COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN SOMALIA

Unlocking private sector-led growth at
a critical juncture of Somalia's development

June 2024

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ACKNOWLEDGMENTS

The Somalia Country Private Sector Diagnostic (CPSD) was prepared by a World Bank Group team led by Asta Bareisaite, Juan Andrés Cartwright, and Mounir Bari. Other team members include Sameer Goyal, Magidu Nyende, Kalton Mohamed Hassan, Tewodros Dessie, Asad Khalid Abdi, and Yann Ehrhard. The report was prepared under the leadership and guidance of World Bank Group management, including Keith Hansen, Cheick-Oumar Sylla, Mona Haddad, Denis Medvedev, Paolo Mauro, Amena Arif, Kristina Svensson, Alwaleed Fareed Alatabani, Stephan Dreyhaupt, and Zeinab Partow.

The team is grateful for valuable insights, guidance, and technical inputs provided throughout the preparation of the report by Anne Margreth Bakilana, Ragini Praful Dalal, Marek Hanusch, and Peter Ngwa Taniform. The team also benefitted from contributions provided by: Yosuke Kotsuji, Makiko Watanabe, Pedro Cerdan-Infantes, Ganesh Rasagam, Jana Kunicova, Abel Brook, Adam Stone Diehl, Alejandro Espinosa-Wang, Alma Nurshaikova, Benjamin Herzberg, Chantal Richey, Christopher De Serio, Edwin Mbugua Munene, Elizabeth Kibaki, Emre Bayarlar, Isabella Hayward, James Muli Musinga, John Randa, Julien Francois Million, Khevna Viresh Naran, Leonard Mutuku Matheka, Lili Sisombat, Matthias Mayr, Miguel Angel De Corral Martin, Naoll Cyrille Mary, Naomi Halewood, Natasha Sharma, Paolo Spagnoletto, Parshwanath Adiraja, Patricia Mwangi, Patrick Thaddayos Balla, Paul Baringanire, Roberta Malee Bassett, Sonia Plaza, Stella Ilieva, Susan Apudo Owuor, Tania Ghossein, Verena Phipps, Taneem Ahad, Anna Zita Metz, Hannah Elyzabeth Blyth, Isaac Njoro Thendiu, Miles McKenna, Mona Darweesh, Mwombeki Baregu, Shamis Salah Musingo, Simbi Wavinya Anzaya, Abdirashid Mohamed Abdi, Laura Anne Watson, Ahmad Shah Durrani, and James Albert Knuckles.

The team is also grateful to the peer reviewers who provided valuable input: Volker Treichel, Natalia Agapitova, Sitora Sultanova, and Mohamud Yasin Jama.

Finally, the team would also like to thank numerous World Bank colleagues, private sector representatives, and development partners who generously shared their time and insight in preparation of this CPSD.

ABBREVIATIONS AND ACRONYMS

ACLED	Armed Conflict Location & Event Data Project
AML/CFT	anti-money-laundering/countering the financing of terrorism
ATMIS	African Union Transition Mission in Somalia
BDS	business development services
BMO	business member organization
CBR	correspondent banking relationship
CBS	Central Bank of Somalia
ESO	entrepreneurship support organization
ESPs	energy service providers
FAO	Food and Agriculture Organization of the United Nations
FCV	fragility, conflict, and violence
FDI	foreign direct investment
FGS	Federal Government of Somalia (exception to rule not to abbreviation government names)
FI	financial institution
FMS	federal member states
FRC	Financial Reporting Center
FSI	financial system initiative
GER	gross enrollment ratio
HIPC	heavily indebted poor countries
HSDG	high-speed diesel generator
ID	identification
IDP	internally displaced person
IIPA	Investor and Investments Protection Act
IPP	investment policy and promotion
kWh	kilowatt-hour
KYC	know your customer
KYC/CDD	know your customer/customer due diligence
MENAFATF	Middle East and North Africa Financial Action Task Force
MFI	microfinance institution
MMO	mobile money operator

MoCI	Ministry of Commerce and Industry
MoEWR	Ministry of Energy and Water Resources
MSME	micro, small, and medium enterprise
MTB	money transfer business
NCA	National Communications Authority
NGO	nongovernmental organization
NIRA	National Identification and Registration Authority
NPS	national payment system
ODA	official development assistance
PPD	public-private dialogue
PPP	public-private partnership
PV	photovoltaic
RRA	Risk and Resilience Assessment (World Bank)
SHFS	Somali High Frequency Survey (World Bank)
SHS	solar home system
SIHBS	Somalia Integrated Household Budget Survey
SoBS	Somalia Bureau of Standards
SOMINVEST	Somali Investment Promotion Office
SOS	Somalia shilling
SPS	Somalia Payment Switch
TVET	technical and vocational education and training

EXECUTIVE SUMMARY

This Country Private Sector Diagnostic (CPSD) was conducted at a challenging but promising juncture in Somalia's development journey. Since 2012, the country has made sustained political and institutional progress, which has enabled a path of reconstruction and a certain regularization of political processes after many decades of state collapse. However, it is unlikely that these developments will take root unless more inclusive dividends can be generated for the Somali population, in a context of insufficient economic opportunities and extreme levels of vulnerability. Because the Federal Government of Somalia's (FGS's) fiscal space and institutional capacity to deliver public goods and services are limited, marshaling the private sector for development outcomes is crucial. Thus, there is an urgent need for a diagnostic that explores the most viable path toward the type of broad-based private sector–led growth that would help Somalia move away from its current predicament. To this end, and in line with the established World Bank CPSD methodology, this report provides an impartial assessment of the state of the private sector, analyzes cross-cutting and sectoral constraints to private sector development, recommends policies and reforms to mitigate these constraints, and identifies opportunities for increased private sector engagement in the country.

The analysis and recommendations of the CPSD will inform Somalia's reform agenda despite the scarcity of information in the country. Somalia is highly data deprived, and knowledge of how Somali economic life is organized remains limited, given the scarcity of trustworthy countrywide statistics.[1] However, through expert and key informant interviews, a secondary literature review, and qualitative data collection, it is possible to make some directional conclusions about the state of the Somali private sector and present a policy agenda that could help catalyze inclusive private sector growth and the creation of more and better jobs for Somalia's rapidly growing population. By assessing critical constraints to the private sector and identifying the policies and regulatory reforms needed to unleash private investments with strong development impact, the CPSD lays the foundation for an integrated response that includes both private and public sector perspectives, expertise, and solutions. Thus, the CPSD will inform the World Bank country engagement process in Somalia, with its insights and recommendations aligned with and integrated into World Bank strategic documents like the Risk and Resilience Assessment and the Country Partnership Framework. The CPSD can also be leveraged to inform the Somali government's broader reform agenda, such as the National Development Plans, and facilitate the engagement of various stakeholders in the process.

Country Context

Somalia is in a nascent transition from fragility, conflict, and violence (FCV). Following the collapse of the Somali government in 1991, Somalia entered into a long period of complete state collapse. The establishment of the FGS and the subsequent creation of new Federal Member States (FMS) in 2012 enabled a certain regularization of political processes and an extraordinary reform momentum. Substantial progress in the building of institutions and regulatory frameworks, the strengthening of core government systems and capacity, and the improvement of public financial management and intergovernmental fiscal relations, among other areas, has been made in Somalia. The country also reached the heavily indebted poor countries (HIPC) Completion Point in December 2023, after which Somalia is expected to receive debt relief and move toward fully normalizing its relations with its main creditors.

However, a diverse set of structural and overlapping challenges linked to Somalia's historical legacy is limiting FGS's state-building progress.[2] While the root causes of FCV in Somalia are complex and multifaceted, the country faces the following three key mutually reinforcing drivers of fragility: (a) continued intrastate instability and elite contestation, (b) fractured relations between the state and citizens, and (c) deep-seated intercommunal divisions. Moreover, Somalia's FCV context is characterized by a complex set of hybrid governance arrangements[3] and non-state actors that emerged in the wake of the collapse of the state, including the violent extremist group Al-Shabaab. Therefore, despite recent progress, Somalia continues to be ranked as the most fragile state in the world.[4] Extreme levels of vulnerability that both result from and aggravate the country's level of fragility also continue to plague Somalia, with high levels of insecurity and conflict and an elevated susceptibility to climatic shocks, exacerbating famine conditions, forced displacement, poverty, and lack of human development.

The Somali economy has been robust and possesses considerable potential despite the country's political issues, but it is not generating enough quality opportunities to foster a transition from fragility. Somalia has ample economic potential. It could become an economic integrator and a gateway to international markets, and it also boasts abundant resources, including hydrocarbons, minerals, renewable energy, livestock, and fisheries. Since 2012, when FGS was established, the country has experienced more growth than Sub-Saharan Africa and FCV-affected countries on average.[5] Welfare has also improved modestly in recent decades. However, this economic growth has been insufficient for Somalia's expanding population, and reportedly in 2022 merely 21.7 percent of adult Somalis were employed.[6] Somali women are particularly disadvantaged, with gender gaps in employment and labor force participation rates of around 21 and 23 percent, respectively.[7] Furthermore, the jobs that are generated are mostly unproductive and do not provide a meaningful income and pathway out of poverty, while the permanence of the jobs that do exist is precarious, since economic growth is consumption driven and largely underpinned by external financial flows. Therefore, Somalia's high fertility and urbanization rates have become contributors of fragility instead of incentivizing growth.

State of the Private Sector

The Somali private sector has been the economic foundation of the country in recent decades. In a country with no state-owned enterprises and a government expenditure that still accounts for a negligible proportion of gross domestic product (GDP),[8] the private sector accounts for an estimated 95 percent of total jobs created.[9] Furthermore, private businesses are the primary provider of almost all of the limited range of products and services on offer in Somalia. This includes not only commercial goods and services, but also services that traditionally should be delivered by the state,[10] including a wide range of social services and public goods (such as energy, information and communication technology [ICT] connectivity, and water).[11] Many private sector firms also funnel substantial amounts of capital to the public sphere through corporate social responsibility programs, which are sometimes a result of the direct request of clan elders[12] and are earmarked for a range of humanitarian issues and public goods.[13]

However, Somalia's productive tradable sectors remain subdued and fail to provide a basis for structural transformation. With most of Somalia's productive assets, infrastructure, and investment capital diminishing during and after the collapse of Siyad Barre's regime, the country has a very low economic complexity. Its manufacturing sector currently represents only 15 percent of established businesses (which generate merely about 0.8 percent of total jobs in Somalia)[14] and about 2.4 percent of household businesses (accounting for less than 1 percent of total jobs).[15] The manufacturing sector's productivity levels are also lower than those of virtually all other economic sectors. It is primarily low-value-added livestock, fishery, and crop goods that account for most of the country's productive activity. Yet despite their prevalence, these sectors have suffered a considerable deterioration in recent decades, currently accounting for only 26 percent of employment.[16] They are also underdeveloped and heavily affected by frequent climatic shocks. For instance, despite the potential of fisheries in Somalia, given the country's long coastline and a marine ecosystem that is highly productive because of seasonal upwelling, the contribution of the sector to the economy remains modest. Finally, these productive sectors are characterized by substantial gender disparities, as women carry out the bulk of labor and business activity but remain limited to subsistence-level production because of constraints in access to markets and networks.[17]

Consequently, private sector activity is concentrated in commerce and other, mostly nontradable, consumption-driven services. The extent to which Somali markets are underserved in terms of both volume and range of products[18] continues to generate a cornucopia of highly profitable opportunities for importing goods.[19] With a few notable exceptions (for instance, livestock), Somalia depends on imports for most products, including basic commodities (such as food and fuel). Private sector activity across the country is thus concentrated on commerce and other mostly nontradable services. In rural areas, 69 percent of employment is in retail, petty trading, and other nontradable services.[20] In urban areas, retail trade, wholesale trade, and other nontradable services are estimated to account for more than 90 percent of jobs.[21]

Benefits of this consumption-driven growth are captured by a small number of firms that leverage their positions to distort and capture markets. Much of the country's wealth is accumulated by a few large conglomerates that are often formally incorporated outside Somali territory but operate almost solely in Somalia across sectors such as finance, ICT, transportation, tourism, energy, real estate, and commerce. Conglomerates have also attained wide-ranging influence with the Somali population,[22] regional clan stakeholders, and government institutions,[23] which they routinely leverage to protect and advance their interests. A few other large companies and a number of small and medium enterprises (SMEs) operate successfully in a range of sectors which conglomerates have not fully captured,[24] achieving a high level of profitability[25] and productivity that is in line with benchmarks in comparator countries.[26] However, to achieve this success, being an insider both socially and politically remains important.

