sugar	11.797	16,072	9,585	19,054	16,905	33,964	54,863
Rice	19,047	14,976	14,614	26,209	22,531	46,535	47,771
Flour	13,605	11.227	19,597	27,386	24,060	29,326	40,099
Cement	16,851	29,475	23,453	44,264	49,049	60,053	58,089
Other backed cargo	7,744	19,691	17,900	2,812	1,360	6,001	3,333
Construction	2,992	7,954	1,599	15,311	15,217	31,276	43,954

[1] Quoted from lobster dealers in Dubai, April 2004.

materials							
Diesel	1,899	10,547	11,206	16,719	26,255	25,398	30,680
other general cargo	14,062	28,032	42,710	93,374	49,277	45,777	62,014
Total tonnage	**76,212**	**126,758**	**140,664**	**245,129**	**204,654**	**278,330**	**340,803**

The importation Kat from Kenya and Ethiopia, absorbs substantial foreign currency.

Chapter five
Financial Regimes

5.0 Introduction

With the collapse of the Somali state, many national institutions faded away, but not the money exchange market. A multiple currency system still functions in Puntland without there being a central authority or agency that exerts direct control on currency market transactions and exchange rate fluctuations. Former Somali bank notes circulate side by side with several foreign currencies. Trade in the area is shifting to US Dollars, but currencies of the Gulf countries and of neighbouring states (Ethiopian birr, Kenyan Shilling, and Djibouti franc) are freely exchanged. Large transactions have for a number of years been done in hard currency, particularly in US currency.

Salaries of local staff working for international organizations and subcontracts entered into between these organizations and local partners are all paid in US Dollars. Remittance agencies pay their clients in Dollars for any amount of money that is transferred through them from abroad. In addition, the Somali Shilling has lost its savings value, and any sizeable amount of individual saving is turned into US Dollars.

The State Bank of Puntland and several private remittance companies are the major institutions that handle most of money transactions in the region.

5.1 State Bank of Puntland

Following the establishment of Puntland administration, a decision has been taken to "establish a state bank that will start its operations as government treasury but at the same time will also initiate means and ways to issue new currency for the aged Somali Shilling"[1]. Since early 1999, the bank has been performing the above assigned two functions, i.e. government treasury and re-printing old Somali Shilling banknotes.

The bank has a president at the head of its organizational chart seated at headquarter based in Garowe, the Capital Town city of the administration. Other branches are opened in Bosaso and Galkacyo. Bosaso is the most active branch, followed by Galkacyo. The revenue from Bosaso Port and Airport is deposited in Bosaso branch. The branch is also the first recipient of each new consignment of printed money.

The bank handles all financial entries in different accounts corresponding to various allocations to different institutions of the administration. Bosaso branch keeps also central treasury fund for contingency responses, and subject to the authorization of the Minister of Finance.

In case money printing orders are co-financed by the administration and client business people, the administration's share corresponds to the equivalent of its financial capital and the amount of service charge on the private financiers. The only private account that the Bank keeps consists the residual of each new printed money consignment from the total amount of the administration's share. In other wards private financiers of the money printing business can withhold their money in the bank or remove it to private stores.

[1] Government Program in the transition Period between 1998 and 2001, Puntland State of Somalia, September 1998.

In terms of financial status, PSB is a self financing public entity and charges four percent rate on government revenues handled by the bank. The bank applies also an extra commission of ten percent on any amount of new consignment of printed money. Finally local municipalities owe the bank two percent service charge for any transaction handled in their favour. The final surplus of annual profit/loss account of the bank is shared half and half between the PSB and Central treasury.

The financial position of PSB depends on the financial stock capitalised in each year, after the payment of all other ordinary expenses and government share of the surplus of the profit/loss account. In other words the Bank's own reserve fund could turn into capital fund after certain stage of accumulation.

Since its establishment in 1999 up to 2003, PSB handled SOSH 750 billions distributed into SOSH 550 billions of government revenues and SOSH 200billions of printed old Somali bank notes. The total non compounded earnings of PSB from all these cash flows, theoretically, would amount about SOSH 30 billions of SOSH, plus another SOSH 20 billions cashed by the bank through an extra ten percent commission on printed money.

On top of the grand total revenue of SOSH 50 billions, the bank applies also two percent service charge on any transaction in favour of local governments. Guess calculations suggest that PSB have earned non compounded income of about 2.2 million USD from 1999 to 2003 from ordinary state revenues and imported bank notes.

Subject to financial accountability and adherence to sound management rules, as well as the degree of financial autonomy from Puntland administration, PSB could build its own economic competitiveness. In other words, improved financial position of the state bank would allow capital investments and supply of private and public credits.

Moreover the bank could also handle dual currency reserve accounts in USD and Somali Shilling and thus exert degree of influence both on exchange rates and on consumer price indexes.

5.2 Remittance companies (Xawalad)

Remittance companies started to operate since 1976 as informal networks to transfer money from Somali immigrants to their relatives inside the country, without passing through any formal banking system. One year after the military take over of the country's rule from the civilian government, the new regime imposed a sort of a command economy through monopolisation of major domestic and foreign trade leverages. By mid seventies the military has encountered serious financial crises following the drain of the required hard currency to meet the growing imports of essential goods.

