

Method for Costing the Somali National Development Plan (NDP) 9

1. While the Somalia National Development Plan (NDP-9) is currently under implementation, the impact of COVID-19 has negatively affected These projections were published by functional area, MDA, and economic item for the NDP period in the FY2021 Budget Strategy Paper Document available on the Ministry's website, well prior to the issuance of the call circular. It then suggests that MDA's 'would then preferably have been submitted under a standard expenditure classification format'. Standard classification systems are in place, and standardized forms are provided to each MDA annually through the call circular. If UNICEF is to lead the bottom-up costing process, it is critical that they abide by the standard Chart of Accounts and the Budget Preparation Manual already in place and not install a new system. progress. Serious impediments to the entire resource mobilization and allocation process are observable, and to the extent that is possible, the costing of the NDP-9 for the period 2022-2024 must focus on using the costing exercise to shine a light on shortcomings while also putting in place viable solutions. The current number of structural constraints outlined below including lack of sector investment programs, dominance of off-budget flows etc. that warrant something like a National Financing Framework (INFF) which would better coordinate resource flows between domestic and international public and private. The costing method proposed therefore adopts a hybrid approach, seeking to improve awareness and build capacities in the process.

STRATEGIC CONTEXT

2. The Somalia National Development Plan (NDP) 9 is an Interim Poverty Reduction Strategy Paper (iPRSP).¹ The NDP summarizes current knowledge and analysis of Somalia's poverty situation, describing the existing poverty reduction strategy, and laying out the process for producing a fully developed PRSP in a participatory fashion. The various documents, along with the accompanying IMF/World Bank Joint Staff Assessments (JSAs) aim at improving the robustness, transparency, and accountability of the national poverty reduction agenda.

3. NDP-9 was formulated through a participatory process involving domestic stakeholders (i.e., the Federal Member States and private sector etc.) as well as development partners, including the World Bank and International Monetary Fund. Updated every three years with annual progress reports, the Somali PRSPs describes the country's macroeconomic, structural, and social policies and programs over a five-year time horizon to promote broad-based growth and reduce poverty. The NDP is also expected to outline associated financing needs and major sources of financing to meet its strategic investment pillars, as outlined below:

- Inclusive and accountable politics.
- Improved Security and the Rule of Law.
- Inclusive Economic Growth (including increased employment), and,
- Improved social development.²

4. Due to lack of costed Sector Investment Plans (SIPs) and the macro-fiscal crisis caused by COVID-19, NDP-9 was only partially costed for 2020. The original plan has foreseen that full costing would have been concluded by June 2020, to include costing the government investment budget and activities such as (i) strengthening the enabling business environment (ii) establishing the regulatory framework (iii) infrastructure and (iv) strengthening statistical, prioritization and monitoring and evaluation processes. While macro-economic targets based on the agreed three-year projections with

¹ Poverty Reduction Strategy Papers (PRSPs) are documents required by the International Monetary Fund (IMF) and World Bank before a country can be considered for debt relief within the Heavily Indebted Poor Countries (HIPC) initiative. On March 25, 2020, the Executive Board approved Somalia's Highly Indebted Poor Country (HIPC) decision point and a three-year arrangement under the Extended Credit Facility (ECF) and the Extended Fund Facility (EFF).

² <https://mop.gov.so/wp-content/uploads/2019/12/NDP-9-2020-2024.pdf>

the International Monetary Fund (IMF) were included in the NDP, meaningful sector investment targets were not.

5. As a result of the pandemic all macro-economic and fiscal projections were however adjusted down, undermining the ability of government and international partners to finance the NDP as originally planned, despite the lack of costing and prioritization. As a result, year-one NDP costing does not provide a useful baseline for the remaining four years and the entire macro-fiscal framework has also been adjusted from the original baseline. Government revenue is central to financing NDP-9, with tax reform efforts focused on expanding income, goods and services, trade, and non-tax revenue generation; complimented by limited direct budget support provide by key international cooperation partners.

6. Based on government revenue and budget support forecasts, the NDP outlined the 2017-2022 medium term budget allocations as the basis for establishing the primary investment focus for 2020. At the same time, the NDP recognized that the combination of domestic revenues and on-budget donor support are insufficient to meet the financing needs of key NDP-9 priorities, with notable shortfalls in social sector and capital spending. As a result, the NDP-9 relied heavily on donors aligning external support to the NDP priorities, through the development of a mechanism to track external support alongside *'the costing of all the interventions (priorities)'*. (NDP-9, Pg. 36). Of course, with ODA managed as a supply driven and externally coordinated modality, and despite increasing nascent capacities in aid coordination, the major source of financing the NDP is not under governments direct control.³

7. Despite these constraints, basic sector budget projections were included in the NDP, with the administration and defense and security sectors receiving the largest allocations between 2019 and 2022. It should be noted however that the four NDP-9 pillars were not fully costed due to lack of SIPs and the coordination framework necessary to align external resources to domestic priorities was also not put in place. As a result of the lack of costing, COVID-19 and absence aid alignment modalities, the more than US\$ 2 billion received in external assistance provided in 2020 was not aligned to the investment framework outlined in the NDP.

