

TOWARD A MACROECONOMIC FRAMEWORK FOR SOMALILAND'S POSTWAR REHABILITATION AND RECONSTRUCTION

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On a cloth untrue
With a twisted cue
And elliptical billiard balls

- Gilbert and Sullivan

To plan is to choose
Choose to go forward

- Mwalimu K.K. Nyerere

I.

THREE R's - REHABILITATION, RECONSTRUCTION, RECONCILIATION

There is no uniform use of the three r's of post war rebuilding of society, economy and state - rehabilitation, reconstruction and reconciliation. Indeed an additional pair - resettlement and reintegration - are often substituted or added. This overlapping terminology may not matter much so long as in any context it is clear what is meant by the terms used.

In the present context **rehabilitation** (or rehabilitation and reconstruction) is seen as a strategic process focusing on seven imperatives:

1. rehabilitation of **livelihoods** enabling families to produce and to earn enough to meet basic household needs;
2. reconstruction of **basic physical infrastructure** in transport and communication as well as in basic rural and urban services;
3. recreation of basic **market infrastructure** - including institutions and enterprises - so that production and physical infrastructure can be used to generate household livelihoods, enterprise operations and social actor/state revenue flows;

4. reprovision (and usually fuller provision) of **access to basic services** especially law and order/security primarily via a user friendly civil police force and magistrates court system, primary and adult education, basic medical services (including preventative and educational, veterinary and agricultural extension and water;
5. rebuilding of **institutional infrastructure (social capital)** including family, lineage group, sub-clan, national and state which create forums for social and political relations based on mutual benefit, agreed norms and non-violent settling of tensions as well as providing more concrete benefits to - in return for performance of agreed obligations by - members;
6. achieving a **sustainable set of macro economic relationships/balances** in respect to external transactions, state fiscal/budgetary transactions and prices (supply/demand);
7. reinstating **safety nets/trampolines** to provide for post war calamity (e.g. drought) and catastrophe (heritages of war including demobilisation into penury and land mines) impact lessening by interim support and to directing such support - e.g. via reintegration through training and labour intensive public works - to enabling beneficiaries to regain household livelihood and social community stability.

Neither rehabilitation nor reconstruction is to be taken as the literal replication of pre-war physical structures, institutions and relationships. These were rarely optimal and often contributed significantly to the war (or as the prettifiers of disaster term it, complex political emergency) catastrophe from which rehabilitation seeks to reconstruct and against whose re-emergence it seeks to ensure. However, many aspects of rehabilitation need to be begun promptly. Therefore reconstruction of key infrastructure e.g. Berbera harbour and urban water and - on the basis of direct local consultation - schools, health posts and rural water should not be held up for long 'clean slate' physical planning optimality exercises. Neither should recreation of a civil police force and a civil service - law, order and other basic services are vital to households and their provision (or otherwise) is a key component in state legitimacy (or otherwise).

Rehabilitation has an economic core but is integrally linked to social recovery and reconciliation and to state reconstruction and recovery of legitimacy. The reason is quite simple - neither the household/social nor the nation/state imperatives of renewal after war can be achieved without enhanced access to material resources. The interactions are not one way.

Initially regaining law, order and justice as perceived by individuals - i.e. confidence in ability to go about ones daily business without violent or other coercive interference by anyone (bandits, dictators, troops, police or government officials) is crucial to reconciliation and to legitimacy. Achieving it requires trained, paid, provisional troops to meet - or preferably to deter - external threats and similarly training, facilities and pay are needed to have effective, user friendly police and magistrates. Commerce - especially international trade and in Somaliland its vital twin sister remittance flows from over the water - depends on law and order/security even more than on infrastructure. In turn state revenue depends to a large degree on restoration of trade flows so that import and (less desirably) export duties can be levied.

A key rehabilitation (of livelihoods)/reintegration (into society) issue relates to ex-combatants. To demobilise them into poverty and social exclusion with no trade except violence and no tool except the gun is not conducive to security nor to macroeconomic recovery. To 'warehouse' them in the army is expensive but may be less costly than risking their turning to self help violence (pure banditry or quasi ethnic raiding). Training plus public works focused phased demobilisation/reintegration (as in Zimbabwe) is probably the best route but one which is costly in terms of personnel and finance.

Macro Rehabilitation - Household, Sectors, Overall

Rehabilitation - like relief during war and repatriation after is usually perceived at micro (individual, household, small group) or intermediate (larger groups e.g. major refugee or displaced person camps or restoration of urban water supplies) and in survival/humanitarian terms. **Overall macro approaches emphasising linkages, dynamics and priorities and the economic (production, exchange, external trade and fiscal flow) dimensions are frequently absent and virtually always sketchy.**

In respect to unforeseen crises the saving of life and reduction of suffering require instant attention. If infant mortality among refugees exceeds 300 per 1,000 per year (well below levels recorded in Somalia in 1991-1992) the "grab, dab and jab" (providing shelter, handing out food, carrying out vaccination) is the immediate priority. For the dead there can be no rehabilitation. But even in the short term, and especially in the medium and long terms, lack of a macro overview, strategy and set of priorities is grossly inefficient and likely to lead to

missed opportunities, inefficient use of resources and - at best - faltering rehabilitation and reconstruction. These weaknesses are exacerbated when humanitarian micro support is fragmented among a plethora of external NGO's, government instrumentalities and international agencies pursuing uncoordinated, short term agendas with scant attention (but often grave damage) to rehabilitating the national social sector (ngo, kinship group, mosque) and state capacity and legitimacy.

Attempts to link micro humanitarian to strategic macroeconomic aspects of rehabilitation/reconstruction have been rare - especially in any explicit systematic frame. Mozambique did articulate such a strategy in 1992 but could not convince donors that its proposition - based on analyses and projection of effects on other sectors, state revenue and expenditure and external trade - that centring on rural (and to a lesser extent urban) livelihood rehabilitation by the type of measures sketched above could produce rapid output and food security growth as well as massive household poverty reduction and at least some narrowing of fiscal and external imbalances. Unfortunately donors (including UNDP and the World Bank) did not so much reject it - let alone engage in dialogue on it - but treated it dismissively because it was so non-standard. In particular they did not consider seriously the proposition that over six years a gradually reducing proportion of wartime domestic emergency and neighbouring country refugee support be redirected not to other countries (or home budget savings) but to rapid rehabilitation/reconstruction in Mozambique.

One reason the macro level has so little acceptance by external resource suppliers is the absence of any substantial body of research or of domestic dialogue on the priorities, dynamics and interactions of rehabilitation from household through national levels. The IDS (Sussex) - Leeds - Bradford - Accord COPE (Complex Political Emergency) project seeks both to contribute to the body of analysis available and to stimulate domestic dialogue in several rehabilitating societies/countries including Somaliland.

Macroeconomics of Rehabilitation: The Case of Somaliland

Macro economics is not about complex equations dependent on detailed, accurate multi year data series. That is econometrics which can be sectoral or micro just as much as macro.