Confronted with such dilemma, the military regime tolerated the import of small size shipment of certain goods to local merchants without collateral bank guarantee. Such system, known as Franca Valuta, operated in the country from 1976 up to 1990. Franca Valuta system is based on the mobilization of money from the Somali Diaspora with the understanding that the equivalent amount of money collected would be paid in local currency to the recipient in the country indicated by the sender. The hard currency collected through this kind of arrangement was used to finance imports.

Within a short period the Franca Valuta system has gained prominence because it offered an exchange rate of Dollar that was higher from the official rate practiced by state owned banks, thus creating a parallel money market.

After the outbreak of the civil war, remittance companies have become major players of currency market in Somalia and, particularly, the major conduits of inflow and outflow of hard currency for stateless Somalia.

The post-state collapse remittance companies, unlike their precursor, withdrew from import financing business and specialised themselves on money transaction business. The remittance companies achieved world wide acknowledgment because "Over the years, these companies have built the structure, the resources and the expertise to transfer funds not only to Somalia but also to any part of the world instantly and at minimal rates of service fees"[1].

On the other hand, since remittances companies operations do not fully adhere to international financial standards; the recent intensifications of their operations have raised serious concerns among the financial and political circles of hosting countries.

5.3 Exchange rate movements

The movement of Exchange rates, within Somali context, are a very dynamic and is possible that within one single day the exchange rate of the Somali Shilling varies several times in different directions. It is important to flow each shift of the terms of exchange between Somali Shilling and USD because in any variation between the proportions of the proportion that USD is exchanged from one moment to another is associated with the vulnerability of the Somali economy and its currency. However, because of lack of exchange rates records and regular market studies, an attempt will be made to provide general pictures of the major trends of the exchange rates between US currency and Somali Shilling, since the outbreak of the ongoing civil war in Somalia, by early 1991.

Daily or weakly exchange rates may vary between regions but tend to converge reflecting that unlike political dismemberment in Somalia, the nation wide economic cohesions are not yet totally dissolved.

Table 5.1 and figure 5.1 show the general trajectory of exchange rate movements between SOSH and USD, since 1991 up to 2003. These could be divided into four periods each one characterised with predominance of unidirectional trend, different from other periods in terms of direction, and/or intensity of the fluctuation.

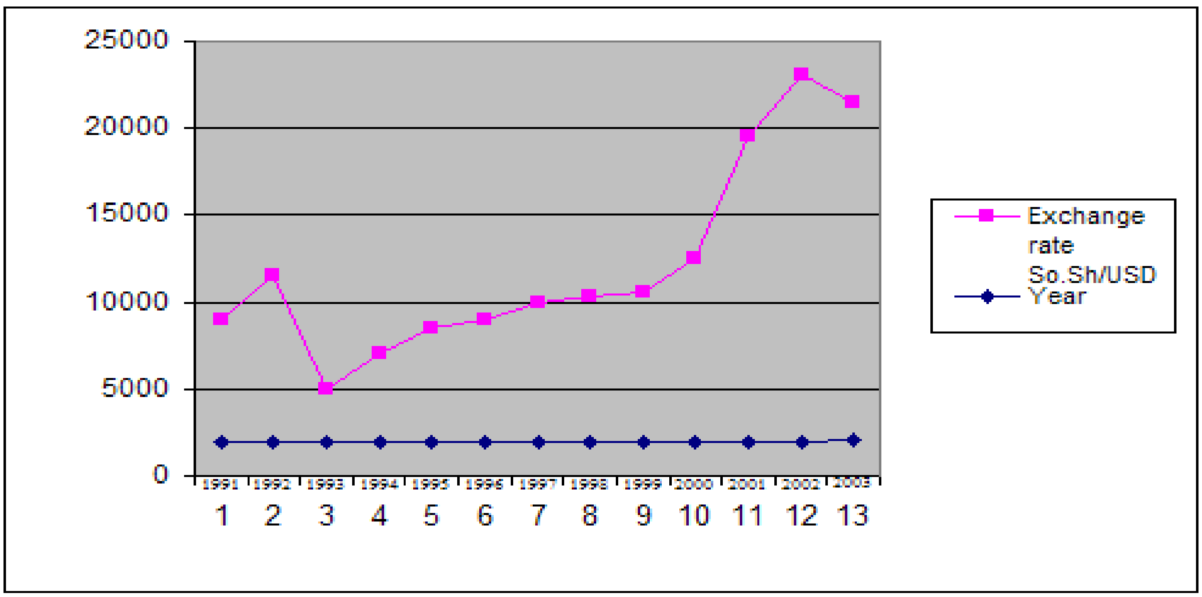
The first period starts in January and last up to November 1992, is characterised with sharp depression of Somali Shilling in exchange of USD. This was followed by an opposed trend of appreciation of Somali Shilling vis-à-vis the Dollar, which lasted up to mid 1994. Between 1995 up to 1998, although the currency market did not experience spectacular shifts of the inter-changeability between the two currencies, the Shilling remained weak but stable within the range of 6500 to 8000 per Dollar.