8. The NDP forecast that allocations to projects and the social sector will increase over time; with allocations for projects rising from US\$48.72 million in 2019 to US\$84.94 million and those to the social sector rising from US\$26.4 million in 2019 to US\$35.8 million in 2022, as outlined in Table 1 below. These allocations however only reflect some 20 per cent of the total development spending available to Somalia if one includes external flows and the revenues generated at the Federal Member State level. Costing will therefore need to reflect the limitations of the overall NDP-9 resourcing arrangement.

| Table 1. NDP-9 BUDGET ALLOCATION BY SECTOR (2017-2022) | | | | | | |
|---|-------------|-------------|-------------|-------------|-------------|-------------|
| | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 |
| Administration | 114.0 | 114.48 | 133.94 | 155.72 | 171.29 | 188.44 |
| Defence and Security | 89.65 | 104.18 | 110.77 | 130.57 | 143.63 | 157.99 |
| Economic Sector | 16.64 | 18.74 | 24.37 | 26.62 | 29.28 | 32.20 |
| Social Sector | 7.58 | 11.86 | 26.39 | 29.57 | 32.53 | 35.78 |
| Projects Sector | 17.69 | 18.72 | 48.72 | 70.20 | 77.22 | 84.94 |
| | | | | | | |
| Administration | 46.43 | 42.72 | 38.91 | 37.73 | 37.73 | 37.73 |
| Defence and Security | 36.51 | 38.88 | 32.18 | 31.64 | 31.64 | 31.64 |

³ The April 2021 Aid Flows in Somalia: Preliminary Analysis for Review' highlights that the volume of aid delivered through direct budget support has increased substantially, from just US\$ 26.9 million in 2015 to US\$ 284.3 million in 2020. The last year saw a substantial increase as Somalia reached Decision Point under the Heavily Indebted Poor Countries Initiative (HIPC), restoring access to a number of financial instruments from international financial institutions (IFIs). The majority of on treasury aid in 2020 was financed by the World Bank and donors to the World Bank-administered Multi Partner Fund (MPF), which includes Denmark, the EU, Finland, Germany, Italy, Norway, Sweden, Switzerland, the United Kingdom, the United States and the State- and Peace-building Fund (SPF).

| | | | | | | |
|-----------------|------|------|-------|-------|-------|-------|
| Economic Sector | 6.78 | 6.99 | 7.08 | 6.45 | 6.45 | 6.45 |
| Social Sector | 3.09 | 4.43 | 7.67 | 7.17 | 7.17 | 7.17 |
| Projects Sector | 7.20 | 6.98 | 14.16 | 17.01 | 17.01 | 17.01 |

Source: NDP-9 – Somali Authorities

9. The costing exercise would usefully get a sense of how resources are mobilized for the NDP based on the current federal fiscal dispensation. Somalia could also benefit from undertaking a Development Finance Assessment (DFA) and establishing an Integrated National Financing Framework (INFF), as these would support improvements in the way domestic and international public and private flows are deployed to support NDP-9. Such an approach would be of value given the role played by remittance and Foreign Direct Investment (FDI) in support the private sector as the primary sector of growth.

LOOKING BACKWARDS TO NDP-8 FINANCING

10. Lessons need to be drawn from the IPRPS context presented above, but they can also be drawn from the experience of government and international partners in executing NDP-8.

11. Total donor expenditures on NDP-8 pillars amounted to US\$1,371.1 million and US\$1,135.8 million in 2017 and 2018, respectively but were projected to decline to US\$941.6 million in 2019. The largest expenditures went to the resilience pillar (disaster management, food security, social protection, environmental protection, and migration and refugees). This was followed by social and human development (education, health and nutrition), effective institutions (public administration, PFM and Planning, M&E and statistics), and peace, security and rule of law. Under NDP-8 economic growth (agriculture/fisheries/livestock, employment and skills development, and private sector development) and infrastructure (transport, energy, ICT, water and sanitation) received the least support. The relatively high expenditure in 2017 was linked to the drought and famine, repeating an unfortunate reality in which humanitarian aid constituted some 55.67 per cent of all external assistance between 2018 and 2019, little of which was aligned to the NDP-9 through the humanitarian-development NEXUS.^{4 5} On the flip side humanitarian assistance logically declines substantially in a non-drought year as evidenced by the US\$ 720.3 million allocated to the Resilience Pillar under NDP-8 in 2017, which of course declined as the impact of the drought receded. While allocations to the social sector have progressively increased, allocations to peace and security and effective institutions pillars have declined over the last two years.

12. In terms of the development of fully costed SIPs, they either don't exist or where they do (such as the Somalia Transport Sector Needs Assessment and Investment Program)⁶ they have not been executed through the national budget as the central tool of policy. Therefore, for the costing of the remaining years of the NDP to be brought into line with best practice, lessons must be drawn, and serious adjustments made to the linkage between poverty policy, planning, budgeting, and execution.

THE FEDERAL BUDGET FOR 2021

13. The National Budget issued by the Federal Ministry of Finance was approved by the House of the People in support of the NDP-9. The Federal Government Budget for 2021 totals US\$ 666,484,655, with US\$ 425,583,149 for operating expenses and US\$ 240,901,505 capital spending, as outlined in Table 2 below. The table provides the balanced budget linking domestic revenues and external grants with operational and capital spending. In essence this provides the overall macro-fiscal framework

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https://public.tableau.com/views/OECDDACAidatag glancebyrecipient_new/Recipients?:embed=y&:display_count=yes&:showTabs=y&:toolbar=no?&:showVizHome=no

⁵ <https://www.unocha.org/fr/themes/humanitarian-development-nexus>

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https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Somalia_Transport_Sector_Needs_Assessment_and_Investment_Programme.pdf

within which costing is to be conducted for 2022, given that budget and sector allocations have already been developed for 2021.