Nor is macro economics dependent on large bodies of detailed data nor even on complete national accounts. Its first fully recorded practitioner Aristotle (Confucius and Hammurabi are earlier, but the former is less systematic and the latter's surviving contribution - the legal code - is at best a cryptic guide to the implicit underlying analysis) specifically said that with such a subject and approach exactitude as to numbers or projections was not to be expected. The goal was **approximate (but broadly correct) orders of magnitude, interactions and directions of movement**. That is as true of Somaliland today as of ancient Greece.

Accurate data is in short supply in sub-Saharan Africa, especially Somalia/Somaliland and most especially Somaliland (which has never had formal territorial accounts). In the case of the former United Republic of Somalia many official data (not all) were based on gross misunderstanding of macro economic structures and dynamics and were thus grossly misleading. Household income, remittances, external trade and the nature of commerce were among the series with gross errors as elucidated both by Valli Jamal of the ILO and the present author in a 1987 study.

But this is not to say no data - both fragmentary quantitative and more qualitative - exist. They do. From them orders of magnitude, interactions and trends can be pieced together. In **Somalia: Paradoxes of Private Prosperity, Poverty Pockets, Volatile Vulnerability and Public Pauperisation**, Vali Jamal and the present author conducted such an exercise for the then United Republic of Somaliland. It indicated severe underestimation of grain and livestock production, of remittances and of external trade. It also showed that absolute poverty in Somalia was lower than supposed. But it also revealed that governmental services in the core health, education, water and extension areas had virtually collapsed, that pay for public servants was so low as to enforce non-attendance/non-honesty, that counterproductive exchange control and tax policies were reducing public revenue by up to three quarters and that most aid expenditure was so structured/so inefficient as to be of limited value to Somalis. Those patterns - with some shifts including very different government priorities - continue in Somaliland. Household survival and often modest security at personal consumption level combine and contrast with public sector line and contrast with public sector pauperisation. The major difference - which is parametric to (that is part of the operating context for) macro economics is in respect to state legitimacy/household security. By almost any test the Barre regime was illegitimate and security (for ordinary people) collapsing in 1987 especially in Somaliland. The reverse process has been achieved over 1991-1998 in Somaliland. Security

spending may still eat up most of the budget but at least there is user friendly security for most Somalilanders and a state committed to protecting and providing basic services to them.

Four key macro areas will be explored briefly with notes as to economic reality and public policy implications: Population, Domestic Product (Territorial Production) and National Product (Income), External Trade and Public Sector (Government broadly defined) revenue/expenditure.

The **population** of Somaliland is of the order of **2,000,000**, while the global population of Somalilanders - including refugees, overseas term workers and diaspora - is probably about 2,650,000. This analysis is based on the suppressed 1986 Swedish census preliminary data projections - including war excess deaths from malnutrition, stress and loss of medical access - and very rough estimates of refugees, overseas term worker and diaspora (categories which overlap at their margins) changes since 1986. (See Annex A).

Of the two million about 15% reside in Hargeisa, 10% in other cities and towns, 30% to 35% in agro pastoral (defined as over 20% crop share in crop plus livestock production - basically Borama - Hargeisa belt plus pockets elsewhere) and 40% to 45% in pastoral areas. This distribution shows a continuing shift to urban areas and especially to Hargeisa which was perhaps 25,000 at independence in 1960, and probably from pastoral to agro pastoral. Because of limited urban production/employment possibilities and of cultivable lands no rapid shifts are likely in the next decade.

The distribution points to a policy priority (never met satisfactorily and especially unmet since the end of the British colonial/self government period) - provision of water, veterinary service, health and education access to the pastoral (nomadic and/or seasonally mobile) population. If virtually half of Somalilanders have no access to public services beyond peace both economic and political questions/shortcomings necessarily arise.

The **Gross Territorial Product** (Domestic Output) of Somaliland is of the order of **\$600-650 million or \$300-325 per capita** - in the lower half of the middle third of sub-Saharan African states and above Ethiopia and Eritrea. Very real comparability problems exist in SSA GDP data measured in market exchange rate \$ prices, but the conclusion that Somaliland is poor but not among the poorest (at least in output and personal consumption terms) African countries appears valid.

The makeup of GDP is dominated by livestock and crops and by transport and commerce related to their sale and to that of imports financed livestock exports and remittances.

Livestock and products value to producers in terms of sale and household production consumed by the households is of the order of \$165 million with its domestic component of \$70 million odd probably almost half milk and ghee (the key cash earning source for poor agro pastoral households as well as a substantial one for pastoralists - primarily from cattle and camels respectively). **Agricultural** (crop) value is perhaps \$90 million dominated by khatt (the key crop for middle and upper income agro pastoral households) and grain (where both household study data and national food balance consumption estimates less imports suggest 150,000 tonnes production for sale and household use not the less than one third as high projections based on the old URS underestimates of sold crop output). Fishing and charcoal plus building pole (forestry) output is small but significant to some coastal villages and escarpment towns/villages.

Manufacturing (largely repair) mining and utility (water and electricity) production and value added in construction are modest, probably under \$50 million in total of which over half in construction.

Services are dominated by commerce and transport linked to marketing domestically and for export of livestock and crops and to marketing of imports and handling of transit/entrepot trade to Region 5 of Ethiopia. Together with government sector value added (basically wages and emoluments) these total over \$300 million or virtually 50% of GDP.

These proportions are in general not very unusual for a middling poor SSA economy albeit manufacturing and construction are moderately and government services radically below typical proportions. However, Somaliland's economy is very atypical in one respect - remittances. In part this is a long standing flow from merchant communities abroad (initially largely in East Africa) and from overseas workers (including at least from the 1600's seamen - then those of the British East Africa company and Arab traders). However it rose dramatically in the 1970's with the rapid growth of employment "over the water" in the Arabian Peninsula and especially Saudi resulting from their petroleum fuelled growth and more recently from the North American, European and Arabian Peninsula professional and commercial diaspora. In 1987 Jamal and Green estimated actual remittances as of the order of \$500 million (versus an official figure of under \$20 million which represented transfers via

banks) for the then United Republic. By 1995 there was reason to believe restoration of commercial channels and of peace had restored pre 1988 remittance levels of Somaliland but no clarity as to what that level was.

1998 sample estimates of commercial, exchange agency and personally carried remittances by I. Ahmed and others came to about \$500 million with the last category (which is hardest to estimate) the largest and with the "over the water sources" perhaps half the total and the old community and new diaspora sources of equal total importance. Assuming 1987 Somaliland remittances to have been \$150 million, the insecure conditions to have blocked \$25-50 million more and 1987-97 inflation to have been 60%, then \$500 million suggests a real growth of remittances of about 50% which is not implausible. The Northern diaspora is now both larger and in part established and able to remit more, while numbers of Somaliland (as opposed to total foreign) workers "over the water" have probably increased moderately.

Various estimates associated with UNDOSS/UNDP-Nairobi of as low as \$4 million bear no relation to reality. The nearly \$100 million Ministry of Planning estimate covers primarily money transfer agencies - one of three main channels and probably the smallest - and is therefore realistic but incomplete.