[1] Monetary and Exchange rate policies (1960 -2001), the Experience of Somalia, Mohamed Dalmar Abdurahman, 2003

Table 5.1 Exchange rate movements (1991-2003) (+) depreciation, ((-) appreciation

Year	Exchange rate	% change
1991	7,000	+27.3
1992 (November)	9,500	+36.0
1993	3,000	- 68.0
1994	4000	+33.3
1995	6500	+30.0
1996	7,000	+8.0
1997	8,000	+14.0
1998	8,300	+3.8
1999	8,500	+2.4
2000	10,500	+23.5
2001	17,500	+66.6
2002	21,000	+20
2003	19,480	-7.2

Sources: 1. Monetary and Exchange rate policies (1960 -2001), the experience of Somalia, Mohamed Dalmar Abdurahman, 2003; 2. Study own survey, 2003.



The currency markets in Puntland have experienced unprecedented devaluation of Somali Shilling in respect to US currency, between 1999 and 2002. Finally, Somali Shilling has gained modest improvement in 2003, in respect to 2002.

In-depth look of the background of the above described movements of the terms of exchange between SOSH and USD, finds out remarkable lack of uniformity of the contributing factors and ensuing impacts of relative periodic exchange rates.

The removal of the parallel exchange rate eased automatic transition to free floating regime of exchange rates in currency markets of Somalia. The rate of exchange plunged from SOSH 5000 in December 1990 to SOSH 7000 in December 1991 as a reflection of the "insecurity caused by the civil war and ensuing dramatic flight from domestic currency."[1]

The intensification of the economic activities in Northeast regions of Somalia, during the first two years of the civil war, swelled the demand for hard currency both for domestic market transactions as well as for import financing orders. In other words, local traders were less concerned about the plight of Somali Shilling loosing its value and tended to keep minimal the pastoralists cash needs through payment of export stock directly in food items.

In doing so, local import and export traders had been gaining soaring profits both from export of livestock as well as from import of food items. The period between January 1991 and November 1992 were also years of relative prosperity for animal herders. As a result of the high demand for export stock, the producers were offered competitive price for their animals. The high export flows have also accelerated other income earning opportunities for many urban dwellers, and consequently they generated high demand for meat and other animal products. In general, the income from sales was not only enough to cover the necessary pastoral household expenses, but pastoralists were also able to save some money.

The appreciation of the Somali Shilling from November 1992 up to mid 1994 resulted from two simultaneous international interventions. In the first place, the massive food aid deliveries that were brought in Somalia in support of drought stricken communities in some regions of south Somalia reduced the southward movement of imported goods through Bosaso port. This has consequently lowered the local trader's demand of hard currency previously needed to finance the share imported goods that were destined to southern regions through Bosaso, prior the entry of food aid donations in those regions.

On the other hand, both UNITAF and successive UNOSOM operations spent huge amounts of US Dollars in Somalia as contracts to Somali clients, rents of houses and vehicles, staff employment, etc. Operational costs of the food deliveries to starving communities were also paid in US Dollars.

In other words, the concomitancy of increased supply and reduced demand of hard currency provoked a sudden shift of exchange rate of Somali Shilling from SOSH 9500 in November 1992 to 4200 SOSH per Dollar by December of the same year. This sudden shift corresponded 56.7 percent of devaluation of the Dollar vis-à-vis the Shilling.

The economic impact of the drop of the exchange rate of the Dollar has resulted into higher cost of livestock export, following the stabilisation of nominal price of export stock to its level prior the devaluation of the Dollar. Prior the depreciation of Dollar one head of export stock was sold at 240, 000 SOSH, corresponding to 25 USD. However, at the rate of 4200 SOSH per Dollar, the actual price of export stock swelled to 57 USD.

In other words, a 56% drop of the exchange rate of the Dollar has increased the real prices of export stock fro about 128 percent. Relative transaction costs remained also high during this same period. This trend continued up to mid 1993, leading many livestock exporters to financial crises

[1] The Macro economy of Somalia, a conceptual view, Michel Del Bono and Jamil Mubarak, UNDOS, Nairobi 1999

Higher cost of livestock stock reversed the relative economic boom achieved in Northeast during the first two years after the outbreak of the civil war. The depreciation of the USD has sparked negative chain of impacts that affected export and import traders, animal herders and all other incomes induced by the intensification of the import export flows that have preceded the depreciation of Dollar against SOSH.