| Table 2. FGS BUDGET REVENUE AND EXPENDITURE SUMMARY (2021) | | | | | | |
|---|----------------|----------------|----------------|----------------|----------------|---------------|
| DETAILS | 2019 Actual | 2020 Budget | 2021 Budget | Change | Change % | % Sharing |
| | | | | - Tiro | | |
| 1. DOMESTIC REVENUES & GRANTS | 337.8 | 578.1 | 680.5 | 102.4 | 17.7% | 100.0% |
| (A) DOMESTIC REVENUES | 229.7 | 167.5 | 269.7 | 102.2 | 61.0% | 39.6% |
| Taxes | 154.7 | 107.0 | 182.9 | 75.8 | 70.8% | 26.9% |
| Income Tax & Benefits | 11.7 | 8.7 | 13.8 | 5.1 | 0.0% | 7.5% |
| Service Tax & Goods Tax | 25.0 | 17.8 | 30.0 | 12.2 | 0.0% | 16.4% |
| Foreign Trade Tax | 107.0 | 74.8 | 128.0 | 53.3 | 0.0% | 70.0% |
| Other taxes | 11.1 | 5.7 | 11.0 | 5.3 | 0.0% | 6.0% |
| Non-Taxable Income | 74.9 | 60.5 | 86.8 | 26.4 | 0.0% | 12.8% |
| (B) FOREIGN GRANTS | 108.1 | 410.6 | 410.8 | 0.2 | 0.0% | 60.4% |
| Budget Support | 88.8 | 203.7 | 169.9 | - 33.8 | 0.0% | 25.0% |
| Donor Projects | 19.3 | 206.9 | 240.9 | 34.0 | 0.0% | 35.4% |
| 2. GENERAL COST | 315.7 | 684.8 | 666.5 | 18.4 | -2.7% | 100.0% |
| Regular Expenses | 298.4 | 478.0 | 425.6 | 52.4 | -11.0% | 63.9% |
| Staff Service | 162.4 | 226.9 | 246.9 | 20.0 | 8.8% | 37.1% |
| Use of Materials and Services | 82.2 | 83.6 | 98.3 | 14.6 | 17.5% | 14.7% |
| Projects | 8.6 | 13.5 | 32.2 | 18.7 | 138.0% | 4.8% |
| Profit & Other Interest | - | 2.6 | 2.5 | - 0.1 | -5.3% | 0.4% |
| Federal grants | 44.8 | 146.2 | 43.2 | - 103.0 | -70.5% | 6.5% |
| Other expenses | 0.4 | 5.0 | 2.5 | - 2.5 | -50.2% | 0.4% |
| Subsidy Reserve | 0.4 | 2.5 | 2.5 | - | 0.0% | 0.4% |
| Gashibax | - | 2.5 | - | - 2.5 | -100.0% | 0.0% |
| Capital Expenses | 17.3 | 206.9 | 240.9 | 34.0 | 16.4% | 36.1% |
| Staff Service | 0.4 | 3.0 | 5.8 | 2.8 | 93.8% | 0.9% |
| Use of Materials and Services | 10.5 | 68.9 | 84.9 | 15.9 | 23.1% | 12.7% |
| Projects | 6.2 | 30.8 | 50.8 | 20.1 | 65.3% | 7.6% |
| Subsidies | - | 2.0 | 11.9 | 9.9 | 492.0% | 1.8% |
| Federal grants | 0.2 | 8.7 | 27.3 | 18.5 | 212.6% | 4.1% |
| Social Benefits | - | 93.4 | 60.2 | - 33.2 | -35.6% | 9.0% |
| Other expenses | | | - | | | |
| 3. The difference | 22.1 | 106.7 | 14.0 | 120.8 | -113.1% | |
| 4. Savings (1) | 22.1 | 118.6 | - | - 118.6 | - | |

14. Table 3 below provides the approved pillar splits for the 2021 national budget in US\$. This shows an increasing focus on social development (44 per cent), economic development (25 per cent), inclusive politics (17 per cent) and reduced spending on security and the rule of law (13 per cent). These costing create a baseline in setting pillar allocation for 2022-2024.

| Table 3. FGS BUDGET REVENUE AND EXPENDITURE SUMMARY (2021) | | | |
|---|---|---------------------------------------|-------------|
| Budget Heading | Details | Budget 2021 NDP9 (in total) (US\$) | Share % |
| | Total National Plan Allocation (NDP-9) | 37,995,580 | 100% |
| 1 | Inclusive Politics | 6,635,001 | 17% |
| 2 | Security and Law | 4,880,800 | 13% |
| 3 | Economic Development | 9,620,000 | 25% |
| 4 | Social Development | 16,859,779 | 44% |

OBSERVATIONS AND LESSONS LEARNED

15. Due to the factors identified above, the IPRPS is not being executed. While the COVID-19 crisis has made the situation more complex, there are other gaps that undermine the linkage between policy, planning and budgeting that can and should be addressed. As a result, the proposed costing method takes the context into consideration, and adopts a hybrid solution that as an activity, would also seek to overcome critical gaps in the budgeting and financing space. Here, the following observations and lessons learned inform the costing process:

- ***NDP Costing Has Never Been Robustly Undertaken:*** Ideally, the costing of the NDP would not only link to the macro-fiscal framework, Medium Term Budget Framework (MTBF) and Medium-Term Expenditure Framework (MTEF), it would also build reliable costing from the ground up, where public investment programs are developed. Moreover, and given that the majority of external funding is off-budget, aid coordination would ideally align external support to the NDP priorities set, even if harmonization is not possible. Lack of detailed costing (for the reasons cited above) reflects the difficulty of costing in the rather fragmented and projectized resource mobilization context.
- ***There are no formal Sector Investment Programs (SIPS) Established:*** As there are no formal Sector Investment Programs, bottom-up costing is pretty much impossible, as costing is based on clearly defined baselines, performance indicators and historical cost (unit cost) structures. Moreover, the absence of SIPs at the sectoral and perhaps even municipal level, means that the budget call circular that guides planning and spending units in developing expenditure programs within the MTFF, MTBF and MTEF falls short, and guidance largely covers wage and non-wage recurrent costs, within limited investment in development spending.
- ***The Majority of Resources are Managed outside of the national Budget:*** The only way to increase the percentage of resources flowing through the on-budget system is to improve the public finance management system and to raise fiduciary risks and safeguards. As that cannot happen quickly, then dialogue around setting priorities and improving alignment is necessary to make sure that the national budget is the primary tool of policy for all players involved, not just the government.
- ***FMS Budgets Have Not Been Sufficiently Reflected in the FGS Budget and are Only Marginally Aligned to the NDP:*** The fiscal revenues included in the macro-fiscal framework do not take the revenues raised by all FMS into consideration. Given that total FMS budget for 2021 equaled US\$ 514 million allocated in 2021 (see below), there is a need to consider how FGS and FMS resources can be more effectively utilized. Of course, not all resources are fungible to support the NDP, and as a result the costing must reflect the complexity of the current federal budget consolidation system.⁷

Galmadug = US\$ 17, 230,054
Jubbaland = US\$ 22,478,218
Hirshabelle = US\$ 14,010,984
Puntland = US\$ 107,954,834
South-West = US\$ 17,145,944
Somaliland = US\$ 339,000,000

- ***The Humanitarian Development Nexus Remains Nascent:*** In terms of external Official Development Assistance (ODA), some 50 to 60 per cent of spending is for humanitarian assistance. Given that the coordination of humanitarian assistance and its alignment with NDP priorities is unknown, this means that the costing exercise must be aware that the overall resource framework is substantially not fungible to NDP priorities.
- ***Cross National Sector Spending Comparators are Not Particularly Useful:*** One important tool for costing is to look at regional country comparators to establish what percentage of either government spending or share of GDP is used for education, health, infrastructure etc. Often, total spending is established on a per capita basis and this can be used to benchmark costs. In Somalia however where the revenue to GDP is far lower than regional countries, with so much assistance provided outside the treasury and budget system, and with lack of public provision

⁷ <https://mof.gov.so/sites/default/files/2021-03/Xeerka%20Miisaaniyadda%202021%20La%20Ansixiyey%2029122020.pdf>

of public goods, using regional comparators as a reference point for costing would be misleading.

- **Monitoring and Evaluation Systems Need Further Development:** Costing is ideally conducted against sector baselines and targets, and ideally the public expenditure tracking systems links national budget spending to the attainment of policy objectives, outcomes, and outputs. As monitoring and evaluation systems related to the NDP are still being strengthened, and linked to the general lack of SIPs, costing of targets from baselines is not always possible. Strengthening the monitoring and evaluation system will feed back positively into strengthening the Mutual Accountability Framework (MAF) as well as NDP-9 implementation.⁸ The MAF has measurable annual milestones for both the FGS and international community covering the four pillars of the NDP 9 as well as Partnership Principles. Progress of implementation is monitored at least twice a year, with milestones and commitments approved at the Somali Partnership Forum (SPF), as the highest-level aid coordination body in Somalia. Milestones for 2021 were approved by the SPF in December 2020.

16. Given that FGS and states budgets for 2021 have already been established, this costing exercise must focus on costing 2022 to 2024, a period of three years.

RECOMMENDATIONS FROM THE IMF JSAN

17. The March 2020 IMF Joint Advisory Staff Note (JSAN) makes several important recommendations that must be considered in framing the costing exercise, as provided below:

- NDP-9 implementation faces significant risks. These stem from: (i) insecurity and national election uncertainty; (ii) lack of policy prioritization, particularly on expenditure policy; (iii) absence of full costing aligned with FGS and FMS fiscal frameworks; (iv) absence of coherent aid policy strategy to catalyze and align large donors' assistance to support the NDP-9; (v) limited monitoring and evaluation capacity; (vi) the perception of corruption and weak governance, which limit confidence and financing support; (vi) absence of private sector-led development policy associated with policies to strengthen tax collection and the revenue base and public finance management, and (viii) limited economic, financial, and poverty data, which hamper the development of coherent medium-term macroeconomic framework linking to poverty outcomes.
- The JSAN emphasized that the authorities need to update NDP9's macroeconomic and fiscal framework and publish cost and financing information on NDP9 interventions. In this regard, regular macroeconomic and fiscal updates have been provided through 2020 and the annual appropriations budget was published with allocations against each NDP Pillar area.

PROPOSED COSTING METHOD

18. The analysis provided above suggests the need to carefully consider which costing method is the most appropriate, delivering best value for money and strengthening the integration of budgeting and planning and aid coordination in the process. As a reference point – given the need to comply with IPRSP best practices – the general approach is in broad compliance with the World Bank *'A Sourcebook for Poverty Reduction Strategies Volume 2: Macroeconomic and Sectoral Approaches'*, albeit contextualized to the challenges facing Somalia as outlined above.⁹

19. There are essentially two basic ways of costing an NDP, top-down and bottom-up. Top-down methods include the (i) traditional top-down approach including the Delphi Consensus Method and so-called Apportionment Analogous Technique and the (ii) basic bottom-up approach includes the so-

⁸ https://www.daljir.com/wp-content/uploads/2019/10/4_5807420474300302642.pdf

⁹ <http://documents1.worldbank.org/curated/en/681651468147315119/pdf/298000v-2.pdf>

called template method and parametric technique.¹⁰ A **top-down approach** seeks to identify in the aggregate the overall costs of funding the NDP as a share of GDP based on assumptions and country benchmarks, whereas the **bottom-up approach** costs sector investment programs, where costed public investment programs have been developed.