Most firms in the country remain highly disadvantaged,[27] leading to a missing middle and lower overall productivity and job generation. Firms that lack social and political networks endure a more burdensome business environment.[28] This is particularly common for women-owned businesses, which are generally excluded from existing political and clan-based networks because of the patriarchal structure of Somali society.[29] Formal SMEs also often face a higher tax burden[30] and an inability to scale up their operations.[31] Businesses in Somalia are thus usually small, with SMEs accounting for only 6 percent of established businesses (or around 2.4 percent of total employment)[32] and almost 94 percent of nonagricultural firms in Mogadishu and Bosaso—of which a majority are necessity driven—being micro.[33] Most Somali firms are also informal, and the percentage of informal jobs in Somalia is estimated to be above 91 percent.[34] This state of affairs impacts job generation and overall productivity of the Somali private sector, as informal and necessity-driven ventures underperform in both categories.[35]

Additionally, low economic integration and a minimal complexity of foreign direct investment (FDI) weigh on the productivity growth prospects of the Somali private sector. With limited foreign value added in its exports and little participation as intermediate inputs to other countries' exports, Somalia's products' backward and forward linkages to global value chains are limited,[36] given the significant degree of geographic and economic fragmentation characteristic of Somalia's private sector.[37] Furthermore, while FDI in Somalia appears to be sizable as a proportion of GDP, with the FDI stock estimated to have increased substantially in recent years, it remains very small on a per capita basis. The share of FDI that is efficiency seeking is also low, as FDI is driven primarily by diaspora investments, which are funneled into low-impact sectors (such as shops, cafes, and land) and Somali transnational conglomerate investments, which contribute to market inefficiencies.[38]

Cross-Cutting Policy Constraints

The CPSD highlights five key cross-cutting policy constraints for private sector development in Somalia: (a) deficient formal institutional, legal, and regulatory frameworks; (b) resulting prevalence of informal institutions; (c) enduring impacts of corruption; (d) competing alternative governance arrangements; and (e) the lack of an effective and inclusive national public-private dialogue (PPD) mechanism to ensure more effective, inclusive, and efficient reform processes.

While several foundational steps have been taken to develop formal institutional and regulatory frameworks for the private sector, these measures are still incomplete and thus only partially effective. Progress has been made in the development of the regulatory and institutional frameworks for business entry and exit (including the major milestone of approving the new Company Act in 2019), financial sector strengthening, investment policy and promotion, public-private partnerships, trade, quality standards and infrastructure, tax regulation, and trusted identity verification. These steps have been foundational for Somalia, as they represent the critical building blocks for improving the business environment in the country. However, there are many areas where regulatory and institutional frameworks for the private sector remain nascent or lacking (such as in monopoly control). Despite various levels of progress made, there are also a series of gaps in the laws and regulations that have been developed, a range of capacity gaps in institutions for private sector development, and complexities on FGS and regional government mandates regarding the private sector.

The Somali private sector continues to rely heavily on trust-based informal institutions, which have been a source of resilience but also tend to reproduce socioeconomic inequalities. Since the 1980s, trust-based parallel informal institutions have been central to Somali business relations. Some are linked to clans and *Xeer* customary law,[39] while others are self-sustaining nonclan trust-based informal institutions that have been essential to the functioning of the Somali private sector. However, Somali informal institutions have a wide range of issues that reproduce socioeconomic inequalities and make relying on these institutions for inclusive private sector development unsustainable.[40] First, the weakness of formal institutions such as legal contracts increases risks, uncertainty, and fraudulence. Second, informal institutions in Somalia are mostly inequitable, given structural advantages for stakeholders that are politically, economically, and militarily stronger, and the relative weakness of other stakeholders like women.[41] However, attempted regulatory and institutional reforms to transition to more formal institutions often provoke considerable resistance from vested interests.[42]

Corruption and the prevalence of competing alternative governance arrangements also affect the efficiency of existing formal institutional and regulatory frameworks. Despite considerable efforts by FGS to increase transparency across multiple dimensions—including fiscal and financial sector governance, anticorruption, and anti-money laundering and countering the financing of terrorism (AML/CFT)—the Somali government remains ranked as one of the countries most affected by corruption, as evidenced by third-party corruption indicators, including Transparency International's Corruption Perception Index, Verisk Maplecroft's Corruption Index, and the Worldwide Governance Indicator's control of corruption indicator.[43] Corruption is also reported to be a major issue for private sector stakeholders,[44] as it affects the implementation of existing formal institutional and regulatory frameworks, enabling land grabbing by powerful groups as well as instances of bribery and fraud in public procurement and in legal proceedings. The prevalence of competing alternative governance arrangements in

Somalia also makes the business environment more complicated for private sector firms. The unfinished political settlement between FGS and FMS, and coercion by Al-Shabaab lead to multiple levels of taxes and fees and an increase in the private sector's tax burden. Finally, private sector entities suffer from legal pluralism, since a range of state, customary, and religious norms coproduce governance.[45]

A consensus is emerging to establish an inclusive national PPD mechanism to enable more efficient and effective institutional and regulatory reform processes. However, inclusive sustainable national dialogue has not been achieved, and the lack of trust between different stakeholders remains a considerable issue. While some large private sector players have entrenched vested interests in maintaining the status quo, they seem to increasingly understand that reform is necessary to resolve the complex and fluid current business environment and to enable a more inclusive economic growth that would in turn expand demand for their businesses.[46] In this context, many steps have already been taken to develop PPD in Somalia. With support from development partners, the government has engaged with the private sector since the first PPD was launched in 2016. However, inclusive sustainable national dialogue has not been achieved, and the lack of trust between different stakeholders remains a considerable issue. Development of efficient and inclusive PPD mechanisms to achieve greater trust and accelerate sustainable reform progress in Somalia is therefore essential.

Bottlenecks in Enabling Sectors

The CPSD highlights energy, financial services, transport, digital connectivity, water, education, and business services as key enabling sectors for Somalia and discusses some access, availability, and performance issues in these sectors. Two of these sectors—financial services and energy—are discussed in sector deep dives because of their potential to provide near- to medium-term opportunities for the private sector.

Efficient and accessible delivery of public goods and enabling services[47] is critical to enable private sector development and economic transformation. In Somalia, enabling sectors were largely destroyed during and after the civil war.[48] While the private sector has stepped in during recent decades to provide many of these enabling services, firms avoid investing in nonexcludable products and infrastructure. Since the FGS' financial and technical capacity is constrained, which limits its ability to effectively steward nonstate institutions, the delivery of public goods and enabling services often remains inefficient, insufficient, and inequitable.

Energy Sector

Access to reliable, predictable, safe, and affordable electricity is low and inequitable in Somalia. While a reliable baseline for electricity access in the country is still unavailable, diverse data sources consistently suggest that a large proportion of the Somali population lacks access to electricity. When available, electricity in the country often also tends to be unreliable, unpredictable, unsafe, and unaffordable. Delivery and servicing for large customer loads are largely unsuccessful because of limits to the amount of electricity that can be delivered to consumers by each supplier.[49] Furthermore, shortages are extremely common,[50] and security issues related to electricity infrastructure are frequent. Somalia ranks in the upper 5 percent globally for power cost and in the upper 15 percent globally for power expenditure as a share of gross national income per household.[51]

Both on-grid and off-grid electricity sectors are facing significant challenges. Somalia lacks a centralized grid, with private sector energy service providers (ESPs) supplying most of the country's electricity. The Somali on-grid electricity sector consists of a fragmented patchwork of small, isolated diesel-based minigrids, run by private sector operators almost solely in urban and peri-urban areas, and is beset with intertwined challenges of ad hoc service provision. The installed capacity and distribution penetration of ESPs are insufficient and unevenly distributed. The generation mix of ESPs and their lack of interconnection also result in an inefficient and expensive electricity supply. Meanwhile, although the off-grid electricity sector has developed substantially in recent years, it remains composed of short supply chains with weak downstream markets.

The energy sector in Somalia presents numerous untapped opportunities. In the near to medium term, these opportunities lie primarily in minigrid and stand-alone solutions.[52] More specifically, (a) the interconnection of current ESP distribution networks and generation infrastructure has the potential to accomplish considerable improvements in network reliability and operational efficiency and (b) the untapped market for renewable solutions is considerable (including the hybridization of generations networks with batteries and scaling of PayGo plans). However, a number of bottlenecks that introduce uncertainty and inhibit investments need to be addressed. While Somalia has made enormous strides in recent years toward improving the enabling environment for the electricity sector, a de facto institutional and regulatory vacuum continues to characterize it. Thus, distortions in electricity markets continue to be common in a context characterized by regional monopolies.

Financial Sector

Despite significant progress over recent years, access to a broad range of financial services also remains limited for a significant proportion of the population in Somalia. Somalia's financial inclusion fares well in comparison with that of other Sub-Saharan African countries because of a considerable recent proliferation of mobile money accounts. However, the overall penetration rate of banking services is low, estimated at between 10 and 15 percent of the adult population.[53] Furthermore, a significant portion of the population that operates solely in the Somali shilling economy is excluded from the formal financial system. Thus, access to finance for micro, small, and medium enterprises (MSMEs) and productive sectors remains a key challenge, with a large unmet market demand for financing in the real economy. Finally, while sex-disaggregated statistics on access to financial services in Somalia are not available, evidence from recent surveys and qualitative studies suggests that women are less likely than men to rely on credit as a source of business finance, with women-led enterprises being more likely to cite access to finance as a constraint and less likely to apply and be approved for loans from financial institutions.

Market-based financial intermediation in the country continues to be a challenge. Somalia is missing core financial infrastructure and institutions (for example, a credit bureau and a movable collateral registry). It also suffers from isolation from the global financial system and from the widespread informality that persists in the private sector. Such underdevelopment affects some population groups more than others, excluding them from the financial sector. For instance, lack of a movable collateral registry has a disproportionate impact on the female market segment. Additionally, the financial soundness of the banking system is difficult to measure because of limited data. The financial sector's institutional and regulatory frameworks have been substantially strengthened over recent years; however, additional efforts are needed to fill in the remaining gaps. The financial sector also continues to be concentrated in a few institutions, with five banks accounting for nearly 90 percent of the industry's assets, deposits, and loans, and nonbanking financial institutions remain small and largely unregulated.

However, the Somali financial sector has come a long way, growing significantly in recent years. Between 2018 and 2023, total assets and customer deposits at commercial banks more than quadrupled from US$415 million to US$1,795 million and from US$332 million to US$1,431 million, respectively,[54] and credit to the private sector more than doubled from US$161 million to US$404 million.[55] The Central Bank of Somalia has also slowly but gradually strengthened the legal framework for the financial sector, and regulatory capacity building for the institution is ongoing. The Middle East and North Africa Financial Action Task Force (MENAFATF) mutual evaluation planned for mid-2024 will be an important milestone for Somalia's financial sector, while initiatives are underway to address AML/CFT risks (including the rollout of the national identification system) and facilitate Somalia's integration into the global financial system.