Gross National Product (actually Income in normal words) is therefore of the order of **\$1,150 million or \$575 per capita** - the upper end of the middle third of SSA countries. This is a conclusion not inconsistent with observed as well as survey estimated personal consumption, nutrition and absolute poverty levels.

However a serious interpretation problem arises. **Khatt** at retail price probably accounts for \$250 million of consumption. This is quite disproportionate to the cigarettes/beer (the closest analogue) share in other SSA countries and implies poverty and malnutrition levels are higher in Somaliland than might be expected at \$575 per capita income and relatively low (perhaps \$60-75 per month for a household of six or seven) absolute poverty budget levels.

The \$575 per capita income appears to be used about 85% on personal (household) consumption, 5% on public consumption, 5% on public consumption and 10% on investment. Those proportions are unusual in that **investment** is low (partly because net inflow of external resources other than remittances is 2½% of GDP versus up to 10 times as high for several poor SSA economies, but also because plant, equipment and infrastructure investment is very low) and **public consumption** under half the typical share because of very limited

revenue collection and equally limited external assistance - the latter in large measure a result of non-recognition.

These estimates (See Annex B) show considerable continuity - more accurately recovery to or even above pre 1987 levels. In particular they underline the continued pauperisation of public services which began after the disastrous Ogaden War adventure by the Barre Regime. The lower investment proportion compared to the URS of 1987 is, however misleading. Present Somaliland had disproportionately low investment and in any case the purpose of much investment was to provide payoff to Italian enterprises and occult forces and rake-offs to favoured Somalis with predictable negative impact on their real value to Somalia.

Almost all of these estimates are subject to significant margins of error. But no plausible re-estimation would alter the livestock/milk - khatt/grain - transport/commerce - remittances interpretation of the economy nor force massive alteration in the personal consumption level estimates. Nor could it alter the realities of very low public sector services (especially beyond security/law and order) relative to personal consumption and of levels of fixed investment so low and skewed as to raise doubts as to future growth potential (reinforcing those arising from the very low "human investment" in health and education and therefore in labour productivity).

External accounts (Annex C) pose problems because of undervaluation (to avoid taxation) and the commingling of Somaliland external trade with Region 5 exports and imports transiting Somaliland. However, the broad order of magnitude of exports of goods, transit/entrepot earnings and remittances is \$75 million and of aid in terms of purchases/payments in Somaliland plus imports (e.g. drugs, food) for use by Somalilanders \$25 million. That implies goods imports of the order of \$650 million (of which \$150 million khatt) and of services plus profits of foreign (dominantly Arab and non-Somalilander Somali) enterprises of \$50 million.

These results highlight several points:

- a. Somaliland is not short of import capacity relative to national income;
- b. The Balance of Payments is more or less balanced;

- c. The chief barriers to investment are low domestic savings and low deployment of remittances to investment plus limited professional/technical capacity beyond commerce, road transport and repair not lack of import capacity;
- d. Even were aid at 'normal' (for a poor SSA economy of 2,000,000) levels of \$50 million or at the upper end of the range at \$100 million, this would not radically alter import capacity although it could enable much greater public expenditure on basic service provision and infrastructure reconstruction and development;
- e. The 'collapse' of the Somaliland shilling from SS50 = \$1 to SS3,900 = 1 does not flow from chronic structural external imbalance.

At first glance, and in general outside comment, Somaliland is characterised by rapid **inflation** caused by rapid expansion of **currency supply** through deficit financing and by a **complex multiple rate exchange system** operated to benefit the state and the Central Bank at the expense of traders and export producers. These impressions are relatively to grossly misleading.

At the real (Hargeisa money changes/Jiddah bazaar) rate of about SS3,900 = \$1 the total Somaliland currency in circulation is \$12.5 million or 1% of gross national product. Given the absence of a normal banking system – and therefore cheque payments – and the limits on Central Bank and merchant means to make/receive payments by transfers without the physical use of notes, it is inconceivable circulation of currency (Somaliland and other) is less than \$60 million and – including hoarding – it could be up to \$120 million. What fills the gap – the USA \$. Somaliland currency is the small change and USA notes the basic currency. Because this means that the Somaliland economy has made a permanent interest free loan to the USA probably exceeding \$50 million and perhaps as high as \$100 million, dollarisation is cause for concern. But it cannot be reversed by law, only by building up confidence in the shilling which will take time and includes continuation of the very restricted issue of additional notes which has stabilised the exchange rate for the past year and a half.

Because the economy is dollarised, the true nature of inflation is revealed by comparing dollar prices (at the market rate) over time. In fact it is very low – improvements in trade

efficiency and in security have virtually offset dollar inflation to leave consumer prices quite stable (apart from weather and Saudi embargo shocks) at least since mid-1995. This is clearly understood by the Ministry of Planning.

The **multiple exchange rates** – to the limited extent they can be enforced – penalise exporters, remitters and visitors who exchange at the SS1,500 = \$1 rate and benefit those who have access to Central Bank funds to import at SS650 or 1,500 to the \$. They grossly reduce government revenue (from export duty and charges and from customs) because the goods are valued in \$ and then the SS amount due is computed at SS1,500 – not SS3,900 – to the \$. The Central Bank avoids losses in SS650 = \$1 transactions and covers its expenses by selling some dollars on the market at the SS3,900 rate. Because the chief losers are the state on undercharging of taxes and pastoralists on underpayment for livestock, the faster the foredoomed effort to maintain artificial rates is scrapped by movement to a unified market determined rate the better. Such a shift is in fact endorsed by the Central Bank but perhaps not with an adequate sense of urgency and priority. The Central Bank cannot sustain an unreal rate (nor with negligible resources even intervene to smooth out fluctuations) and the cost of pretending to do so is probably \$25 million loss of state revenue and (depending on resultant undervaluation and non-collection) \$10 million to \$15 million pastoralist income since merchants base their buying prices on what they will receive and pay less if it is SS 1,500 to the \$ (plus additions from undervaluation of exports at Berbera with related payments in Jeddah) not the Saudi market price less costs of taxes and transport.

Public sector accounts (Government and local Government **Budget** outturn plus those of some statutory authorities not perceived as state owned service and/or goods production enterprises) have traditionally been perceived as among the areas of more reliable SSA statistics. This was never wholly valid and has become increasingly less so since 1980. Off budget transactions (including aid in kind not properly entered as aid revenue and programme expenditure) have risen, consolidated local government and also statutory body accounts are often not available or not consolidated, direct donor or donor via NGO (or secondarily domestic ngo) programmes in varying degrees coordinated with or substituted for governmental programmes have proliferated, bookkeeping entry and accounting consolidation and analysis standards have deteriorated (in the former URS to the extent that by 1987 half of all original entries were either unintelligible or inaccurate partly to

camouflage 'security' and occult or corrupt uses but also substantially from bookkeeping/accounting breakdown).

The Somaliland Government Budget as kept by the Ministry of Finance is a serious document and the accounts resulting from it are kept with some care and accuracy to control and to ensure propriety of fund uses. Unfortunately it is so incomplete a representation of public sector accounts as to be as often misleading as enlightening for macro economic purposes.