20. The risk of a top-down approach is that the overall cost is based on estimates, with the estimate being broadly aligned to assumptions related to likely resource availability. Sector allocations are made based on historical averages adjusted to reflect new priorities and projected out and aligned to the MTBF. The risk of a bottom-up approach is that the costing is based on un-restrained needs, leading to an overall cost that cannot be financed within the resources available. Top-down approaches are less detailed and less reliable though they are quicker to undertake than bottom-up costing, which is more detailed and reliable, but also time consuming.

21. Given that top-down approaches lack accuracy and bottom-up approach are made complex by the lack of sector investment plans, a hybrid approach is proposed combining the standard top-down method for the overall pillar and sub-pillar costings, supported by bottom-up costing for 2-3 priority sectors of relevance to the NDP. This will allow the current NDP pillar expenditure splits to be revised to guide the budget formulation process for 2022 and beyond.

22. A hybrid costing approach that makes use of information from ongoing externally financed projects in Somalia and experiences from peer countries seems will be adopted, in light of the government's small resource envelope and limited project management expertise. A pure bottom-up approach is likely to generate a multi-billion-dollar financing gap, which would not usefully inform budget preparation—especially if there has been no agreement on which projects (or sectors) should receive priority. Benchmarks from existing projects will be used to add a sense of realism to the costing exercise, as outlined below:

- In the transport sector, cost estimates have already been prepared for some roads sections in Somalia and a transport sector needs assessment has been conducted.
- Unit cost benchmarks derived from projects in other conflict-affected or fragile countries. (e.g., road rehabilitation in the Sahel, Central African Republic, and North Cameroon, where security issues are rather similar) could also be used.

23. It is proposed to take the current MTFE envelope and to undertake bottom-up costing of 2-3 sectors, undertaken by the sector ministries and supported by consultants and UNICEF. Such an approach balances the risks of adopting one method over another and it would also allow the IMF model on [Spending Needs Costing for SDGs](#) to become part of the costing process to a certain extent, therefore linking the costing process to support Agenda 2030 too.

24. It will be important to re-evaluate the current levels of SDG goals that have significantly weakened due to the Covid-19 pandemic and other persistent locust invasions and recent climatic shocks. As the NDP was mapped against the SDGs as an annex, this should be possible. The IMF approach focuses on how much additional financing is necessary to reach the SDGs in education, health care, and infrastructure (roads, electricity, and water and sanitation) by 2030.

NDP-9 Costing Working Group (CWG)

25. Successful costing is based on dialogue and consensus, given that irrespective of technical analysis, the process for making sector allocations through the budget process remains a political process as well. Moreover, given that volume of resources that could be mobilized to support the execution of NDP-9 are off-budget, a joint government and international community working group

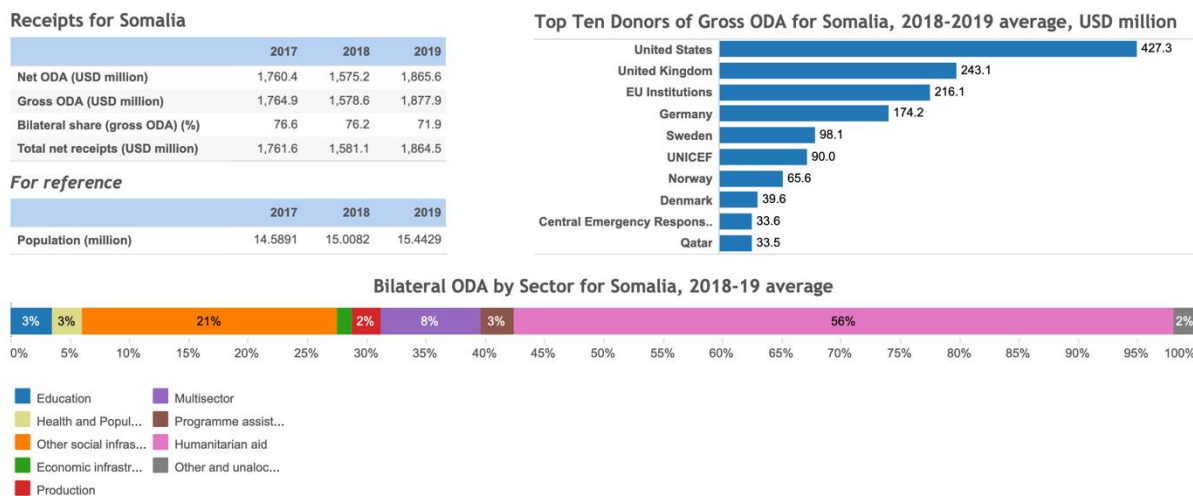
¹⁰ Delphi (Consensus) Method uses the pooled experiences of senior and middle managers to reach an agreement of best estimate of the total NDP duration and costs in the initial stage. The apportionment (analogous) technique uses historical data of past NDP spending as a reference to allocate duration and costs. The template method uses the budget from past annual budgets but includes basic adjustments. The parametric technique uses an arithmetic measurement based on historical data and basic parameters that are similar as the current NDP spending to calculate costs over the medium term.

might go some way to supporting greater alignment. A Costing Working Group (CWG) will therefore be formed for the period May to June 2021, with MoPIED and the Federal Ministry of Finance, as well as various sector ministries as determined by MoPIED and MoF and UNDP and UNICEF. The CWG would review, validate and execute this costing method.