The financial sector offers promising short- to medium-term private sector opportunities. First, leveraging high levels of telecommunications and smartphone access offers opportunities for business development in digital financial services (such as development of merchant payments and credit products). Second, with a predominantly import-oriented economy and a growing need for efficient international trade transactions, there is a burgeoning demand for trade finance services in Somalia. Third, there is a growing need for microcredit in Somalia, and this trend is expected to continue. However, to unlock these investment opportunities, targeted policies and reforms to address the aforementioned constraints from the supply and demand side are required. It will also remain essential for investors to navigate the unique challenges presented by the Somali financial sector, including security concerns and regulatory complexities, while conducting thorough due diligence to ensure the success and sustainability of such investments.

Other Enabling Sectors

Somalia is also afflicted by elevated road transport prices and high port and airport fees, among other constraints to long-haul transport. The country's 2023 ranking in the World Bank's Logistics Performance index is 138th of 140, as a result of Somalia's underperformance across multiple indicators, including *quality of trade* and *transport-related infrastructure*. The aviation sector, while serving as a key gateway to the country and within it, remains underdeveloped, with a ratio of passenger movement to urban population and total volumes of cargo that are minimal compared to regional benchmarks.[56] While there is little information about Somali maritime port facilities, existing assessments suggest that their performance is subpar, with slow handling times, limited traffic volumes and port occupancy, and high costs, among other issues. Finally, the infrastructure of Somalia's roads, which are the country's principal mode of transport, is characterized by low road density and poor conditions. Consequently, road connectivity between major cities is inadequate and costly,[57] and travel times are quite long (for example, it can take five days to travel 1,400 kilometers from Mogadishu to Bosaso).[58] This situation is aggravated further by the nascent state of public institutions in the transport sector[59] and by a political economy in the logistics sector which has led to de facto self-regulation[60] and very limited competition.[61]

Good progress has been made to improve digital connectivity, but a number of gaps still remain to be addressed. The country's adoption of mobile communications has increased significantly in recent decades. Mobile network services have also become substantially more affordable, enabling low-income Somalis to communicate more easily.[62] These developments have had a series of positive spillovers to the country's economy (for instance, mobile money services have become the dominant retail payment instrument in Somalia)[63] and have played an important role in assisting individuals in rural areas, where poverty is more prevalent. However, broadband penetration and use of bandwidth remain low in comparison with those of regional peers. This is partly because of large gaps in middle- and last-mile network infrastructure that result from a fragmented regional backbone and because the ICT market is fully captured by de facto monopolies that lean toward vertical market integration across sites[64] and control subregional markets. The ICT sector's underdeveloped institutional and regulatory frameworks also hamper its development. Furthermore, demand issues constrain the growth of digital connectivity in the country. Apart from the limited purchasing power of the Somali population and the high cost of smart broadband-compatible devices, Somalia continues to lack a series of building blocks (such as digital literacy) that are necessary for digital development.

Economic activities that require reliable access to high-quality water have been progressively constrained in recent decades. In 2022, only around 75 percent of households had access to improved water sources, with an even smaller proportion of the population having access to safely managed drinking water. In 2018–19, an estimated 43 percent of established urban firms[65] and a large proportion of rural firms[66] also experienced water insufficiencies, with a gender dimension to water scarcity.[67] Furthermore, there are sizable concerns over quality of water in the country. The primary driver of these issues is poor water management. Water infrastructure has been largely destroyed. Furthermore, while the water sector in Somalia has a comprehensive multigovernance framework in theory, its institutional and regulatory frameworks often remain fragmented and ineffective. The loose regulation of nonstate water delivery stakeholders contributes to poor water access in Somalia. Community-led water service delivery in rural regions is often inefficient and inequitable, with water committee leaders colluding and engaging in rent-seeking behavior and operating water points with limited technical capacity. The lack of regulation for private water markets also leads to exorbitant water prices and a lack of standards for the construction and operation of water resources in urban settings.

A lack of relevant skills hampers private sector development. Unemployed Somalis cite inadequate skills as one of the main barriers to finding a job, jobs that demand vocational skills are often left unoccupied,[68] and many firms have to draw on foreign workers to remain competitive.[69] This is unsurprising given the low formal education outcomes in Somalia.[70] Education of women is particularly constrained in the country, with gender gaps linked to demand- and supply-side factors such as social pressures for early marriage, expectations that girls support households and caregiving, and a shortage of female teachers. Furthermore, there is a clear mismatch between the skills possessed by Somali workers and those needed by employers, because of weaknesses in the technical and vocational education and training and nonformal education sectors, and labor market frictions often caused by societal preferences and norms depress labor market dynamics and affect job transitions. Gender segregation into traditionally male and female fields and strong cultural associations between traditional clans and specific professions also affect the jobs market,[71] with societal norms perpetuating gender imbalances in training programs and the workforce and inhibiting the full utilization of the existing talent and skills in the country.

Considerable opportunities exist for improved BDS and entrepreneurship support, given the nascent development of both type of services in Somalia A large proportion of unemployed Somalis indicates that they need training and financing to start a business.[72] Established firms of all types also seem to have a significant need for business development services (BDS). However, the nascent entrepreneurship support ecosystem in Somalia is still underdeveloped, comprising organizations with very little specialization and poor sustainability.[73] Access to professional services and the supply of training and technical business support also remain limited, making it challenging for firms to improve business administration functions, engage in and enforce contracts, and access data and market information.[74] In effect, most of the BDS providers have significant capacity gaps, provide their services through informal personal networks, and lack a track record of creating value for clients,[75] leading to a minimal demand for these services.[76]

Recommendations

In light of Somalia's FCV context, initiatives for private sector development need to be carefully sequenced and designed, not only to incentivize short-term dividends, but also to enable an economic transformation of the country in the medium to long term. Structural challenges related to high levels of insecurity, governance challenges, and fragile state legitimacy significantly undermine the potential growth and inclusiveness of the private sector. Specifically, it must be acknowledged that there are limitations to what is possible in the short to medium term for some of the most prominent constraints to private sector development (for example, corruption, road checkpoints by armed groups, and market distortions) without addressing the root causes of FCV and making significant progress on the country's broader state-building agenda. Relatedly, mitigating the performance issues of key enabling sectors to foster an economic transformation in the medium to long term should be a priority. However, the feasible types of interventions to resolve these performance issues without further increasing entrenched inequalities in a post-HIPC environment are limited by the government's fragility, weak institutional capacity, limited fiscal space, and a likely reduction of its access to concessional financing. Meanwhile, it is unlikely that the country's reform momentum will take root unless short-term inclusive dividends can be generated for its growing population. Certain steps to enable private sector–led development thus need to be taken immediately. This is in line with the experience from other FCV-affected contexts, which suggests that initiatives to develop the private sector need to begin early in the relief-to-development continuum to avoid backsliding.[77]

Recognizing the fragile situation and structural constraints in the country, the Somalia CPSD proposes the following three mutually reinforcing recommendations:

- Establish legitimate, effective, and equitable formal institutional and regulatory frameworks for private sector–led growth.
- Promote private participation and improve public stewardship of key enabling sectors to facilitate an economic transformation in the medium to long term.
- Improve growth and productivity of selected value chains for short- to medium-term dividends.

These three recommendations reinforce each other when implemented in parallel, and priority actions under each are presented in table ES.1. Importantly, in line with the country's ongoing state-building agenda, several of the recommendations require cooperation among different levels of government—including the FGS, FMS, and more local levels—for effective implementation, for example, in building consensus around key reforms and developing harmonized systems and standards.

At the project level, investors and companies that consider working in Somalia are encouraged to use tools such as conflict sensitivity guidance[78] in their operations to manage some of the nonfinancial risks that are a reality of doing business in the country.

Detailed recommendations are further discussed in chapter 7, including specific priority interventions for each of the enabling sectors.

TABLE ES.1 RECOMMENDATIONS FOR SOMALIA'S PRIVATE SECTOR

Priority Recommendations[a]	Rationale
1. Establish legitimate, effective, and equitable formal institutional and regulatory frameworks. • Develop an institutionalized inclusive national PPD structure. • Implement a unified and harmonized business registration and licensing system. • Streamline and harmonize trade processes (for instance, implementation of electronic cargo-tracking and single-window systems). • Take steps to better align the country's investment policy and promotion and PPP frameworks with best practices. • Carry out a detailed assessment of property rights and land tenure. • Harmonize the country's tax and customs regime. • Launch an inclusive digital identity registration process. • Continue capacity building at key formal institutions.	**Enable an economic transformation of the country in the medium to long term.** • Increase economic growth and firm productivity and enable effective public-private cooperation (such as in service delivery). • Enable an increase of efficiency-seeking FDI in the medium to long term. • Help rebuild trust and social cohesion and improve legitimacy of formal institutions.

Priority Recommendations[a]	Rationale
2. Promote private participation in and improve public stewardship of key enabling sectors. • Develop an integrated national investment strategy that identifies and coordinates investments in various enabling sectors. • Further develop sector-specific institutional and regulatory frameworks for key enabling sectors (for example, financial, energy, transport, water, and education) and harmonize these frameworks across Somalia. • Provide catalytic funding to facilitate enabling services provision in areas with weak investment incentives (such as for hybrid minigrids, schools, and water provision). • Take steps to facilitate the development of PPPs in various key enabling sectors (for example, transport and education). • Strengthen financial infrastructure (for instance, payment switch, national collateral registry, and credit information system). • Deploy risk-sharing mechanisms to promote financial inclusion. • Incentivize operational efficiency and quality improvements of BDS providers.	• Improve effectiveness of development partner-funded activities to improve service delivery. • Better leverage private sector arrangements to address enabling sector shortfalls and gaps. • Enable diversification to higher-value-added activities. • Enable priority economic activities along selected economic corridors.
3. Improve growth and productivity of selected value chains *(for example, livestock, crops, and fisheries)***.** • Enhance collection of data on selected economic sectors. • Support the development of extension services and the transfer of technology in selected value chains. • Support technical assistance or BDS for established MSMEs and upskilling of livelihood and need-based ventures in selected value chains (with a climate-smart and gender-conscious focus). • Develop economic linkage programs between large firms and productive value chains. • Improve value chain-specific access to finance. • Enhance government stewardship of selected economic sectors.	**Deliver short- to medium-term inclusive dividends.** • Improve short-term economic opportunities. • Create inclusive jobs. • Reduce poverty and improve livelihoods. • Enhance resilience to climate shocks. • Promote women's empowerment.

a. The three recommendations reinforce each other when implemented in parallel.

Note: BDS = business development services; FDI = foreign direct investment; MSME = micro, small, and medium enterprise; PPD = public-private dialogue; PPP = public-private partnership.

