



Puntland Decentralization Policy

2013-2020

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Abbreviations

APD	African Peace and Development
ILO	International Labour Organisation
IMC	Inter-Ministerial Committee on Decentralisation
JPLG	Joint Programme on Local Governance and Decentralised Service Delivery
MCH	Mother and Child Health centers
MoAI	Ministry of Agriculture and Irrigation
MoERFWT	Ministry of Environment, Rangeland, Forests, Wildlife and Tourism
MOF	Ministry of Finance
MoF	Ministry of Fisheries
MOI	Ministry of Interior, Local Government and Rural Development
MoLAH	Ministry of Livestock and Animal Husbandry
MoPW	Ministry of Public Works
MTEF	Medium-Term Expenditure Framework
NGO	Non-Governmental Organisation
PEM	Public Expenditure Management
PPP	Public Private Partnership
PSAWN	Puntland State Authority for Water, Energy and Natural Resources
SWOT	Strengths, Weaknesses, Opportunities and Threats
UN	United Nations
UNDP	United Nations Development Program
WASH	Water, Sanitation and Hygiene

Working Definitions¹

The Legal Framework: the laws and regulations governing the sector and the specific policy instruments established to implement a strategy.

Institutional Framework: changing roles of government, allocation of responsibilities to various levels of government.

Subsidiarity: a principle by means of which a central authority should have a subsidiary function performing **ONLY** those tasks which cannot be performed at a more local level.

Empowerment: enabling people to make decisions on issues affecting their welfare.

Responsibility: all levels of government are responsible for ensuring the smooth, efficient, and effective implementation and management of decentralization programs and activities.

Accountability: a key requirement of good governance, which is applicable to public and private sectors, as well as civil society organizations. It is the ability to hold decision makers at different levels responsible for their performance.

Transparency: decisions made and their enforcement are done in a manner that strictly adheres to prevailing rules and regulations and in such a way that reliable, wholesome, factual, timely, easily understood information is freely available and directly accessible to those who will be affected by such decisions and their impartial enforcement.

The Rule of Law: availability of fair legal frameworks that are enforced impartially and requiring strict observance of fundamental human rights and freedoms and their protection importantly. It also requires an independent judiciary committed to the speedy, impartial administration and dispensation of justice and incorruptible law enforcement apparatus.

Equity and All-inclusiveness: a society's well-being depends on ensuring that all its members feel that they have a say in it and do not feel excluded or marginalized from the mainstream of society. Fulfilling this expectation requires that all groups, but particularly the most vulnerable, have opportunities to improve or maintain their well-being.

Effectiveness and Efficiency: decentralized governance implies that institutions and processes produce results that adequately meet the priorities of citizen-clients while making the best and most cost-effective employment of scarce public resources.

Consensus Building: there are several stakeholders at the various levels and strata of society, and this fact entails that decentralized good governance mediates among the different interest groups in society to reach a broad consensus on what is in the best interest of the whole community and on how this objective of paramount importance can be achieved. Effective consensus building requires a broad and long-term perspective on what is needed for sustainable socio-economic and human

¹ National Decentralization Policy: Realities and Recommendations, African Peace and Development, March 2012

development which best results from a clear understanding of the historical, cultural, and social contexts of a given society and/or community.

Responsiveness: decentralized good governance requires that institutions and processes serve all stakeholders within a reasonable timeframe.

Participation: participation by both men and women is an important cornerstone of decentralized good governance and can be enacted either directly by individuals or indirectly through legitimate intermediary institutions or representatives. Participation requires that involved actors be informed and/or enlightened about their rights and responsibilities and that they be organized, a requirement which implies reasonable freedom of association and expression.

Democratic Representation: representing the majority of people based on the outcomes of just, free, fair, reliable, and transparent electioneering and elections, and acceptance of the results thereof.

Political Decentralization: a shift of power and resources to elected local councils or outposts of sectoral ministries with the objective of aligning sectoral activities to local needs to improve service delivery. The aim is to improve and enhance the participation of the population in political decision-making. It implies that locally elected authorities must bear more responsibility to those who have elected them and better represent local interests in political decision-making processes.

Administrative Decentralization (functional assignment): distribution of the responsibilities to fulfill public duties among governmental authorities at various levels of government. Responsibility for regional- or local-level planning, operational management, and in part also for the financing of infrastructure and services is shifted from central to lower-level authorities.

Fiscal Decentralization: the assignment of revenues and the grant mechanisms to local government so that it can discharge its assigned functions. This may result in changes in the share of the public sector in overall governmental funding, in the stability of funding of services, and in the relative amount of funding available for specific types of services. These changes may differ in their effects on rich and poor geographical areas and may be linked to local revenue raising capacities and the relative provision of funds by the central and local governments.

Deconcentration: the redistribution of responsibilities to sub-national units of central government (e.g. regional ministerial offices). It represents the weakest form of decentralization. Some argue that this is not even part of decentralization because the shift in responsibility simply takes place within the central government hierarchy.

Delegation: a stronger form of administrative decentralization, which refers to the redistribution of decision and operational responsibility to local authorities, which maintain a certain degree of independence from the central government and yet have to report to it.

Devolution: the strongest form of administrative decentralization. It involves the transfer of powers for decision making, finances, and management from the central administration to independent local governments, usually the municipalities with locally elected organs and clearly defined territorial responsibilities.

Executive Summary

This Decentralization Policy document is prepared to provide a vision, guide, and roadmap for pursuing the goal of supporting the implementation of a decentralized system of service delivery in Puntland. It is based on an extensive and intensive level of dialogue and consensus building among the major stakeholders involved in pursuing this goal.

The Vice President of Puntland and the Inter-Ministerial Committee on Local Government are the driving forces for developing and implementing this decentralization process and have provided invaluable assistance and support in finalizing this decentralization policy document.

The executive summary provides short synopsis of the main points outlined in the body of the report. This included the following:

- Vision Statement and Decentralization Policy Statements in the areas of political, administrative, and fiscal decentralization
- A roadmap for further developing the decentralization process in Puntland

The report provides a detailed examination of the present situation with regard to the legal, political, administrative, and fiscal circumstances that will need to be addressed through a well organized and coordinated effort from the central to the local level. The report outlines some of the main strengths, weaknesses, opportunities and threats to continuing the effort for developing the decentralized system of service delivery.

Vision Statement of Decentralization in Puntland

The report provides the following vision statement for decentralization in Puntland.

Establish at the local government level for improved good governance and service delivery through participatory, accountable and transparent local government and to effectively utilize the limited resources available at the central and local government levels.

Decentralization Policy Statements for Political, Administrative, and Fiscal Decentralization in Puntland

The report addresses the requirements for implementing decentralization in the three areas of decentralization and proposes decentralization policy statements as the guides for developing these decentralization areas to the internationally accepted principles of decentralization.

Decentralization Policy Statements for Political Decentralization

Election of Local Councils: A process of direct election of local councils will be implemented and based on open, competitive, and non-discriminatory selection and campaigning for local council offices.

Citizen Participation in Decision Making: Citizen participation will be developed to the

maximum extent possible through the adoption of citizen participation charters at the local government levels that will require the conduct of community forums on local development and budgeting decisions, and formation of community based committees for sector areas, such as health, education, water and sanitation services, and community infrastructure planning and construction.

Locally Appointed Officials: Local executive and management officials will be appointed within the framework of the civil service law by decision of the local council and subject to their selection, performance appraisal, and dismissal decisions.

Decentralization Policy Statements for Administrative Decentralization

Regulatory Powers for Local Physical Planning: Local councils and executive management will have full authority to determine the local physical planning requirements for their local governments, subject to national level planning guidelines and citizen participation in planning decisions at the local level.

Local Public Finance Management and Procurement: The local councils and administrative staff will have full authority to implement their expenditure and revenue requirements within a formalized budget process compatible with national level financial requirements. The decisions on procurements and contracts will be within the authority of the local council and within national level legal and financial reporting requirements.

Local Human Resource Administration: The authority for implementing a human resource management system for the recruitment, selection, performance appraisal, and dismissal will be within the scope of the local council to determine based on national level civil service requirements.

Administration of Local Public Services: Local governments will have full authority to provide local public service delivery within the framework of the principle of subsidiarity and the determination of the financial and human resource capabilities of the local government.

Deconcentration of Service Delivery: The delivery of public services by the deconcentrated offices of central ministries will be based on the lack of financial and human resource capacities of the local government and by an established criteria and assessment process for determining that the local government lacks these resources. Consideration will be given to those services of national importance, such as education, health, water, infrastructure and cross cutting sectors, where national level interests in equality of service delivery and national level standards cannot be met by the local governments.

Decentralization of Service Delivery: Decentralization will be the preferred method of public service delivery guided by the principle of subsidiarity and the capacities of the local government based on their classification system and service delivery capacities of these local units.

Decentralization Policy Statements for Fiscal Decentralization

Expenditure Assignments: Expenditure assignments of public service functions will be

assigned based on specific criteria of local government classifications, financial and human resource capacities, and importance of providing equality of services to the local citizens based on national level quality standards.

Revenue Assignments and Local Revenue Administration: Revenue mobilization and maximum fiscal capacity of revenue sources will be supported through providing local governments fiscal autonomy to determine the tax base and set the tax rates for a selected number of own sources revenues and fees. Local governments will be fully responsible for the revenue collection system based on identification of taxpayers and determination of the correct tax to be paid.

Intergovernmental Fiscal Transfers: The determination of intergovernmental transfers will be based on objective and transparent criteria and consideration of the differences in the classification of the local government, geographic and physical factors, populations, and socio-economic conditions.

Local Government Borrowing and Debt: Local governments will have authority to undertake borrowings and use debt for local purposes within limits of their fiscal capacity and national legal framework. Decisions on use of debt will be based on public discussions of the amount and use of the debt for local infrastructure purposes and subject to review by national level authority.

Vertical and Horizontal Balance: To the extent possible and within limitations of central revenue resources, the intergovernmental transfers will seek to achieve the vertical balance of local government expenditures and revenues to close the fiscal gap of the funding requirements. Horizontal balance will be achieved through application of different transfer criteria among the local governments based on classifications of local governments, and factors included in the transfer formulas.

Transparency of Allocation Formulas: The transfer allocation formulas will be based on objective and validated factors and will be openly discussed with representation of the central and local government stakeholders through a formal consultation process.

Fiscal Capacity: The use of fiscal capacity measures will be incorporated into the development of the intergovernmental transfers and incentives provided for local governments to maximize their revenue sources and collection of revenues.

Unfunded Mandates: The central government will not transfer to local governments any functions for which funding is not provided to cover these service delivery expenditures.

Different Allocation Basis for Rural Versus Urban Areas: The transfer allocations will be based on the differences between local governments of predominately rural and urban areas based on measures of area and population density established within the local government classification system.

Strengths, Weaknesses, Opportunities and Threats to Decentralization

The report provides a thorough identification and examination of the strengths, weaknesses, opportunities and threats to this decentralization policy development and implementation. These are highlighted below.

The significant strengths relate to the following:

- The essential legal basis for decentralization in the Constitution and Law 7
- The high level commitment of the Government of Puntland and leadership of the Vice President and Inter-Ministerial Committee on Local Governance
- Capacity for implementing decentralization through the JPLG and other donor programs
- Well developed sector assessment studies for decentralization

The weaknesses, however, are substantial and require a significant level of effort to overcome. Among the weaknesses identified are the following:

- No overall decentralization strategy
- Too many districts that are not capable of providing efficient service delivery
- Failure to accomplish the holding of local council elections
- Lack of sufficient inclusion of stakeholders from the district level in the overall decentralization policy development
- No developed intergovernmental transfer system

There are significant opportunities from improving this situation and overcoming the above weaknesses through the following:

- Define the district boundaries based on established criteria
- Hold local council elections
- Improve the legal framework of the functional assignments based on capacities of the districts
- Improve the revenue collection capacity of the districts.

There are still some significant threats that need to be overcome. These include the following:

- Reluctance of central ministries to support decentralization
- Continued confusion over the roles and responsibilities of the central ministries and the district administrations
- Potential for political instability and conflict situations
- Reluctance of personnel to transfer to the district administrations and the wide disparity in salaries across these levels.

The Needed Basics for Implementing the Policy

Political Will

The necessity of placing decentralization as a high priority of the government and placing the responsibility for implementation at the highest level of government is an essential requirement for implementing decentralization.

Capacity Building

It is important to develop a capacity building component within the decentralization program. This can be done through the use of performance based grants that provide an incentive for local governments to implement projects and included funding for capacity building of the local government for these projects **and the formation of civil service training institute.**

Capacity building efforts will be developed to assess and identify the necessary skills and capabilities that are needed for perform the decentralized services assigned to the district level under the future decentralized good governance and service delivery system. Based on this assessment, a capacity building program will be planned and implemented that will ensure that the local government elected and executive leaders, as well as staff, will have the necessary knowledge, expertise and capacities to effectively deliver the services assigned to them.

Legal Framework

A clear legal framework that defines the roles, responsibilities and authorities of the local governments is essential to achieving a decentralization program. This legal framework should include laws on local governments defining their functions and operational methods, as well as the election processes for the local councils

National Policy

There should also be clear national level policy documents that provide the vision and purposes that the decentralization program should support. These can be incorporated into National Development Plans, Vision 2020, or other types of national level policy objectives.

Financial Resources

The success of decentralization is also very dependent on the financial resources that are available to the local governments as well as the sharing of revenues from the central government or the fiscal transfers.

Core Management Functions and Responsibility

A well-defined assignment of functions between the central and local levels is necessary. The following provides an assignment of core management functions between the central and local levels. For those decentralized services by the various sectors, the local government will assume responsibility for the budgeting and execution of these services. This represents the basic transfer of responsibility in decentralized service delivery.

Assignment of Core Management Functions and Responsibility		
Function	Primary Responsibility	Secondary Responsibility
Policy Making	Central Ministries	Local Government
Strategic Planning	Central Ministries	Local Government
Budgeting	Local Government	Central Ministries
Execution	Local Government	Central Ministries
Regulatory Oversight and Compliance	Central Ministries	Local Government

For the various sectors to be decentralized, the relevant ministers will prepare a decentralization action plan that is based on a functional review of the services that can be decentralized and a capacity assessment of the districts for their capabilities to take responsibility for these services.

Sector Decentralization

The decentralization policy for the several sectors addressed in this decentralization policy is summarized below for each sector and district grade.

Transportation and Roads:

- ❑ Category A local governments will assume responsibility for the road network throughout the district **within 5km of their boundaries**, except for major paved roads that cross and connect two or more districts, **or between villages and within national boundaries**.

Category B local governments will assume responsibility for local roads within urban or developed areas within their boundaries. Any paved roads will be the responsibility of the Puntland Highway Authority through its deconcentrated service delivery capacities and will assess the Category B districts for some maintenance costs.

Category C local governments will not have responsibility for any part of the road network within their boundaries. The Puntland Highway Authority will be responsible for these roads, but will assess the Category C local government for the maintenance on a cost-sharing basis.

Education:

The decentralization of the pre-primary education, primary education will be decentralized to the Category A local governments in the initial phases based **on the assessment of their capacities as determined by the Ministry of Education**. This decentralization approach will be piloted in several Category A local governments in the initial phase and then evaluated for fuller replication to the other Categories. Once this has been achieved the Category A local governments will then assume responsibility for secondary education within their scope of responsibility. Therefore the Ministry **of education is responsible delivery of education services at district level, until such time when A districts are proved to be capable of delivering education services efficiently, in terms of resources and human capacity**.

Category B local governments will only be responsible for pre-primary and primary education. Category B local governments will not be given responsibility for Secondary Education. The Ministry of education is responsible delivery of education services at district level, until such time when B districts are proved to be capable of delivering education services efficiently, in terms of resources and human capacity.

Category C local governments will only be responsible for pre-primary education based on assessment of local capacity to assume this function.

Health:

Category A local governments in the initial phases based on the assessment of their capacities as determined by the Ministry of Health. This decentralization approach will be piloted in several Category A local governments in the initial phase and then evaluated for fuller replication to the other Categories. Once this has been achieved the Category A local governments will then assume responsibility for primary health care units and health centers within their scope of responsibility, provided that the pilot approach is proved to be successful.

However, Ministry of education is responsible delivery of education services at district level, until such time when districts A are proved to be capable of delivering education services efficiently, in terms of resources and human capacity. And until the alignment of Law No. 7 and other health laws and policies, Ministry of Health will be responsible of health services at district level.

Category B local governments will only be responsible for primary health units. Category B local governments will not be given responsibility for Health Centers. But the Ministry of Health is responsible delivery of education services at district level, until such time when B districts are proved to be capable of delivering education services efficiently, in terms of

Category C local governments will not be responsible for delivery of health services.

Water, Sanitation and Hygiene (WASH) (including solid waste):

The A districts will be responsible for the planning, costing and implementation of all public water points (public areas, schools, public buildings, health clinics etc.), water piping, public sanitary facilities at schools, health posts, public buildings and places as well as sewages.

The B districts will be responsible for public water points in buildings (and outside schools and health posts) and will be planned, costed and implemented by the district council.

The C Districts will have very limited responsibility for water, sanitation and hygiene based on development of local community committees to manage these functions within their areas. Where community committees are organized to manage these services, the district level administration will

support these services with some funding and technical assistance that is not available from the decentralized offices of the Central Ministries responsible for these functions.

Natural Resources:

The decentralization of natural resource management and development responsibilities will be limited in terms of the ownership rights and receipt of revenues from these sources. Natural resources will be considered a common asset of all the people, regardless of the location or value of the natural resources, and will be utilized for the benefit of all citizens of Puntland.

There is a need for further analysis of the functional assignments within these ministerial organizations dealing with natural resources and once these are realigned, a process of determining what functions could be assigned to the district level can begin. It is not recommended that decentralization of these functions be planned in the next 1-3 years.

Detailed Roadmap for Decentralization

The following presents the detailed roadmap for implementing decentralization in Puntland with specific actions and timeline for pursuing the goal of decentralized service delivery.