Integrating Top-Down and Bottom-Up Costing Processes

26. The top-down and bottom-up costing processes will be integrated. Given that the FSG Budget for 2021 includes a functional split of 44 per cent for social development, 25 per cent for economic development, 17 per cent for inclusive politics and 13 per cent for security and law, the (i) overall on-budget envelope and (ii) top-down composition of spending are already established. However, what the national budget does not provide is an understanding of how off-budget expenditures as reported by donors through OECD aligns and contributes to the NDP. Figure 1 provides the OECD DAC reported donor spending by functional classification, showing a fundamentally different pillar prioritization.

Figure 1 OECD DAC COMPOSITION AND VALUE OF DONOR SPENDING (2018-2019)



27. Moreover, as noted in Table 4, the national budget takes a pillar and project approach, not a pillar and Sector Investment Program (SIP) approach. As a result, the bottom-up costing of sectors will complement the overall top-down approach, providing the foundation for a programmatic approach, to include off-budget costing needs and flows. This will provide a far more granular level of detail on actual spending across the pillars, and at the sub-pillar level.

28. So, the top-down process will provide the overall on and off-budget resources envelope, combining all sources of domestic and international public finances, whereas the bottom-up costing will focus on 2-3 sectors and present a costed programmatic approach. So, for example, programs as reported under the national budget pillar for social development, might be classified under the following bottom-up costing:

- Education
- Health
- Water and Sanitation
- Social Protection and Welfare
- Disaster Recovery and Resilience

29. The bottom-up costing process will likely pick up 2-3 of the above-mentioned sectors – or others as required and feasible – providing a costing foundation that looks at on and off-budget operation and development spending covering recurrent and development spending. These will be mapped to the sector MTEFs and projected out over the 2022-2024 period. To the extent possible resources available at the FGS and FMS levels will be acknowledged.

30. Such an approach means that the overall resource envelope and pillar splits will be provided by the top-down costing process, while the bottom-up costing process will provide detailed costs for selected sectors, linked to the MBTF/MTEF process, including an estimation of resourcing gaps and measures to improve investment alignment and harmonization. To this extent, the top-down and bottom-up processes will not provide two different costs basis, but rather firm up the costs for a number of key sectors as agreed by the Costing Working Group.

Costing Timing Issues

31. The timing of the costing is complicated because the various FGS and FMS budgets for 2021 have already been approved and are being appropriated. Similarly, the FY2022 budget strategy paper is due to Cabinet on June 1 2021 and to Parliament by June 15 2021. The FY2022 Budget Policy Framework Paper would then be published in July/early August to kick-off the call circular process, with MDAs having until September to submit costs to the Budget Department such that a full

appropriation bill can be developed and submitted to Parliament by October. This then leaves three months as required by international best practice to scrutinize the budget prior to the start of the fiscal year). Given that the overall fiscal framework has already been established in the Budget Policy Framework Paper, this costing exercise will only be able to influence a limited number of sectors, but it will not be able to influence the overall costing of the NDP9 until 2023, and the start of that budget formulation process.

A Stepwise Hybrid Approach

32. The basic approach leads to an assessment of NDP-9 spending needs as a share of Gross Domestic Product (GDP) for Somalia, to be established by drawing from the IMF general method, as follows (i) identifying of main inputs and their associated unit costs for core sector goals (ii) deriving reference values for these parameters by examining their values in countries with similar level of GDP per capita that have good outcomes today (where applicable) and (iii) estimating 2022-2024 spending as a share of GDP associated with these reference values, given projections of GDP per capita and population growth.

33. The overall stepwise approach to be adopted for the hybrid costing exercise is outlined below. Steps are not necessarily sequential, and other adaptations and innovations can be applied by the CWG.

- ***Gain Access to the MoF Macro-Fiscal and MTEF Spreadsheets:*** Given the centrality of framing costing within the macro-fiscal context, the FY2022 Budget Policy Framework Paper document will be reviewed, providing the framework for overall costing.
- ***Define the scope for costing, including level of ambition for results, strategies, and actions:*** Define the top-down costing to be completed to gauge the scale of public, private, domestic, and international resources needed to achieve the NDP-9, while also agreeing on the 2-3 priority sectors where bottom-up costing will be undertaken.
- ***Review the results of prior Public Expenditure Reviews (PERs) and PFM Assessments.*** With relevance to assessing public expenditure management performance and systems, a cursory review will identify key lessons learned and recommendations in relation to the budget planning and costing process. These will be used to inform the work of the CWG.
- ***Document Historical Analysis on NDP Costing at the Pillar and Sub-Pillar Levels:*** A first step is to document the prior three-year NDP-8 and NDP-9 spending to assess how pillar and sub-pillar allocations were determined, while also reviewing (in broad terms) implementation progress against targets. The outcome will allow the analysis of trends.
- ***Aggregate FMS Level Budget Allocations by Functional Classification:*** It will be important to bring together for the first time the historical three-year prior FMS spending for 2019, 2020 and 2021, as well as documenting the projected spending for FMS for the period 2022 onwards, where projections exist.
- ***Identify and Rank New National Investment Priorities:*** Working with the NDP prioritization team, based on the MoPIED NDP Prioritization Methodology Guidance Note, assist the Government in reviewing existing and then setting new strategic investment priorities at the pillar and thematic level, as outlined in Table 4 below, based on the 2021 NDP priority areas, which are further expanded in Annex 1.