Notes

1. An establishment census and a countrywide firm-level survey do not exist, and the scarce statistics that have been collected frequently comprise only businesses in large urban cities. Data trustworthiness can also be questionable, given the high level of informality, and important differences between regions can sometimes be obscured.
2. Somalis' distrust of concentration of power in a central state, deep-seated intercommunal and political divisions, debates about identity and representation, and a persistent contestation for power and resources are a few of these issues.
3. The system of governance without government that arose during more than two decades of statelessness in Somalia draws on a combination of customary authority, sharia courts, and business leaders, among other nonstate actors.
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6. Somali National Bureau of Statistics, "2022 Somalia Household Budget Survey (SIHBS)—Main Report," live streamed February 20, 2023.
7. Somali National Bureau of Statistics, "2022 SIHBS"; and UNFPA (United Nations Population Fund), "Economic Characteristics of the Somalia People" (UNFPA, New York, 2016).
8. According to the International Monetary Fund (IMF) 2022 Article IV consultation. According to the International Monetary Fund (IMF) Country Report No. 23/438 (December 2023), government expenditure was only 6.9 percent of GDP in 2021 in Somalia, compared to a Sub-Saharan Africa average of 22.1 percent of GDP.
9. World Bank, *Somalia Country Economic Memorandum: Towards an Inclusive Jobs Agenda* (Washington, DC: World Bank, 2021).
10. Security and social services are often privatized in countries where government institutions are absent. For further discussion on this, see Alexander de Waal, *Famine Crimes: Politics and the Disaster Relief Industry in Africa* (Oxford: African Rights & the International African Institute, in association with James Currey, 1997).
11. Stakeholder consultations, January 2023, and various secondary sources (for example, J. Meester, A. Uzelac, and C. Elder, *Transnational Capital in Somalia: Blue Desert Strategy* [The Hague, Netherlands: Clingendael Institute, 2019]; and Tobias Hagmann et al., Commodified Cities: Urbanization and Public Goods in Somalia [Rift Valley Institute, Nairobi, Kenya, 2020]).
12. Meester, Uzelac, and Elder, *Transnational Capital in Somalia*.
13. For more information on this topic, see Sherine El Taraboulsi-McCarthy, Nisar Majid, and Barnaby Willitts-King, "Private Sector Engagement in Complex Emergencies: Case Studies from Yemen and Southern Somalia"(HPG Report, Humanitarian Policy Group, London, 2017); and Yusuf Nur, "The Business-Government Partnership Way to Economic Development in Somalia," in Theorising Somali Society: *Hope, Transformation and Development*, ed. Abdulkadir Osman Farah and Mohamed Eno (New Delhi, India: Authorspress, 2022).
14. Estimate using World Bank staff calculations on the contribution of different types of businesses to employment from the 2021 World Bank *Somalia Country Economic Memorandum.*
15. According to the 2022 Somalia Household Survey, 2.4 percent of household businesses processed purchased crops or livestock products for sale. The proportion of total employment was estimated by using World Bank staff calculations of the contributions of different types of businesses to employment from the 2021 World Bank *Somalia Country Economic Memorandum*, and assuming that household businesses of different types have similar average numbers of employees.
16. World Bank, *Somalia Country Economic Memorandum*.
17. World Bank and FAO (Food and Agriculture Organization of the United Nations), *Rebuilding Resilient and Sustainable Agriculture in Somalia*, Somalia Country Economic Memorandum, volume 1 (Washington, DC: International Bank for Reconstruction and Development/World Bank and FAO, 2018), https://documents1.worldbank.org/curated/en/781281522164647812/pdf/124651-REVISED-Somalia-CEM-Agriculture-Report-Main-Report-Revised-July-2018.pdf; and FAO, "National Gender Profile of Agriculture and Rural Livelihoods: Somalia," (report, FAO, Mogadishu, Somalia, 2021), https://www.fao.org/3/cb6316en/cb6316en.pdf.
18. J. Meester, J. Claes, C. Elder, and G. Lanfranchi, "Financial Disruption and Fragile Markets: A Political-Economic Perspective on SMEs in the Somali Private Sector under COVID-19," Clingendael Institute, clingendael.org, May 17, 2021.
19. Meester et al., "Financial Disruption and Fragile Markets."
20. Wendy Karamba, *Improving Access to Jobs for the Poor and Vulnerable in Somalia* (Washington, DC: World Bank, 2021).
21. World Bank, *Somalia Country Economic Memorandum*.
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24. Meester, Uzelac, and Elder, *Transnational Capital in Somalia*.
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26. See results of latest Enterprise Surveys for Mozambique and Zambia.
27. Consultations with stakeholders in Mogadishu and Nairobi, January 2023; and in Hargeisa, November 2022.
28. Consultations with stakeholders in Mogadishu and Nairobi, January 2023; and in Hargeisa, November 2022.
29. World Bank, *Somalia Country Economic Memorandum*.
30. Sagal Abshir, Khalif Abdirahman, and Hannah Stogdon, "Tax and the State in Somalia" (Briefing Paper, Rift Valley Institute, London and Nairobi, Kenya, May 2020); and "Report of the Monitoring Group on Somalia and Eritrea pursuant to Security Council Resolution 2244 (2015): Somalia (S/2016/919)" (United Nations Security Council, New York, 2016).
31. Meester et al., "Financial Disruption and Fragile Markets."
32. World Bank staff calculations based on the 2019 Enterprise, Informal, and Micro Surveys and on the World Bank 2021 *Somalia Country Economic Memorandum*.
33. World Bank staff calculations based on the 2019 Bosaso and Mogadishu Micro-enterprises Survey Dataset.
34. IMF, "Informality, Development, and the Business Cycle in North Africa" (Washington, DC: International Monetary Fund, 2022).
35. World Bank staff calculations based on the 2022 HH Survey in Somalia; World Bank staff calculations based on the 2019 Enterprise and Micro Survey in Mogadishu and Bosaso; and results from the latest Enterprise Surveys for Mozambique and Zambia.
36. Analysis by World Bank staff for 2022 trade assessment.
37. As discussed in a recent analysis of spatial differences in domestic prices in the 2021 World Bank S*omalia Country Economic Memorandum*.
38. Meester, Uzelac, and Elder, *Transnational Capital in Somalia*.
39. *Xeer* is an unwritten code of conduct that evolved orally over time based on interactions between various Somali clans since the 1800s, which is implemented usually by groups of respected elders from (*Xeer Begti*) and is often the first line of recourse for dispute management in the country.
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43. Analysis by World Bank staff for 2022 trade assessment. As discussed in a recent analysis of spatial differences in domestic prices in the 2021 World Bank *Somalia Country Economic Memorandum*. Meester, Uzelac, and Elder, *Transnational Capital in Somalia*. https://doi.org/10.4060/cb6316en. See, for instance, Transparency International's Corruption Perception Index, Verisk Maplecroft's Corruption Index, the World Governance Indicators' control of corruption indicator, Trace International's Bribery Risk Index, and the African Integrity Indicators.
44. For instance, according to a rapid firm survey conducted by the Somali Chamber of Commerce and Industry in December 2019 and a 2016 survey conducted by the Legacy Center for Peace and Transparency, corruption is a major issue for private sector stakeholders.
45. Ken Menkhaus, "State Failure, State-Building, and Prospects for a 'Functional Failed State' in Somalia," *Annals of the American Academy of Political and Social Science* 656, no. 1 (2014): 154–72.
46. Consultations with Somali private stakeholders in Hargeisa, Mogadishu, and Nairobi between November 2022 and January 2023.
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53. World Bank, *Collection of Policy Notes for the New Somali Government—Unlocking Somalia's Potential to Stabilize, Grow and Prosper* (English) (Washington, DC: World Bank, Group, 2022).
54. World Bank FCI Central Bank of Somalia data analysis, 2023.
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57. World Bank, *Somalia Horn of Africa Infrastructure Integration Project* (SHIIP) (Project Appraisal Document, PAD 4464, September 9, 2022).
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65. World Bank Group, Bosaso and Mogadishu 2019 Enterprise Surveys data set.
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67. For more information on this topic, see FAO, "National Gender Profile of Agriculture and Rural Livelihoods: Somalia."
68. World Bank, *Somalia Urbanization Review: Fostering Cities as Anchors of Development* (Washington, DC: World Bank, 2020).
69. Peter Middlebrook, Hussein Siad, and Hussein Haji Mao, "Somalia Vision for Private Sector Development Report" (Working Paper 5, National Economic Council of Somalia, Mogadishu, December 2019).
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71. World Bank, "Somalia Empowering Women through Education and Skills 'Rajo Kaaba' Project" (PAD4863, World Bank, Washington, DC, June 3, 2022).
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74. Grant Thornton LLP, "Identifying the Demand for Business Development Services by MSMEs in Somalia" (advisory for Gargaara Company Limited, Grant Thornton, Chicago, IL, 2023).
75. Joy Muballe and Felix Mwangi, KfW, *Somalia Business Development, and Banking Advisory Services Market Study*, December 2022.
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78. Development finance institutions tools for the private sector such as the conflict sensitivity guidance by the Africa Resilience Investment Accelerator can provide an approach for identifying, managing, and monitoring risks in FCV environments such as Somalia. See https://static1.squarespace.com/static/61af528eb14c603aa79149d2/t/645a08a13d00766e092893c1/1683622058346/ARIA+Conflict+Tipsheet_01_03_23_FINAL.pdf.

1. COUNTRY CONTEXT

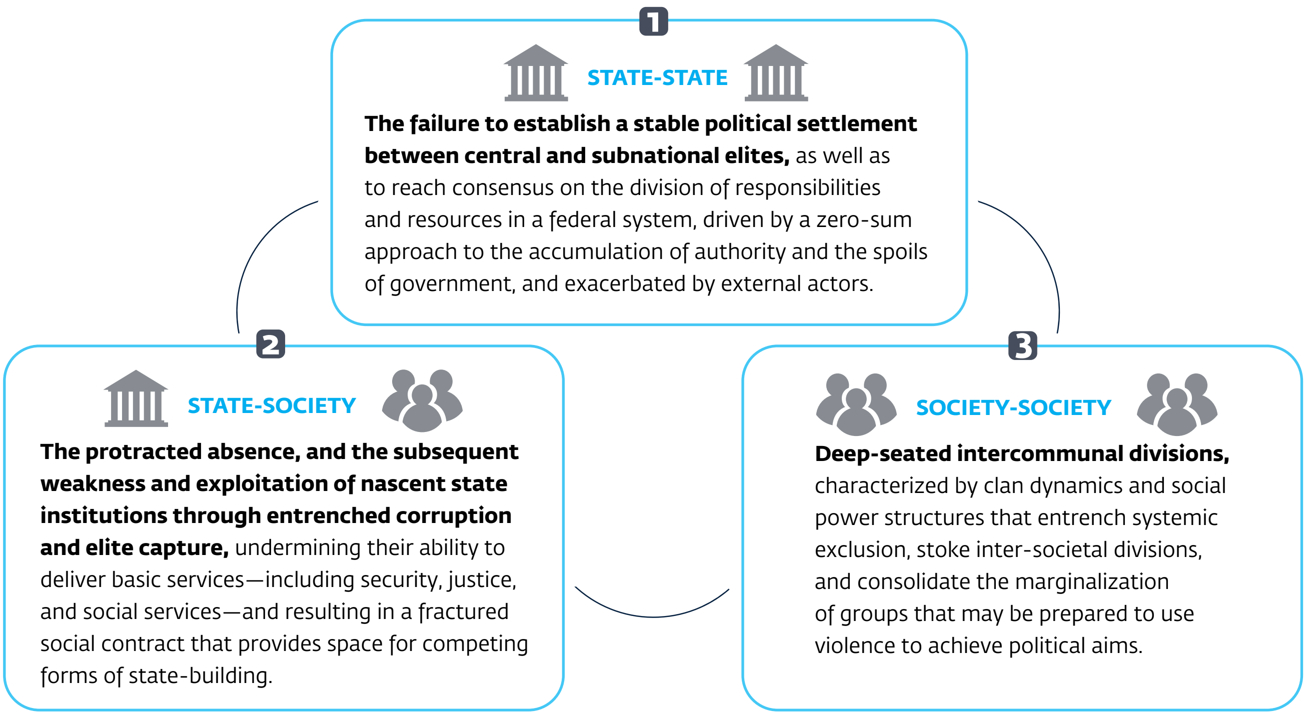
1.1 FRAGILITY AND CONFLICT DYNAMICS

Somalia is in a state of protracted fragility, conflict, and violence (FCV) that has hindered state building and undermined development outcomes for the population. Several structural factors, including historical legacies related to state formation and collapse, contribute to contemporary FCV dynamics in Somalia. The Somali state has been weak since its independence in the 1960s.[1] General Mohamed Siyad Barre's regime initially promised transformational development upon seizing power in 1969, but that promise remained unfulfilled with a shrinking set of stakeholders holding the reins[2] that adopted tribalizing policies and created a macroeconomically unsustainable state of affairs. Multiple clan-based rebel groups flourished, leading to a civil war which ravaged much of Somalia since 1988, instigating the migration of most educated Somalis and the overthrow of Siyad Barre's regime in 1991.[4] With formal institutions and government infrastructure being destroyed and a civil war splintering the country into several autonomous regions, in 1991 Somalia entered into the longest period of complete state collapse in postcolonial history.[5] Despite numerous attempts to resurrect national and federal state authority, Somalia's protracted period of state failure lasted about two decades. It was only in 2012 that the signing of a provisional constitution enabled the current political settlement.[6]

The country's notable reform momentum in recent years is grounds for cautious optimism. Somalia has undergone incremental progress on many fronts since the signing of its provisional constitution in 2012. The emergence of federalism through the establishment of the Federal Government of Somalia (FGS) and the creation of new federal member states (FMS)[7] has enabled a return to a path of reconstruction and a certain regularization of political processes, with relatively peaceful power transfers in 2012, 2017, and 2022. Political dialogue continues to advance gradually and in a nonlinear fashion under the umbrella of the National Consultative Council (NCC) chaired by the president of FGS and attended by the leaders of FMS. The NCC has strengthened intergovernmental fiscal relations, revised the national security architecture, harmonized the election schedule, and endorsed a strategy to fight Al-Shabaab. Significant progress in building institutions and regulatory frameworks, strengthening core government systems and capacity, and improving public financial management and domestic revenue mobilization has also been made. Social protection systems, the financial sector, and the business environment have been enhanced considerably, and a series of macrofinancial reforms has been put into action over the course of five consecutive International Monetary Fund (IMF) staff-monitored programs.[8] In March 2020, Somalia reached the heavily indebted poor countries (HIPC) Decision Point, gaining access to new development finance and helping to incentivize critical economic reforms. Having reached the HIPC Completion Point, Somalia will qualify for full and irrevocable debt relief, eliminating a decades-long debt burden.[9] In addition, in recent years, progress has been made in a range of sectors, including human capital development, infrastructure, urban development, and climate change mitigation and adaptation.