The Key Milestones of Decentralization Policy Implementation

No.	Responsible	Milestone	Deadline
1.0	MOI and relevant sector ministries	Review final Decentralization Policy Document and submit for adoption	November 2013-Jan 2014
1.a	Vice-President's Office	Inter-ministerial Committee (IMC) semi-annual meeting Adopts the Decentralization Policy Document	December 2013-Jan 2014
1.b	MOI	Establishes a Boundary Commission to define district boundaries to complete work by July 2014	March 2014
1.c	Government Decision	The Government and Parliament establish a timeframe for local council elections	November 2014
1.d	MOI and Relevant Sector Ministries	The IMCLG will develop a methodology for assessing the capacities of the districts to deliver services	Mar-June 2014
1.f	MOI/Sector Ministries	Development of public awareness campaign of the decentralization policy, impact on districts and local councils of the Boundary Commission, and timeframe of decentralization and local council elections	January-December 2014
2.0	MOI and Relevant Sector Ministries	The IMCLG directs the sector ministries to begin process of developing decentralization strategy for their ministry	April 2014
2.a	MOI and Sector Ministries	Sector Ministries appoint a technical team to undertake functional review of their functions	May 2014
2.b	Vice-President's Office	Inter-ministerial Committee semi-annual meeting to review progress	June 2014
3.0	MOI and sector	Sector Ministries develop and adopt Concept Note on	July 2014

	ministries	Decentralization for their ministry and sector	
3.a	MOI and Sector Ministries	MOI and Sector Ministries identify districts for piloting decentralization	August 2014
3.b	MOI and Sector Ministries	Sector Ministries Complete functional review and identify functions to decentralize on pilot basis	September 2014
3.c	MOI and Sector Ministries	Sector Ministries Complete Action Plan for Piloting Decentralization of Functions	October 2014
3.d	MOI and Sector Ministries	Sector Ministries Complete Strategy for Decentralization of Pilot Districts	November 2014
3.e	MOI and Sector Ministries	Sector Ministries complete review of legal framework gaps and provide to the IMC for review	November 2014
3.f	Vice-President's Office	Inter-ministerial Committee semi-annual meeting reviews Action Plans and Legal Framework review	December 2014
4.0	MOI and sector ministries	Sector Ministries and Pilot Districts begin implementation of decentralization functions	January 2015
4.a	Government	Government adopts boundary commission report and process for local council election in 2016	March 2015
4.b	Government and Parliament	Adopt Changes in Law No. 7 for Assignment of Decentralized Functions	May 2015
5.0	MOI and Sector Ministries	Inter-Ministerial Committee semi-annual meeting discussing district pilot implementation	June 2015
5.a	MOI and Sector Ministries	Sector Ministries and MoF develop allocation formulas for transfers to districts for decentralized functions	July 2015
6.0	MOI and Sector Ministries	Review Development and Assess Progress on Decentralization in Pilot Districts	November 2015
6.a	MOI and Sector Ministries	Inter-Ministerial Committee semi-annual meeting to review decentralization progress	December 2015
7.0	Government	Prepare and Hold for Local Council Elections	January-June 2016
7.a	MOI and civil Service Commission	Institutional capacity assessment and planning at district level. Staffing of each district reclassified in accordance with service delivery functions (2 phases)	June 2015 / Dec. 2017
8.0	MOI	Draft and promulgate by-law requesting all districts to implement participatory planning and accountability reporting process (as per PEM)	December 2014
9.0	Sector ministries	Sector ministries will make district level experts available to the district council for planning purposes related to their sector (or regional or central level experts according to their capacity), depending on the availability of resources.	December 2014
10.0	Vice-President's Office	Midterm review of policy implementation	December 2017

As illustrated in the table above, a meeting in the Inter-Ministerial Committee chaired by the Vice-President to discuss and endorse the process will thus precede each major milestone.

Following the implementation of all major devolution aspects outlined above, the Inter-Ministerial Committee will field a mid-term evaluation. The objective of the evaluation will be to take stock of the situation and the changes made and provide recommendations for adjustments. Possible revision to the approach will thus be implemented in the latter part of the roadmap period based on the review recommendations.

1 Introduction

This final draft decentralization policy paper is developed and adopted by the Government of Puntland. It builds on the consultations initiated in June 2012 and undertaken throughout 2012 and 2013 facilitated by the Inter-Ministerial Committee headed by the Vice-President.

The policy has been developed to ensure that there is a common vision and approach to the planning, implementation and monitoring of service delivery at decentralised level in the State of Puntland.

The document has been developed into a final policy under the leadership of the Inter-Ministerial Committee on Decentralization of Puntland under the chairpersonship of the Vice-President of Puntland. The Committee comprises all relevant sector ministries of the Government and with the Ministry of Planning and the Ministry of Finance.

The policy will be supported by a roadmap of implementation, which outlines the implementation of the policy. The roadmap will be further developed through the consultation process with the relevant ministries as they plan their decentralization implementation action plans.

The policy is developed to build on existing legislative and regulatory framework of decentralisation in Puntland, and provides recommendations to these for further clarifying the assigned service delivery responsibilities in a decentralized service delivery system.

The policy is designed to be realistic as is the roadmap. Consequently, the focus is on functional decentralization in a few core sectors, which may then pave the way for further decentralization.

2 Policy Objectives and Vision For Decentralization in Puntland

2.1 Principle Concepts of Decentralization

Decentralization refers to the restructuring of authority so that there is a system of co-responsibility between institutions of governance at the central, regional and local levels according to the principle of subsidiarity. Based on such principle, functions (or tasks) are transferred to the lowest institutional or social level that is capable (or potentially capable) of completing them. Decentralization relates to the role of, and the relationship between central and sub-national institutions, whether they are public, private or civic.²

The objective of decentralisation in Puntland is to: **Establish at the local government level for improved good governance and service delivery through participatory, accountable and transparent local government and to effectively utilize the limited resources available at the central and local government levels.**

² UNDP (2004) Decentralised Governance for Development: A Combined Practice Note on Decentralisation, Local Governance and Urban/Rural Development

To contribute to this objective the policy:

- 1) Defines the vision (the desired outcome) of decentralisation in Puntland towards which all proposed policy actions should be geared;
- 2) Provides guidance to the process to ensure a clear division of labour between the different levels of government and non-government stakeholders over time in three areas of decentralisation: political, administrative and fiscal;
- 3) Ensures that the process builds on a clear set of mutually agreed principles aimed at enhancing participation, inclusion, accountability, transparency and improved service delivery;
- 4) Ensures that planned decentralisation and devolution of responsibilities to lower levels of government are accompanied by a process of building requisite capacities and allocating adequate resources;
- 5) Ensures that this process builds on lessons learned and documented evidence, which can inform the implementation of the policy.

The vision of decentralization in Puntland as expressed by the Government is to achieve a fully decentralized and democratically elected system of governance, characterized by open, effective participation by the local communities in their own process of decision-making, development and administration and the existence of sufficient linkages between the center and the local governments.

The development of a decentralization policy for Puntland is based on the main principles and concepts accepted in the best international practices. The main concepts of decentralization are the following:

Subsidiarity. Subsidiarity may be defined as the idea that a central authority should have a subsidiary, i.e. secondary, function, performing only those tasks, which cannot be performed effectively at a more immediate or local level. The Constitution of Puntland article 85/2 states the principle of subsidiarity as follow:

‘The Council of Districts shall have the responsibility of implementing the plans in the fields of social services, education, intermediate and elementary school, livestock, agriculture, security, water, electricity, communication, health care, water, environmental safeguard and development according to their resources.’

Accountability. A precondition for pursuing subsidiarity is that the district is accountable in its operation. Accountability should be pursued at two levels: (1) upwards towards the region and the central government, and (2) downwards between the citizens and the district serving them.

An example of upward accountability is that the local governments need to comply with the standards set by the sector ministries and the regulations of local governments. Thus while the local government may have full authority to plan and implement, the services must follow the standards set by the sector ministry. At the same time these agencies need to be accountable to the local governments providing them with input to enable the local governments to undertake their tasks, such as advice, guidance and resources as required.

Downward the local governments are accountable to the citizens through elections on e.g. a five-year basis and through e.g. participatory planning and budgeting on an annual basis³ and through e.g. community level feedback mechanisms that ensure that all citizens, incl. women, youth and minorities have access to voice their feedback on service delivery to the authorities.

Transparency. Transparency is – as accountability – a crosscutting issue. It furthermore relates directly to accountability as enhanced transparency enables accountability by informing higher and lower level accountability links of the processes undertaken by the districts and thus the extent to which they meet their requirements as well as commitments made.

Examples include transparency in the planning process by making plans and budgets public and accessible; in the procurement and recruitment processes by clearly stating the selection criteria and making the selection and results public; and in the central level transfer processes by clearly stating the criteria for the transfer of funds from the central to the local level and stating the amount transferred.

Participation. Decentralisation process is first and foremost a participatory process. On the one hand, popular participation is critical to ensuring the proper design and implementation of decentralization; on the other, decentralization contributes towards enhanced popular participation.

Examples of this may include community involvement in participatory planning and prioritisation of development activities.

Inclusion. Having a decentralisation policy that provides equal opportunities for all including men and women, youth, disabled, children or other marginalised segments of society.

Examples of this may include: ensuring gender balanced quorums in key committees such as the procurement or recruitment committees; inclusion of representatives of disabled in the design phase of projects; participatory planning that involves affirmative action for the marginalized; gender mainstreaming of service provision; election processes which favour women or include some sort of affirmative action such as a percentage reservation for women in district councils.⁴

These overall principles form the basis of the decentralisation policy.

The following sections identify some of the basic characteristics of political, administrative, and fiscal decentralization based on the methodology developed by Boex and Yilmaz.⁵

2.2 Political Decentralization Characteristics

³ Similarly, the Nepal Self-Governance Act 1999 states the principle that: ‘the Local Body (must be) accountable to the people in its own areas’.

⁴ As an example the Uganda Local Government Act 1997 states the principle to establish: ‘a democratic, political and gender-sensitive administrative setup in local governments’.

⁵ Boex, Jamie and Serdar Yilmaz, An Analytical Framework for Assessing Decentralized Local Governance and the Local Public Sector, December 2010, IDLG Working Paper No. 2010-06, Urban Institute Center on International Development and Governance.

Political decentralization is one of the three key areas of decentralization. Without significant development of political decentralization much of the efforts to implement the principles of decentralization cannot be realized. Consequently, an understanding of the characteristics and features of political decentralization is a starting point for developing the administrative and fiscal decentralization policies.

In terms of political decentralization, the relationship of the executive and legislative bodies from the central to the local level is critical. There is a need for a separation of the powers and duties of the elected officials at each of these levels in order that there is opportunity for authority to be fully developed to the lowest level without too much interference from the central authorities.

Key components of a politically decentralized system include the (1) the clear separation of political authority among the levels of government, (2) the implementation of election laws and election processes that provide for free and fair elections, (3) a competitive political party system based on the opportunity to campaign and seek voter support, and (4) means of providing for local participation and accountability from the citizens to the elected officials.

2.2.A Election of Local Councils

The openness and competition for local councils offices is fundamental to political decentralization. The factors that may influence this in many transition countries is the freedom to run for political office without any political, cultural and ethnic biases that would influence the possibility for people, particularly minorities and women, to be able to win elections to local councils.

Decentralization Policy Statement: A process of direct election of local councils will be implemented and based on open, competitive, and non-discriminatory selection and campaigning for local council offices.

2.2.B Citizen Participation in Decision Making

The right of citizens to participate in the political process without undue influence or pressure is another key feature of political decentralization. This is enhanced by the requirements on the local governments to provide information on the policies and plans for their community and to provide open forums for discussion of these issues, both during election processes and in the political campaigns.

Method to insure this citizen participation is through neighborhood associations, establishment of citizen committees dealing with local issues, such as health, education, water, sanitation, economic development and physical planning of the community.

The provision for providing an open budget process through public budget hearings and providing information on the budget expenditures, revenues, and programs for delivering services to the local citizens.

Decentralization Policy Statement: Citizen participation will be developed to the maximum extent possible through the adoption of citizen participation charters at the local government levels that will require the conduct of community forums on local development and budgeting decisions, and formation of community based committees for sector areas, such as health,

education, water and sanitation services, and community infrastructure planning and construction.

2.2.C Locally Appointed Officials

Another key factor for political decentralization is the authority to make appointments by the local council to the key executive positions in the local government. This avoids a conflict between local executives and program managers relative to their hiring and dismissal, evaluation of their performance, and the reporting requirements to the local politically elected officials.

Decentralization Policy Statement: Local executive and management officials will be appointed within the framework of the civil service law by decision of the local council and subject to their selection, performance appraisal, and dismissal decisions.

2.3 Administrative Decentralization Characteristics

The objective of administrative decentralization is to provide to the local authorities the power to make their own rules and regulations that implement their local determined policies and laws. It is important that local officials have authority in areas of determination of their planning, financing, human resources, and methods of delivering local public services.

2.3.A Regulatory Powers for Local Physical Planning

The authority to plan and implement local physical planning is one of the key administrative decentralization features that must be provided to local councils. The local councils generally have the most information on the local physical and infrastructure needs and have the opportunity to hear from the citizens the expression of their needs for these services. Within this regulatory authority the local councils should have the authority to decide on local economic development, land use planning, zoning, and building requirements.

Decentralization Policy Statement: Local councils and executive management will have full authority to determine the local physical planning requirements for their local governments, subject to national level planning guidelines and citizen participation in planning decisions at the local level.

2.3.B Local Public Finance Management and Procurement

Financial authority and autonomy is also a key determinant of the administrative decentralization sphere of local authorities. There should be little interference or oversight of the local government budget process from the central authorities other than to insure that the requirements established by the central level for a balanced budget, use of allowed revenues sources, and limits on debt and borrowing are adhered to in the budget decision process. The central level should insure that the local governments have access to unconditional grants and transfers to cover their vertical fiscal gaps and have adequate fiscal capacity for their own source revenues. The authority to enter into procurement and other contracts should also be rather free of oversight within the central levels

requirements for procurements and auditing of the financial disbursements.

Decentralization Policy Statement: The local councils and administrative staff will have full authority to implement their expenditure and revenue requirements within a formalized budget process compatible with national level financial requirements. The decisions on procurements and contracts will be within the authority of the local council and within national level legal and financial reporting requirements.

2.3.C Local Human Resource Administration

As important as having authority to make financial management decisions, the local governments through the elected and appointed officials need the authority to make decisions on employment within the organizational and administrative structures of the local government. This authority should be in compliance with established civil service laws and regulations that may be enacted at the central government level, but the recruitment, selection, performance appraisal, and other aspects of a human resource system.

Decentralization Policy Statement: The authority for implementing a human resource management system for the recruitment, selection, performance appraisal, and dismissal will be within the scope of the local council to determine based on national level civil service requirements.

2.3.D Administration of Local Public Services

The authority as well as capacity of the local governments to deliver public services within their own resources, both human and financial, is a critical aspect of decentralization. In fact, it is a major determinant of whether decentralization has actually been fully implemented. The local council and executive services to determine the level of services to be provided and to acquire and manage the resources to deliver these services is fundamental to a decentralized system.

It is important to understand this service delivery capacity is connected to the local decisions about the level of services to be provided. However, it does not mean that the local government should not be without certain requirements for the quality and efficiency of this service delivery. Generally, the role of establishing performance standards for such services education, health, sanitation, and other services falls within the authority of the central level of government. This insures that all citizens receive the same equitable levels of key public services that the central level has the responsibility to insure that all citizens receive. Important areas where central level standards should be imposed are in school curriculum, health care standards, health inspections, building construction standards, and other areas where there is an overriding national interest in protecting the health and safety of citizens.

Decentralization Policy Statement: Local governments will have full authority to provide local public service delivery within the framework of the principle of subsidiarity and the determination of the financial and human resource capabilities of the local government.

2.3.E Deconcentration of Service Delivery

The provision for service delivery in some instances may require that the central level through ministries with subnational offices should provide services directly to citizens rather than have a local government required to do this. In this instance, the central ministries provide what is termed deconcentrated service delivery. This may occur in instances where the local governments lack the financial and human resources to provide this service. However, where the local government has the capacity and resources to provide the service, it should be assigned to that level of government in compliance with the principle of subsidiarity.

In many transition countries, the capacity of the local government units are still limited in both human and financial resources and lack the political level of decentralization to effectively respond to citizen needs. Where this is the case, the central ministry subnational offices that are located in these areas should deliver the delivery of important services, such as health, education, water, and sanitation services.

Decentralization Policy Statement: The delivery of public services by the deconcentrated offices of central ministries will be based on the lack of financial and human resource capacities of the local government and by an established criteria and assessment process for determining that the local government lacks these resources. Consideration will be given to those services of national importance, such as education and health, where national level interests in equality of service delivery and national level standards cannot be met by the local governments.

2.3.F Decentralization of Service Delivery

Local governments that have the fiscal and human resource capacities to effectively and efficiently provide services should be empowered to provide these within a fully decentralized system. This will ensure that the needs of the local citizens and the priorities for service delivery can be most effectively determined and the service delivered at the most cost effective method.

Decentralization and deconcentration should not be perceived as competing or incompatible approaches to delivering services, but as complementary approaches that should be utilized based on the capacities of the central and local governments to deliver these services.

Decentralization Policy Statement: Decentralization will be the preferred method of public service delivery guided by the principle of subsidiarity and the capacities of the local government based on their classification system and service delivery capacities of these local units.

2.4 Fiscal Decentralization Characteristics

Fiscal decentralization provides the framework for the allocation of financial resources to the local governments and includes the fiscal relationship between the central and local governments. The adequacy of the fiscal decentralization relationship is the basis on which the politically decentralized components and the administration of service delivery methods can be implemented.

Just as political and administrative decentralization is based on some specific components, fiscal

decentralization is based on four specific components. These are described in the following sections.