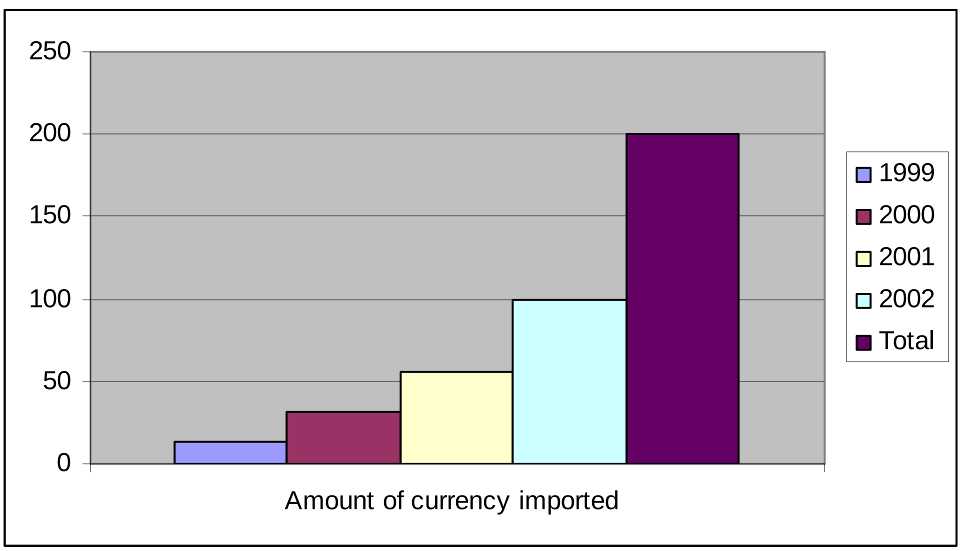
The depreciation of SOSH against USD from 1999 up to 2000 was due increased supply of local currency in the market as the local administration joined its efforts with client business-people to reprint old money notes of 500 and 1000 SOSH banknotes. The first consignment of printed money, consisting 13 billion SOSH, arrived in Bosaso on June 1999. Table 5.1 shows subsequent shipments of local currency infusion in Puntland from 1999 to 2002, totalling SOSH 2000 Billions.

Table 5.1 currency issued: 1999 -2002 (in billions of SOSH)

Year	Amount of currency imported
1999	13
2000	31
2001	56
2002	100
Total	**200**

Source: Bank officials, 2003

Chart 5.1 currency issued: 1999 -2002 (in billions of SOSH)



Source: Bank officials, 2003

The exchange rate varied remarkably after each arrival of new consignment of money, or rumour that such consignment is forthcoming, leading to appreciation of Dollar against Somali Shilling (see table 5.2 and figure 5.1 below). As an example, following the arrival of the first consignment of imported money in June 1999, the exchange rate jumped from SOSH 7200 to SOSH 8200 per Dollar. Similarly the next shipment of imported money swelled the depreciation of Somali Shilling for about 23 percent in 2000, followed by similar downward slide of the Shilling for another 66 percent and 20 percent of depreciation rate in 2001 and 2002, respectively.

Following the discontinuation of the arrival of new consignments of imported money since 2002 in Puntland, the Shilling gained modest appreciation of seven percent against the Dollar in 2003, in respect to 2002.

The money printing business "triggered hyperinflation and eroded the purchasing power of the poorer households"[1].

5.4 Exchange rate fluctuation and inflation

The rate of inflation measures "the annual percentage increase in prices"[2]. Usually reference is made in retail prices, in order to get best impression of the measurement of the magnitude of the inflationary trend. The publication of an index of retail prices in each month provides the measurement of the rate of inflation as the percentage increase in that index over the previous twelve months.

Since there is no any available data on regular price indexing, the only possible reference is to find out the differential gap between the percentage change of total annual nominal revenues and total real annual revenues of the administration from 1999 up to 2003.

Total real government revenues are the total nominal revenues converted into USD on the basis of average annual exchange rate in each year.

Table 5.2 Revenue trends of Puntland Administration 1999-2000, in SOSH and USD

Year	Annual budget in SOSH.	% change	Annual revenue in USD	%Change	Exchange Rate fluctuation (USD/SOSH)
1999	30,820, 000,000	-	3,625,882	-	
2000	7 9,300,000,000	157	7,552,381	108	+23.5
2001	90,700,000,000	14.3	5,182.857	-31.3	+66.6
2002	106,054,704,000	17.0	5,050,224	-2.5	+20
2003	253,200,000,000	138	13,000,000	157	-7.2

Source: study own calculation based on annual budgets **of the administration – 1999-2003**

Table 5.2 combines the annual budgets, both in total nominal and real revenues, respective percentage changes, and exchange rate fluctuation.

Table 5.3 and graph 5.1 show the rate of inflation, measured as the difference between the percentage change of total nominal revenues and total real revenues.