However, a diverse set of interwoven and structural challenges contribute to Somalia's protracted state of FCV and pose a risk to the state-building agenda. While the root causes of FCV in Somalia are complex and multifaceted, the World Bank's recent Risk and Resilience Assessment (RRA) put forward a framework to conceptualize the main drivers of FCV as follows: (a) continued intrastate instability and elite contestation, (b) fractured relations between the state and citizens, and (c) deep-seated intercommunal divisions (see figure 1.1).

FIGURE 1.1 DRIVERS OF FCV IDENTIFIED IN SOMALIA RRA



Source: World Bank, "Somalia Risk and Resilience Assessment" (World Bank, Washington, DC, 2023).

Note: FCV = fragility, conflict, and violence; RRA = Risk and Resilience Assessment.

Collectively, these drivers are mutually reinforcing, perpetuating vicious cycles of FCV that hinder the attainment of peace, security, and sustainable development. Intrastate instability and contestation have been characterized by the roadblocks faced by political leaders in their endeavor to reach a consensus on the division of responsibilities and resources between the FGS and FMS on key issues such as security and defense, resource sharing, fiscal responsibilities, and the distribution of humanitarian and development assistance. These dynamics, as well as Somalis' traditional distrust of the concentration of power, have led to a fragile social contract between citizens and the state. Trust in government is severely undermined by perceptions of corruption and diversion of public resources, including externally provided humanitarian and development assistance, or the exclusion of groups from the benefits of that assistance. Informal hybrid governance arrangements[10] are also entrenched, with a majority of Somalis having been accustomed to their prevalence and to the absence of functioning state institutions for most of their lives.[11] Relatedly, domestic revenue mobilization, while on the rise, remains low,[12] in a context of a very narrow tax base and deeply rooted hybrid formal-informal taxing arrangements.[13] Finally, deep-seated intercommunal divisions and political cleavages exist to this day, as evidenced by Somalia's splintering into several autonomous regions during the civil war and the country's decades of state failure.[14] The continuing marginalization of particular groups further stokes intersocietal divisions, which in some cases can lead to the emergence and escalation of violence. Importantly, Al-Shabaab serves as both a product and a source of FCV, capitalizing on these drivers of FCV to maintain its influence, including beyond the areas it controls directly.

Despite progress made over the past decade, the state-building process continues to face significant challenges. Somalia continues to be ranked as the most fragile state in the world by the Fragile States Index of the Fund for Peace.[15] Although reported conflict-related incidents and fatalities had been decreasing in recent years, 2022 and 2023 have seen a notable uptick, due mostly to the large-scale offensive against, and reprisals by, Al-Shabaab in central and southern Somalia.[16] A military campaign launched against the group in 2022 has resulted in the recovery of multiple towns in central Somalia, though it has also prompted a violent backlash from Al-Shabaab, which retains its ability to carry out targeted acts of violence and extort businesses. Looking ahead, the government's ability to hold territory newly recovered from Al-Shabaab and to introduce relative security and stability will demonstrate whether Somalia is ready for the planned withdrawal of African Union Transition Mission in Somalia (ATMIS) forces in 2024. This context also poses significant challenges for private sector investment, as discussed in box 1.1.

The unfinished political settlement between the FGS and FMS will define what can be achieved in the foreseeable future, with limited progress made on key issues such as finalizing the constitution and a recent deterioration in intergovernmental relations. Somalia's institutional structure remains embedded within a provisional constitution that often lacks clarity on key decisions related to the distribution of power, revenue sources, and functions among different levels of government.[17] Importantly, political incentives for national and local elites are sometimes at odds, making state-building progress nonlinear and subject to backsliding,[18] with government legitimacy remaining low.[19]

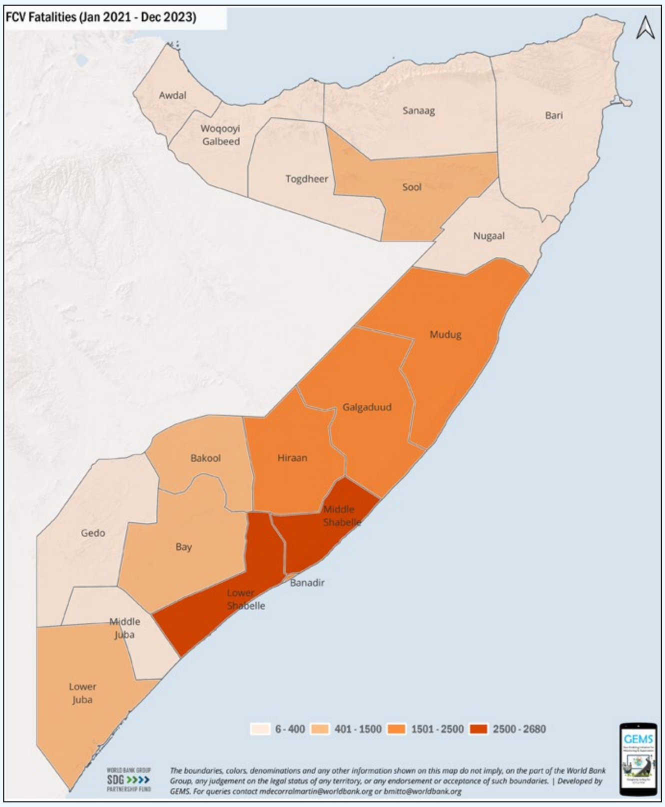
BOX 1.1 SOMALIA'S PROTRACTED CONFLICTS CALL FOR A CONFLICT-SENSITIVE APPROACH TO PRIVATE SECTOR INVESTMENT

The dynamic conflict situation in Somalia requires investors and businesses operating in the country to take a practical conflict-sensitive approach to their operations to avoid exacerbating the existing FCV dynamics. The rise in insecurity in recent years (figures B1.1.1 and B1.1.2),[a] particularly in areas such as Middle Shabelle, Lower Shabelle, Hiraan, and Galguduud, has effects on businesses; supply routes for goods and services, including food aid; and access to land. The private sector must navigate the daily operational challenges related to armed groups and access to markets and services such as electricity, with a need for conflict sensitivity approaches in close coordination with local communities. This includes understanding the local FCV dynamics, engaging stakeholders, managing risks around security forces, and adopting "do no harm" practices for business.

a. In 2022, conflict fatalities increased by 133 percent compared to the two previous years, according to the Africa Center for Strategic Studies (https://africacenter.org/spotlight/fatalities-from-militant-islamist-violence-in-africa-surge-by-nearly-50-percent/).

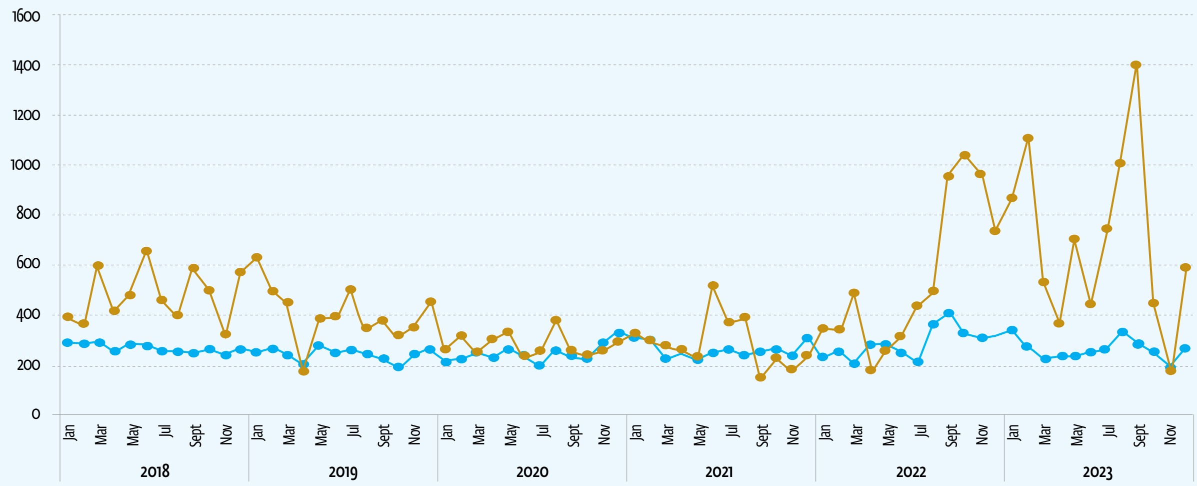
FIGURE B1.1.1 CONCENTRATION OF CONFLICT- RELATED FATALITIES IN SOMALIA (2021-2023)

Number of reported conflict fatalities in Somalia by region, January 1, 2021– June 30, 2023



Source: The Armed Conflict Location & Event Data Project (ACLED), 2021-2023; www.acleddata.com.

FIGURE B1.1.2 TREND IN FCV INCIDENTS AND FATALITIES (2018-2023)

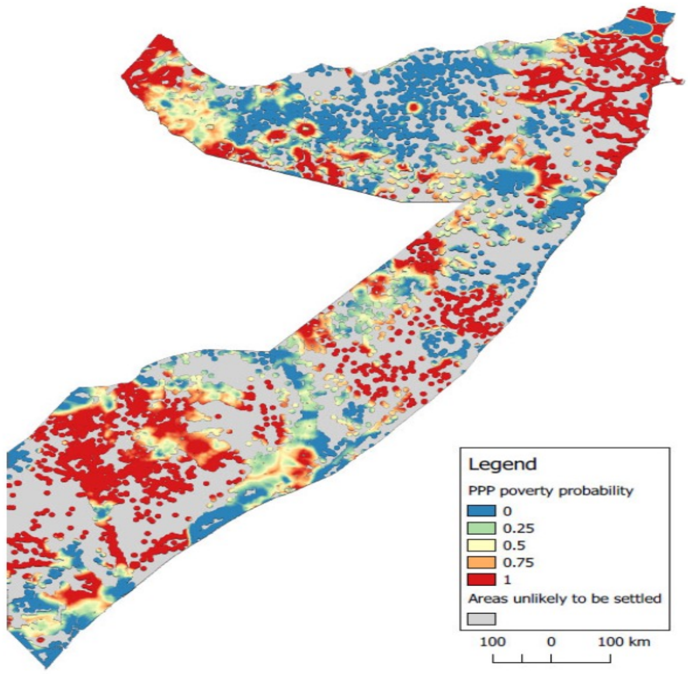


Source: The Armed Conflict Location & Event Data Project (ACLED), 2021-2023; www.acleddata.com.

Note: FCV = fragile, conflict, and violence; RRA = risk and resilience assessment.