2.4.A Expenditure Assignments

The expenditure assignments are the service delivery functions that are assigned to the local governments to perform. These are typically the functions of education, health, water, sanitation, roads, among many other social service, cultural and recreational functions.

The basis for the expenditure assignments is directly related to the principle of subsidiarity. The principle states the service should be provided by that lowest level of government that has the capacity to efficiently and effectively provide the service.

There is no standard basis for determining what services should be assigned to the local governments and is particularly subject to differences in fiscal and human capacities. There are substantial variations across countries on these assignments and each country needs to define their expenditure assignments based on their political, social, and cultural conditions, as well as geographic features.

Generally, expenditure assignments are assigned either on an exclusive or shared function basis. Exclusion functions are those assigned solely to the local government to implement; such as for local road and street maintenance, and those that are shared functions in which both the central and local government places some role. A shared function is typically education and health in which the local government is responsible for the actual delivery of the service, but the central level provides funding support for this implementation.

Decentralization Policy Statement: Expenditure assignments of public service functions will be assigned based on specific criteria of local government classifications, financial and human resource capacities, and importance of providing equality of services to the local citizens based on national level quality standards.

2.4.B Revenue Assignments and Local Revenue Administration

As with expenditure assignments, the revenue assignments are based on what revenue sources are most available and collectible by the local governments. Certain taxes are particularly suited to local governments, such as the property tax, business taxes, and user fees for services that the citizen utilizes, such as transportation, water, garbage collection and other local provided public services.

The own source revenues, such as the property tax and other local taxes, should be within the authority of the local government to establish the base of the tax and the tax rate and collect that tax at the local level. Unfortunately, this is not often the case with many local governments, and in many cases the central level not only sets the tax base and rate, but may also collect the tax or share a central level tax, such as personal income tax. In these cases, the fiscal decentralization to local governments is constrained to manage its own financial autonomy.

Decentralization Policy Statement: Revenue mobilization and maximum fiscal capacity of revenue sources will be supported through providing local governments fiscal autonomy to determine the tax base and set the tax rates for a selected number of own sources revenues

and fees. Local governments will be fully responsible for the revenue collection system based on identification of taxpayers and determination of the correct tax to be paid.

2.4.C Intergovernmental Fiscal Transfers

To the extent that local governments are not able to finance their expenditure assignments from their own source revenues, the transfers from the central to the local level is utilized to cover this fiscal gap. The central level needs to determine the source of funds for the transfer pool, devise allocation methods to adequately cover the fiscal gap of the local expenditures to revenues, and the methods of transferring these resources through either conditional or unconditional transfers.

The transfers that are allocated based on unconditional requirements provide the local governments with the most discretion on the allocation of these funds for their purposes. These should be used to cover the general functions of the local governments. Conditional grants should be used specific functions such as for education, health, and infrastructure projects.

Decentralization Policy Statement: The determination of intergovernmental transfers will be based on objective and transparent criteria and consideration of the differences in the classification of the local government, geographic and physical factors, populations, and socio-economic conditions.

2.4.D Local Government Borrowing and Debt

The fourth component of a fiscal decentralization scheme is the utilization of debt or borrowing to finance some part of the local government functions. There are many local government services that require substantial investment of funds that could not be financed from the annual revenue sources. There are generally infrastructure projects for such services as road construction, water utilities, and other capital investment items. These are expenditures for items that are useable beyond one year and, therefore, should be considered as investments.

In order to finance these projects, it is often necessary for the local government to borrow funds against their future revenues to finance these projects. This allows for the local government to finance these projects either from their own source revenues or from the fees that may be applied for the use of the facilities that are being financed.

Local governments need to have substantial fiscal capacity to finance these projects and to be able to borrow to finance these projects. Consequently, there are a substantial amount of financial controls and regulations that should be applied to local governments that seek to borrow. In most transition countries, the central government regulates the level of debt that a local government can access and reserves the right to approve the issuance of any local government debt or borrowing.

Decentralization Policy Statement: Local governments will have authority to undertake borrowings and use debt for local purposes within limits of their fiscal capacity and national legal framework. Decisions on use of debt will be based on public discussions of the amount and use of the debt for local infrastructure purposes and subject to review by national level authority.

2.4.E Vertical and Horizontal Balance

In a fiscal decentralization scheme, the intergovernmental transfers seek to address the vertical and horizontal balances that local government face. Vertical balances relate the difference between the local governments expenditure requirements for the functions assigned and their revenue raising capacity. The transfers seek to close this vertical imbalance for the local government.

The horizontal imbalance is reflected in the differences across all the local governments in terms of their expenditure requirements and their fiscal capacity. Local governments will have different expenditure requirements and own source revenues. This imbalance across all the local governments is referred to as the horizontal imbalance. The transfers seek to equalize this imbalance across these local governments with similar expenditure requirements and revenue sources.

Decentralization Policy Statement: To the extent possible and within limitations of central revenue resources, the intergovernmental transfers will seek to achieve the vertical balance of local government expenditures and revenues to close the fiscal gap of the funding requirements. Horizontal balance will be achieved through application of different transfer criteria among the local governments based on classifications of local governments, and factors included in the transfer formulas.

2.4.F Transparency of Allocation Formulas

It is very important that the transfer allocation formulas be developed on an objective criteria basis and the allocation formula is applied in a transparent manner that is known and understandable by the local governments. This avoids the potential for biases and favouritism of the allocations and ensures that the transfers serve the purpose of correcting the vertical and horizontal imbalances that is the purpose of the intergovernmental transfers.

Decentralization Policy Statement: The transfer allocation formulas will be based on objective and validated factors and will be openly discussed with representation of the central and local government stakeholders through a formal consultation process.

2.4.G Fiscal Capacity

Fiscal capacity is the measure of the financial resources that are available to the local government to finance its expenditures. It is important that local governments use all available own source revenues and achieve the highest level of revenue collection that is possible. The intergovernmental transfer scheme should apply a measure of fiscal capacity based on what the local government could potentially collect in revenues as a factor in the transfer formulas. This will insure that the transfers will be based on supporting the vertical and horizontal equalization among the local governments. It also provides an incentive to local governments to fully utilize their revenue sources or risk having their transfers reduced if they do not achieve their full fiscal capacity.

Decentralization Policy Statement: The use of fiscal capacity measures will be incorporated into the development of the intergovernmental transfers and incentives provided for local governments to maximize their revenue sources and collection of revenues.

2.4.H Unfunded Mandates

Unfunded mandates are a major problem in the development of fiscal decentralization systems. Unfunded mandates occur when the central level of government transfers responsibility for the delivery of public services to the local governments without also providing the financial resources to meet the expenditure requirements of these functions. This becomes a method for the central government to offload its duties and avoid responsibility for these services. Unfunded mandates should not be allowed in the legal framework and not practiced as a means of achieving fiscal decentralization.

Decentralization Policy Statement: The central government will not transfer to local governments any functions for which funding is not provided to cover these service delivery expenditures.

2.4.I Different Allocation Basis for Rural Versus Urban Areas

Many transition countries implement a fiscal decentralization scheme that applies the same allocation formula across all local governments, both urban and rural local governments. This can create significant disparities in the transfers and not consider the differences in population numbers, the density of population, the size of the local government area, geographic characteristics and the revenue sources that will substantially vary from urban to rural areas. As Bahl indicates “Subnational governments have very different capabilities to deliver and finance services, and certainly different capabilities to borrow. It may be necessary to set up a system where these differences are explicitly recognized, i.e., where different levels of government are given different financing powers and expenditure responsibilities. Places that are on the lower tier could rely more heavily on grants, while more developed places could rely more heavily on local taxation, and could borrow to finance capital outlays.”⁶

Decentralization Policy Statement: The transfer allocations will be based on the differences between local governments of predominately rural and urban areas based on measures of area and population density established within the local government classification system.

3 The Context of Decentralization in Puntland

In this section we review the present situation with regard to the elements of a decentralized system in Puntland. This covers the following areas of what constitutes a characteristic of decentralization that was described in the above section.

3.1 The Legal Framework

The first section of Part 4 of the Constitution of Puntland is concerned with regional and district administration. According to the constitution ‘Puntland exercises the principles of decentralization

⁶ Bahl, Roy, 1999, Implementation Rules for Fiscal Decentralization, International Studies Program Working Paper 99-1, Atlanta: Andrew Young School of Policy Studies, Georgia State University

(from bottom to top)’. The constitution underscores the important role of the state to ‘reform and regulate the administration of Regions and districts of Puntland’. This policy thus forms part of the constitutional request for decentralisation reform.

The law devised to support the implementation of the requirements of the constitution is Law No. 7 of 18 September 2003 titled ‘The Laws of the District Councils of the Puntland State of Somalia’. Law No. 7 has been passed by Parliament and endorsed by the President of Puntland.

Law No. 7 prescribes that the administration of the Local Government is based on the principle of self-governance of the people as is evident in Article 83 of the Constitution of Puntland State of Somalia. The structure of the Local Government is part of the Central Government of Puntland State of Somalia and politically it represents the Ministry of Local Government and Rural Development.

3.2 Political Decentralization

3.2.A Election of Local Councils

The law stipulates governance structures through an elected council, including the number of members to be appointed, validity of members, dismissal, roles and responsibilities (Article 3-8 and 10-15 among others). It provides an overview of the permanent and the executive committee roles and responsibilities as well as the remaining executive structures at district level. It furthermore includes different levels of management (provided by Law No. 7 as well as the attached ‘Regulations on the Structure of the District Councils of the State of Puntland of Somalia’ from February 2005).

Puntland Constitution and Election Law clearly depict electoral processes, technicalities and other procedures.

The term of office for local councils is 5 years. Puntland consists of 43 districts of which 10 has functional local councils at the moment.

Transitional Puntland Electoral Commission is the entrusted body to spearhead and technically facilitate the electoral process.

Currently, local councils are established through clan sharing formula of council seats. Despite efforts to held first democratic local council elections in Puntland on July 15th, it was failed though and still Puntland heads towards multiparty political system

The term of office for local councils is 5 years. Puntland consists of 43 districts of which 10 have functional local councils at the moment. The other 33 districts are without district councils, but have a functioning district administration.

Local council elections were scheduled to take place on July 15, 2013. However, the day before the election the President issued a decree cancelling the elections due to potential conflict situations. These elections have not been rescheduled.

3.2.B Citizen Participation in Decision Making

The constitution further emphasizes the need for downwards participation and transparency prescribing that decentralisation ‘shall be based on autonomous system with participation of the community groups’ and that ‘(t)he community groups shall elect a Law Making Council’.

The Puntland constitution upholds the values of political participation and downward/upward accountability and transparency. It also assures checks and balances within state institutions.

Public participation in local government is relatively weak in Puntland. Efforts are underway to engage communities as well as to introduce a public-private partnership approach that contributes to local economic development. There are no clear-cut and credible policies that foster political participation and mutual accountability at the central and local levels.

Those districts that have participated in the JPLG program have developed the process and procedures for involving citizens in local decision-making and this can serve as a model for other districts.

3.2.C Locally Appointed Officials

Under the provisions of the Law No. 7 On Local Councils, Article 29 addresses the staffing of the local government offices to be stipulated in a special law to be prepared by the Ministry of Local Government and Rural Development (presently constituted as the Ministry of Interior, Local Government and Rural Development).

Within the local government staffing, the Secretary of the Local Council will be appointed by the Ministry of Local Government and Rural Development according to Article 30 of the Law No. 7. However, the secretary and other local staff are to report to the Mayor on their work duties as directed by the Mayor.

In addition to the position of the secretary of the Local Council, the ministries appoint staff at the district level, such as District Education Officer by the Ministry of Education, the District Medical Officer by the Ministry of Health, that are to be involved in supporting the Mayor at the District level in coordinating the work of the ministry within the district.

3.3 Administrative Decentralization

3.3.A Regulatory Powers and Local Physical Planning

Article 9.9 of Law No 7 provides the legal basis for the local council to exercise control over land use planning in the districts, villages and towns with the development of land use or Town Plan. This is fulfilled in some cases, such as for Garowe, which has a document, referred to as the Charter, which provides for some definition of the land use and planning within the municipal limits.

The permission for construction of buildings is a function of the Land Department within the Department of Public Works within the municipality. They enforce some standards on building

construction. As an example, some tin constructed buildings has been erected within the municipal boundaries by some migrant or displaced persons and construction using these materials is not allowed. The municipal government intends to remove these buildings in the near future.

Garowe also has a GIS mapping system developed with UNHabitat that provides satellite maps of the buildings and land plots within the municipal area. This is use for planning as well as for property tax collection purposes.

The application of any land and physical planning methods outside the main regional municipalities is not known, but appears to be unlikely. Only within the JPLG district areas has there been any development of physical planning as part of the District Development Plan process.

Within the Garowe Council structure there is a Public Works Committee that oversees the Department of Public Works and this provides some basis for community decision-making on land use planning.

3.3.B Local Public Finance Management and Procurement

The local budget is formulated and adopted by the local council and then given to the Ministry of Interior, Local Government and Rural Development (MOI) for a technical review of the budget. The budget is also sent to the Ministry of Finance, but is not scrutinized for any fiscal and technical corrections. The MOI forwards the local government budget to the Parliament for review and vote on its adoption. The local government budgets are separate from the central government budget.

According to the MOI, the Parliament will review the local government budget and indicate changes in some areas of the budget, particularly the local tax or tariffs that the local council has recommended. Once the Parliament has indicated the changes and voted on the budget it is returned to the local council for approval with the changes that are made by the Parliament.

However, the Parliament Secretary indicated that they have never received the district budgets although they have asked for them. The Parliament would like to have a consolidated budget system in which the central ministries and the district budgets are combined into one budget document.

The MoF has indicated that in the next year the local budgets will be incorporated within the overall budget framework of the central government budget process and a consolidated budget will be implemented.

There is a standard procurement process that is used at the central and local levels based on competitive procurement process. The tender process is based on development of bid specifications, issuance of public tenders, sealed bids, evaluation by a panel of the bids, and awarding on the best performance and cost based offer. The procurement process cannot be independently evaluated in this study.

3.3.C Local Human Resource Administration

There is a civil service law that is implemented by the Ministry of Labor as part of an open and competitive merit based civil service system. It indicates the process of position recruitment and the selection and retention process.

The municipality of Garowe in its statistical report indicates that it has recruited on the basis of merit competition for the past several years. The municipality does have a personnel department that is responsible for the implementation of the staffing regulations within the municipal administration.

It is not clear how well the recruitment process and the oversight of the civil service system conforms to the standards of the civil service law. It appears that the process at the district level is heavily influenced by the clan affiliations.

3.3.D Administration of Local Public Services

Article 10 of Law No. 7 On the Local Councils specifies the departments that are authorized within the district administrations. It provides for the following departments:

- Department of Public Works
- Department of Social Affairs
- Department of Finance
- Department of Revenue/Tax
- Department of Supervision and Inspection

Article 10 also indicates that other departments may be authorized by request to the MOI and permission to add additional departments to the district administration. As an example, the Garowe Municipality has the following departments:

1. Administration and Finance Department
 - Revenue and Taxation
 - Finance
 - Personnel
2. Public Works Department
 - Land
3. Social Services Department
4. Planning Department
5. Monitoring Department

3.4 Fiscal Decentralization

3.4.A Expenditure Assignments

The following details the expenditures by the various categories at the Central Government level.

Table 1 Total Government Expenditures – Base Year 2012

#	Expenditure	Amount in So. Sh	%
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1	Security Sector	41,512,871,000	43
2	Judiciary Sector	2,097,155,000	2
3	Social Services and Infrastructure Development	11,371,163,000	12
4	Recurrent Budget	29,978,260,000	31
5	Revenue Collection	8,935,314,000	9
6	Contingency	2,662,237,000	3
	Grand Total in So. Sh	96,557,000,000	100%

Source: Ministry of Finance

As indicated in the Table the major expenditure is for the security sector, with recurrent budget expenses, which are primarily salaries, accounting for nearly one third of the total central government expenditures. The revenue collections costs are due to the compensation provide to tax collectors as an incentive to collect taxes. This is an area where more efficient revenue collection processes could provide some savings to the central government budget.

No aggregate data was available on the expenditures at the district government level. Several district budgets were reviewed as part of this policy development to ascertain what are the main expenditures of the district governments. Below are the expenditure items for Gardo District for the past several years that provide some indication of what the purposes and levels of expenditure are for the district. It is not known how representative these are of the whole district level expenditures.

As indicated in the budget amounts, the salaries and related expenses, along with administrative costs account for over 50% of the district budget. Smaller amounts are provided for certain service areas and grants for local functions.