[1] UNDP Somalia (2002), human development report, page 72
[2] The Macro economy of Somalia, a conceptual view, Michel Del Bono and Jamil Mubarak, UNDOS, Nairobi 1999

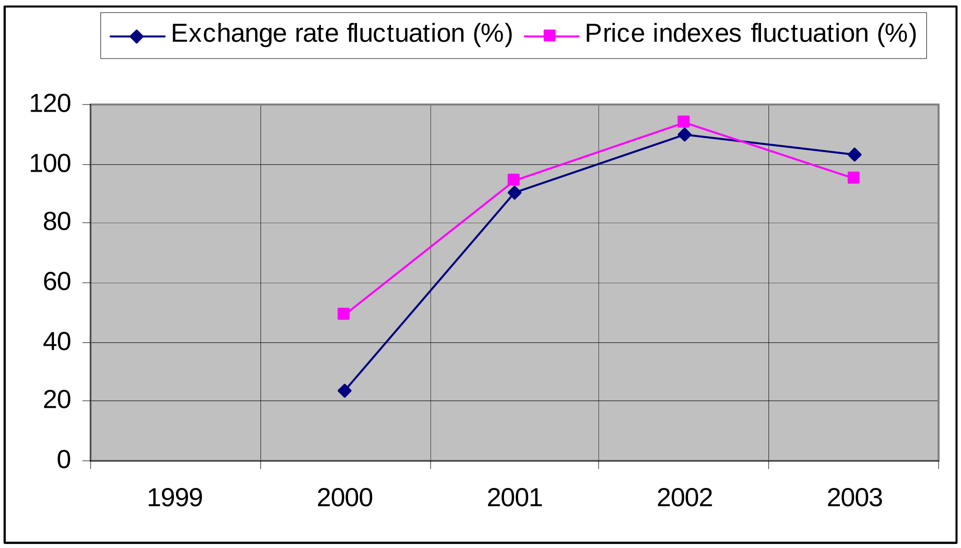
Table 5.3 Exchange rate fluctuation and rate of inflation (%): 2000-2003

Year	Exchange rate (USD/SOSH)	Exchange rate fluctuation (%)	Price indexes fluctuation (%)
1999	8,500		
2000	10,500	+23.5	+49
2001	17,500	+66.6	+45.6
2002	21,000	+20	+19.5
2003	19,480	-7.2	-19,0

Source: study own calculation based annual budgets of the administration, 1999-2003

This kind of measurement is, however, valid only on the assumptions that all other variables like demand and supply, taxes, etc, are assumed unchanged.

Chart 5.3 Exchange rate fluctuation and rate of inflation (%): 2000-2003



Source: study own calculation based annual budgets of the administration, 1999-2003

Chapter Six
General conclusions and Recommendations

6.0 General conclusion

Since this study is the first of its kind undertaken in Puntland, the nature of its conclusions are general deductions from exploratory research process that intends to lay the initial base for further in-depth research agenda on macro-economic issues in Puntland. Consequently, the below listed conclusions are, at best, broad indication of the multiplicity and the magnitude of the challenges currently phasing Puntland regions of Somalia. Likewise, the proposed recommendations are limited to provide indicative guidelines to address the list of challenges identified in this study.

The striking feature of the prevalent economic condition in Puntland is characterized with appalling level of poverty of the overwhelming majority of the population. It is fair to say that currently existing livelihood conditions could be paralleled with an outbreak of emergency situation in Puntland, caused by concomitance of cluster of problems, consisting of three main risk factors. These are: (a) prolongation of the livestock export ban on Somali livestock; (2) the spiral of inflation and; (3) cyclical droughts. Excessive intensity of one or two of the above risk factors is enough to escalate famine and insecurity.

Livestock export ban and spiral inflation existed for a long period, however, their impact was mitigated by generous rains received in Puntland regions during the most of the last decade before the new millennium. This has allowed many pastoral families to be temporarily able to cope with the danger of total food insecurity through increased availability of pastoral production for households and possibility to sell some of these products in the market, in exchange of stable food. Good health of animals and reduced dependency on purchased water during the early months of the jilaal, have also partially mitigated pastoral household cash needs before the current drought.

However, as has been noted earlier by the Inter-Agency Drought Assessment Team, "In the last four years of poor rains, reduced pasture and water and livestock deaths the asset levels with pastoral communities has changed significantly"[1]. The assessment team has identified a new group of "destitute" households who are no longer viable pastoralist. The team has also forecasted that in the event of failure of GU rains "some middle and better off households will abandon some or all of their herds"[2].

The coincidence of prolonged drought on the one side, and prolongation of export ban and stabilization and galloping inflations on the other side, forced the overwhelming majority of the nomadic population to a situation comparable with revenue vacuum, and consequently the food insecurity in pastoral areas has reached a critical level.

The insolvency of significant number of nomads following the loss of livestock asset holding has negatively affected Puntland traders. As a result of that, the ongoing prolonged and severe drought has contributed further widening of the incidence of urban settlers

[1] Inter-Agency Assessment of Sool Plateau and Gebi Valley, Sool and Sanag regions, October 2003, page 28.
[2] Ibid

living in extreme poverty situations. In general, the sequences of crisis factors represent cumulative problem tree leading to total fall a part of economic fabric of Puntland.

The economic deterioration in Puntland has reached a critical stage, consequently any attempt to recover from the present impasse must rule out the following options at least in the short and medium term:

- The drought induced destitute pastoral households can hardly be re-engaged in herding activities because regeneration of feed resources to sustainable carrying capacity levels of pastoral lands requires long period successive good rains and substantial reduction of current pressure on the range lands, in addition to substantial land improvement interventions.
- Urban towns of Puntland cannot also accommodate/ absob mass movement of former nomads.
- Movement to southern regions of Somalia is also unlikely to happen because of the persisting nation-wide insecurity and destruction of forests and looting of capital assets by criminal economy and vandals.
- Refugee seeking in overseas countries is restricting because most of the western countries are not willing to receive new refugees any more.