Socioeconomic vulnerability is exacerbated by the country's fragility, as well as recurrent climatic shocks. Although there are some spatial variations across regions in Somalia (figure 2.2), citizens throughout the country suffer from high levels of poverty and low levels of human development. The most recent poverty assessments by the World Bank suggest that almost 80 percent of Somalis are poor or near-poor.[20] This proportion has likely increased since these estimates were made because of the diverse shocks that have affected Somalia, including COVID-19, locust infestation, and recurrent floods and drought.[21] Furthermore, around 90 percent of Somalis suffer from at least one facet of multidimensional vulnerability,[22] with monetary poverty being correlated to multiple deprivations (for example, education, water, electricity, and sanitation). As such, Somalia is estimated to be in the bottom 10 countries in the world in terms of human development,[23] and many of its citizens have died prematurely of preventable diseases that are correlated with enduring poverty and a lack of access to services.[24] Climatic shocks, such as recurrent and severe droughts, deepen Somalia's underlying fragility and significantly increase humanitarian needs (box 2.2). An estimated 8.25 million people—around half of the population—will need humanitarian assistance in 2023, up from 7.7 million in 2022 and 5.9 million in 2021.[25] As of March 2023, Somalia had an estimated 3.86 million internally displaced persons (IDPs). Moreover, food insecurity remains consistently high in Somalia, with about 4.3 million people (25 percent of the population) likely to experience high levels of acute food insecurity between October and December 2023.[26]

FIGURE 1.2 MAP OF POVERTY INCIDENCE AT THE DISTRICT LEVEL, BASED ON SATELLITE IMPUTATION, 2019



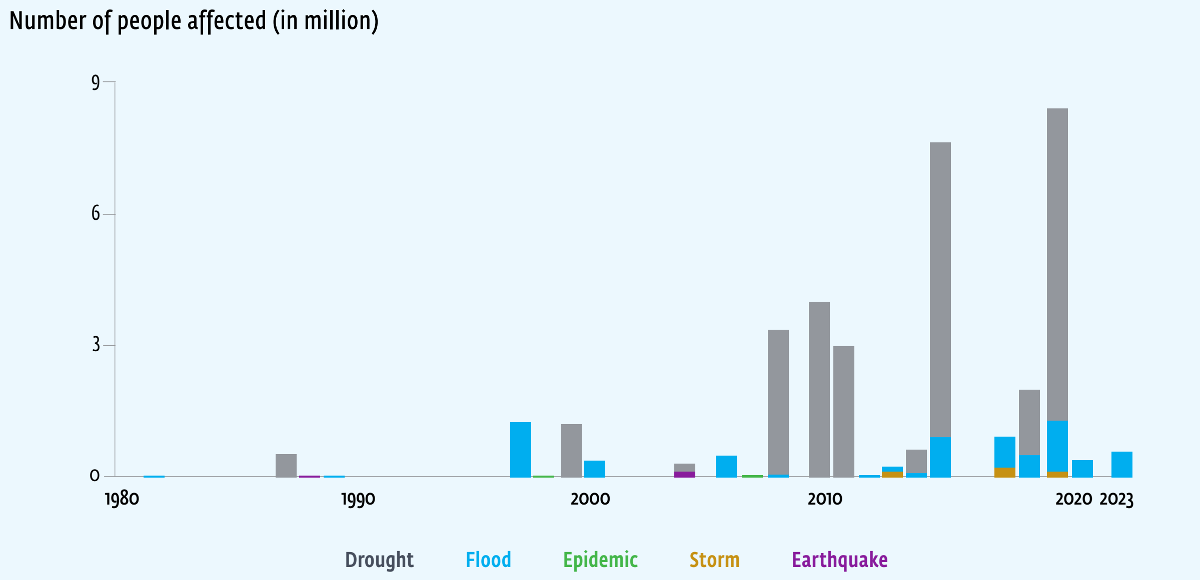
Sources: Flowminder and WorldPop. Taken from Utz Pape and Philip Wollburg, "Estimation of Poverty in Somalia Using Innovative Methodologies" (Policy Research Working Paper 8735, World Bank, February 2019).

Note: PPP = purchasing power parity.

BOX 1.2 SOMALIA'S VULNERABILITY TO NATURAL DISASTERS AND CLIMATE CHANGE

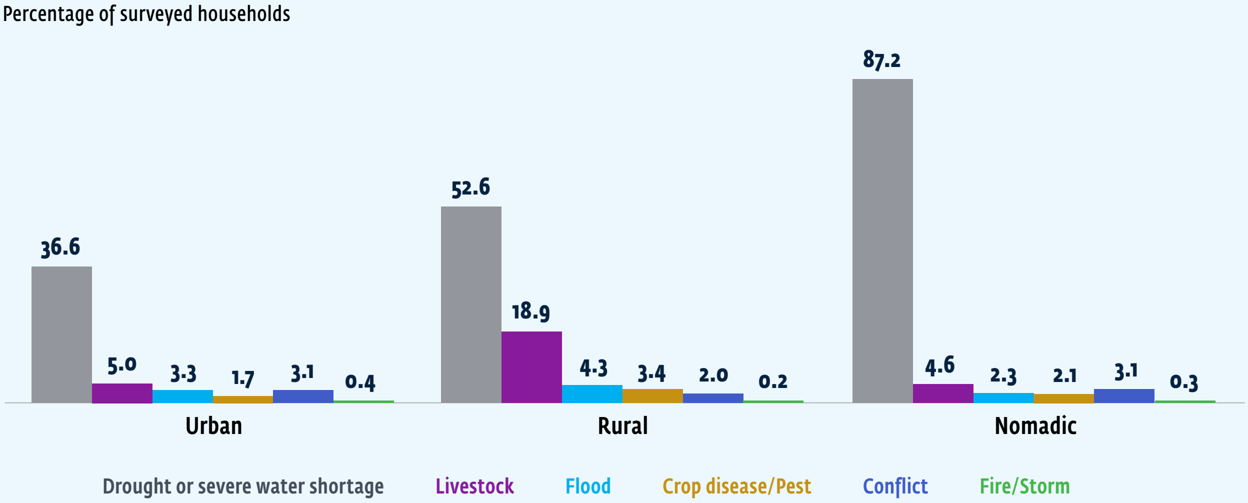
Compounding crises posed by climatic shocks deepen Somalis' vulnerability. The majority of southern Somalia is semi-arid, and most of the rest of the country is arid with infertile soils and restricted freshwater resources at ground level. Seasons are highly unreliable and inconsistent because of the spatial and temporal variability of the climate (for instance, the unpredictability of rain precipitation)—Somalia has one of the highest interannual variations of rainfall in Africa, and there is increasing difficulty in predicting weather phenomena in the country.[a] Climatic hazards such as floods and droughts are also very frequent (figure B2.2.1). The country has experienced at least one drought every year since the 1960s, and the frequency and intensity of these events have been increasing.[b] Accordingly, climatic shocks in recent years have prompted severe drought conditions in 90 percent of the Somali territory and, in combination with the 2020–21 locust infestation, have led to the following: (a) a reduction of 60 to 80 percent of the production of many agricultural crops, (b) the decimation of rangelands, and (c) acute shortages of pasture and water.[c] As agriculture and livestock remain the backbone of livelihoods in Somalia, this situation has inflicted widespread impacts on the country's population (figure B2.2.2), especially on women.[d]

FIGURE B1.2.1 KEY NATURAL HAZARD STATISTICS FOR 1980–2020



Source: EM-DAT public database, accessed on July 10, 2023.

FIGURE B1.2.2 SHOCKS EXPERIENCED BY HOUSEHOLD, 2022



Source: World Bank, 2022 Somalia Integrated Household Budget Survey.

Furthermore, the profound impact of natural disasters in Somalia will likely worsen because of climate change. Precipitation has been decreasing in the country throughout the past four decades, especially during the rainy season, a trend that will likely continue as more common and lengthy dry spells are projected in conjunction with an increased frequency and intensity of heavy rainstorms.[e] Annual average temperatures have also been increasing and are estimated to continue their uptrend by 3°C to 4°C by 2080 under a low-mitigation scenario,[f] which remains the current global trajectory. Oddly, this will likely make both droughts and floods more frequent and severe in Somalia in the medium to long term. Similarly, while there is a lack of research on the effects of sea level rise and coastal inundation in Somalia, projections suggest that coastal communities and livelihood systems are likely to be affected by threats to the country's shoreline.[g]

a. Gianni Zanini et al., *Somalia: Country Economic Memorandum, vol. 1. Rebuilding Resilient and Sustainable Agriculture in Somalia* (Washington, DC: World Bank and Food and Agriculture Organization of the United Nations, 2018).

b. Albert Tuinhof et al., *Economics of Water: Digging for Data—Towards Understanding Water as a Limiting or Enabling Factor for Socioeconomic Growth in Somalia* (Washington, DC: World Bank Group, 2021).

c. World Bank, "Somalia Economic Update, June 2022: Investing in Social Protection to Boost Resilience for Economic Growth" (World Bank, Washington, DC, 2022).

d. Women are disproportionately affected by climate shocks. Opportunities created by the country's green transition have also excessively benefited men, with existing patterns of occupational sex segregation, skills gaps, and gaps in female labor force participation putting women at a disadvantage.

e. Katy Richardson et al., *Climate Risk Report for the East Africa Region* (Exeter, UK: Met Office, Overseas Development Institute, and Foreign, Commonwealth and Development Office, 2022), https://reliefweb.int/report/ethiopia/climate-risk-report-east-africa-region.

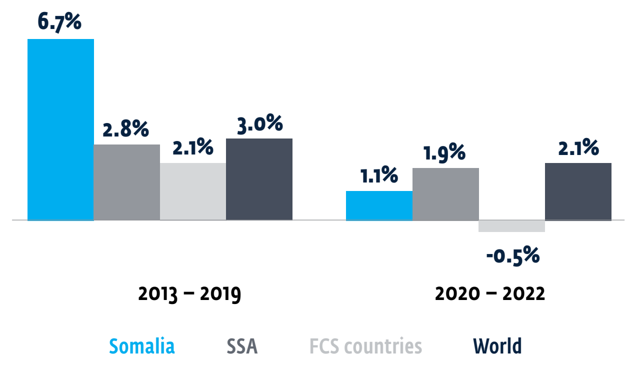
f. The projected warming of the next decades in Somalia is correlated to further drought vulnerability.

g. Climate Central coastal risk screening tool, https://coastal.climatecentral.org/map/.

1.2 MACROECONOMIC CONSIDERATIONS

The Somali economy has been remarkably resilient and possesses considerable potential. In effect, state collapse seems to have been positive for the development of the economy, as the vanishing of Siyad Barre's state institutions "was in many ways a blessing for the domestic market."[27] This resilience has also been key since 2012, when FGS was established, and has resulted in considerably more growth than in Sub-Saharan Africa and FCV countries on average (figures 1.3 and 1.4) and by other recent shocks to the economy.[28] Welfare has also improved modestly in recent decades. Somalia was better off with respect to a series of economic and social indicators during its period of statelessness than it was in the second decade of Siyad Barre's regime,[29] and there have been some improvements in welfare since 2012.[30] Somalia also has ample economic potential. It could become an economic integrator and a gateway to international markets,[31] and it boasts abundant resources, including hydrocarbon, minerals, renewable energy, livestock, and fisheries.

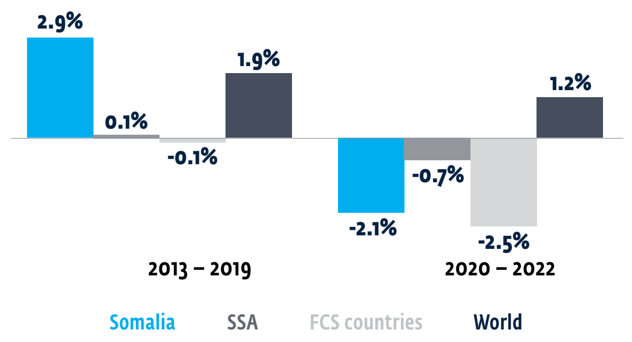
FIGURE 1.3 GROSS DOMESTIC PRODUCT (GDP) GROWTH (IN CONSTANT 2015 US$): SOMALIA VERSUS COMPARATORS



Source: World Development Indicators (WDI).