Table 2 Gardo Expenditures

EXPENDITURE		Years				
Head	Description	2009 Actual	2010 Budgeted	2011 Forecast	2012 Forecast	2013 Forecast
Man power cost						
1.1.1	Salaries	724,105,500	881,280,000	978,220,800	1,095,607,296	1,238,036,244
1.1.2	Permanent Committee bonus	166,030,000	205,200,000	227,772,000	255,104,640	288,268,243
1.1.3	Councillors' bonus	6,050,000	109,200,000	121,212,000	135,757,440	153,405,907
1.1.4	Regional coordinator LG	12,750,000	18,000,000	19,980,000	22,377,600	25,286,688
1.2.5	Guardians' bonus	0	24,000,000	26,640,000	29,836,800	33,715,584
Subtotal		908,935,500	1,237,680,000	1,373,824,800	1,538,683,776	1,738,712,667
Emergences						
1.6.0	Unforeseen expenses	15,515,589	283,359,360	283,359,360	283,359,360	283,359,360
Subtotal		15,515,589	283,359,360	283,359,360	283,359,360	283,359,360
Admin Expenses						
1.2.1.B	Publication of Documents	110,500,000	156,000,000	173,160,000	193,939,200	219,151,296
1.2.1.T	Stationary	9,860,000	30,000,000	33,300,000	37,296,000	42,144,480
1.2.1.J	Fuel and Lubricants	493,857,000	623,635,200	692,235,072	775,303,281	876,092,707
1.2.1.X	Petty cash	22,610,000	21,600,000	23,976,000	26,853,120	30,344,026
1.2.1Kh	Staff Uniform	3,776,000	0	31,169,530	34,003,123	36,836,117
1.2.2	Office equipments	7,506,000	22,800,000	25,308,000	28,344,960	32,029,805
Subtotal		648,109,000	854,035,200	979,148,602	1,095,739,684	1,236,598,431
Development Expenses						
1.2.3.B	Maintenance	0	18,000,000	19,980,000	22,377,600	25,286,688
1.2.3.T	City plantation and road clearance	0	21,600,000	23,976,000	26,853,120	30,344,026
Subtotal		0	39,600,000	43,956,000	49,230,720	55,630,714
Communication Expenses						
1.2.4	Advert/announcement	7,350,000	12,000,000	13,320,000	14,918,400	16,857,792
1.2.5.B	Car rent	51,717,500	60,000,000	66,600,000	74,592,000	84,288,960
1.2.5T	House rents	8,250,000	9,000,000	9,990,000	11,188,800	12,643,344
1.2.5.J	Ministry of finance	5,340,000	0	0	0	0
1.2.6	Internal travel Allowances	44,800,000	120,000,000	133,200,000	149,184,000	168,577,920
1.2.7B	Communication Expenses	13,475,000	18,000,000	19,980,000	22,377,600	25,286,688
1.2.7T	Water and Electricity	5,364,000	51,600,000	57,276,000	64,149,120	72,488,506
Subtotal		136,296,500	270,600,000	300,366,000	336,409,920	380,143,210
Other Expenses						
1.2.8.B	hosting Expenses	24,940,000	30,000,000	33,300,000	37,296,000	42,144,480
1.2.8.T	Sports	700,000	12,000,000	13,320,000	14,918,400	16,857,792
Subtotal		25,640,000	42,000,000	46,620,000	52,214,400	59,002,272
Grants						
1.4.1B	Poor	55,320,000	18,000,000	19,980,000	22,377,600	25,286,688
1.4.1 T	Health	0	24,000,000	26,640,000	29,836,800	33,715,584
1.4.1.J	Mosques	2,600,000	18,000,000	19,980,000	22,377,600	25,286,688

1.4.2	District Admin Bonus	90,240,000	120,000,000	133,200,000	149,184,000	168,577,920
2.1.1.B	Security	852,782,000	247,939,440	275,212,778	308,238,312	348,309,292
2.1.1.T	Educations	26,340,000	36,000,000	39,960,000	44,755,200	50,573,376
Subtotal		1,027,282,000	463,939,440	514,972,778	576,769,512	651,749,548
Projects						
2.2.1.B	Sanitation	94,288,500	108,000,000	119,880,000	134,265,600	151,720,128
2.2.1.T	Projects LG	33,630,000	342,378,000	380,039,580	425,644,330	480,978,092
2.1.1.J	Check point guard bonus	380,070,000	0	0	0	0
Subtotal		507,988,500	450,378,000	499,919,580	559,909,930	632,698,220
Credits						
3.2.1.B	Loan Repayment	192,872,992	180,000,000	199,800,000	223,776,000	252,866,880
3.2.1.T	Loan for bank	135,000,000	0	0	0	0
Subtotal		327,787,992	180,000,000	199,800,000	223,776,000	252,866,880
Grand total		3,597,555,081	3,821,592,000	4,241,967,120	4,716,093,301	5,290,761,301

The local governments will deliver services prescribed in Law No. 7 (Section 2, Article 9). These include, but are not limited to:

- General healthcare and particularly sanitation of the towns and prevention of contagious diseases.
- Establishments of markets both for livestock and commodities.
- Initiation and implementations of projects and programs for social development e.g. in healthcare, and education etc.
- Construction of Primary Schools, Koranic Schools, kindergarten, family development schools and their management.
- Construction of Mother and Child Health Centre (MCH centres).
- Promotions and development of literature and sports.
- Renovation of the road networks in the towns of the district.

The Local Council is also responsible to support livestock management, farming, security, water, electricity, communication and protection of the environment.

The nature of the operations and the expected services to be delivered are thus widely explained in the existing legislation.

Expenditure from donors and local community contribution must be spent for the district priorities indicated the budget

According to the Puntland Constitution indicated that central government of Puntland is responsible for:

-Education: All education services

- Health (hospitals and Mother and Child Health centres)
- Infrastructure (beyond the two check points of the cities)

However, the local government are also responsible for education (primary and intermediate,) Health Posts and traditional healers. There is a confusion of roles and responsibility of social service between Central Government and the Local Government.

Law No 7 provides to the districts to deliver their legal duties and responsibilities of the district administration to the following:

- social service (health post , primary and water and sanitation)
- road maintains and establishment with in districts borders
- construction of water catchments between districts and towns

3.4.B Revenue Assignments and Local Revenue Administration

The following provides some indication of the main sources of revenue at the central government level. Additional details on the revenue sources and collection methods were not available.

Table 3 Total Government Revenues- Base Year 2012

#	Revenue	Amount in So. Sh	%
1	Custom Duties	60,529,490,000	63
2	Inland Revenue	14,419,320,000	15
3	Production Tax	45,000,000	0.1
4	Income Tax	3,764,790,000	4
5	Property Tax	11,206,900,000	11
6	Service Charge	5,551,850,000	6
7	Carry Over and Donations	1,039,650,000	1
	Grand Total in So. Sh	96,557,000,000	100%

Source: Ministry of Finance

As with expenditures, there was not available data on the aggregate amount of district government revenues to the total government revenues. To get some idea of the sources of district government revenue, the district of Gardo revenues sources are provided below.

There are two main sources of revenue collection and both are collected at checkpoints for the transit of goods through the district. The Elay village checkpoint tax accounts for approximately 25% of the revenue and the city checkpoint tax accounts for an additional 15% of the total revenue. The remaining revenue sources are relatively minor market and commodity taxes collected through the local tax collectors. There is also a substantial amount of revenue coming from Donations and loan of the central government. This amounts to approximately another 15% of the total revenue. Consequently, approximately over 50% of the local revenue is coming from these three sources, two of which are collected at checkpoints within the district.

Table 4 Gardo Revenue Resources

REVENUE Description	Years				
	2009 Actual	2010 Budgeted	2011 Forecast	2012 Forecast	2013 Forecast
Local transfer					
Livestock tax	147,180,000	210,000,000	233,100,000	261,072,000	295,011,360
Business licence tax	108,878,000	192,000,000	213,120,000	238,694,400	269,724,672
Indirect tax	4,106,788	4,800,000	5,328,000	5,967,360	6,743,117
Donations and loan of central Government	300,000,000	507,192,000	562,983,120	630,541,094	712,511,437
Subtotal	560,164,788	913,992,000	1,014,531,120	1,136,274,854	1,283,990,585
Property tax					
Property tax	145,731,500	132,000,000	146,520,000	164,102,400	185,435,712
Land cost tax	132,580,000	168,000,000	186,480,000	208,857,600	236,009,088
Land transfer	36,804,000	144,000,000	159,840,000	179,020,800	202,293,504
Subtotal	315,115,500	444,000,000	492,840,000	551,980,800	623,738,304
Penalties					
Fine	64,800,000	0	0	0	0
Subtotal	64,800,000	0	0	0	0
Market tax					
Qat tax	259,600,000	312,000,000	346,320,000	387,878,400	438,302,592
Milk tax	0	30,000,000	33,300,000	37,296,000	42,144,480
hide and skin tax	0	12,000,000	13,320,000	14,918,400	16,857,792
Porter tax	0	15,600,000	17,316,000	19,393,920	21,915,130
Bread Porter tax	0	6,000,000	6,660,000	7,459,200	8,428,896
Used clothes tax	0	18,000,000	19,980,000	22,377,600	25,286,688
Bagaash tax	0	24,000,000	26,640,000	29,836,800	33,715,584
shoe makers tax	0	9,600,000	10,656,000	11,934,720	13,486,234
Tailors tax	0	8,400,000	9,324,000	10,442,880	11,800,454
Renting meeting hall	0	54,000,000	59,940,000	67,132,800	75,860,064
Vegetable tax	0	19,200,000	21,312,000	23,869,440	26,972,467
charcoal tax	0	0	0	0	0
fire woods tax	0	18,000,000	19,980,000	22,377,600	25,286,688
Stone and sand tax	0	36,000,000	39,960,000	44,755,200	50,573,376
Slaughter house tax	26,480,000	210,000,000	233,100,000	261,072,000	295,011,360
Water carrion tax	0	7,200,000	7,992,000	8,951,040	10,114,675
Water tanker tax	486,458,000	24,000,000	26,640,000	29,836,800	33,715,584
Population registration	5,034,000	24,000,000	26,640,000	29,836,800	33,715,584
Milk Factory	0	0	0	0	0
Electricity factory		48,000,000	53,280,000	59,673,600	67,431,168
Companies tax	244,348,000	75,600,000	83,916,000	93,985,920	106,204,090
Elay village checkpoint tax	417,740,000	948,000,000	1,052,280,000	1,178,553,600	1,331,765,568
City checkpoint tax	1,203,358,000	564,000,000	626,040,000	701,164,800	792,316,224
Subtotal	2,643,018,000	2,463,600,000	2,734,596,000	3,062,747,520	3,460,904,698
Grand total	3,583,098,288	3,821,592,000	4,241,967,120	4,751,003,174	5,368,633,587

The Law provides a general mandate to the decentralised governments to make sure the collection of taxes and revenues and any other duty that this law or any other law gives to the local government or any income that comes from the activities of the local governments.

In terms of finances, the Law provides considerable devolution and is very specific on the taxes to be levied by the council (Section 7, Article 48a) from property tax to business licenses. It also prescribes budgeting and accounting procedures as well as tenders and procurement procedures.

Law No. 7 provides the framework for revenue assignment between the central and local government, but currently Puntland local government revenue is very limited to specific sources, which is insufficient to meet the expenditure needs.

Law No 7 does not make clear distinction between fees for providing social and economic services and taxes mechanisms for settlement and regulation of rates and control of these. The authorities of collection of revenue has not been defined probably in the law

Local government has a mandate of collecting its own tax and to manage and administer their revenue collection activities independently.

According to Article 35 of Law No 7 the local councils have the following revenue sources:

- Taxes and duties in Annex (A), of this Law and anything else ^[L]_[SEP] that are permitted for it by other laws and government ^[L]_[SEP] regulations.
- Profits from its business ventures
- Other revenues from economic sources it created or services ^[L]_[SEP] rendered to the public.
- Local and International Loans, if approved for them.
- Donation/grants from the Central Government, overseas and ^[L]_[SEP] from the public.

Annex A details some specific revenue sources available to the local councils as follows:

a) Taxes permitted for the Local Councils

- Taxes on houses, wooden houses and other structures
- Taxes on animal dips, vaccinations and health certificates
- Taxes on animal trade
- Business licenses and business signs taxes
- Taxes on land allocations, building and rehabilitation permits
- Land value taxes
- Commodities markets taxes

- Taxes on slaughter houses
- Taxes on the export of animals, fragrance, gum, fish, palm leaves, ^{[[[]]]}_{SEP}brushwood and salt
- Taxes on drinks and khaat (miraa)
- Taxes on animal skin/hide and cereals
- Parking fees (taxes)
- Taxes on person's registration, birth registration, identity, and ^{[[[]]]}_{SEP}authentication letters.
- Taxes on coffee mills, weighing and entertainment
- Taxes on electricity and telephone poles.
- Taxes on electricity cables, telephone cables (both underground and ^{[[[]]]}_{SEP}above ground cables)
- Taxes on Town water
- Taxes on imports and exports of the Puntland State of Somalia

For the Municipality of Garowe the following are indicated as the main source of local revenues:

1. Animal Taxation
2. Licenses
3. Entertainment Center Tax
4. Utilities (Electricity)
5. Indirect Tax
6. Housing Taxation
7. Land Taxation
8. Transfer of Fixed Assets
9. Tax on Penalties
10. Tax on Excavating
11. Market tax
12. Slaughter Tax
13. Registration of Families

The municipality employees tax police that are charged with collecting the taxes. There are 23 temporary tax collectors.

3.4.C Intergovernmental Fiscal Transfers

Currently there is no systematic method of transfers from the central government to the local governments. The only transfers that occur are within the framework of the JPLG project in 3 districts as well as a transfer from the central government to Garowe for the costs of security provided by the district government.

There is some level of tax sharing of the customs duties that are collected at the ports and the district checkpoints. The district government or municipality retains 5% of the customs duties collected at these posts and the remainder is transferred to the central government.

Custom duties account for 63% of the total government revenues. However, the costs of revenue collection are quite high given the method of collection using tax police. According to data on the total government expenditures for 2012, revenue collection costs amounted to 9% of the total expenditures. This is due to the fact that the revenue collectors retain 10% of the revenue collected, in addition to their salaries. They also receive an additional 2% for overtime work at the checkpoints.

3.4.D Local Government Borrowing and Debt

Article 35 of Law No 7 does provide that local councils can take local and international loans, if approved by the Ministry of Finance. There is no other law or regulation on the limits of this borrowing. However, the local government of Garowe have borrowed from the Central Bank funds for infrastructure projects based on agreement with the Ministry of Finance. There appears to be an informal process by which local governments can borrow funds, but requires the agreement with the Ministry of Finance.

3.5 Strengths, Weaknesses, Opportunities and Threats (SWOT) for Implementing Decentralization

The above has discussed some of the main features of the present situation for furthering decentralization in Puntland. The following SWOT analysis provides a summary of the main features of this assessment for further development of a decentralization policy and roadmap for decentralization.

Strengths	Weaknesses
<ul style="list-style-type: none"> - Constitution and Legal Framework in Law 7 for decentralization system -Existence of service delivery within districts - function of local councils defined in Law 7 - High priority and support through V.P and Interministerial Committee on Local Government (IMC) - Piloting of Decentralization in 3 Districts by JPLG provides basis for fiscal decentralization -Working on functional assignments to district based on capacity assessments -Well developed sector assessment studies for decentralization 	<ul style="list-style-type: none"> -There is no overall decentralization policy -Limited financial resources at central level with customs as main source of revenue -No developed transfer system to all districts -Lack of qualified staff in the districts -Limited financial resource and revenue collection in the districts -Inconsistent local government legislation concerning function and powers - Confusion over service delivery functions between central ministries and local districts -Local elections not accomplished -District boundaries not defined and subject to

<p>-Districts classification based on population and other criteria</p> <p>-Plans to define district boundaries in next year</p> <p>-Development of local government association to represent interest of local governments in decentralization process</p> <p>-Limited use of borrowing from Central Bank to local governments with approval of Ministry of Finance</p>	<p>political manipulation</p> <p>-Census not completed and no civil registry for most of population</p> <p>-Service delivery to nomadic populations extremely difficult</p> <p>- No clear definition of functional assignments</p> <p>- Need more inclusion of local districts and citizens in defining decentralization goals and purposes</p> <p>-Transfer of staffing from central ministries to local districts not defined</p> <p>-No strategy for scaling up decentralization to all districts</p>
<p>Opportunities</p>	<p>Threats</p>
<p>Main Opportunity Areas include:</p> <ul style="list-style-type: none"> - Define District Boundaries - Hold Local Council Elections - Clarify central versus district functional assignments - Need to define regional level functions and responsibilities - Complete census of population - Potential for increased revenue sharing from central to districts - Need for additional legal framework for decentralized system in areas of expenditure and revenue assignments, and transfers based on criteria <p>-Potential to improve revenue sources and collection capacity at District A levels, limited capacity at levels B and C.</p>	<ul style="list-style-type: none"> - Central ministries and other government agencies unwilling to decentralization functions and transfer funds. -there is no clear defined roles and responsibilities of tariff in both CG and LG -Potential for political instability and conflict -Reluctance of personnel to transfer to district administrations -Wide disparity in salaries and benefits across districts that cannot be equalized

3.5.A Strengths

There are a number of strengths in the present situation that provide an optimistic basis for supporting the decentralization of service delivery to the district governments. Primary among these are the commitment of the present government toward decentralization and the direct involvement of the Vice President and the Inter Ministerial Committee on Local Government to pursue an active decentralization policy development and implementation.

There is also a strong support basis in the legal framework of the Constitution and Law No. 7 for pursuing decentralization. The legal framework, particularly Law No. 7, will require some adjustments and amendments as the process goes forward to clarify the assignment of functions to the various district categories.

3.5.B Weaknesses

While there are strengths in the present situation that indicate potential for pursuing decentralization there are a considerable number of weaknesses that need to be overcome in order that decentralization can proceed successfully.

The lack of an overall decentralization policy, which this document will help solve, that has been adopted by the Government and all stakeholders needs serious attention in the coming months. There is general agreement on the overall concept of the decentralization, but the specifics of a decentralization policy and the concrete roadmap for implementing the process of decentralization will require further development in the coming months.

An additional weakness is the limited financial resources of the Central Government to promote both administrative and fiscal decentralization. Presently, the donor community provides the substantial funding for services, particularly health and education, which is not transferred through the Central Government. There may be a need to have some mechanism of Direct Budget Support to the Central Government to provide a funding source for the direct transfer of funds from the Central Government to the Districts for conditional and block grants for certain sectors, such as education if there is a cash transfer for children to attend school.

The need for defining the district boundaries is also of critical importance in determining the basis for fiscal decentralization and service delivery. A boundary commission is proposed to begin work in 2014 that should complete its work by mid-year and the new boundaries could be defined by the end of 2014 in order that piloting of selected decentralized services can begin in 2015.

The coordination of services between the central ministries and the districts needs to be greatly improved as well, particularly with respect to the education, health, roads, and natural resource sectors. This can be further clarified in amendments to Law No. 7, which be completed by the end of 2015.