This study is proposing a new approach based on the introduction of broader concept of comprehensive **Puntland Economy Recovery Program (PERP)**. The program must be aimed to open ample opportunities to large sections of the population. The components of proposed programme are listed below as indicative suggestions.

6.1 Humanitarian Intervention.

On the one hand, the magnitude of the poverty in Puntland does not tolerate further indifference and needs urgent interventions to mitigate speedy pauperisation of the majority of the population. On the other hand, the recovery of productive capacity of pastoral lands and development of new sectors needs time and capital investment. Even on the assumption that the needed capital investment for development programs would be made available, people may encounter untold suffering before these projects start making difference. Consequently, there will be time frame that Puntland has dire need for substantial injection of humanitarian aid.

The content of the proposed humanitarian aid for Puntland could be designed in conformity with the concept of **Relief- Rehabilitation- Development Continuum**. In other words, relief operations must not obstruct the necessary transition to self-sustaining and towards an economy standing on its own feet. Urgent area of intervention under the humanitarian sector sub-programme could include:

- water trucking, water harvesting and water development in general
- Supplementary feeding to children under-fives and household ration to families with malnourished children; this could be part of a general program of child life improvement and protection
- The re-introduction of payment of incentives to health staff members of rural primary health facilities by UNICEF and improvement health services through out the region
- Continued failure of seasonal rains will probably generate large dispossessed communities, and in that event the establishment of temporary camps may

become unavoidable option. In such case, the support to eventual target groups will not be limited to food hand-outs but will encompass temporary provision of essential services like water, health and education to primary school age children.

6.2 Lifting of livestock export ban to Saudi Arabia

One of the immediate positive impacts of normalization of export relation with Arabian countries is the raise of the amount of hard currency stock in the local market through the proceeds from exported stock. The relative abundance of hard currency in the local market will help Somali currency to gain value against US currency and this will translate itself into decline of the general level of prices. Since, the increased import export influxes will improve the budgetary status of local administrations; the dependency of Puntland authority on printing new bank notes will be reduced.
In other wards, the lifting of livestock export ban is by itself an anti-inflationary measure.

6.3 Environmental Rescue programmes

The rate of off-take of the biomass from the grazing lands have been exceeding the natural capacity of grazing lands for self-renewal through increasing number of animals, particularly between 1991 up to 2000, and intensive charcoal production. The annual production rate of charcoal between 1994 and 1998 reached 3.8 million of sacks for export and 1million sacks for domestic consumption. The environmental cost of the production of such volume of charcoal implied the sacrifice of 21 million Acacia Nilotica trees in Puntland regions and consequent deforestation rate of 35,000 hectors of land per year in five years[1].

Such kind of excessive removal of terrestrial resources had never been compensated with parallel land improvement interventions in form of planting trees in place of the consumed ones or/ and fodder production. In fact, charcoal export business stopped since 1999 because of the number of survived trees cannot produce exportable volume of charcoal. Moreover, the high price of charcoal for domestic consumption from SOSH 10,000 in 1994 to SOSH 80,000 in 2003 is a reflection of diminishing supply of wood-based energy sources in Puntland. Re-forestation, environmental regeneration and direct intervention in this sector will help the pastoralist to regain capacity in livestock production

Since 1992, intensive lobster fishery efforts have been conducted along the Indian Ocean coast of Puntland, limited stock assessment of lobster that have been conducted by ORI in 1998 on the coastal stretch between Eil and Beila had concluded that “the current level of fishing efforts is very high, catches appear to be declining and it was speculated that the number of eggs being produced has probably been reduced to about 20% of the original level before lobster fishing started”[2]. The surveyor team warned “if lobster continued to be fished at the present rate it is unlikely that enough eggs will be produced to sustain lobster population”[3].

Shark fish species have been excessively pressured since collapse of central government. A report published by PERSGA in 1996, indicated that “over the past seven years shark and

---

[1] IUCN, November 1997, Wood Based Energy Dynamics in Somalia, Nairobi, Somali National Resource Management Program; Page 35.
[2] A survey of lobster fishery in the North east (Puntland between Foar and Eil during 1998 by P.J Fielding and B.Q. Mann, Oceanographic Research Institute, Durban.
[3] Ibid

rays accounted over 35-40 % of fishery landing in Northeast Somalia".[1] The findings of this study suggest that shark fishery consisted only 3% of total landing of 2003 around the coast of Eil district. This explains the immense depletion of shark resources as a result of sustained over fishing through increased local efforts and illegal poaching by foreign vessels.

As a result of indiscriminate fishery methods employed by foreign vessels local fishermen have frequently reported off-shore discharge of coral reef blocks.