Note: FCS = fragile and conflict-affected situation; SSA = Sub-Saharan Africa.

FIGURE 1.4 GDP GROWTH (IN CONSTANT 2015 US$) PER CAPITA: SOMALIA VERSUS COMPARATORS



Source: World Development Indicators (WDI).

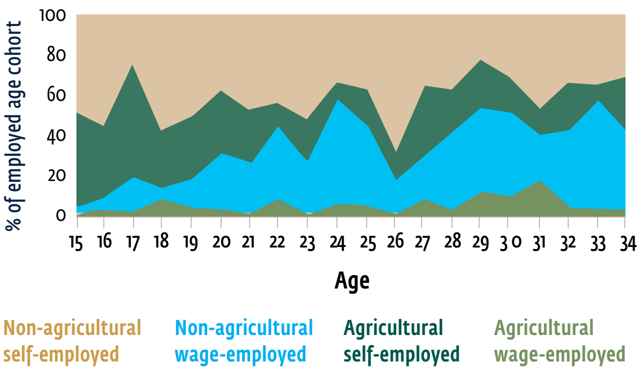
Note: FCS = fragile and conflict-affected situation; SSA = Sub-Saharan Africa.

However, economic growth has been insufficient to generate enough inclusive economic opportunities for Somalia's expanding population. Merely 21.7 percent of adult respondents to the latest household survey in Somalia were employed,[32] and only 25.9 percent of Somalis are working or seeking employment.[33] This is in contrast to employment rates of 61.8 percent in Sub-Saharan African countries and 56.4 percent in FCV countries[34] and average labor force participation rates of 66.3 percent in Sub-Saharan African countries and 60.7 percent in FCV countries.[35] Furthermore, jobs in Somalia are mostly unproductive and fail to provide meaningful incomes for Somalis, with worker productivity estimated at less than one-quarter of the Sub-Saharan African average.[36] Somali workers are as likely to live in extreme poverty as the unemployed.

Somali women are particularly disadvantaged amid these unfavorable economic conditions, as social norms largely restrict them to either unpaid domestic labor or low-paying activities (primarily own-account work and self-employment) undertaken out of economic necessity, with the best opportunities reserved for men. Consequently, gender gaps in employment and labor force participation rates are around 21 and 23 percent, respectively, and are almost twice as high during core reproductive years.[37] Furthermore, employed women often work less than 30 hours a week in casual, low-paying jobs with low-value-added activities that can accommodate their domestic responsibilities.[38]

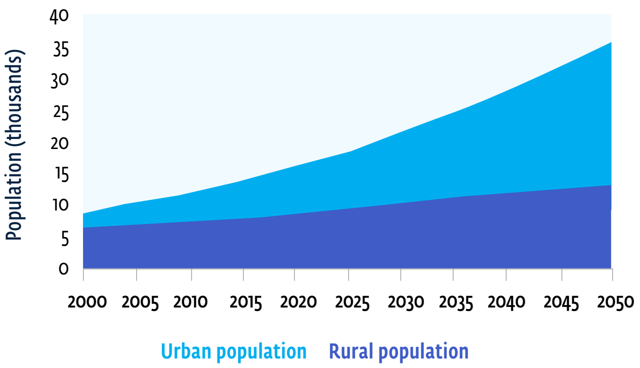
Thus, Somalia's high fertility and urbanization rates have contributed to fragility instead of incentivizing growth. As Somalia's population growth and total fertility rates are some of the highest in the world, at 3.15 percent and 6.31 children per women, respectively,[39] about 74 percent of the Somali population is under age 30 and approximately 47 percent is under age 15.[40] Somalia's youthful population structure could lead to a demographic dividend for many years to come, but the aforementioned levels of economic growth and job generation impede any demographic dividend from kicking in (figure 1.5), prolonging the country's levels of poverty incidence. Rapid urbanization due to forced displacement has also become a driver of fragility. IDPs rely on household businesses and informal employment more than other urban dwellers. Hence, urbanization is leading to an uncontrolled urban sprawl that is fueling an exacerbation of social tensions due to competition over scarce livelihood resources (such as land and water) in host communities,[41] instead of generating agglomeration economies. In effect, both employment and labor force participation rates are lower in urban locations than in rural areas.[42] This will likely worsen in the near to midterm if the status quo persists. With over 75 percent of IDPs residing in urban areas, the urban population is already 46 percent of the country's total population and is estimated to increase by nearly 4 million by 2030[43] (figure 1.6).

FIGURE 1.5 TYPE OF EMPLOYMENT BY AGE GROUP IN SOMALIA, 2021



Source: World Bank staff calculations based on the Somali High Frequency Survey (SHFS) 2017–18. Taken from Wendy Karamba, *Improving Access to Jobs for the Poor and Vulnerable in Somalia* (Washington, DC: World Bank, 2021).

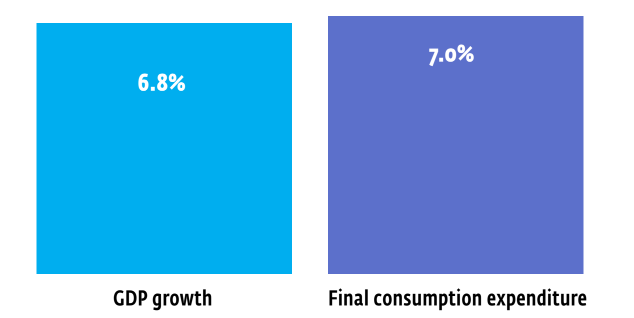
FIGURE 1.6 FORECAST OF POPULATION GROWTH IN URBAN VERSUS TOTAL SETTINGS IN SOMALIA



Source: World Bank staff calculations based on the SHFS 2017–18. Taken from Wendy Karamba, *Improving Access to Jobs for the Poor and Vulnerable in Somalia* (Washington, DC: World Bank, 2021).

The permanence of the jobs that have been generated in Somalia is also precarious, as recent growth is consumption driven and largely underpinned by external financial flows with uncertain prospects. Somalia's main driver of growth from the demand side has been private consumption, with consumption increasing at a greater rate than the country's GDP (figure 1.7). As such, the latest World Bank High Frequency Survey estimated that final consumption expenditure in 2021 was US$11.4 billion, or 116 percent of the country's US$9.8 billion GDP. Given Somalia's large structural deficit in its external balance of goods and services and its moderate levels of foreign direct investment (FDI),[44] this increase in consumption has been supported primarily by official development assistance (ODA) and remittances. ODA accounted for approximately 33 percent of GDP in 2022 (figure 1.8).[45] Remittances from the Somali diaspora is another important source of support.[46] With the fourth largest proportion of nationals living abroad worldwide as of 2021,[47] regular inflow of remittances has become an established livelihood and survival practice for an estimated 40 to 60 percent of Somali households,[48] with aggregated remittance flows estimated to have reached about 20.6 percent of GDP in 2022[49] (likely more when unrecorded flows are accounted for).[50] However, prospects for the magnitude of ODA and remittances to Somalia are uncertain. As Somalia looks toward a post-HIPC environment, the country must prepare for a state of affairs in which financing will be on concessional lending terms linked to its fiscal and debt sustainability—which might be constraining if domestic revenue mobilization is not improved considerably. Similarly, remittances from the Somali diaspora will possibly dwindle in the near to medium term, as most of the population that left the country in the early days of the civil war is getting older and retiring, and newer generations of the diaspora may grow increasingly detached and less inclined to send money to distant relatives.[51]

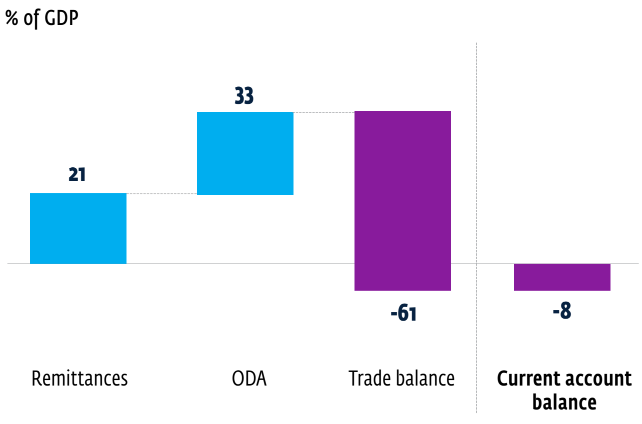
FIGURE 1.7 NOMINAL GDP GROWTH AND FINAL CONSUMPTION EXPENDITURE GROWTH IN SOMALIA, 2013–22



Source: World Bank, WDI data.

Note: GDP = gross domestic product.

FIGURE 1.8 DISAGGREGATED CURRENT ACCOUNT BALANCE IN SOMALIA, 2022



Sources: Somali authorities, International Monetary Fund (IMF), and World Bank forecasts, March 2023.

Note: GDP = gross domestic product; ODA = official development assistance.

Notes

1. Abdi Ismail Samatar and Ahmed I. Samatar, "Somalis as Africa's First Democrats: Premier Adbirazak H. Hussein and President Aden A. Osman," *Bildhaan: An International Journal of Somali Studies* 2, article 4 (2008): 1–64; and William Zartman, ed., *Collapsed States: The Disintegration and Restoration of Legitimate Authority* (Boulder, CO: Lynne Rienner Publishers, 1995).
2. Terrence Lyons and Ahmed Samatar, *Somalia: State Collapse, Multilateral Intervention, and Strategies of Political Reconstruction* (Brookings Occasional Papers, Brookings Institution, Washington, DC, 1995).
3. For more on this topic, see K. Menkhaus, "State Failure, State-Building, and Prospects for a 'Functional Failed State' in Somalia," *ANNALS of the American Academy of Political and Social Science* 656, no. 1 (October 9, 2014): 154–72, https://doi.org/10.1177/0002716214547002; and Alex de Waal, The Real Politics of the Horn of Africa: Money, War and the Business of Power (Cambridge, UK, and Malden, MA: Polity Press, 2015).
4. Ken Menkhaus, *Trends in Somali Society, Governance, Environment, and Transnational Relations: An Introduction and Synthesis* (Nairobi, Kenya: Rift Valley Institute, January 2021).
5. This CPSD defines state collapse as a situation in which a state can no longer perform its basic functions as an accepted source of identity, as an arena of politics, as a tangible organization of effective decision-making, and as the security guarantor for a populated territory. For a more detailed discussion of state collapse, see Zartman, *Collapsed States*.
6. Having said this, state building has been a gradual process since 2000, with periods of important progress and stagnation or decline both before and after 2012.
7. There are five FMS, of which four are new (namely, Jubaland, South-West State, Galmudug, and Hirshabelle), Puntland having been formed earlier. Somaliland in the northwest is a semiautonomous region which claims independence from Somalia and has maintained a separate government system in the past few decades.
8. IMF security management plans in Somalia were completed successfully between 2016 and 2022.
9. Somalia's debt will be irrevocably reduced from US$5.2 billion at end 2018 to an estimated US$557 million in net present value terms once the country reaches its HIPC Completion Point.
10. The system of governance without government that arose during more than two decades of statelessness in Somalia draws on a combination of customary authority, sharia courts, and business leaders, among other nonstate actors.
11. More than 80 percent of the population was born after Somalia's civil war started in 1988.
12. FGS's domestic revenue increased from 1.0 to 2.7 percent of GDP between 2013 and 2022. However, Somalia continues to have the smallest domestic revenue mobilization rate as a proportion of GDP in Sub-Saharan Africa, which has an average tax-to-GDP ratio of 18.6 percent. As such, Somalia is currently unable to cover its fiscal expenditures, making the country dependent on external budget support grants (for example, from the International Development Association, the European Union, and Türkiye). For more information on this topic, see Gael Raballand and Justine Knebelmann, "Domestic Resource Mobilization in Somalia," (World Bank, Washington, DC, 2021); and IMF, Somalia: IMF Staff Report for the Sixth Review Under the Extended Credit Facility (December 2023).
13. For more information on this topic, see K. Jordan, "Community-Based and Customary Taxation in South-Central Somalia: Possibilities for Hybrid Governance and Dialogue Programming" (Danish Refugee Council, Copenhagen, 2016); Valeria Saggiomo, "From Charity to Governance: Islamic NGOs and Education in Somalia," *Open Area Studies Journal* 4, no. 53 (2011): 61; Vanessa Van den Boogaard and Fabrizio Santoro, "Explaining Informal Taxation and Revenue Generation: Evidence from South-Central Somalia" (ICTD Working Paper 118, International Centre for Tax and Development, Brighton, UK, 2021); and Vanessa Van den Boogaard and Fabrizio Santoro, "Financing Governance beyond the State: Informal Revenue Generation in South-Central Somalia," *African Affairs* 121, no. 485 (October 5, 2022): 569–94.
14. Menkhaus, *Trends in Somali Society*.
15. Fragile States Index, 2023, https://fragilestatesindex.org/country-data/.
16. Armed Conflict Location & Event Data Project (ACLED) data, 2023.
17. For more information on this front, see Charles Manga Fombad, Assefa Fiseha, and Nico Steytler, *Contemporary Governance Challenges in the Horn of Africa* (Milton Park, UK: Routledge, 2023), 226–53.
18. World Bank, "Completion and Learning Review of the Country Partnership Framework for the Federal Republic of Somalia—FY19–23" (World Bank, Washington, DC, March 29, 2023.
19. According to a recent US Agency for International Development (USAID) perception survey, only 14 percent of Somalis completely trust FGS. See L. Robertson, L. Malla, and L. Oing, "The Emerging Federal States, Mogadishu, and Puntland" (Somalia Program Support Services, Somalia Perception Survey, part 1, USAID, Washington, DC, 2017). By the same token, according to the State Legitimacy Indicator of the Fragile States Index, Somalia has the 11th greatest legitimacy deficit in the world.