Finally, the requirement to implement local council elections is critical to achieving the decentralization strategy. This combined with defining the district boundaries are the two most important areas to be addressed by the Government and the Parliament in the coming two years. A timeframe for developing the process and preparing for local government elections is needed to begin by mid-2014 in order that the work of the Boundary Commission and the election process can be coordinated in time for voter registration, nomination of candidates, conduct of political campaign, and election can proceed smoothly to 2016.

3.5.C Opportunities

The decentralization context of Puntland presents a number of context specific challenges and opportunities that the policy will work to address.

As described above, Law No. 7 is in place and the constitution provides ample room for decentralized service delivery. Furthermore, in Puntland there is an internal agreement of the need for strengthening decentralization, and to engage the supportive nature of Puntland sector ministries in this process. Furthermore, the piloting of service delivery in some of the major districts of Puntland – supported by the UN – shows that devolution of some functions are feasible and provides opportunities to build further on these lessons learned.

The opportunity of developing the district boundaries in coordination with plans for holding local council elections to provide for a smooth transition of political decentralization is a great opportunity to demonstrate the political will and institutional capacity to carry out the decentralization process in Puntland.

There is also an ample opportunity to improve the revenue collection base of the districts and to develop the transfer system based on objective formulas and criteria that should lead to a more equitable distribution of the limited financial resources. Further work will be required from the central ministries and the districts to improve revenue collection methods and make them less costly to collect.

3.5.D Threats

Even with the substantial strengths and opportunities outlined above there are considerable threats to achieving the vision and implementation of a decentralized system of governance in Puntland. These are briefly outlined below.

Political Instability and Conflict Situation

While Puntland has progressed well in terms of political stability and reduction of conflict, there is still potential that some situation might develop that would reignite these threats. This would have a very serious impact on the continuation of the decentralization process and limit the possibility to implement decentralized service delivery across the critical sectors and districts. The potential for conflict should be constantly monitored over the next several years as the piloting of decentralization is undertaken.

Dichotomy of Service Delivery

Decentralization is however challenged by the *de facto* dichotomy of service delivery in Puntland, with identical functions being planned and implemented by districts as well as sector ministries.⁷ Examples include the construction and operation of school and health clinics and the establishment of water points in the districts.

To further compound this dichotomy the reporting and accountability links between the districts and the central level remain weak, causing limited reporting back to the central ministries of the planning and construction of sector functions. Likewise the planning process is weak with limited

⁷ See also the Study on Sector Functional Assessments within Education, Health and WASH in Puntland, which among others state (p xi) that 'Strengthening the decentralization of decision-making authority to autonomous local government requires greater clarity with regard to the different functional assignments of local government.'

coordination between sector ministries and districts. The consequence is that the ministries are not always aware of the needs nor are they able to attend to these in the districts.

The districts have not always consulted with the sector ministries to ensure that the functions they provide compliment the sector policies or coordinate so that the sector ministries are in a position to provide for the running costs of the function (e.g. teacher salaries for primary schools or medical supplies in Mother and Child Health Care facilities). This situation does in some cases lead to less sustainable and more costly service delivery, which is not necessarily based on a bottom-up planning process and thus sufficiently inclusive.⁸

The reasons for this dichotomy of service delivery are a combination of contradictory laws, policies and regulations at sector level vis-à-vis law No. 7; lack of clear reporting and planning procedures between district and central level; as well of lack of clarity among implementing government institutions on regulations and practices; as well as the need to undertake service delivery based on an inclusive planning process.⁹

To address this unfavourable dichotomy a number of sector studies have been undertaken within education, health, roads, water and natural resource management. These will feed into the policy and provide a basis for some of the plans outlined in the policy. Major recommendations from the studies include:

- Establish a state level decentralization policy framework.
- The need to improve revenue mobilization as well as transfers to enable local governments to deliver required services. Part of this entails the improvement of the current local government grant formula and the possible use of sectoral grants based on population size, social indicators, human development and poverty index.
- Identify a preferred sector decentralization management arrangement for each sector, which will include reflections on coordination finances and reporting.
- **Service delivery will need to reflect the capabilities of districts graded A, B and C.**

The functional study also found that ‘community and private flows, the private sector, nongovernmental organizations, the Diaspora^[SEP] and donors are the main drivers of service delivery for all three sectors (health, WASH and education) and as a result, services are highly decentralized by default’. This illustrates another major challenge for effective coordinated service delivery, where NGOs and donors provide funding and service delivery, which in many cases is not necessarily coordinated with the sector ministries or with the districts. **There is thus a weak level of alignment, which in part is a consequence of the lack of policy to align to, but also a consequence of the continued implementation of humanitarian or project type service delivery of the donor funds.**

Legitimacy of Local Government

⁸ As an example the 2012 Study on Sector Functional Assessment Study within Education, Health and WASH for Puntland found that: ‘Social exclusion (many people fall beyond the service delivery footprint of the services described here) and adapting service delivery models to resolve social exclusion isolation remains a critical policy and planning challenge.’

⁹ As an example the 2012 Functional Assessment Study for Puntland found that: ‘New Education and Water Acts do not assist in removing ambiguities at the district level, where sector Ministries and local government are jointly involved in delivery.’

There are additionally important challenges beyond the legislative and alignment. This includes challenges to the legitimacy of local governments. The legitimacy of district administration comes from the ownership of its constituency vis-à-vis the operations of districts. This can be devised as relating to the accountability towards the people in terms of: (1) being elected by the people, and (2) delivering the services to the people in an effective way in accordance with their needs and priorities. This legitimacy is occasionally challenged. The main challenges lie in the limited resources being devolved to the lower tiers of government limiting the possible extent of service delivery. The second challenge is the lack of democratic mandate and practice of many of the districts, which will be addressed with the planned local government elections in 2013.

In Puntland, the local government representatives are selected based on a clan selection process, which provides legitimacy but also presents challenges in terms of downward accountability. While the constitution of Puntland outlines the requirement for local government service delivery with the participation of the people (as piloted by JPLG), public participation in planning and budgeting has in the past has been limited.¹⁰ Community service delivery has been undertaken in many parts of Puntland in the past, but generally in a non-planned manner.

Legitimacy is likewise anchored in traditional as well as formal structures at local level in Puntland. As a consequence of the lack of effective state mechanisms in the past and the historic reliance of clan systems as entities for security and service delivery, an extensive number of competing traditional power structures exist at both local and regional level. This poses challenges in terms of ensuring state overview and control of development at local level, but equally so present opportunities to build on existing informal power structures.

Lack of Funding

Devolution and decentralization is furthermore challenged by the current lack of funding to provide for the service delivery. On the one hand the districts have the authority to collect taxes and the major towns are already engaged with this. The level of funding received for service delivery from the central level is however limited to the extent that most districts use the bulk of funds on recurrent costs rather than service delivery (besides the pilot grants from JPLG the current fiscal transfers to the districts from the central government is limited to 2.5% of the revenue generated).

Capacity of Local Governments

Finally, there is the challenge of the capacity of local governments. The capacity of the district administration is weak, in terms of: (1) the human resources available. While there are a number of districts which have sufficient number of staff members, the capacity of these (i.e. level of education and experience) do not always meet the needs challenging the ability of the districts to deliver against current and future expenditure assignments. (2) The level of funding received for service delivery is limited to the extent that most districts use the bulk of funds on recurrent costs rather than service delivery. And (3) there is no tradition for long-term planning and only districts receiving JPLG support have annual work plans and budgets.¹¹ The capacity also varies greatly between the different categories of districts A, B and C (originally only A and B according to Law No. 7).

¹⁰ See also Puntland Development Research Centre (2010): Mapping the Foundations for Peace, – Challenges to Security and Rule of Law, Democratisation Process, and Devolution of Power to Local Authorities, Draft

¹¹ See also Nicolas Awortwi's reports on institutional assessment in Puntland.

The lack of capacity at district level is in part compensated for by the active private sector providing service delivery either without government involvement or through Public Private Partnerships (PPP). The private sector is in particular strong in delivering water as well as primary and secondary education in the major towns of Puntland. Consequently, the 2012 ILO funded road sector study for Puntland found that urban and feeder road design and planning should be undertaken by the local governments but that implementation is best outsourced to the private sector.

The policy will be developed to assist in addressing the challenges and building on the opportunities identified above.

4 The Needed Basics for Implementing the Policy

4.1 Political Will

The necessity of placing decentralization as a high priority of the government and placing the responsibility for implementation at the highest level of government is an essential requirement for implementing decentralization. The need for a champion for decentralization is well recognized in terms of the characteristics of successful decentralization programs. The strong supporters for decentralization have been identified by Bahl as being (1) the people and their elected representatives, (2) the President, (3) the Parliament, (4) urban local governments, and (5) external donors.¹²

It is necessary to generate the political will and identify a champion for decentralization as a prerequisite for successfully implementing decentralization.

4.2 Capacity Building

The limited capacity of the local governments that has to assume greater responsibilities for service delivery and revenue mobilization is a major obstacle for achieving decentralization. The central ministries used this as a reason for obstructing decentralization processes. Therefore, it is important to develop a capacity building component within the decentralization program. This can be done through the use of performance based grants that provide an incentive for local governments to implement projects and included funding for capacity building of the local government for these projects.

Capacity building efforts will be developed to assess and identify the necessary skills and capabilities that are needed for perform the decentralized services assigned to the district level under the future decentralized good governance and service delivery system. Based on this assessment, a capacity building program will be planned and implemented that will ensure that the local government elected and executive leaders, as well as staff, will have the necessary knowledge, expertise and capacities to effectively deliver the services assigned to them.

¹² Bahl, Roy. 1999. Implementation Rules for Fiscal Decentralization. International Studies Program Working Paper 99-1. Atlanta: Andrew Young School of Policy Studies, Georgia State University

4.3 Legal Framework

A clear legal framework that defines the roles, responsibilities and authorities of the local governments is essential to achieving a decentralization program. This legal framework should include laws on local governments defining their functions and operational methods, as well as the election processes for the local councils. Another legal framework requirement is a law on local government finance, which can be a law on local budget and finances or a law on intergovernmental fiscal relations, which will clarify the financial management system and interaction between the central and local levels of government.

4.4 National Policy

There should also be clear national level policy documents that provide the vision and purposes that the decentralization program should support. These can be incorporated into National Development Plans, Vision 2020, or other types of national level policy objectives. There should also be sector level strategies and policies for education, health, economic development, and infrastructure plans to support the development of the budget process that should be incorporated into the medium term budgeting framework decision processes.

4.5 Financial Resources

The success of decentralization is also very dependent on the financial resources that are available to the local governments as well as the sharing of revenues from the central government or the fiscal transfers. An adequate level of financial resources must be ensured to the local governments with appropriate revenue base, such as the property tax, local taxes and fees, particularly service charges, should be emphasized from the beginning of the decentralization process.

4.6 Additional Basic Requirements

To meet the vision and adhere to all of the policy principles as well as to contribute to poverty reduction at local level, the local governments must be capable and effective in their service delivery provision. Consequently, there must be a lower tier of objectives that the policy will introduce to improve decentralisation in Puntland, which are provided below.

The effectiveness of decentralisation can largely be contributed to a combination of the capacity and efficiency of the local governments. Capacity in terms of being able to deliver services widely to all segments of the population and efficiency in ensuring that services (outputs) are delivered with the lowest level of resource use (inputs).

Minimum capacities that need to be in place, which will be ensured by the Government of Puntland are:

- 1) Legal capacity, i.e. clear authority devolved and rules and regulations governing the operations of the local governments (this also means that the laws providing for decentralisation must fall within the relevant laws at higher levels, such as the constitution).

- 2) Capacities to implement in accordance with functions devolved. In other words when functions are devolved the financial and human resources needed to implement these functions need to be devolved as well.
- 3) Internal systems and procedures must be in place to enable the local government to perform, such as an appropriate organogram, financial management procedures, procurement procedures, reporting mechanisms and so forth; and internal checks and balances.
- 4) Capacity to ensure that services are implemented in accordance with plans. This does not necessarily mean that the local governments are the ones doing the implementation. This can also be undertaken through outsourcing, which means that there should be a capacity to coordinate service delivery at the local level.
- 5) Appropriate coordination between the different levels of government. There must thus be capacity and structures in place to ensure coordination between districts and sector ministries at district, regional and central level.
- 6) There must be capacity at the central level to undertake quality assurance of the work of the districts. The MOI must have capacity to ensure that the districts operate in accordance with the laws and regulations of Puntland, while at the same time the sector agencies must have the capacity to undertake review and quality assurance of service delivery of the districts within their resort. Likewise, the Ministry of Planning must ensure that there is proper synchronization of national and district level planning.
- 7) There must be mechanisms in place to ensure that representatives of all segments of society, including women, youth and minorities are engaged in the planning of service delivery within their constituency, and that the districts are accountable to the citizens.
- 8) Finally, there must be a clear division of labour between the sector ministries and the local governments on who provides which services at district level.

All the above eight points will be addressed by the Government of Puntland over time. However, as a final principle this policy will be realistic, and the goals and the process of reaching these goals are implementable within the timeframe given whilst taking the Puntland context into consideration.

5 The Goal of 2020—Election, Roles, Functions and Finances of Different Levels of Government in Puntland in the Future

By the end of 2020 the Government of the State of Puntland will implement improved service delivery through participatory, accountable and transparent local governments. In 2020 the division of labour between the local governments and the sector ministries will be clear and concise and each government entity will have sole responsibility of clearly defined services. The division of labour will be accompanied by a division of resources, which matches the agreed responsibilities.

To reach this goal will require a thorough analysis of the most appropriate assignment of responsibilities and resources between different levels of government and non-government service providers based on the fundamental principles of decentralisation, which will define changes to (i) sector devolution plans, (ii) district classification vs. functional assignments, (iii) the participatory planning process, (iv) accountability, (v) quality assurance, (vi) flow of funds, and (vii) capacity.

The Inter-Ministerial Committee for Local Government and the MOI will initiate and coordinate such a process.

5.1 Political Decentralization

5.1.A Assessment of Political Decentralization

5.1.B Elections

Puntland has a long tradition for selecting local representatives through the clan system, but has over the last years also experimented with and planned for democratic practices. As part of the process of living up to the principles of the policy Puntland will work towards implementing elections as a future key cornerstone in ensuring accountability at local level. Consequently, district council members will in the future be elected in accordance with the law.

To further enhance the process of local level democracy Puntland will test and aim at implementing community consultation processes aimed at selecting representatives of the village councils (below district council level). The village council selection process will be undertaken through a transparent process (as implemented by CDRD and JPLG) to ensure broad representation of men and women from the different clan in the village council constituency.

The holding of local council elections is a vital part of the decentralization process and should be addressed in the decentralization roadmap for the coming years. Based on the interviews conducted for the development of this policy statement, the relevant stakeholders from MoI and to district mayors feel that these could be held in 2016 at the time that the further decentralization of functions in the various sectors would begin to be fully implemented.

It is critical that in this interim period before the holding of the local council elections, that several actions occur. First, is the need to define the boundaries of the districts with the possible merging or reduction of the total number of districts to a more economic and service criteria basis. The creation of a boundary commission that would be formed in 2014 would undertake this task.

Second, the changes in the Law 7 should be implemented to define the responsibilities of the districts in conformance with this Decentralization Policy statement.

Third, the preparation for the election with vote registration and other requirements should begin by mid 2014 so that there is sufficient time to conduct a voter registration and information campaign about the district council elections.

5.1.C Public Participation

To live up to the principle of public participation, district councils will work to involve the citizens in the planning processes where feasible. Over the course of the policy implementation period, the district councils will engage citizens throughout the council planning and implementation process through:

- 1) Ensuring that village councils are engaged in prioritisation and planning of development activities in their own area, and that these are forwarded to the council for possible inclusion in the overall district plan.
- 2) Publishing district council plans and presenting these to the citizens through a public hearing process.
- 3) During implementation, enable citizens to partake in the monitoring of activities and enabling them to report on deviations and provide complaints as needed.
- 4) Publish budgets, accounts and audit reports for the citizens to enable these to scrutinize the financial flows and check funding prioritisation against the plans presented to the public.

There needs to be initiated at the beginning of 2014 a public awareness campaign on the Decentralization Strategy and the impacts this will have on the delivery of services to the citizens. The elements of defining the district boundaries and the election of local councils will be an important part of this campaign.

This is an area where donor support would be very important in furthering the implementation of this decentralization policy.

5.1.D Inclusion

To ensure full inclusiveness of all sections of society the Government of Puntland will work to increase the role of women and marginalised sections of society in the decision-making process. This may be through affirmative action processes or by ensuring that the planning process provides mandatory resource allocations according to the needs of women and marginalised groups. The MOI will pilot such initiatives to be rolled out over the years.

5.2 Administrative Decentralization

5.2.A Assessment of Administrative Decentralization

The following sections outline some of the key areas where further efforts are needed to clarify the role of the central ministries and local governments in implementing decentralization, maintaining standards and quality of service delivery and the monitoring and evaluation functions for decentralized service delivery.

5.2.B Role of Central Ministries and Local Government

There is a need for furthering clarifying the different roles and responsibilities between the central ministries and the local governments to support a decentralization process. However, in the present context of Puntland there is some limitations on what roles and responsibilities can be transferred to the local governments from the different local government classification. Consequently, a methodology of defining the roles and responsibilities will rest on a determination of the capacities of the local governments to accept transferred functions.

The core management functions as identified in the functional assessment study are identified as (1) Policy Making, (2) Strategic Planning, (3) Budgeting, (4) Execution, and (5) Regulatory Oversight and Compliance.¹³

These core functions can be subdivided in some manner to present a clearer definition of the role of the central ministries and the local governments. A possible division of these roles is presented below in terms of primary and secondary responsibility.

Table 5 Assignment of Core Management Functions and Responsibility

Function	Primary Responsibility	Secondary Responsibility
Policy Making	Central Ministries	Local Government
Strategic Planning	Central Ministries	Local Government
Budgeting	Local Government	Central Ministries
Execution	Local Government	Central Ministries
Regulatory Oversight and Compliance	Central Ministries	Local Government

5.2.C Planning and Standards Setting

The Government of Puntland will ensure that the services provided at the decentralised level are planned through a participatory, transparent and accountable process. At the same time the services should be aligned with the national plans and quality standards as derived in the sector plans.