The reasons are multiple:

1. many expenditures have been handled directly by the Central Bank (largely out of tax revenue deposited with it) – notably uniformed services rations, the largest single expenditure item. As a result neither the spending nor the revenue appears on Ministry accounts;
2. while the payment of operational expenditure by the Central Bank for the Ministry of Finance largely out of government revenue has been phased out, the Central Bank still deducts from revenue to pay off instalments on official but not systematically analysed past government borrowings from merchants which have now been transferred to the CB so neither debt stock, debt amortisation nor total revenue data are transparent;
3. some government imports are changed at SS650=\$1 (presumably including food for uniformed services) and some at SS1,500 = \$1 so that converting budget SS data to \$ at a uniform SS3,900 market rate is seriously misleading;
4. consolidated local government and statutory authority (e.g. cities, urban water, airport, mines, disarmament, port) data are not readily available;
5. Substantial aid expenditure is (largely but not wholly because of non-recognition) handled outside government accounts even when it is part of government programmes (e.g. UNICEF provision of drugs, vaccines and specific project payments to health staff) or is so closely coordinated with it as to be arguably governmental support (e.g. much rural water spending, some UNHCR quick impact projects, much of the mines and ports statutory authority support).

A rough estimate of **public sector spending in 1997-98** (basically before the Saudi sheep/goat ban) is **\$50 million**. (See Annex B). Of this about \$20 to \$25 million represents

government pay and allowances (dominated by uniformed service food, uniforms and quarters), \$7.5 to \$10 million local government and statutory authority spending; \$5 million aid to government programmes handled via government but off budget and \$10 to \$15 million aid channelled via statutory bodies or in government and international agency plus NGO/ngo programmes linked closely enough to Ministry priorities as to be arguably governmental.

Revenue sources would appear to be about \$15 to \$17.5 million aid; \$6 to \$7.5 million user charges, fees and licenses; \$6 to \$7.5 million export duties and charges and; \$17.5 to \$22.5 million import duties; \$2 to \$2.5 million other. It is unclear whether domestic borrowing rose or fell – a range of plus to minus \$2.5 million appears plausible while net currency issuance was nil or negligible.

The make-up of expenditure appears to be 50% defence; 12.5% law and order (police, prisons, courts); 12.5% other civil service – local government – statutory authority pay and allowances; 25% all other (e.g. books, drugs, transport, pumps and spares, machinery and spares, office equipment and supplies). Counting allowances the uniformed services may pay \$60-75 a month (i.e. room, clothing, food and – effectively – pocket money) as may many local government and statutory authority posts. But because of the collapse of the SS vis a vis the dollar the intended \$100-\$500 a month and initial actual \$50-\$250 a month civil service pay scales have fallen to \$4-\$20 a month which is derisory even by SSA standards.

Numbers of employees over 6,000 civil service, 4,000 odd local government and statutory authorities, 5,000 civil police (Internal Ministry), 500-1000 custodial (prisons) service (Ministry of Justice) and 7,000 army (Ministry of Defence). The last includes 5,000 to be trained as a lean and mean border defence/serious provincial disobedience reaction forces and 12,000 former militia members in practice warehoused because to demobilise them into primary would be dangerous as they would have no livelihoods but access to guns.

These are the weakest data estimates compared to population, production, remittances and external trade. They may be 50% above actual levels. However, there is little chance that they underestimate. Therefore, they point toward the following conclusions:

1. to staff a government service able to deliver universal basic services would require about 20,000 non uniformed civil servants including local government – dominantly school

- teachers, nurses, veterinary and agricultural extension workers and water technicians, 6,000 police and prisons service and 5,000 army;
2. assuming \$50 to \$500 monthly pay scales and a focus on efficient basic service provision, the annual budget needed would be of the order of \$150 to \$200 million (including repairs, maintenance, public infrastructure works);
 3. if customs were collected at market exchange rates on all imports with rates of 33% (50%) for khatt; 25% for tobacco, petroleum products, soft drinks and electrical/video appliances and accessories and 10% for all other imports that could yield \$115 million (\$140 million);
 4. that customs revenue could reasonably be augmented by \$10 million in size related license fees, \$10 million in user charges and fees, \$10 million in land and building rates in urban areas and \$10 million in taxes per 10 khatt bushes taking domestic revenue to the order of \$150 (\$180)million or comparable to expenditure needed;
 5. additional government channelled aid could be \$25 million or conceivably up to \$50 million excluding technical assistance – a sum much smaller than uncollected or unlevied tax potential;
 6. without massive fiscal restructuring to tax to spend health, education, water, extension and infrastructure to complement and to build on security and law/order/justice cannot be provided and both future output and household income growth and future state security and legitimacy will be put at risk.

From Macro Economics to Policy Priorities

The household income and poverty, personal consumption, external balance, remittance and – less uniformly production aspects of the Somaliland economy are in **reasonably good shape**, have recovered to or above pre-war levels and have at least modest growth possibilities.

However, there are exceptions to these macro generalisations:

- a. **poverty products** exist especially among uneducated urban de-mobilisees; agro-pastoral households with neither khatt nor substantial (at least 2 to 3 million milking cows)

mil/ghee sales; pastoral households with less than 100 sheep or goats especially if also without any milking camels; disabled persons; female headed households with several mouths (usually children) to feed, only one earning pair of hands and no helping hand remittances;

- b. broader groups are **vulnerable** to natural **calamities** (e.g. drought) and **catastrophes** (e.g. FAO's false identification of Somaliland as Rift Valley Fever infested and Saudi's – at least partly understandable – over-reaction) albeit their impact is cushioned for remittance receiving households;
- c. industry (**manufacturing-construction**) is **very limited** in development as is full scale electricity generation partly as a result of lack of experience and professional skills and partly because at least large scale projects (e.g. 100 km or more mechanised highway construction, Berbera Cement rehabilitation, a Hargeisa wide electricity generating and distribution enterprise) are beyond the present resource mobilisation limits of Somaliland capitalists;
- d. **investment** beyond housing commercial buildings and – less clearly – vehicles is **very low** not merely in public infrastructure but also enterprise sector plant and equipment;
- e. **longer term** growth of production and income probably depends on **diversification of production** as there are limits to crop and livestock potential especially in the absence of effective research, veterinary and extension services;
- f. at over 40% of GNP **remittances are high** raising dependence/vulnerability issues but these can be overstated. Somalilanders' overseas jobs are not particularly unstable and the loyalties (and plans to return) behind other remittance flows appear unlikely to weaken much over the next decade or more. Nor is Somaliland unique – the Philippines has perhaps four million overseas workers and semi- to fully-permanent diaspora from construction workers through seamen and nurses to professionals and business persons and at least \$10,000 million (perhaps \$12,500 million) in annual remittances which in absolute per capita terms (though not in proportion of GNP) is comparable to Somaliland and has remained stable or risen over the past decade.