| Table 4. NDP-9 PILLAR AND THEMATIC INVESTMENT AREAS | |
|--|---|
| Inclusive Politics | |
| 1 | Safeguarding progress on the constitutional review |
| 2 | A peaceful transition of power |
| 3 | Establishing a basis for on-going political dialogue and consensus building on the federal settlement |

| Security and Justice | |
|-----------------------------|--|
| 1 | Advancement of STP 20 objectives to enable security transition by end of 2021 |
| 2 | Development and implementation of a sustainable model on institutional reforms in-line with the National Security Architecture Agreement |
| 3 | Strengthening election and Mogadishu security |
| 4 | Final agreement and implementation of an inclusive consensus-based Justice and Corrections Model rooted in the rule of law and enshrined in the Constitution |
| 5 | Revising the National PCVE Strategy enshrining dialogue and a human rights compliant amnesty law |
| Economic Development | |
| 1 | Natural Resources & Environment |
| 2 | Financial Reforms |
| 3 | Trade Reforms & Regional Integration |
| 4 | Improve Infrastructure Services |
| Social Development | |
| 1 | Education and training (including TVET) |
| 2 | Health and Nutrition |
| 3 | Food Security and Resilience |
| 4 | Social Protection |
| 5 | Durable Solutions |

- **Reference the NDP9 Resource Envelope (MTFF):** The main revenue policy objective of the FGS is to mobilize adequate domestic resources as the primary source of NDP9 financing. External assistance will play a critical role in funding existing financing gaps that cannot be met through domestic resources, though forecasts for 2021 and 2022 are challenging. In reviewing the FY2022 Budget Policy Framework Paper, and based on discussion with key external partners, an overall assessment of the current value of external resources by pillar will be developed. The ‘Aid Flows in Somalia: A Preliminary Review’ for April 2021 will provide a useful source of reference.
- **Bottom-Up Sector Program Costing:** Projections are published by functional area, MDA, and economic item for the NDP period in the FY2021 Budget Strategy Paper Document prior to the issuance of the call circular. A standard classification system is in place, and standardized forms are provided to each MDA annually through the call circular. Bottom-up costing will therefore abide by the standard Chart of Accounts and the Budget Preparation Manual already in place and be led by the various sector ministries, supported by the consultants (including UNICEF, which will only focus on health and nutrition and possible support on education). The bottom-up sector costing process will focus on health and nutrition and education, with activities focused on the following:

 - Define the sector policy objective, scope, schedule, and strategy of implementation
 - Identify programs and sub-programs linked to the pillar and thematic areas
 - Identify key interventions for program implementations in terms of operations and projects
 - Determine the inputs, outputs, and outcomes for the operations and projects
 - Determine cost objects, define costs, and identify cost drivers (i.e., COVID-19)
 - Determine a suitable costing methodology for the costing of input costs based on
 - Classify costs appropriately
 - Allocate proportional costs within various sub-programs (if applicable) and aggregate to programs
 - Validate the costing estimates with available historical costs to determine if the estimates are realistic.
- **Production of preliminary cost estimates and refinement based on inputs from the working group:** Produce preliminary cost estimates as a share of GDP and to the extent possible, identify

and quantify a vetted list of projects that could be considered by donors for financing, should that information be made available.

- It will be important to engage the IMF and WB country teams on the costing exercise, at least in terms of commenting on the method if not a deeper involvement. Consider including scenario-based sustainable development planning to facilitate risk-informed responses, including estimation of costs of potential mitigation measures and policy adjustments for various risks factored in the development plan (climate, health pandemics, narrow supply chains, etc.) and affecting the progress towards national goals.
- **Identify the NDP Financing Gap:** The MTEF is expected to be fully funded in terms of estimated domestic revenue generation, donor budgetary support including project loans and grants. Given the volume of resources outside of the national budget, particularly in the humanitarian and resilience space, the costing will outline the expected financing gaps to meet the pillar and thematic objectives met. The projected Financing Gap, defined by the difference between the projected NDP expenditures as prioritized and the indicative resource envelope to support MTEF poverty-related expenditures will be generated.

| Table 5. SCENARIO BASED NDP RESOURCE ENVELOPE / FINANCING GAP | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|
| | 2020 | 2021 | 2022 | 2023 | 2024 |
| Domestic Revenues | | | | | |
| External Resources | | | | | |
| Total Budgetary Resources | | | | | |
| Less Total Interest Payments | | | | | |
| Less Change in Arrears | | | | | |
| Net Budgetary Resources | | | | | |
| NDP Expenditure Needs | | | | | |
| Indicative Funding Gap | | | | | |

- **Analysis of costing results to identify synergies, overlaps and scope for joined up actions and to inform modelling:** Undertake review and consultations with experts and stakeholders to refine costing estimates over the 2022-2024 period and identify synergies and trade-offs. Identify how to best integrate costing within the MTBF / MTEF process.
- **Draft Costing Report and Validation Process:** The outcome of the NDP costing process will be a costing report, validated by government, aligned to the MTEF/MTBF/MTEF process. An online workshop will be convened from which both the method and subsequently results will be presented, validated by the members of the CWG, including feedback from cooperation partners including the IMF and World Bank.
- **General Questions to be Asked by the CWG:** A range of general questions should be asked to improve the overall costing, in relation to integration with the MBTF and aid coordination processes. Questions include:
 - Are there opportunities to enhance existing approaches to estimating financing needs?
 - To what extent do existing approaches to estimating financing consider and distinguish between public and private financing from domestic and international sources?
 - To what extent can overlaps or synergies be accounted for when collating financing need estimates for different sector and thematic priorities?
 - What challenges limit the extent to which comprehensive, accurate estimates of financing needs can be made?
 - Are there areas where improvements in data, capacity, or other factors could enhance the quality and usability of financing needs estimates?