Looking the matter into environmental perspective, suggestions to consider are:

- Improvement on individual animal performance must be emphasised as opposed to increase in animal numbers. In other words increasing productivity will limit the need for a greater number of animals to feed and provide income for the human population and, therefore, presents less risk to the environment and contribute to sustainable production.
- Restriction of charcoal production from living trees requires alternative energy sources. In this regard it is recommended to asses the feasibility of exploiting the coal deposits in Dhurbo as domestic energy material. The opening of such option would have multiple benefit of job creation and preservation of wood resources.
- Pilot projects of environmental protection, particularly on Nugal and Dharoor valleys.
- Prohibition of harvesting of lobster carrying eggs and juvenile lobster and sharks.
- Regulation of foreign fishing business particularly in regard to fishing methods used and type of catches.

6.4 Fishery Development Sub-sub-programme

As in 1984, the North East Fishing Company (NECFISH) was established as an agency under the Ministry of Fishery and Marine Resources of the former Somali government. The aim of the company was to initiate fishery development program along the sea coast between Bosaso and Aluula and was funded by Danish International Development Agency (DANIDA). The project activities had a good start and succeeded in establishing a chain of

[1] Strategic Action Program of Read and Golf of Aden, 1996, Country Report, Somalia, Jedah

cold storage facilities comprising main cold storage terminal in Bosaso with a capacity of 200 metric tons and sub-stations in Kandala, Haabo and Breeda. Other industrial establishments that exist in the region are Kandala, Haabo tuna caning factories which were founded by Italian private investors in 1930. Before the outbreak of the civil war each plant was processing 100 metric tons; at present, however neither is functioning.

Artisanal fishermen have lost important outlets to their catches following the closure of fish receiving infrastructure since the collapse of the central government.

The advantages associated with rehabilitation of on-shore facilities and support to artisanal fishermen is many, but the most important elements are:

- Enhancement of self employment opportunities of the artisanal fishermen that will found reliable outlet for their products
- The centres will create job opportunity for large number of people
- Increased fishery export will earn the region hard currency
- Expanded output of fishery will encourage domestic consumption of fish

To avoid the past mistakes the ownership of these infrastructure could be transferred to private sector. Extensive advertisement must be carried out in order to attract local and expatriate business groups to invest in this sector. Ways and means of auctioning the assets (land, buildings and machinery, etc) and the most workable solution must be chosen from different options.

The investments needed for the rehabilitation of the above listed fishery infrastructures could be provided by private investors. However, under the Poverty Reduction scheme, private investors could be assisted through access to credit facilities and technical assistance. Poor fishermen can be assisted also through initiating soft loan programs, to get access to fishing crafts and tools. Appropriate fishing skills can be also provided to the fishermen.

6.5 Infrastructure Development Sub-programme

Except The tarmac road linking southern and northern ends of Puntland all other routs linking different parts of the region are dirt roads. The condition of rough and dusty road networks get worse closer at the coastal area where steep mountains, large size gravel stones, sand dunes and deep gorges restrict traffic. Some parts of Kandala and Alula district can be reached only by boat and during monsoon winds are sea-locked. It is evident the scarcity of good roads reduced the economic potential by making difficult the movement of people goods and renders impossible to tap important natural resources. Relative to that the improvement of roads has been raised by all sectors of the society as high priority and as is conceived as important factor in poverty reduction strategy. Because of the above, the improvements of some of the roads figure at the top of the proposed poverty alleviation program. Through consultation with different local actors, and review of previous reports, the improvement of the following roads is being identified as a priority: (1) Galkacyo-Gara'ad Road; (2) Sections of Iskushuban – Hurdiya Road; (3) section of Bosaso – Kandala; (4) Sections of Garowe – Eyl Road; (5) Rehabilitation of Dhabbaaqa Road. (Eel-Gaal to Dhurbo); most of Eastern Sanaag regions

6.6 Human Resources Development Sub-programme

Human resources are key element in any development process and success of any economical, social and political development had been always glorified relative to the extent of well-being that had been achieved by large sectors of the population and the degree that aroused the talents, energies and commitments. In other wards, people are both the conscious driving force of any progressive change and the ultimate beneficiaries of its results. During the former governments of Somalia the level of expenditure allocated to health and education had hardly exceeded 4% of the total yearly government expenditure. Puntland Administration has probably inherited from the previous Somali authorities the attitude of neglect of basic needs of the majority of the population.

It is against such background that following initiatives have been proposed as first steps towards human resources development efforts. The proposed interventions include:

- Increasing school age children in Primary schools
- Completion of Garowe Teachers Training Centre and exploration of the feasibility of Faculty of Education for secondary teachers supply
- Puntland Technical Institute (PTI) consisting of secondary school education facility.
- Family Life Education Centres (functional literacy)
- Fishery Training Centres.
- Skill training for demobilised security personal as part of the Demobilisation Disarmament and Re-integration (DDR)
- Launching of Non-Formal Education programmes based on eighteen months curriculum elaborated by UNICEF Somalia (skill training)

Puntland Technical Institute, if ever is made possible, will be the first skill training institution at secondary school level ever established in Puntland. The growing number of students that are finishing the primary school cycle and the few secondary schools that are operational in the area is one of the chief reasons that justify the establishment of PTI. Ordinary secondary school, before the collapse of the central government met with serious problem because of the short absorptive capacity of the existing university and lack of marketable skills of the secondary school leavers. The institute will be equivalent with secondary school and only students that have completed primary school cycle will be admit to PTI. The objective of the institute is to provide to the students that complete their studies from PTI, the choice to either choice to continue their studies to higher levels or to look for decent work that can enable them to earn their living. The combination of university studies with supplementary jobs wills also alternative option. The education cycle of the institute will be three years and include the mechanical, electrical, construction/carpentry, and veterinary sections.