The planning process for services provided at the districts level will be planned at district level itself. Each district will undertake the planning process based on:

- 1) The participatory plans developed through inclusive community consultations.
- 2) The overall district priorities outlined in the district development framework, i.e. (i) budgeting, and (ii) investment planning.
- 3) Regional planning, bringing the district frameworks together.
- 4) The national priorities outlined in the national development plan and sector ministries' plans.

The district should thus base the plans on the expressed needs of the citizens as presented in the village council planning processes, and at the same time ensure that the plans are consistent with its own district development framework as well as the national level plans.

The plans should be forwarded to the regional level to ensure regional coordination and complementarity, and eventually to MOI and the sector ministries to ensure that the plans are in accordance with national and sector plans. If no objections to the plans are made within ten weeks of submitting the plans, the district will engage in their implementation. In cases where there are objections to the plans, these will be discussed in a committee comprising of the relevant sector ministry, the MOI and the Mayor of the district/district chairperson.

¹³ Geopolicity, Study on Sector Functional Assessment Within Education, Health, and WASH in Puntland, April 15, 2012.

5.2.D Implementation

The function of implementation will be given to the local governments within an assessment of the capacity of the local governments to deliver the service. The classification of the local governments within the present grading system will be utilized as the basis for determining the implementation capacity for service delivery. Those that meet the service delivery capacities in terms of financial and human resources will have the full responsibility to deliver the public service in a decentralized manner. Those local governments not meeting the service delivery capacities will rely on the central ministries deconcentrated service delivery mechanisms to deliver the service.

5.2.E Monitoring and Evaluation

Linking the planning process closer to the citizens as well as the experts from the sector ministries will strengthen accountability and quality assurance.

The districts will be accountable to the people through the participatory planning process (described above) and elected councils as prescribed in the Constitution. This will be further strengthened, as all district councils in the future will be mandated to report on progress and public administration (progress against plans, accounts against budgets, procurement announcements and audit reports) to the citizens in the districts through public hearings and publication of key documents.

To ensure appropriate quality of district plans, the districts will work to ensure that the standards used for the different services are in accordance with sector guidelines and plans. The sector ministries will make these available to all districts.

Sector ministries will ensure that sector experts are available to guide the districts in the planning process and hereby ensuring quality assurance. Where district level sector representatives (such as district education or health officers) are in place these will make themselves available to the district council and advise on the planning related to their sector expertise. Where no district level experts are available, the districts will send enquiries to the sector ministry who will make regional or central level expertise available.

5.3 Fiscal Decentralization

5.3.A Assessment of Fiscal Decentralization

A basic principle for the decentralisation will be that funding will follow function. To ensure that the policy is implementable, the funding of the service delivery will follow the function.

However, under the current conditions limited revenue conditions of the local governments, this basic principle will be difficult to apply. Consequently, an approach of “function evolves from finance” will be adapted to the specific conditions of the local governments.

It is recommended that the approach practiced in most countries of improving the revenues before applying expenditure assignments be applied in Puntland. Bahl has described as “back-end”

approach.¹⁴ Bahl states two reasons for utilizing this approach: (1) expenditure needs are so great that the revenues and transfers cannot possibly reach the funding requirements, and (2) it is politically easier to make changes to the revenue sources than to define the expenditure assignments.

Based on a costing and revenue mapping exercise, which will also be used for the revised allocation formula, the different services will be costed and allocations will in the future be provided to the implementing level of government delivering the service.

The funding to the districts will depend on the service requirements and thus relate to their classification as either A, B or C. In light of these changes the allocation formula for the districts will be revised to meet these changes.

To ensure that no parallel systems are created and to continue the process of state-building in Puntland in accordance with the Paris Declaration on Aid Effectiveness and the New Deal agreement between donors and developing countries all donor funding to the services prescribed in this policy will be implemented in accordance with the division of labour between the different levels of government in Puntland as prescribed in this policy.

5.3.B Expenditure Assignments

It is essential that a phased approach be applied in making the expenditure assignment within the capacities of the local governments. The approach is to begin the decentralization of the expenditure assignments with the larger local governments and let the smaller local governments build capacities before taking on these responsibilities.

Expenditure assignments will be clarified with revisions to Law No 7 and will be based on the local government categories and capacity assessments. The Category A local governments will be assigned the full scope of functional assignments for service delivery in the existing functional assignments. Category B local governments will be given functional assignments in areas of local interest and importance, particularly local water, transportation, sanitation, and other local services. Category B will only be assigned full responsibility for limited areas of education and health delivery based on their capacities. Category C will be given more limited functional assignments in areas of local infrastructure improvements not requiring central level transfers, local inspection services and maintenance of local infrastructure within their financial resources.

5.3.C Revenue Sources

The revenue sources for local governments will be revised to provide more authority to the local governments to establish their own source revenue tax base and rates within parameters established within a Law on Local Finance that should be prepared and adopted within the next two years.

¹⁴ Bahl, Roy. 1999. Implementation Rules for Fiscal Decentralization. International Studies Program Working Paper 99-1. Atlanta: Andrew Young School of Policy Studies, Georgia State University

A substantial effort will be initiated to improve the collection of property taxes and local business licenses as major sources of local revenue. The further decentralization of local revenue authority will be based on the development of automated systems to account for local government revenues from all sources. A formal tax collection system will be implemented in which all tax and revenues will be accounted for through proper documentation and receipt registers.

5.3.D Intergovernmental Transfers

The intergovernmental transfers will be based on a clear and transparent allocation formula that will define the based on the differences between the local government categories. A separate pool of funds at the central government level will be determined as the basis for the determining the allocations to each local government.

In the initial years of decentralization, the balance of the transfers will be conditional transfer with specific purposes, such as support for education, health, and local infrastructure improvements. There will be a minimal level of unconditional transfers to the local governments primarily to support some portion of the staffing costs and maintenance of local government offices.

A general-purpose grant to the districts should also be implemented in order to support the basic district level services and maintenance of the district councils and administrative functions.

The transfers should also take into account the differences in the economic and social conditions and the economic and fiscal capacity of the districts based on a classification of urban or rural districts.

5.3.E Borrowing

The possibility of local governments to borrow will be defined in a Law on Local Finance or a Law on Local Borrowing. Borrowing will be restricted within the fiscal capacity of the local governments and will only be possible to meet short-term cash flow needs of the local government unit. The issuance of any bonds or other debt will only be provided as possibility to Category A local governments and must be approved by the Ministry of Finance prior to being undertaken.

6 Sector Decentralization

The development of sectoral decentralization plans will be based on active involvement of the respective central ministries, the local governments and community and private sector stakeholders. The process will be a highly participatory process in which considerable effort will be made to develop the consensus on what functions and sub functions will be assigned to the local governments based on the local government categories and detailed capacity assessment. This will determine the financial and human resources that are to be provided from the central government to the local governments.

An example of a generic road map for developing the decentralization is presented below. A more specific roadmap with milestones is provided in Annex B.

Main Elements of Decentralization Road Map

Steps:

1. Development of Decentralization Policy Document and Guidelines
 - a. The Inter Ministerial Committee on Local Government will formulate and obtain government adoption of a Decentralization Policy Guideline
 - b. The Government will establish a boundary commission to define the district boundaries
 - c. The Inter Ministerial Committee on Local Government will develop a methodology for assessing the capacities of the district levels based on their classification and provide to the relevant sector ministries for their use in identifying specific functions that can be decentralized to the districts.
 - c. The Government will adopt a local council election timeframe and process to be implemented following the defining of the district boundaries
 - d. The Inter Ministerial Committee on Local Government will provide guidance and consult with each individual district on developing their own functional assignment capacity assessments and what services they can effectively assume from the central ministries.
2. Each Sector Ministry will appoint a technical team to implement the process
 - a. Each Sector Ministry will adopt a concept paper on decentralization
 - b. The Sector Ministry technical team will undertake a functional review of the central ministry functions and determine the criteria for assigning these functions to the district levels
 - c. The Sector Ministries will provide to the Inter Ministerial Committee on Local Government the results of their functional review and recommendations on what functions and to what classification of districts certain functions can be decentralized.
 - d. Each Sector Ministry will prepare an Action Plan for decentralization of these functions
3. Identify legal and policy gaps
 - a. Each sector ministry will review the existing legal and policies gaps and provide to the Inter Ministerial Committee on Local Government a recommendation on revisions and amendments to current laws and policies to implement the decentralization of services in their sectors
 - b. The Inter Ministerial Committee on Local Government will consolidate all the legal and policy gaps identified by the sector ministries and their recommendations for inclusion in a legislative package of new laws and amendments for adoption by the Government in a Law on Decentralization
4. Prepare Decentralization Strategy for Implementation Select first phase pilot regions and districts
 - a. The Inter Ministerial Committee on Local Government will prepare a detailed Decentralization Strategy for Piloting and Phasing the Implementation of the sector decentralization based on capacities developed during the JPLG and replicating the JPLG model to other districts
 - b. The Inter Ministerial Committee on Local Government will select A and B level Districts for Piloting of Sector Decentralization
5. Select Sectors and Services to be Decentralized

- a. The Inter Ministerial Committee on Local Government will select priority sectors to be decentralized based on the functional reviews conducted by the Sector Ministries
 - b. The Sector Ministries selected for piloting the decentralization of these functions will develop an implementation plan for transferring these functions to the assigned districts.

- 6. Sector Ministries Implement Decentralization of Services
 - a. Each sector ministry will establish a training program with the selected districts on assuming the transferred functions
 - b. The Inter Ministerial Committee on Local Government will establish a monitoring and evaluation system to assess the progress of transferring the decentralized functions to the district level

- 7. Transfer of Funding and Personnel to the District
 - a. The Ministry of Finance will allocate through transfer formula the funds required to support the implementation of the function to the district level
 - b. The staffing for the transferred function will be assigned to the district government employment

- 8. Assess the Piloting of the Decentralized Service
 - a. The Inter Ministerial Committee on Local Government will assess the piloting of the service delivery function to the District level and determine adjustments and changes to the piloting project
 - b. The Inter Ministerial Committee will formulate a full-scale implementation plan for decentralization the functions to the Districts A and B

- 9. Full Implementation of Decentralization
 - a. The Inter Ministerial Committee on Local Government will implement the full decentralization of selected services to the districts with capacity to assume this service
 - b. The Inter Ministerial Committee on Local Government will develop guidelines and procedures for continuation of service delivery functions by the central ministries in those sectors and districts where full implementation is not feasible.

6.1 Transportation and Roads

Article 9.8 of the Law No 7 indicates that districts will have responsibility for renovation of the road networks in the towns of the district. Also Article 9.14 provides that the district will have responsibility for organizing and regulating public transport to ferry people with the towns.

The decentralization of transportation and roads will be developed within an overall national level-planning framework for transportation.

The Ministry of Public Works will have the responsibility for developing a strategic road network planning policy and define the classification of roads for assignment of maintenance responsibilities within the strategic road framework. The Puntland Highway Authority has responsibility for providing the construction and maintenance of roads outside the municipal checkpoints.

Presently, road maintenance is funded by applying a surcharge on the customs duties for transportation related imports at the port in Bosasso. This is based on applying a 15% charge to the

amount of the customs duty, and not on the value of the import. This is applied to the import of vehicles, oil, lubricants and other items that are related to means of transportation.

Category A local governments will assume responsibility for the road network throughout the district within their boundaries, except for major paved roads that cross and connect two or more districts or international boundary.

Category B local governments will assume responsibility for local roads within urban or developed areas within their boundaries. Any paved roads will be the responsibility of the Puntland Highway Authority through its deconcentrated service delivery capacities and will assess the Category B districts for some maintenance costs.

Category C local governments will not have responsibility for any part of the road network within their boundaries. The Puntland Highway Authority will be responsible for these roads, but will assess the Category C local government for the maintenance on a cost-sharing basis.

Transfer from the Central to the Local Government

Category A districts will be responsible for maintenance and renovation of the roads within their areas, except for paved roads that connect two or more districts.

Category B districts will receive a transfer of funds based on a road classification scheme of paved or unpaved and an allocation based on the total number of kilometres of road within the district area.

Category C districts will not have any responsibility for road or transport within their district boundaries.

6.2 Education

Decentralization of the education sector in Puntland faces several challenges. Among these are the following:

- The problem of providing educational opportunities to children of the nomadic pastoralist communities
- The disparity of school opportunities between male and female students
- The lack of sufficient financial resources from the central government to provide school facilities and the dependence on the donor community for these funds
- The growth of private schools as a major base of the educational system without proper regulation or accreditation.
- The preference of the donor community to fund directly to district level rather than through Ministry of Education for school construction and lack of coordination in selecting the location of school facilities
- The substantial variation across districts in terms of the salary levels of teachers.

The funding for the schools comes from three main sources:

1. School fees paid by parents where this is possible

2. International Community that provides funding for school construction and top up to salaries
3. Central government transfers through the Ministry of Education for teacher salaries based on flat rate of \$60 per month time 1000 teachers.

The Ministry of Education has a strategic plan for delivery of education services, but has yet to develop and adopt a concept note that would outline how to transfer some authority and responsibility to the district government levels according to their assessed capacity.

The district level has responsibility in the education area based on Article 9.5 of Law 7 which relates to the construction of primary schools, Koranic schools, kindergarten, family development schools and their management. It is unclear from this language to what extent the district council and administration have responsibilities for education services. This will need to be clarified in additional legislation. At the present time, the district administrations do not exercise any management functions related to the schools. There is only coordination between the District Mayor office and the District Education Officer appointed by the Ministry of Education.

The decentralization of the education sector will be based on the core management model developed for the role of the central ministries and local governments described in previous section.

The Ministry of Education will have the main functions of policy making and strategic planning, developing of the equalization transfers as input to the local budgets, and the function of regulatory oversight and compliance. These functions will be continued in the areas of support to local education planning and guidelines, needs assessments, monitoring and evaluation of the local government education service delivery, standards for curriculum and examinations, and resolution of complaints within the local government structures.

The local governments will have the following responsibilities as their functional assignments within the context of the local government structures and committees dealing with education services.

1. Decisions on local revenue and expenditures supporting the delivery of education services and the capital investments based on Ministry of Education policy and planning requirements
2. Development of community based in put methods for education planning
3. Local government council approval of education plans and budgets
4. Planning of school facilities and construction of these facilities based on Ministry of Education standards
5. Support of community based organizations interested in education services.

The decentralization of education services will be based on a phased approach defined by capacity assessments of the local governments at each classification category. The decentralization of the pre-primary education, primary education will be decentralized to the Category A local governments in the initial phases based on the assessment of their capacities as determined by the Ministry of Education. This decentralization approach will be piloted in several Category A local governments in the initial phase and then evaluated for fuller replication to the other Categories. Once this has been achieved the Category A local governments will then assume responsibility for secondary education within their scope of responsibility.

Category B local governments will only be responsible for pre-primary and primary education. Category B local governments will not be given responsibility for Secondary Education.

Category C local governments will only be responsible for pre-primary education based on assessment of local capacity to assume this function.

The implementation of the above mentioned decentralization of education services at district level will only can take place if the district clearly earmarks education services in district's budget and local revenue and expenditures. Provisions such as teachers' salary and rehabilitation of schools should have budget line items in the local government annual budget before receiving funds from central government and International development partners' contribution and support to the education sector in Puntland. In addition, Law No. 7 and other policies and education Act should be aligned to avoid confusion and overlaps in mandates.

Central ministries through their deconcentrated service delivery will be responsible for tertiary and higher education, technical and vocational education and training, and adult and non-formal education. Special education needs will also be the responsibility of the deconcentrated service delivery mechanisms of the Ministry of Education. There will also be special provision for mobile education facilities through the Ministry of Education for those educational needs of the nomadic population.

Options for Management and Administration of the Schools in the Districts:

There are two decentralization options available for decentralized delivery of education services at the district level for the Category A and Category B districts.

Option 1: District Council has full authority for the functioning of the schools within the district and provides the following functions:

- planning and management functions,
- hires and dismisses all school administration, teaching and non-teaching staff, school staff are employees of the district administration
- the school funding and budget is within the overall district budget and funding is provided by the district administration revenue and tax collection
- reports to the Ministry of Education for compliance with all curriculum and qualification requirements
-

Option 2: The schools are operated as independent local units outside of the jurisdiction of the district administration and provides the following functions:

- planning and management functions are performed by locally elected school board
- hires and dismisses all school administration, teaching and non-teaching staff, school staff are hired within the rules and procedures of the civil service requirements
- school funding and budget is separate from the district budget and is only reviewed by the Ministry of Education for compliance with established positions and salary costs
- the funding for the schools are provided by local tax levy on property and collected by the local district revenue office and transferred to the school accounts
- reports to the Ministry of Education for compliance with all curriculum and qualification requirements.

While option 2 is the more decentralized system of providing education services at the local government level, this option requires substantial capacity not available within the present districts. It is not recommended for decentralization of educational services at the district level.

Transfers from the Central to the Local Government

The central government will provide a transfer of funds to the Category A and B local governments on a per pupil grant allocation formula with consideration for the meeting the student-teacher ratio standard and with additional factor for non-teaching staff and maintenance costs. District Education Officer will be transferred to the staff of the Category A and B local governments and will be paid by local government funds.

Category C local governments will be provided a transfer on a cost reimbursement basis for the minimal salary levels established for teachers and reimbursement of operational costs of the school building. District Education Officers will be retained as employees of the Ministry of Education and funded by the Ministry of Education budget.

Districts that require mobile teaching facilities will be provided additional funding to support the teachers and facilities needed for this purpose.

The Central Government will provide a cash transfer to poor and nomadic families based on continuing attendance of the children in the school program.