- To what extent do existing approaches consider risks or alternative scenarios for the scale of financing needs, depending on policy choices, exogenous shocks, systemic risks such as climate change or other factors?
- How are existing financing needs estimates used within policy cycles as a whole?
- Are there examples of these estimates informing the setting of targets?
- Are financing needs estimates monitored over time as circumstances change?
- Is progress toward closing financing gaps monitored?

34. The costing report will also offer a vision for how future costing exercises can be used to establish a framework for integrating policy, planning, and budgeting processes (i.e., strategic budgeting) and to begin rebuilding the government's public investment management systems. The costing reporting will be supported by budget tables based on the pillar and thematic investment area, showing proposed budget ceilings and expected financing gaps.

Annex 1: Federal Budget by Pillar for 2021

| Table 6. FGS BUDGET REVENUE AND EXPENDITURE SUMMARY (2021) | | | | |
|--|---|---------------------------------------|---------------------|-------------|
| Head | Details | Budget 2021 NDP9 (in total) (US\$) | | Share % |
| | Total National Plan Allocation (NDP-9) | 37,995,580 | 37,995,580 | 100% |
| 1 | Inclusive Politics | 6,635,001 | 6,635,001 | 17% |
| 10501 | Ministry of Finance | | \$2,453,058 | 37% |
| | <i>Improving Revenue Management, Budget Preparation and Implementation</i> | 2,453,058 | | |
| 10601 | Ministry of Planning and International Investment and Development | | \$499,998 | 8% |
| | <i>Developing the capacity to implement the National Plan and Prepare a Management System National Plan Data</i> | 499,998 | | |
| 10602 | National Statistics Agency | | \$1,000,000 | 15% |
| | <i>Strengthen statistical and data management capabilities</i> | 1,000,000 | | |
| 10701 | Ministry of Interior and Federalism | | \$959,794 | 14% |
| | <i>Renovation of the Ministry of Interior and Federalization and Reconciliation Governance and Federalism</i> | 959,794 | | |
| 11501 | Ministry of Constitution | | \$1,722,151 | 26% |
| | <i>In the process of reviewing the national constitution, consult with all authorities and Community Awareness</i> | 1,722,151 | | |
| 2 | Security and Law | 4,880,800 | 4,880,800 | 13% |
| 20201 | Ministry of National Security | | \$795,950 | 16% |
| | <i>Strengthen internal security infrastructure; develop security laws (Small Arms Law, Explosives Law and Civil Security Law ah.</i> | 795,950 | | |
| 20202 | Police Command | | \$124,900 | 3% |
| | <i>Complete the registration of all police forces</i> | 124,900 | | |
| 20102 | Army Command | | \$156,100 | 3% |
| | <i>Complete the registration of all the Armed Forces</i> | 156,100 | | |
| 11101 | Attorney General | | \$55,400 | 1% |
| | <i>Agency enhancement; improving the electronic case management system</i> | 55,400 | | |
| 10901 | Ministry of Justice | | \$ 1,014,550 | 21% |
| | <i>Establish three prisons in Galmudug, Hirshabele and Southwest administrations; preparing new rules and completing the process and correcting the system justice of the country.</i> | 1,014,550 | | |
| 110 | Judicial Service | | \$ 2,733,900 | 56% |
| | <i>Establish a judicial training institute and district courts; strengthening the electronic court case management system; to build jurisdiction of judges and clerks of court at the federal and state levels regional administration</i> | 2,733,900 | | |
| 3 | Economic Development | 9,620,000 | 9,620,000 | 25% |
| 30101 | Ministry of Energy & Water | | \$ 4,000,000 | 42% |
| | <i>Pre-war irrigation and infrastructure rehabilitation flood control in southern Somalia</i> | 4,000,000 | | |
| 30401 | Ministry of Livestock, Forestry & Pasture | | \$ 620,000 | 6% |
| | <i>Rehabilitation of animal laboratories and capacity building of laboratory management capacity. Facilitating livestock development services in Banadir, Galmudug, Hirshabelle, Jubaland, Southwest, and Puntland. Establish a Management System Animal information.</i> | 620,000 | | |
| 30801 | Ministry of Public Works and Reconstruction | | \$ 5,000,000 | 52% |
| | <i>Rehabilitation of arterial roads and main roads (at least 10km of each administration - Banadir, Galmudug, Hirshabelle, Jubaland, South West, Puntland). Bridge Rehabilitation. Renovation of the ministry headquarters.</i> | 5,000,000 | | |
| 4 | Social Development | 16,859,779 | 16,859,779 | 44% |
| 40101 | Ministry of Health | | \$ 6,855,620 | 41% |
| | <i>Establish a National Institute of Health; to be transferred from Nairobi refrigerated medicine warehouse in Mogadishu; Improvements</i> | | | |

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| | | | | |
|--------------|---|-----------|---------------------|------------|
| | <i>the buildings of Banadir, Forlanin and Martini hospitals; equipping the Rooms malaria parasite control; strengthening the Data Management System Health</i> | 6,855,620 | | |
| 40201 | Ministry of Education & Higher Education | | \$ 8,357,010 | 50% |
| | <i>Rehabilitation of 100 primary and secondary schools; rebuilding the high school Hawa Taako; reactivation of the national museum; enrichment of the training institute female teachers; Establish an Office of Examinations & Certificates and Office of National Management.</i> | 8,357,010 | | |
| 40202 | National University | | \$ 1,647,149 | 10% |
| | <i>Expand the construction of Abudwaq and KM4 (Mogadishu) branch universities. Strengthen the research capacity of the university by rebuilding the Center Agricultural Experiments, and the College of Veterinary Medicine.</i> | 1,647,149 | | |

Source: Somalia, FGS Ministry of Finance