However, the **public sector** gives far greater grounds for concern. Beyond security and law and order (vital but not by themselves enough) it **remains pauperised and unable to**

provide basic services or physical infrastructure it is quite unrealistic to suppose the enterprise sector can or will provide nor that the domestic social sector can extend to most Somalilanders without substantial state funding. These failings are of concern at household, enterprise and macro economic level. **Access** to education, to health, to water and to extension/veterinary services – of useable quality and moving toward universal access – matter to Somaliland households (especially poor ones) for economic as well as social and overall welfare reasons. They also matter to **enterprises and the overall economy** because unless they can be broadened and deepened domestic market growth will be dependent largely on remittance growth, labour productivity will stagnate and infrastructure related costs will remain high (e.g. the annual loss of time and added wear and tear to vehicles diverting around wrecked bridges on the Hargeisa-Boramo-Hol Hol highway almost certainly exceeds the total cost of their rehabilitation).

The key constraints on public sector rehabilitation/reconstruction are:

1. inadequate tax revenue.;
2. inadequate numbers and qualifications of public sector personnel;
3. the gap in education and recruitment since the mid-1970s which implies high replacement requirements for middle and senior level civil servants;
4. the derisory civil service pay levels which in practice close down ministries by noon, make many public servants dependent on remittances, encourage the corruption of need (not excessively greed) by those with services (whether nursing, access to a minister or non-collection of taxes) to sell to substitute for the living wage they are not paid;
5. the limited – and historically broken (in 1960 and again in the mid-1980s) Somaliland experience with public sector planning, service provision administration and public service structuring;
6. the low levels and unfortunately fragmented and government bypassing levels of external resource transfers and of technical assistance resulting from inaccurate Stage 4 insecurity classification and diplomatic non-recognition.

Some Specific Policy and Programme Implications

The generally favourable short term household and enterprise sector production/income outlook combined with vulnerability to shocks and need to improve labour and overall productivity and to diversify and provide, as noted, a set of priorities for the public sector:

- a. health-education-extension to build up human capital and productivity;
- b. more environmental and other agricultural/pastoral resource studies to establish both baseline facts and to explore potential improvements user viability and user friendliness (which can sometimes be delegated to ngo's/NGO's e.g. improved stores and charcoal processing technology)
- c. infrastructure – especially highways, secondary roads, harbour and perhaps Hargeisa and Berbera electricity as well as rural water – restoration and enhancement to increase access and to reduce costs. Electricity for major cities is provisionally listed because small generator capacity for major users and limited networks is workable and exists but is high cost compared with single, longer thermal plants and urban (or even Hargeisa-Borama) distribution systems. The latter are probably beyond the present scope of the Somaliland enterprise sector.
- d. sustaining and improving law and order;
- e. more extensive professional level official involvement in drought/food balance projection and proactive response framing and in Red Sea-Gulf-East African littoral veterinary monitoring and analysis to reduce risks of ill founded embargoes and to link to international crisis response mechanisms;
- f. provision of information to potential domestic producers on opportunities/technologies – e.g. simple pure water production/bottling at, say Sheikh to substitute for Yemen Highland water from Hodeida and to potential large (external) investors e.g. on incomplete Berbera cement plant - at a level allowing interested parties to go forward themselves to more specific, in-depth studies; together with;
- g. In principle, recreating or rather encouraging recreation of a commercial banking system. This is a desideratum but it is doubtful Central Bank advocacy before initial commercial bank interest (probably from Djibouti or Addis bases) arises.

The listing of a variety of enabling actions by the state as important to the sustainable and sustained development of the macro economy places **public revenue generation** at the top of the priority list. Both sustaining law-order-security and providing infrastructure-basic services regime very substantial augmentation of public sector revenue. The broad parameters of what is needed and potentially attainable have been sketched above.

Some specifics include:

1. Restructuring Customs including securing technical assistance on how to improve coverage, set rates, value imports quickly but at least approximately accurately, train staff, establish more professional rules and regulations and staff structures;
2. As a necessary condition pay Customs staff \$50 to \$500 a month (with other civil servants to follow out of enhanced revenue when achieved). The old Swahili adage that the tax collector is always paid, the only question is whether he is paid by the state or by the merchant who does not pay taxes sums up the reason this is a priority action;
3. Abolish use of non-market exchange rates in tax assessment and collection. The issue is partly transparency but more crucial than and valuing imports in \$ and converting at SS1,500 = \$1 when the true rate is SS3,900 amounts to a discount/leakage of revenue of over 60%;
4. Phase out export taxes and charges (other than those necessary for the commercial operation of the port and of export linked veterinary and quarantine services) because they have both distorting (valuation, routing) and negative (lower earnings) impact;
5. Avoid any taxation of remittances as it would either hide or reduce them to no point-import duties in practice can tax their use more easily and effectively;
6. Halt municipal import/sales taxes in return for ending central government graduated license fees which would become a purely local government area of revenue;
7. Encourage local government taxation of urban plans and buildings on a value related basis;
8. Probably tax domestic khatt on an annual levy per 10 plants basis.

Domestic revenue enhancement is the first priority because it is potentially larger, is essential to using foreign resources effectively, is within Somaliland's control and is dependence reducing/self confidence and respect enhancing. That is not to say external relationships and resources are unimportant nor that selected actions in respect to them are not priorities to be pursued in parallel with domestic public sector revenue rehabilitation and enhancement. Nor is it to overlook that forward planning on the uses of revenue sketched above will be another parallel priority – just as the best allocation plans are useless without resources to allocate so revenue arising without effective allocation will be useless – or worse as misallocation on the scale of the late Barre regime corrodes legitimacy and builds up heritages of bad habits and distorted institutions.

Part of the case for foreign contacts is building up working linkages and knowledge that Somaliland exists and is relevant to doing business to a broader community than humanitarian agencies, the Somali diaspora and present trade contacts. Specific potential gains are air services by internationally linked carriers (e.g. Ethiopian), an investor to complete and run a 150,000/400,000 tonne 75% plus export cement plant at Berbera (e.g. Kenya Bamburi or its European shareholders or a South African company) while general might include a Commonwealth Development Corporation unit providing technical advice, training and capital to assist in medium scale enterprise development.

But while aid (soft loans/grants/technical assistance) by itself will never develop Somaliland and even on optimistic (additional \$25 to \$50 million a year) projections it is much less than domestic fiscal potential, foreign resource generation at higher levels for restructured uses is a priority.

The four priorities set out here are designed to allow rapid action in respect to four national priorities while domestic revenue is built up and to build a base for further and broader development of international linkages.