6.3 Health

As with the delivery of education services, the responsibility of the District Councils as they relate to the health care are provided in Article 9 of Law 7 as follows:

9.1 General Healthcare and particularly sanitation of the towns and prevention of contagious diseases.

9.6 Construction of Mother and Child Health Centre (MCH centre's)

Additional legislation is needed to clarify the role of the district administrations in the delivery of health services, particularly with regard to the status of employment of health care workers, and the funding of these services at the district level.

The decentralization of the health sector will be based on the core management model developed for the role of the central ministries and local governments described above.

The local governments will have the following responsibilities as their functional assignments within the context of the local government structures and committees dealing with health services.

1. Decisions on local revenue and expenditures supporting the delivery of health care services at the designated health posts and for maternal care.
2. Maintaining of local health care data and statistics on diseases and illnesses for reporting to the central level
3. Local government council approval of health care plans and budgets
4. Planning of health care facilities and construction of these facilities based on Ministry of Health standards
5. Support of community based organizations interested in health care service delivery.

The decentralization of health services will be based on a phased approach defined by capacity assessments of the local governments at each classification category. The decentralization of the primary health units and health centers will be decentralized to the Category A local governments in the initial phases based on the assessment of their capacities as determined by the Ministry of Health. This decentralization approach will be piloted in several Category A local governments in the initial phase and then evaluated for fuller replication to the other Categories. Once this has been achieved the Category A local governments will then assume responsibility for primary health care units and health centers within their scope of responsibility.

Category B local governments will only be responsible for primary health units. Category B local governments will not be given responsibility for Health Centers.

Category C local governments will not be responsible for delivery of health services.

The responsibilities are summarized below by health facility and district category.

	District A	District B	District C	District D	Ministry of Health
Primary Health Post	X	X			X
Mother and Child Health	X				X
Referral Health Centers	X				X
Regional/National Hospitals					X

The Ministry of Health through its deconcentrated service delivery capacity will be responsible for referral health centers and hospitals in Districts B and C. The Ministry of Health will also be responsible for the procurement of drugs and pharmaceuticals for the local government health care facilities and provision of delivery to these facilities. This will be done on a cost share basis and co-payment basis with the local health units.

Transfers from the Central to the Local Government

The transfer of funds from the central to the local governments will be based on population, age, and sex factors within a formula. Number of population in urban and rural areas, number of people in age categories of 1-5 years and 50 years and older, as well as women between the ages of 16-40 will be considered in developing the allocation formula. Additional factors will be the number of reported cases of pneumonia, diarrheal, malnutrition, and malaria in the rural areas.

6.4 Water, Sanitation, and Hygiene (WASH) (including solid waste)

The legal basis for the local governments to assume any responsibility in the areas of Water, Sanitation and Hygiene is limited within the provisions of Article 9.1 of Law No. 7. It provides that the Local Council will have the following function as it relates to these areas:

9.1 General Healthcare and particularly sanitation of the towns and prevention of contagious diseases.

9.16 The Local Council is also responsible to support livestock management, farming, security,

water, electricity, communication and protection of the environment.

The only reference to this sector area is with sanitation and water within the towns. Therefore, substantial changes will need to be made to expand the legal framework and basis for the local councils to have responsibility for delivering these services.

There is already in place some private operation of water systems and solid waste collection with the urban areas. In some cases, the water service company is partially owned by the municipal government. The municipal also provides solid waste collection at collection checkpoints and takes it to the landfill location. There is potential for full privatization of the solid waste collection, with the municipal authority operating the landfill and charging for dumping at the tipping point.

The decentralization of services in the WASH sector will involve a complex set of considerations in transferring these functions to the local governments. A basic principle to be applied here is that these services are very subject to user charges and fees and these should be applied in all relevant aspects of this service delivery, except for the funding for capital investment and infrastructure that will be needed. These capital investments should be shared costs between the central and local levels based on a conditional grant mechanism and needs based assessments.

While public organization delivery is dominant in this sector, there should be a strategy developed and implemented to transfer the delivery of these services to should be contracted out or based on public private partnerships, particularly in the larger and more capable local governments.

Goal 2020 for classification A districts: The districts will be responsible for the planning, costing and implementation of all public water points (public areas, schools, public buildings, health clinics etc.), water piping, public sanitary facilities at schools, health posts, public buildings and places as well as sewages.

Goal 2020 for classification B districts: public water points in buildings (and outside schools and health posts) will be planned, costed and implemented by the district council.

The C Districts will have very limited responsibility for water, sanitation and hygiene based on development of local community committees to manage these functions within their areas. Where community committees are organized to manage these services, the district level administration will support these services with some funding and technical assistance that is not available from the deconcentrated offices of the Central Ministries responsible for these functions.

The water and sanitation construction may be sub-contracted in accordance with the Puntland procurement rules as is currently the case.

The central level ministry will be responsible for the quality assurance of the construction, and the district will forward all plans to the ministry for technical approval prior to construction

All other functions will be implemented at the central level.

The government of Puntland will work to: (1) develop a detailed plan for the devolution process in this sector taking into consideration capacities required, reporting lines and accountability, quality assurance, fiscal transfers and procurement and auditing processes, and (2) revise the laws and regulation to meet this objective by 2020.

6.5 Natural Resources

The decentralization of natural resources needs further development as it involves several ministries in determining what resource areas, land, water, environment, and fisheries, and needs to be managed at the district level, regulated centrally and coordinated regionally. The following ministries have some involvement across these sector areas:

- Ministry of Environment, Rangeland, Forests, Wildlife and Tourism (MoERFWT)
- Ministry of Agriculture and Irrigation (MoAI)
- Ministry of Livestock and Animal Husbandry (MoLAH)
- Ministry of Fisheries and Marine Resources (MoF)
- Ministry of Interior (MoI)
- Ministry of Public Works (MoPW)
- Puntland State Authority for Water, Energy and Natural Resources (PSAWN)

There is considerable overlap of mandates and functions as identified in the International Labor Organization (ILO) Report of March 2013 which stated: “while PSAWEN regulates all issues relating to water-supply, water harvesting fall under the MoEWT, MoAI, and MoI. However, between MoEWT, MoAI, and MoI there may exist overlapping functions with regards to where water-harvesting infrastructure maybe allocated, regulation of water-users, allocation and water rights.”¹⁵

Following an analysis of functional assignments within natural resource mandated ministerial organizations, a process of supporting delivery of NRM functions by the district level has been proposed. Within existing organizational arrangements, the most efficient means of resolving overlaps in NRM service delivery is to introduce an inter-ministerial working group, Natural Resource Working Group (NRWG).

The NRWG would support decentralisation from the central line ministries to the local governments, through regional coordination. The proposed Working Group will consider the functions necessary for economic and ecological planning through design of district level NRM Plans with local authorities. The respective resource units (i.e land, water, forests and rangelands, and marine ecosystems) will then determine the basis of ministerial and technical service delivery. The NRWG will thus ensure NRM service delivery is consistent with each ministry’s respective mandate, the ecological limits of natural resources and economic benefits derived from regulated utilisation of Puntland’s natural environment.

The decentralization of natural resource management and development responsibilities will be limited in terms of the ownership rights. However, local governments will be encouraged to better regulate natural resource use through receipt and reinvested of tax revenues from NRM. Local governments will have the right to impose impact fees and infrastructure improvement funding based on the direct impact of the exploitation of the natural resource in their area. These will be included in the contracts between the central government and the natural resource developer. Natural resources will be considered a common asset of all the people, regardless of the location or value of the natural resources, and will be utilized for the benefit of all citizens of Puntland.

¹⁵ International Labor Organization, Natural Resource Management Sector Study, March 2013.

For sub-soil and mineral resources the ownership of natural resources will be held at the central government level and only exploited through concessions and other ownership transfers negotiated at the central government level.

The process of decentralisation of the NRM sector will be coordinated at the regional level under the Governor's stewardship through Regional Development Councils (RDCs). The role of local government will be orchestrated through the Social Services Department, and supervised by the District Mayor/ Commissioner. The role of central and de-concentrated environment and natural resource line ministries will be to facilitate delivery of technical support needed by local governments.

The decentralisation of NRM Service Delivery is a crosscutting issue. It finds emphasis within specific DDF and national priorities for economic and social development. For this reason, it is recommended that decentralization of NRM functions be planned in the next 1-3 years.

7 Implementation and Monitoring of the Policy

The policy is expected implemented incrementally, which aims at full implementation by 2020 without compromising the quality of the reform process. The key tasks and deadlines for the different institutions responsible for the policy implementation are outlined in the attached roadmap for decentralization.

The overall supervision of the implementation of the policy rests with the Vice-President and the Inter-ministerial Committee on Local Government. MOI will function as a secretariat for the Committee and undertake the day-to-day monitoring of the implementation.

The Inter-ministerial Committee will hold semi-annual meetings and discuss the progress on the implementation of the policy. MOI will provide quarterly reporting to the Vice-President and the Inter-Ministerial Committee on progress. The sector ministries will report on progress within their own sector to the MOI.

Each central ministry involved in supporting the decentralization of services will prepare a Decentralization Action Plan to serve as an implementation tool and for monitoring of the implementation based on the phased decentralization of functions within their sector. These Decentralization Action Plans will be updated semi-annually within a review session of the Inter-Ministerial Committee and changes in policy and implementation methods will be discussed and approved during these meetings.

Annex A: Assessing Decentralization, Decentralized Local Governments and the Local Public Sector in Puntland

Political Empowerment and Decentralization

	Policy Framework	Legal Framework	Central Govt. Institutions	Local Govt. Management and Admin	Civil Society and Private Sector
Local Political Power Structure	Puntland Government pursues a system of decentralized governance though the overall decentralization policy is not yet developed/adopted.	The constitutional articles relating to local government are set out in articles 120 and 123-127. District Self Administration Law No 7 also defines the decentralized structures and their mandate in local governance and provision of basic services	The Ministry of Interior, Local Government and Rural Development is the lead government institution for decentralization initiatives and reforms at the central level. It also retains oversight powers on regional and district administrations.	Local governments in Puntland are usually composed of a governing body “district council” whose mandate is to plan and oversee the executive and an executive branch “municipality” whose mandate is to carry out district plans.	Public participation in local government is relatively weak in Puntland. Efforts are underway to engage communities as well as to introduce a public-private partnership approach that contributes to local economic development.
Structure and quality of local electoral systems	Currently, local councils are established through clan sharing formula of council seats. Despite efforts to held first democratic local council elections in Puntland on July 15 th , it was failed though and still Puntland heads towards multiparty political system	Puntland Constitution and Election Law clearly depict electoral processes, technicalities and other procedures.	Transitional Puntland Electoral Commission is the entrusted body to spearhead and technically facilitate the electoral process.	The term of office for local councils is 5 years. Puntland consists of 43 districts of which 10 has functional local councils at the moment.	Political spaces have opened up for civil society during the recent democratization process. Media freedom is not up to the international standards and the wider public possess little access and insights on the electoral systems
Nature of political party systems	Multiparty political system that is compatible with parliamentary system of selecting heads of the state.	Puntland Political Associations Law – adopted by the parliament	There are six registered political associations namely Horcad, Horseed, Wadajir, UDAD, Midnimo and PDP.	Political associations will run for local council election. And the three associations that receive the majority of votes will be announced as the official political parties.	Public has little understanding and are not effectively engaged in the political activities/spheres.
Local political participation and accountability	There are no clear-cut and credible policies that foster political participation and mutual accountability at the central and local levels.	The Puntland constitution upholds the values of political participation and downward/upward accountability and transparency. It also assures check-and balances within state institutions.	The progressing of democratization process, formation of political parties and creation of political platforms would contribute to the political engagement of all stakeholders and will ensure buy-in to the process. A scenario anticipated by all	The progressing of democratization process, formation of political parties and creation of political platforms would contribute to the political engagement of all stakeholders and will ensure buy-in to the process.	

Fiscal Empowerment and Decentralization

	Policy Framework	Legal Framework	Central Govt Institutions	Local Govt Management and Admin	Civil Society and Private Sector
Expenditure Assignment	<p>According to the Law No 7 expenditure assignment the local government must be;</p> <ul style="list-style-type: none"> Local government must be expend and allocated budget in the budget line Implementation budget for development projects Expenditure from donors and local community contribution must be spend on the line of the district priorities indicated the budget 		<p>According to the Puntland Constitution indicated that central government of puntland has responsible :</p> <ul style="list-style-type: none"> -Education (Secondary and higher education) - Health (hospitals and MCHs) - Infrastructure (beyond the two check points of the cities) <p>However; the local government also responsible for education (primary and intermediate,)Health Posts and traditional healers. There is a confusion of roles and responsibility of social service between CG and LG</p>	<p>Law No 7 provides to the districts to deliver their legal duties and responsibilities of the district administration the following:</p> <ul style="list-style-type: none"> - social service (health post , primary and water and sanitation) -road maintains and establishment with in districts boarder - contraction of water catchments between districts and towns 	<p>There is a improvement of PPP (public private partnership)</p>
Revenue Assignment & Local Revenue Administration	<p>Law No 7 provided the framework for revenue and expenditure assignment between local government and central government but however rules and regulation has been indicated in the law. currently Puntland local government revenue is very limited in to a specific source of revenue which has lead small percentage of revenue compared to their needs of budget estimation</p>	<p>As Law No 7 stated that framework revenue and expenditure assignment of local government between central government and local government. The authorities of collection of revenue has not been defined probably in the law</p>	---	<p>Local government has a mandate of collecting its own tax and has the mandate to manage and admin their activities independently</p>	
Intergovernmental Fiscal Transfers	<p>The central government collects the wider revenue in puntland including direct tax and indirect tax and other form of tax in the whole Region; the education ministry must provide however the government transfers in to the ministerial level such as education sector. In addition to that currently the national budget has indicated intergovernmental transfer money for only JPLG programs which is currently on-going program in Puntland</p>				
Sub national Borrowing/Debt		<p>Article 35 of Law No. 7 provides for local and international loans if approved</p>			

Assessing Fiscal Decentralization in Puntland

Current Situation

	Overall policy stance and policy effectiveness	Constitutional and Legal Framework	Central Govt Institutional and Regulatory Framework	Local Govt institutional and regulatory framework	Participation by Civil Society and Private Sector
Structure and role of public sector	Constitution	Law No 7 defines local government council and administration structures	Ministries and sector policies	District council and admin	Not fully developed
Functional and expenditure assignments	Law No 7, but not defined based on capacity of district classifications	Constitution	--		
Assignment of Revenue Sources	Law No 7	Constitution			
Intergovernmental Fiscal Transfers	Law No 7				
Local Govt Borrowing and Infrastructure Development	Law No 7				

Fiscal Decentralization Reform Initiatives

	Overall policy stance and policy effectiveness	Constitutional and Legal Framework	Central Govt Institutional and Regulatory Framework	Local Govt institutional and regulatory framework	Participation by Civil Society and Private Sector
Structure and role of public sector					
Functional and expenditure assignments	Puntland constitution put down the vision of decentralization and its functions	Puntland Constitution of puntland clearly defines the role of administration in regional and district level		Law No 7 provides framework of revenue and expenditure assignments.	
Assignment of Revenue Sources	Law No 7 mandated that the districts to collect broad spectrum of tax and non tax revenue source in addition to that district revenue consist many sources include (charges, fines, property tax.	According puntland constitution and Law No 7 promotes the districts to become self sufficient	According to the Puntland Constitution indicated that CG and LG have different role of taxes	Law No 7 does not make clear distinction between fees for providing social and economic services and taxes mechanisms for settlement and regulation of rates and control of these.	
Intergovernmental Fiscal Transfers	Puntland constitution put dawn vision and mission for decentralization, which should make it possible for the region and districts to become self-sufficient in their provision of services.	Law No 7 gives the framework for revenue and expenditure assignment between central and local governments	Law No 7 mandated that the districts to collect broad spectrum of tax and non tax revenue sources	The administration of public services defined in the constitution of puntland roles and responsibilities of districts and regions in terms of administrative power.	
Local Govt Borrowing and Infrastructure Development		Article 35 of Law No. 7 provides for local and international loans if approved for the local governments	No institutional or regulatory framework in place, loans by local governments are approved by Ministry of Finance for loans from central bank for infrastructure projects		

SWOT Analysis of Fiscal Decentralization

Strengths	Weaknesses
<ul style="list-style-type: none"> - Constitution and Legal Framework in Law 7 for decentralization system -Existence of service delivery within districts - function of local councils defined in Law 7 - High priority and support through V.P and Interministerial Committee on Local Government (IMCLG) - Piloting of Decentralization in 3 Districts by JPLG provides basis for fiscal decentralization 	<ul style="list-style-type: none"> -There is no overall decentralization policy -Limited financial resources at central level with customs as main source of revenue -No developed transfer system to all districts -Lack of qualified staff in the districts -Limited financial resource and revenue collection in the districts -Inconsistent local government legislation concerning function and powers

<ul style="list-style-type: none"> -Working on functional assignments to district based on capacity assessments -Well developed sector assessment studies for decentralization -Districts classification based on population and other criteria -Plans to define district boundaries in next year -Development of local government association to represent interest of local governments in decentralization process -Limited use of borrowing from Central Bank to local governments with approval of Ministry of Finance 	<ul style="list-style-type: none"> - Confusion over service delivery functions between central ministries and local districts -Local elections not accomplished -District boundaries not defined and subject to political manipulation -Census not completed and no civil registry for most of population -Service delivery to nomadic populations extremely difficult - No clear definition of functional assignments - Need more inclusion of local districts and citizens in defining decentralization goals and purposes -Transfer of staffing from central ministries to local districts not defined -No strategy for scaling up decentralization to all districts
<p>Opportunities</p>	<p>Threats</p>
<ul style="list-style-type: none"> - Define District Boundaries - Hold Local Council Elections - Clarify central versus district functional assignments - Need to define regional level functions and responsibilities - Complete census of population - Potential for increased revenue sharing from central to districts - Need for additional legal framework for decentralized system in areas of expenditure and revenue assignments, and transfers based on criteria -Potential to improve revenue sources and collection capacity at District A levels, limited capacity at levels B and C. 	<ul style="list-style-type: none"> - Central ministries and other government agencies unwilling to decentralization functions and transfer funds. -there is no clear defined roles and responsibilities of tariff in both CG and LG -Potential for political instability and conflict -Reluctance of personnel to transfer to district administrations -Wide disparity in salaries and benefits across districts that cannot be equalized

Annex B – Roadmap for Decentralization

Below is an outline of the suggested policy goals based on the consultations held in Puntland in 2012 and January-February 2013. The policy captures the period 2013-2020. In 2020 the Government will take stock of the last seven years development and revise the policy based on the lessons learned of the past.