The institute will be part of the public schools existing in the region and as such subject to the official educational policies of the existing authorities. However, the actual management could be delegated by local NGO and professional association through inclusive structures that gives space concerned stakeholders. The institute could have its own management team, education committee, parent - teacher's association entity and other more flexible and broad based structures.

The capital investment will be shared by Puntland Administration and international donors, while the institute must reach full operational and maintenance cost recovery in four years time, through collection of fee from the students and establishments of production unit/s that will produce marketable goods.

6.7 Enhancement of development knowledge base

Launching of economic recovery programs cannot lead to positive result unless it is knowledge based. In this regard, there is an utmost and urgent need to lay down Macro Economic Statistics Framework (MESF). A blue-print version of such framework requires elaborated modelling of the exiting data and comparative studies of other development experience of Low Income Countries under Stress (LICUS). However, following steps may lead towards the achievement of such operative model:

- Validation of the findings of this exploratory study
- Since this study was an exploratory, finding of representative measures of major livelihood indicators require routine exercise of primary data gathering from adequate sample sizes and territorial and sectoral coverage.
- Storing and data processing infrastructures and networks that can be accessed by concerned parts.
- Recollection of relevant and traceable heritage of previous intellectual efforts needs also special consideration in order to build robust secondary data sources. PDRC could be assisted with the compilation of list of bibliography of essential documentation.
- Retraining of selected professionals with economic and statistics background (or related disciplines) and training of fresh recruits
- Networking and establishment of partnership with overseas research institutions and arrangement with Somali professionals living abroad

The above listed steps are the initial building blocks of proposed MESF and are all thought to lead towards the achievement of following targets:

- In line with the decisions of Cotonou agreement of 1995 concerning global poverty reduction strategies, the framework should assist collective efforts to produce Poverty Reduction Paper (PRP) as initial guiding document for poverty alleviation in Puntland.
- Produce Puntland Human Development Report (PHDR) exhibiting Human Development Index (HDI) of Puntland and comparative measurement of basic indicators of living standards of different Somali entities, as such are instrumental parameters for future national and local recovery strategies.
- Conduct comprehensive resource base assessment and indicate the likelihood of potential growth both with and without national statehood framework scenarios.
- Assist the promotion of development dialogue forums at different levels that would lead relevant practical policy decisions.
- Provide synthesized material on the magnitude of the poverty in Puntland, practical options to alleviate and assist wider dissemination through appropriate channels and methods to in order to foster civic culture.

6.8 Administrative Reform.

Puntland administration, since its inception, found itself confronted with the dilemma of choosing or finding compromise solution between two contrasting options in its civil and security personnel recruitment policy. The administration had to choose between either to create employment opportunity, within the public administration, as much people as it could at the expense of the level salaries, or to opt for relatively higher salaries at the expense of employment opportunities.

The selection criterion for the recruitment of the civil servants was one of the critical challenges to nascent administration. Should the recruitment criteria be based on merit and qualification or should it be through political consideration like clan balance or/and political loyalty was one of the critical issues that the administration had to deal with.

These two issues were among the many that former Somali governments have been gravely misruled, while Puntland had probably opted for:

(i) Employment creation at the expense of salary scales and quality
(ii) Clan balance and/or political loyalty as opposed to recruitment through merit and qualification

Puntland Administration can substantially contribute economic recovery of Puntland and poverty alleviation efforts only if reforms itself, particularly in the following areas:

- The administration must improve its fiscal responsibility through transparent accounting of all entries, and allocation of public revenue into ordinary expenditure and development budget.
- The administration must show willingness and enthusiasm for Demobilisation, Disarmament and Reintegration (DDR) proposed by UN agencies and other international partners. In particular, the administration must downsize the list of the security personnel to a manageable and effective level and contribute financially the reintegration of the excess number of security forces to self-employment and job creation schemes. The administration would consider increasing the salary of number screened fit as future permanent security personnel and in exchange instructing parallel improvement of personal performance.
- The administration must formulate a policy on the Puntland State Bank to become effective and autonomous institution to prove its competitiveness.
- It is important to give due consideration that the least paid groups, among the civil servants so that they can afford the acquisition of the basic human needs. Many under-paid civil servants usually manifest compromised loyalty vis-à-vis their official responsibility and are inclined to accept bribes and/or look supplementary jobs in the private sector. In fact there is always negative correlation between the level of corruption and the average scale of real salaries of civil servants. In other words, those countries that have typically high record of corruption are those that have large number of under-paid public administration employees. Moreover, the growing complaints of civil service and security personnel about payment of salaries through arrears for several months need urgent action.