1. a joint Ethiopia-Somaliland project for rehabilitation and upgrading of the Port of Berbera, the Berbera-Hargeisa-Hol Hol highway and related transport routes to Jigjiga and Addis. The value to both countries in respect to transit traffic and to each in respect of domestic commerce is evident and both design and execution would be fairly simple. The European Union has unused Regional (two or more country) funds budgeted for the

- Horn. A joint approach by Ethiopia and Somaliland (which does appear to qualify even in EU terms as a regional-provincial-government) should be able to unlock these;
2. two linked Demobilisation/Rehabilitation programmes under National Demobilisation Commission auspices one linked to the Ministry of Defence and one to Sayaan could benefit - say - 6,000 non-reintegrated present demobilisees and the 12,500 odd 'surplus' army personnel over - say - 5 to 6 years. What is needed are two year training (carpentry, masonry, vehicle repair, plumbing, civil engineering) linked to labour intensive building programmes. With annual intake of 2,000 in the Ministry and 1,000 in the Sayaan programme these could be an analogue to Zimbabwe's largely successful demobilisation programme for the participants and free the state of the cost of maintaining ex-militia army personnel because throwing them out into penury and exclusion would be very dangerous to security and to peaceful economic progress. The ILO has experience with cost efficient labour intensive works and with training the WFP has food to use in support of such programmes, the EU has Echo money for peace consolidation activities. The Ministry has the will to demobilise, Sayaan has some experience with training, most of the men involved would accept programmes that paid wages and led to respected occupational (employed or self employed) livelihood opportunities thereafter. Areas of activity include road/bridge rehabilitation and building (e.g. a new Hargeisa-Burao highway parallel to the mined one if the cost and time constraints make literal rehabilitation impracticable), reforestation (if appropriate species are known or can be identified promptly), rural schools and clinics, urban infrastructure including water distribution;
 3. linkage to international drought and other disaster relief networks so that Somaliland warnings (which can be relatively early because 2 or more bad rains are needed to cause disaster) are received and put on action lists and viable food for work/work for food (food sold and cash paid to workers) projects stock - piled to allow output providing/self respect preserving alternatives to handouts to be the main assistance channel;
 4. technical assistance desired and prioritised by Somaliland in three key areas:
 - i. for participation in regional technical and professional bodies (e.g. veterinary) to build up links permitting early response to problems and use of opportunities and to build a base for broader/deeper cooperation (a role which was very significant

in the early years of the Southern African Development Community's predecessor SADCC);

- ii. design, training and initial staffing assistance for key projects/institutions e.g. Customs, Ministry of Planning, Civil Service Commission);
- iii. rapid build-up of analytical, strategic and articulated planning/design and monitoring capacity - even in advance of physical implementation capacity - to allow national strategic prioritisation and its coordinated implementation via government, donor, NGO and (domestic) ngo and social actor groups. Evident cases are Water (especially rural water), Health and Education. This would entail external financing of Somaliland personnel via the projects which while neither long term sustainable nor desirable would be a useful 3 year interim measure.

Among the areas for strategic review are **para medical** and **para veterinary** services for pastoralists with state training of lineage group or pastoral band chosen personnel, provision of an initial basic drug kit with refills from accessible points at cost (or subsidised) plus monitoring and refresher training and community payment of the workers. These are not trendy or untested daydreams - such services operated well with substantial pastoralist access in late 1940's and 1950's. British Somaliland the medical one was partially restored under UNICEF leadership in the 1980's. They cannot - especially initially - provide full primary health or veterinary services but they can deliver substantial ones and the real alternative for pastoralists is not fully professional clinics and veterinary pasts but rather nothing. Similarly the long talked about development of **Koranic school/primary school** linkages should - like the para programmes - be pursued to pilot stage to provide base experience and guidelines for future expansion. In each case government **and** social actor involvement is key so that a direct donor (whether UNICEF or ngo) scheme bypassing the relevant Ministry would be inherently flawed.

It is tempting to add **micro credit** (\$50 to \$1,000 loans for small livelihood generation from tea stalls and dressmaking to small building construction and core pastoral herd purchase) but this is a field in which experience elsewhere counsels for channelling via social groups with more personal and immediate loyalty links than a state or standard financial system entity. The appropriate Somaliland entities would appear to be women's groups (which have limited but generally positive experience) and perhaps lineage groups. The ultimate initial funders

would be aid agencies (e.g. USAID, DFID, EU, Nordics, Netherlands) with home constituencies backing micro credit but the best channels to the Somaliland entities may well be NGOs with experience in Somaliland and (not necessarily in Somaliland) with microcredit. Direct NGO or state entity - let alone donor - lending is unlikely for several reasons, including cost and recovery for recycling, to be sustainable.

To implement several of these projects a strategy on users of **food aid** is needed Somaliland - except in drought years - can be self sufficient in maize and sorghum so that food aid depresses prices and agro-pastoral incomes. It is not and is unlikely ever to be self sufficient in sugar, cooking oil or wheat - wheat flour - pasta. (While one can argue wheat is not essential it is and will remain widely consumed and imported as, to a lesser extent, will rice.) Logically food aid would be in the form of wheat-sugar-oil sold to the domestic distribution system with wages paid to work for food project participants. There is a perfectly good commercial system for buying-selling food if purchasing power is there. For some donors (e.g. USAID, EU) this is possibly but WFP operates under donor constraints. However, it can pay in wheat flour-sugar-oil-rice and workers can then on sell to rebalance food supply and dietary patterns which is not practicable (or higher transaction cost to workers) with maize, sorghum or undesired varieties of beans.

Reflections

It would be tempting to add to the foregoing list of articulated problems and priorities. But to do so without comparable deletions and a case that the substitutes are more important (or more urgent in terms of reducing major risks or opening up future prospects) would be to miss the point of priorities, sequences and macro economics. Resources are limited. How much can be done at any one time is limited. Future possibilities depend on present actions leading to high future resource flows. Most economic (as well as social and political) sectors are interrelated so that the secondary effects of actions and events (for good or for ill) are important and need to be analysed before acting as - where possible - in relation to probable future events. Applied macro economics is primarily a framework for such analysis to inform policy decisions (of enterprises, the social sector and in some cases households as well as the state).

Macro Economic Contributions to 'Non Economic' Questions

Macro economics cannot answer moral, social and/or political issues. It can throw light on some aspects of them and indicate the parameters within which choices are possible.

A major example may be styled – in nominative terms – the **Khatt question**. Khatt is a moral issue because it would appear to be forbidden by the Holy Koran and inconsistent with most interpretations of historic Somali social codes and practices. It is a household issue because it provides the largest component of agro pastoralist cash incomes, but also the largest component of agro pastoralist and urban consumption and in non drought years is arguably the dominant cause of household poverty. Because it is imported, it is the largest user of export and remittance earnings but also the largest single source of state tax revenue. It is a political issue because Barre's destruction of Somaliland Khatt farms in the early 1980's was a basic element in delegitimising and raising hostility toward his regime.

It is not a macro economist's business as such to provide moral and theological or social and political answers. But because Khatt costs consumers about \$250 million (\$150 million imports, \$50 million to farmers, \$40 million to commerce, \$8-10 million tax to state) or \$5 per user day of 2 bunches it represents over a quarter of consumption (a much higher share than tobacco, alcohol and gambling in – say – the UK) it must be taken seriously by macro economic analysis.