The ten key milestones of the implementation of the policy are presented in table 6 below.

The Key Milestones of Decentralization Policy Implementation

No.	Responsible	Milestone	Deadline
1.0	MOI and relevant sector ministries	Review final Decentralization Policy Document and submit for adoption	November 2013-Jan 2014
1.a	Vice-President's Office	Inter-ministerial Committee (IMC) semi-annual meeting Adopts the Decentralization Policy Document	December 2013-Jan 2014
1.b	MOI	Establishes a Boundary Commission to define district boundaries to complete work by July 2014	March 2014
1.c	Government Decision	The Government and Parliament establish a timeframe for local council elections	November 2014
1.d	MOI and Relevant Sector Ministries	The IMCLG will develop a methodology for assessing the capacities of the districts to deliver services	March-June 2014
1.e	MOI/Sector Ministries	Development of public awareness campaign of the decentralization policy, impact on districts and local councils of the Boundary Commission, and timeframe of decentralization and local council elections	January-December 2014
2.0	MOI and Relevant Sector Ministries	The IMCLG directs the sector ministries to begin process of developing decentralization strategy for their ministry	April 2014
2.a	MOI and Sector Ministries	Sector Ministries appoint a technical team to undertake functional review of their functions	May 2014
2.b	Vice-President's Office	Inter-ministerial Committee semi-annual meeting to review progress	June 2014
3.0	MOI and sector ministries	Sector Ministries develop and adopt Concept Note on Decentralization for their ministry and sector	July 2014
3.a	MOI and Sector Ministries	MOI and Sector Ministries identify districts for piloting decentralization	August 2014
3.b	MOI and Sector Ministries	Sector Ministries Complete functional review and identify functions to decentralize on pilot basis	September 2014
3.c	MOI and Sector Ministries	Sector Ministries Complete Action Plan for Piloting Decentralization of Functions	October 2014
3.d	MOI and Sector Ministries	Sector Ministries Complete Strategy for Decentralization of Pilot Districts	November 2014
3.e	MOI and Sector	Sector Ministries complete review of legal framework	November

	Ministries	gaps and provide to the IMC for review	2014
3.f	Vice-President's Office	Inter-ministerial Committee semi-annual meeting reviews Action Plans and Legal Framework review	December 2014
4.0	MOI and sector ministries	Sector Ministries and Pilot Districts begin implementation of decentralization functions	January 2015
4.a	Government	Government adopts boundary commission report and process for local council election in 2016	March 2015
4.b	Government and Parliament	Adopt Changes in Law No. 7 for Assignment of Decentralized Functions	May 2015
5.0	MOI and Sector Ministries	Inter-Ministerial Committee semi-annual meeting discussing district pilot implementation	June 2015
5.a	MOI and Sector Ministries	Sector Ministries and MoF develop allocation formulas for transfers to districts for decentralized functions	July 2015
6.0	MOI and Sector Ministries	Review Development and Assess Progress on Decentralization in Pilot Districts	November 2015
6.a	MOI and Sector Ministries	Inter-Ministerial Committee semi-annual meeting to review decentralization progress	December 2015
7.0	Government	Prepare and Hold for Local Council Elections	January-June 2016
7.a	MOI and civil Service Commission	Institutional capacity assessment and planning at district level. Staffing of each district reclassified in accordance with service delivery functions (2 phases)	June 2015 / Dec. 2017
8.0	MOI	Draft and promulgate by-law requesting all districts to implement participatory planning and accountability reporting process (as per PEM)	December 2014
9.0	Sector ministries	Sector ministries will make district level experts available to the district council for planning purposes related to their sector (or regional or central level experts according to their capacity)	December 2014
10.0	Vice-President's Office	Midterm review of policy implementation	December 2017

As illustrated in the table above, a meeting in the Inter-Ministerial Committee chaired by the Vice-President to discuss and endorse the process will thus precede each major milestone.

Following the implementation of all major devolution aspects outlined above, the Inter-Ministerial Committee will field a mid-term evaluation. The objective of the evaluation will be to take stock of the situation and the changes made and provide recommendations for adjustments. Possible revision to the approach will thus be implemented in the latter part of the roadmap period based on the review recommendations.

A detailed milestone for sector decentralization is found in Annex C.

Sector devolution and district classification

The sector devolution process will be gradual starting with key basic service delivery sectors and moving to other sectors over time. Five sectors will serve as the basis of the first round of decentralisation reform prescribed by this policy. These are:

- 1) Roads
- 2) Water, Sanitation and Hygiene (including solid waste)
- 3) Education
- 4) Health
- 5) Natural resource management

The following outlines the services to be implemented by the district councils by no later than 2020. District councils must at the same time hand over all other services within these five sectors to the sector ministries for their implementation no later than 2020. The MOINS and the sector ministries will engage in a study of existing laws and legislation to assess differences between these and this policy and adjust accordingly. This will be undertaken under the auspices of the Inter-Ministerial Committee.

Please note that the capacity of district classified as grade C is currently insufficient to undertake separate local government planning and implementation activities. Consequently, the road map relates to districts classified as Grade A and B only.

Roads

Goal 2020 for classification A districts: With the exception of major roads (trunk roads) between districts, all roads, will be planned, costed and implemented by the district council.

Goal 2020 for classification B districts: access roads and secondary roads will be costed, planned and implemented by the district councils.

The roads construction may be sub-contracted in accordance with the Puntland procurement rules.

The central level ministry will be responsible for the quality assurance of the construction, and the district will forward all plans to the relevant ministry for technical approval prior to construction.

All other functions will be implemented at the Ministry level.

The Government of Puntland will work to: (1) develop a detailed plan for the devolution process in this sector taking into consideration capacities required, reporting lines and accountability, quality assurance, fiscal transfers and procurement and auditing processes, and (2) revise the laws and regulation to meet this objective by 2020.

Water Sanitation and Hygiene (including solid waste)

Goal 2020 for classification A districts: The districts will be responsible for the planning, costing and implementation of all public water points (public areas, schools, public buildings, health clinics etc.), water piping, public sanitary facilities at schools, health posts, public buildings and places as well as sewages.

Goal 2020 for classification B districts: public water points in buildings (and outside schools and health posts) will be planned, costed and implemented by the district council.

The water and sanitation construction may be sub-contracted in accordance with the Puntland procurement rules as is currently the case.

The central level ministry will be responsible for the quality assurance of the construction, and the district will forward all plans to the ministry for technical approval prior to construction

All other functions will be implemented at the central level.

The government of Puntland will work to: (1) develop a detailed plan for the devolution process in this sector taking into consideration capacities required, reporting lines and accountability, quality assurance, fiscal transfers and procurement and auditing processes, and (2) revise the laws and regulation to meet this objective by 2020.

Solid Waste Management

All districts (irrespective of classification) will be responsible for the planning, costing, and implementation of solid waste management schemes in their districts including garbage collection, waste deposits, sorting of disposal and cleaning facilities. The service may be sub-contracted in accordance with the Puntland procurement regulations.

Education

Goal 2020 for classification A districts (there will be no devolution in the education sector for grade B districts prior to 2020): The districts will be responsible for the location planning, costing and implementation and running of all public primary education schools (with the exception of teacher employment and salaries). This includes the planning of location, size etc. (in accordance with the standards set by the Ministry of Education) as well as the implementation and provision of support staff in accordance with the Puntland Education Policy. In addition, the district will be responsible for location planning and approval of private schools (curriculum and quality will remain the responsibility of the Ministry of Education).

The school construction may be sub-contracted in accordance with the Puntland procurement rules.

The ministry will be responsible for the quality assurance of the school planning, school construction, and education implementation. The district will forward all plans to the ministry for technical approval prior to construction.

All other functions will be implemented at the central level.

The Government of Puntland will work to: (1) develop a detailed plan for the devolution process in this sector taking into consideration capacities required, reporting lines and accountability, quality assurance, fiscal transfers and procurement and auditing processes, and (2) revise the laws and regulation to meet this objective by 2020.

Health

Goal 2020 for classification A and B districts: The districts will be responsible for the location planning (layout will be in accordance with the policies of the Ministry of Health), costing, and implementation and running of maternal health clinics and basic health posts. This includes the planning of location, size etc. as well as the implementation and provision of staff in accordance with the Puntland Health Policy. In addition, the district will undertake location planning and approval of private health facilities (quality assurance will remain the responsibility of the Ministry of Health).

The health post construction may be sub-contracted in accordance with the Puntland procurement rules.

The central level ministry will be responsible for the quality assurance of the health post planning, construction, and health care implementation. The district will forward all plans to the ministry for technical approval prior to construction.

All other functions will be implemented at the central level.

The Government of Puntland will work to: (1) develop a detailed plan for the devolution process in this sector taking into consideration capacities required, reporting lines and accountability, quality assurance, fiscal transfers and procurement and auditing processes, and (2) revise the laws and regulation to meet this objective by 2020.

Natural Resource Management

Natural resource management will remain a function of the central ministries until such time as a functional review and realignment of the role and responsibilities of the main ministries dealing with natural resource management has been undertaken and completed. At that time, the identification of functions that can be decentralized to the district level can be accomplished and decentralized service delivery can be piloted to the district levels.

Suggested planning process

The impact for the five sectors targeted by the policy in the period 2013-20 and the different categories of district are presented in table 1 below. To ensure that capacity is in place only districts categorised as A and B will be targeted during the course of this policy.

Planning process for the five sectors targeted in this policy

Sector	District A	District B
Roads	District to plan based on sector plans and community consultations. District to prioritize and undertake budgeting and investment planning for all road construction in district. Ministry to endorse technical aspect of plans	District to plan based on sector plans and community consultations. District to prioritize and undertake budgeting and investment planning for all access as secondary roads construction in district. Ministry to endorse technical aspect of plans
Water and sanitation	District to plan based on sector plans and community consultations. District to priorities and undertake budgeting and investment planning for all water	District to plan based on sector plans and community consultations. District to priorities and undertake budgeting and investment planning for all public water

	and sanitation construction in district. Ministry to endorse technical aspect of plans	and sanitation activities (except for school and health facilities) in district. Ministry to endorse technical aspect of plans
Solid Waste	District to plan, cost and implement	District to plan, cost and implement
Education	District to plan based on sector plans and community consultations. District to priorities and undertake budgeting and investment planning for primary education in district. Ministry to endorse technical aspect of plans	District to plan based on sector plans and community consultations. Ministry to undertake all final planning and implementation
Health	District to plan based on sector plans and community consultations. District to priorities and undertake budgeting and investment planning basic health construction and operation in district. Ministry to endorse technical aspect of plans	District to plan based on sector plans and community consultations. Ministry to undertake all final planning and implementation
Natural Resource Management	Decentralization Planning after Central Ministry Functional Review and Realignment across central ministries	Decentralization Planning after Central Ministry Functional Review and Realignment across central ministries.

Each district will be required to follow this process. Key actions required are outline in the box below:

<p>Action:</p> <ul style="list-style-type: none"> - Each district will initiate a planning process based on the process outlined in this policy. - Districts will use and implement Public Expenditure Management (PEM) planning process and ensure alignment with national and sector level plans.

Planning

To follow-up on the policy's requirement for a stronger participatory planning process, quality assurance and relevant technical inputs to the planning process, the MOI, the sector ministries and the districts will need to engage in setting up systems which facilitates this process. Activities will need to map and revise existing laws, creating stronger linkages between the different levels of government, and promote a process of increased coordination and utilization of technical expertise in the planning process. Key actions required are outline in the box below:

<p>Action:</p> <ul style="list-style-type: none"> - MOI to draft and promulgate by-law requesting all districts to implement participatory planning and accountability reporting process to the citizens - Sector ministries to send guidelines and plans for services implemented at district level to the districts - Sector ministries will make district and/or regional level experts available to the district council for planning purposes related to their sector (or regional or central level experts according to their capacity)
--

Fiscal decentralization

To live up to the policy principle that funding of the service delivery will follow the function a number of activities will need to be undertaken. A costing and revenue mapping exercise and a revised allocation formula is required.

For the services within roads, water and sanitation, education, solid waste management, and health outlined above, the funding for the services identified will be allocated to the districts, while funding for all remaining services in these five sectors will be allocated to the sector ministry.

Furthermore, all donors funding to the services prescribed in the policy will be implemented in accordance with the division of labour between the different levels of Government in Puntland.

Key actions required are outline in the box below:

Action:

- Inter-ministerial Committee will ask MOI to undertake costing and revenue mapping exercise with recommendations on how to ensure that funds follow function to be endorsed by the Inter-Ministerial Committee and/or the Cabinet
- Allocation formula to be revised in accordance with policy changes
- All donors to provide service delivery funding in accordance with the division of labour between different levels of government outlined in this policy

Capacity changes

To ensure that the capacity in the districts enable the implementation of this policy, the MOI will look at a staffing classification of each district in line with the service provision. This will be undertaken in partnership with the work planned for civil service reform. The reclassification will take into consideration the capacities needed in light of the new division of labour outlined in this roadmap and the terms of references required to undertake the said tasks. The reclassification will only relate to staff to fulfil positions for the district councils under the authority of the MOI. The sector ministries will themselves engage in reclassification related to this policy if so required.

The enhanced staffing requirements will be reflected in the service costing exercise and funds will be allocated accordingly in line with the revised allocation formula.

Furthermore, capacity development plans will be developed and implemented by the MOI in partnership with the district councils to undertake institutional capacity development of all grade A and B districts (this will be based on existing plans and lessons learned from initiatives under JPLG).

Key actions required are outline in the box below:

Action:

- MOI to reclassify staffing of each district in accordance with service delivery functions
- MOI and districts to undertake institutional capacity assessment, capacity development planning and implementation for grade A and B districts (supported through JPLG)

Annex C – Sector Milestones

In the table below key steps for implementing the milestones are presented in bullet form.

No.	Milestone
1.0	<p><u>Revised planning guidelines reflecting change in division of labour between districts and central level finalised and endorsed:</u></p> <ul style="list-style-type: none"> - IMC to request MOI to initiate process of refining existing PEM to take into consideration the planned functional devolution of the five sectors in this document - IMC to discuss plans across ministries - IMC to endorse plans
2.0	<p><u>Roads: revised planning implemented at all levels (with districts and central ministries respecting division of labour):</u></p> <ul style="list-style-type: none"> - Sector Ministry to revise internal systems and procedures to reflect change from implementer to advisory for functions devolved to district - District A and B to ensure capacity in place to implement devolved functions (e.g. revise organigram and hire required technical capacities) - District to refrain from planning functions in the sector which are not devolved - Sector ministry to revise policies and regulations so that they reflect new division of labour
3.0	<p><u>Water and sanitation: revised planning implemented at all levels (with districts and central ministries respecting division of labour):</u></p> <ul style="list-style-type: none"> - Sector Ministry to revise internal systems and procedures to reflect change from implementer to advisory for functions devolved to district - District A and B to ensure capacity in place to implement devolved functions (e.g. revise organigram and hire required technical capacities) - District to refrain from planning functions in the sector which are not devolved - Sector ministry to revise policies and regulations so that they reflect new division of labour
4.0	<p><u>Health: revised planning implemented at all levels (with districts and central ministries respecting division of labour):</u></p> <ul style="list-style-type: none"> - Sector Ministry to revise internal systems and procedures to reflect change from implementer to advisory for functions devolved to district - District A and B to ensure capacity in place to implement devolved functions (e.g. revise organigram and hire required technical capacities) - District to refrain from planning functions in the sector which are not devolved - Sector ministry to revise policies and regulations so that they reflect new division of labour
5.0	<p><u>Education: revised planning implemented at all levels (with districts and central ministries respecting division of labour):</u></p> <ul style="list-style-type: none"> - Sector Ministry to revise internal systems and procedures to reflect change from implementer to advisory for functions devolved to district - District A and B to ensure capacity in place to implement devolved functions (e.g. revise organigram and hire required technical capacities) - District to refrain from planning functions in the sector which are not devolved - Sector ministry to revise policies and regulations so that they reflect new division of labour
6.0	<p><u>Revised the decentralisation allocation formula approved and implemented:</u></p> <ul style="list-style-type: none"> - Ministry of finance in cooperation with Ministry of Planning and Development and MOI to develop revised grant allocation formula for local governments reflecting new functional division of labour - New allocation formula to be discussed and endorsed by IMC

7.0	<u>Staffing of each district reclassified in accordance with service delivery functions:</u> <ul style="list-style-type: none"> - MOI to reclassify district A and B requirements to meet capacity needs as per new functional division of labour - Civil Service Commission to relate to new staffing needs and district level - Sector ministries to revise staffing needs in light of new/revise functions as consequence of functional devolution
8.0	<u>Draft and promulgate by-law requesting all districts to implement participatory planning and accountability reporting process (as per PEM):</u> <ul style="list-style-type: none"> - IMC to ask MOI to draft new by-law - IMC to discuss and endorse new by-law - MOI to oversee by-law implementation
9.0	<u>Sector ministries will make district level experts available to the district council for planning purposes related to their sector (or regional or central level experts according to their capacity):</u> <ul style="list-style-type: none"> - IMC to ask sector ministries to make advisers available to districts as per function
10.0	<u>Midterm review of policy implementation</u> <ul style="list-style-type: none"> - IMC to undertake mid-term review. MOI to facilitate process