That fact is reinforced because the physical effects of Khatt are negative in respect to **productivity** just as its financial impact is negative in respect to poverty and – presumably – savings/investment and its use of import capacity to roam for more investment and construction goods imports. It is no business of macro economics to judge amenity consumption as such, but it is valid to say that when viewed by consumers/users as a necessity it (whether Khatt or cocaine, gambling or cigarettes, beer or raki) contributes to poverty by squeezing objectively necessary household consumption. Khatt is mildly addictive physically but more so psychologically and not clearly permanently health or life impairing (unlike cigarettes). But it does require several hours to enjoy and its course of mild exhilaration followed by sleepiness and then by lassitude the next morning reduces hours worked and output per hour worked. In a poor country it is important to pose the question to society to what degree this loss of potential output can be afforded.

Banning use/uprooting farms is fairly self evidently unlikely to work and will result in armed criminal activity (macro economically just as undesirable as socially and politically). Effective taxation of all imported Khatt (and a tax per ten plants on domestic growers) collected efficiently and at the actual exchange rate could yield \$30-50 million (\$40-65 million including domestic). It is tempting to argue that taxation would both cut use **and** finance basic services but that is probably somewhat dishonest. Demand for Khatt (as for cigarettes and – in other societies – alcohol) is inelastic i.e. higher prices are slow to erode it. Before consumption was cut significantly armed gunmen protected smuggling/producing would become rampant so neither much revenue nor much consumption reduction would result.

If Khatt consumption is to be reduced, it is necessary to explore alternative agro pastoral income generation opportunities as well as alternative revenue sources (probably easier as all imports can be taxed and less Khatt imports means more other imports). The two bases for effective challenges – via social ethics and acceptable conduct perception changes – are Islam (Sheiks who perceive its use as inconsistent with the Holy Koran) and women's groups (who *inter alia* see its effect on draining away money needed for food and child support budgets). Some employers – whether because of observing the greater absenteeism and/or lower productivity associated with Khatt or because of personal conviction or both – have moved to hiring only non-Khatt users. That too is a valid way forward which in the short term has the useful side effect of enhancing employment opportunities for women. Combined these constitute a potentially viable approach – perceptions on cigarettes (as many diaspora Somalis know from experience) have shifted negatively in the north even without any strong religious element. In the meantime macro economics should take account of the Khatt sector as it is and fiscal policy of the existing tax potential (since taxes will **hardly** increase use even if they do not **reduce** it much). Whether agricultural extension should help Khatt farmers (usually middle or larger farm agro pastoralists because of the investment cost including planting and waiting and the clear land for water flow requirements of the crop) grow more, better is a more vexed question. It would raise rural incomes and reduce imports (so far so good) but would also represent official endorsement (arguably undesirable). The answer to that conundrum is ethical and political not macro-economic. As is perhaps evident the author as a **macro political economist** is deeply concerned by the higher poverty and lower productivity results of Khatt. He is also convinced as an **analyst** that legal prohibition and the use of force to back it would be counterproductive. As a **person** he endorses use of

Islamic and women's group dialogue and discourse to reduce consumption allied to encouraging employers to consider whether perfectly legitimate productivity (and therefore cost) considerations point to hiring only non users (and certainly banning use at workplace).

A very different case is the primarily political question of **formal recognition** of the Republic of Somaliland. The basic case for recognition is moral and political with security and self respect the dominant issues. However, macro economics does have something to say about the costs of non-recognition and the partial steps towards recognition which would reduce these costs (and perhaps set in train a sequence of actions and relationships leading to full recognition).

Non-recognition has meant exclusion of Somaliland from regional technical bodies – e.g. under IGAD. In the case of veterinary professionals this has clearly hampered setting up agreed veterinary (and zoonosis prevention) regimes and resolution of false claims as to diseases present (or not present) in Somaliland. Had a Red Sea – East Africa body existed, the Saudi ban could probably have been averted or, at the least, raised sooner.

The categorisation of Somaliland as stage 4 Security by the UN – apart from its patent falseness and demeaningness in respect to most of the country – results in limiting the type of UN Agency work allowable and in, at the least, encouraging bilateral agencies to adopt similar restrictions. Only UNHCR, UNICEF and UNCTAD have what amount to fully fledged, developmental country programmes.

Non recognition creates barriers to using government to government channels. While on occasion this can be side-stepped by using 'autonomous agencies – e.g. Port Authority, Customs Authority – it usually leads to overconcentration on short term humanitarian and NGO (and secondarily domestic NGO) channelling. That fragments, prevents national coordination and prioritisation, enhances dependence and limits state and public service capacity building. It also limits net transfers. As a poor country recovering from war with 2,000,000 people Somaliland might expect to receive at least \$50 to \$60 million of imported inputs, domestic purchases, local hires and cash transfers to public sector budgets. In fact it receives under half that much. True this is distinctly smaller than the unsubsidised/uncollected tax fiscal gap or the limited success in transmuted remittances and diaspora capital into productive investment but it is a not inconsiderable sum.

A series of steps less than full recognition could reduce these costs:

- a. reducing Hargeisa's (and most other areas') UN Security ratings to Stage 2;
- b. handling Somaliland relations via Addis Ababa or Djibouti embassies/offices **not** Nairobi and, thereby separating them from Somalia and issues specific to that territorial unit (a step already taken by the UK, the USA and UNHCR);
- c. achieving a status which the EU describes as a 'region' - i.e. a federal/confederal state or province - which does allow intergovernmental contact and contract;
- d. using joint approaches with neighbours (e.g. Ethiopia) with specific mutual interests (e.g. Berbera Port and Berbera – Hol Hol highway) to unlock funds and contacts (in this case EU regional – i.e. two or more state – funds for the Horn) and access to professional bodies (e.g. in veterinary Djibouti, Sudan, Kenya as well as Ethiopia have an interest in a joint technical level official body with Saudi, Yemen and perhaps Oman, UAL, Kuwait).

These steps **do not** add up to full recognition – albeit in sum they would make *de facto* recognition relatively likely to follow. They **would** reduce the present non-recognition costs substantially.

Macro economics can throw this much light on costs of non-recognition and the economically priority aspects of recognition. It cannot provide a full political frame nor a full prioritised strategy. But the steps it suggests are economically key seem likely to set in train patterns of contact and of relationships conducive to the broader objective. Again it is presumably evident that the author as a **person** advocates prompt full *de jure* recognition of the Republic of Somaliland. As a **macro economist** he sees non recognition as damaging to Somalia and, at least marginally to those of international agencies and foreign governments. As an **analyst** he considers the so-called Act of Union to be void *ab initio* (referendum defeat in Somaliland, High Court ruling rejecting treason charge) and the 1964 OAU declaration properly interpreted as in favour of colonial boundaries at independence and against coerced incorporation thus basically pro - not anti- Somaliland recognition since the 'enemy' to OAU was the 5 Star Flag of the URS and its explicit claim to Northwest Kenya, Region 5 and Djibouti. As a person he is appalled at non recognition of a state which has gone far toward restoring peace, security, nationhood and economic livelihood and is seeking to address basic services, reintegration and poverty issues. Plenty of states – not only in Africa – have done less and many – in the Pacific, Caribbean and Latin America as well as Africa – have 2 million or fewer residents.

ANNEX A

Population Estimate

(Suppressed) 1986		1.65	to	1.75
Swedish Census	¹			
Correction	²	.174		.20
1986-90				
Normal	³	.25		.30
War Loss	⁴	(.1825)		(.20)
31-XII-90	⁵	<u>1.90</u>	to	<u>2.05</u>
1998 vs. 1986				
Refugees Ethiopia	⁶	(.15)		(.15)
Other Refugees	⁷ }	(.20)		(.20)
Working Diaspora	⁷ }			
		<u>1.55</u>	to	<u>1.70</u>
1991 – 98				
Population Growth	⁸	.40		.425
Estimated Somali and Territorial Population				
31-XII-90		<u>1.95</u>	to	<u>2.125</u>

Notes

(All numbers rounded to stress approximation of method)

1. The draft census showed 5.5 to 5.8 million about 30% in then provinces now constituting Somaliland.
2. Probable undercount related to unrest and mutual Somalilander/URS distrust.
3. 15% over 4 years.
4. 10% over 4 years on basis analogous to Mozambique 1982-92 estimates.
5. Not adjusted for refugees and overseas contract workers and medium to long term diaspora.

6. Best guess adjusting for Somalia and Region 5 Somalis in camps and households in course of return to Somaliland but using refugee camps as source of working capital from rations and a place of shelter during process.
7. Treated together. Guesstimate. Numbers have risen substantially (as have remittances) but neither actual sample census nor division between Somaliland and Somalia exist.
8. Estimated at 25% of adjusted 1-I-1991 population. Any estimate between 20% and 30% reasonable because post-war disruption lowers birth and raises death rates but desire to replace lost family members augments birth rates.
9. This excludes refugees, overseas term workers and diaspora seeing selves as Somalilanders. These may total 600,000 (200,000, 150,000, 300,000 respectively).

ANNEX B

Gross Territorial/National Product Magnitudes (1997 - \$000,000)

Livestock and Products			165.0
Export	1	95	
Domestic	2	70	
Agriculture – Fishing – Forestry			102.5
Khatt	3	50	
Grain	4	22.5	
Other crops	5	15	
Fishing	6	5	
Forestry	7	10	
Industry – Construction – Mining		42.5	
Manufacturing/ Repairs	8	15	
Construction	9	25	
Mining/ Quarrying	10	2.5	
Utilities – Services			320.0
Water/ Electricity	11	5	
Commerce/Hotel Restaurant etc	12	225	
Transport	13	65	
Other private	14	5	
Government	15	20	
Gross Domestic Product			<u>630.0</u>
Remittances	16	500	
Aid Transfers	17	25	

Gross National Product/Income 1155

Per capita	GDP	\$325
	GNP	\$575

Uses

Private Consumption		950-1000 (83-85%)
State Consumption/Investment ¹⁸	50 (5%)	
Household/Enterprise Investment ¹⁹		105-160 (8-11%)

Notes

1. Value added in production. Adjusted to cover unrecorded or under-recorded exports. May include some Region 5 transit trade.
2. Perhaps 35-45 meat, 25-35 milk and ghee, 2.5-5 hides and skins.
3. Based on import estimates from sample survey of \$150 million and rough estimate that domestic production is one quarter of consumption.
4. Household study production data suggest 120,000 to 180,000 tonnes. National Food Balance consumption estimates less grain imports suggest slightly over 150,000. Both include household production for own use. Much lower official estimates are *de facto* based on Barre period series which grossly underestimated household produced/consumed grain and Northwestern production in general.
5. E.g. citrus, watermelons, other fruit, vegetables, beans.
6. May be underestimate. Implies about 5,000 tonnes and assumes negligible export (prawn, shark fin).
7. Primarily charcoal plus building poles and beams. Includes gum Arabic and frankincense. May be underestimate.
8. Very rough guesstimate. Likely to be about half repairs.
9. Includes owner occupied/constructed housing labour input.
10. Basically sand/gravel for construction and artisanal salt pans.
11. Municipal and private water, private electricity.
12. Roughly estimated at 25% of production plus imports plus 10% transit commerce. Very rough order of magnitude estimate.
13. Includes transit traffic haulage. Value added basis. Could be overestimate but consistent % with other low income, scattered SSA economies.

14. Finance, telecoms etc.
15. Basically wages and salaries – includes local government and payments to government staff by NGO and other external agencies for project services.
16. Based on 1998 sample survey is I. Ahmed.
17. On domestic purchases/transferred imports basis excluding external personnel (technical assistance or operations) payroll. That is standard GDP estimation method.
18. Perhaps 5 – 10 million investment.
19. Includes some aid investment in infrastructure, quick projects etc. Dominated by buildings.

ANNEX C

External Accounts ¹ (\$000,000)

Sources		700
Exports of Goods		145
Livestock ²	120	
Other	25	
Exports of Services		30
Entrepot	30	
Other	Negl	
Aid		25
Remittances		500
Uses		700
Imports of Goods		650
Khatt ³	150	
Other ⁴	500	
Imports of Services ⁵		50

Notes

1. Grave doubts arise as to existing port and other border traffic data because of a.) smuggling; b) difficulty of identifying Region 5 transit import/export data; c) under-evaluation to lower tax or multiple exchange rate costs.
2. Ex port price not value to pastoralist valuation appearing in sectoral livestock GDP estimate.
3. Survey estimate – twice officially recorded imports.
4. Perhaps 40% food, 10% fuel, 25% general consumer goods, 15% vehicles and machinery, 5% building materials, 5% other.
5. Including enterprise and individual proprietor profit remittances.

ANNEX D

Government ¹ (1997 \$000,000)

Revenue		1997	Potential
Import Duties	2	17.5-22.5	115-140
Export Levies	3	6-7.5	-
License/ User Charges		6-7.5	20
Other Domestic		2-2.5	20-25 ⁴
Aid	5	15-17.5	40-50
Total		<u>50</u>	<u>170-225</u>
Expenditure			
Wages and Salaries	6	25	50-60
Other Recurrent	7	20	60-90
Capital		5	50-75
Total		<u>50</u>	<u>160-225</u>

Notes

1. Includes Central Government Budget (20-25), Local Government/Authorities (7.5-10), Aid in Kind/Monoraria channeled via Government but off budget (5), Aid projects closely coordinated with relevant sectoral ministry but NGO, UNHCR, ECHO or other agency funded/implemented. Very rough estimates.
2. Problem in guesstimation because some government revenue used on SS650 or SS1500 = \$1 imports but much on SS3900 = \$1 domestic payments and some revenue-spending handled on agency basis by Central Bank so off budget.
3. Collections do not reconcile with rates even if converted at \$1 = SS1500. Some may have been used by Central Bank on agency basis in respect to uniformed service rations and/or reduction of outstanding government borrowing from merchants.

4. Potential includes domestic Khatt (10), land and site rates for urban property (10).
5. Excluding external personnel, scholarships etc costs in respect to technical assistance and administration.
6. 1997 dominated by uniformed services rations.
7. Operating supplies, maintenance.

(Potential – say 2002 – explained in more detail in text.)

Ref: RHG/lab/sompwrr.doc updated 03.12.98