20. With about 69 percent of Somalis living below the poverty line (US$1.90 per day in purchasing power parity) and an additional 10 percent living within 20 percent of that poverty line. For more information on this front, see Shinya Takamatsu, Nobuo Yoshida, and Apichoke Kotikula, "Rapid Consumption Method and Poverty and Inequality Estimation in Somalia Revisited" (Global Poverty Monitoring Technical Note 19, World Bank, Washington, DC, March 2022); and World Bank, "Somalia Poverty and Vulnerability Assessment: Findings from Wave 2 of the Somali High Frequency Survey" (World Bank, Washington, DC, 2019).
21. World Bank, "Macro Poverty Outlook for Somalia: April 2022—Datasheet" (World Bank, Washington, DC, 2022).
22. World Bank , "Somali Poverty and Vulnerability Assessment."
23. While the Human Development Index for Somalia has not been constructed because of a lack of data, the United Nations Development Programme (UNDP) estimates life expectancy at birth to be 57 years in 2023, which is similar to the life expectancy in countries that rank 182nd to 191st (out of 191) in the Human Development Index.
24. Gender gaps in literacy persist across all age groups and are particularly vast (ranging up to 40 percentage points) at greater ages (35 years and over). Similarly, women are more likely than men to report suffering from a chronic illness, disability, or accident. For more information on this topic, see Somalia National Bureau of Statistics, "2022 Somalia Household Budget Survey (SIHBS)—Main Report," February 2023.
25. OCHA (UN Office for the Coordination of Humanitarian Affairs), "Somalia Humanitarian Needs Overview 2023 (February 2023)," reliefweb, February 8, 2023, https://reliefweb.int/report/somalia/somalia-humanitarian-needs-overview-2023-february-2023.
26. FUSNAU (Food Security and Nutrition Analysis Unit), FAO (Food and Agriculture Organization of the United Nations), "IPC Acute Food Insecurity and Acute Malnutrition Analysis—Somalia," September 18, 2023, https://fsnau.org/downloads/Somalia-IPC-Acute-Food-Insecurity-Malnutrition-Report-Aug-Dec-2023.pdf.
27. Jamil Mubarak, "The 'Hidden Hand' behind the Resilience of the Stateless Economy of Somalia,"*World Development* 25, no. 12 (1997): 2027–41.
28. Economic recovery after the COVID-19 pandemic has been affected by other shocks, such as higher commodity prices following Russia's invasion of Ukraine and a severe drought. From the demand side, the main driver of growth is private consumption, which has been affected by higher prices and widespread food insecurity.
29. For more information, see Peter Leeson, "Better Off Stateless: Somalia before and after Government Collapse," Journal of Comparative Economics 35 (2007): 689–710; and Benjamin Powell, Ryan Ford, and Alex Nowrasteh, "Somalia after State Collapse: Chaos or Improvement?," *Journal of Economic Behavior and Organization* 67, no. 3–4 (2008): 657–70.
30. For instance, health indicators such as infant and maternal mortality have improved. Literacy, net primary school enrollment, and access to some basic services such as sanitation and electricity have also increased. Similarly, financial inclusion has increased.
31. Somalia is located at the intersection of four regions (namely, Africa, Asia, Europe, and the Middle East) and with several landlocked countries (for instance, Ethiopia) within the greater Horn of Africa region. For more information on this, see Matías Herrera Dappe and Mathilde Sylvie Maria Lebrand, "Infrastructure and Structural Change in the Horn of Africa" (Policy Research Working Paper 9870, World Bank, Washington, DC, 2021).
32. Somalia National Bureau of Statistics, "2022 SIHBS."
33. Somalia National Bureau of Statistics, "2022 SIHBS."
34. World Bank, WDI DataBank, modeled International Labour Organization (ILO) estimate, 2021.
35. World Bank, WDI DataBank, modeled ILO estimate.
36. World Bank, "Collection of Policy Notes for the New Somali Government: Unlocking Somalia's Potential to Stabilize, Grow and Prosper" (World Bank, Washington, DC, June 1, 2022).
37. Somalia National Bureau of Statistics, "2022 SIHBS"; and UNFPA (United Nations Population Fund), *Economic Characteristics of the Somalia People*, vol. 4 (New York: UNFPA, 2016).
38. Somalia National Bureau of Statistics, "Labour Force Survey Report: LFS 2019," 2021; UNFPA, E*conomic Characteristics of the Somalia People*; and World Bank, Somalia Country Economic Memorandum—Towards an Inclusive Jobs Agenda (Washington, DC: World Bank, 2021).
39. World Bank, WDI DataBank; and 2020 Somalia Health and Demographic Survey (SHDS).
40. World Bank, WDI DataBank, 2021 data.
41. World Bank, *Somalia Urbanization Review: Fostering Cities as Anchors of Development* (Washington, DC: World Bank, 2020); UNHCR (United Nations High Commissioner for Refugees), "Somalia: Protection Analysis Update (September 2022)," reliefweb, September 30, 2022; and Filiep Decorte and Ombretta Tempra, "Improving Living Conditions in Bossaso, Somalia," *Forced Migration Review* 34 (February 2010): 16–18.

42. Somalia National Bureau of Statistics, "2022 SIHBS."
43. World Bank, *Somalia Urbanization Review*; and UNHCR, "Somalia: Protection Analysis Update."
44. According to IMF's 2022 Article IV consultation report, FDI in Somalia for 2022 is estimated to be about US$652 million. FDI statistics for Somalia are not entirely reliable, as they are calculated as a residual given the scarcity of data in the country, and a large proportion of FDI in Somalia is likely composed of small investments by the country's diaspora.
45. World Bank, "Completion and Learning Review of the Country Partnership Framework."
46. Laura Hammond et al. *Cash and Compassion: The Role of the Somali Diaspora in Relief, Development and Peacebuilding* (UNDP Somalia, 2011); Anna Lindley, "Remittances in Fragile Settings: A Somali Case Study" (HiCN [Households in Conflict Network] Working Paper 27, HiCN, 2007); and Anna Lindley, *The Early Morning Phonecall: Somali Refugees' Remittances* (DGO—digital original, 1, Berghahn Books, 2010), http://www.jstor.org/stable/j.ctt9qddnh.
47. According to Failed State Index data in 2022, Somalia is ranked as the country with the fourth most human flight and brain drain in the world.
48. Nauja Kleist and Masud Abdi, "Global Connections: Somali Diaspora and Their Effects" (Rift Valley Institute for the World Bank Group, March 2021).
49. Forecast by Somali authorities, IMF, and World Bank, March 2023.
50. Wendy Karamba, *Improving Access to Jobs for the Poor and Vulnerable in Somalia* (World Bank, Washington, DC, 2021).
51. Kleist and Abdi, "Global Connections."

2. STATE OF THE PRIVATE SECTOR

The private sector has been the primary driver of economic resilience in Somalia. It has been the economic foundation of the country and its largest employer since the last decade of Siyad Barre's regime.[1] In a context with no state-owned enterprises (and government expenditure that still accounts for a negligible proportion of GDP),[2] the private sector accounts for an estimated 95 percent of total jobs created.[3] FGS's employee budget is in effect more or less equivalent to that of a single private sector conglomerate.[4] Furthermore, private businesses are the primary providers of almost all of the limited range of products and services on offer in Somalia. This includes not only commercial goods and services, but also services that are traditionally delivered by the state,[5] including social services and public goods (such as energy, information and communication technology [ICT] connectivity, and water).[6] Many private sector firms also funnel substantial amounts of capital to the public sphere through corporate social responsibility programs in communities across the country, which are sometimes a result of the direct request of clan elders[7] and are earmarked for a range of humanitarian issues and public goods.[8]

However, the current state of the private sector is limiting Somalia's inclusive and sustainable growth. While there are significant variations across regions of the country, the limited data that exist point to the following four traits that seem to characterize the private sector across the country:

- Somali productive tradable sectors are generally subdued and fail to provide a strong basis for a rapid structural transformation. This trait drives Somalia's dependence on imports and leads to a concentration of businesses in nontradable sectors.
- A few large conglomerates have captured most opportunities in the nontradable sectors that dominate the Somali economy. These large conglomerates have underpinned the country's economic resilience, but they also tend to leverage their position to distort and capture markets at the expense of other players and consumers, limiting the potential inclusivity and sustainability of private sector growth.
- The Somali private sector has a *missing middle*, with firms being primarily microformal, informal, and household (HH) subsistence-based entrepreneurial ventures. These businesses are limited in their ability to shift workers from small enterprises into medium and large ones and in their capacity to generate productive jobs.
- FDI inflows into Somalia, while moderate, are surprisingly high as a proportion of GDP, considering the country's fragility. However, they have failed to promote productivity growth.

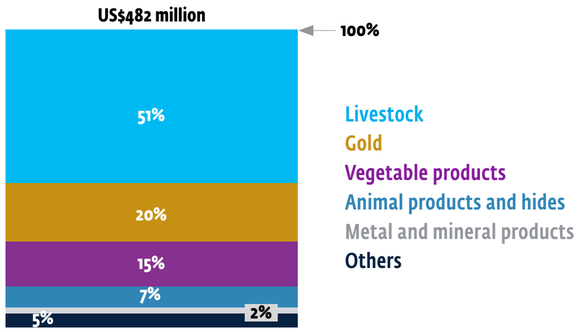
These traits will be explored further in this chapter.

2.1 PRIVATE SECTOR'S CONCENTRATION IN NONTRADABLE SECTORS

Productive sectors in Somalia are trapped in low-value-added activities. With most of Somalia's productive assets, infrastructure, and investment capital having been taken away during and after the collapse of Siyad Barre's regime,[9] the country has low economic complexity. Its manufacturing sector was destroyed once the civil was broke out, with remaining factories being dismantled and their contents exported as scrap.[10] Even with the improvements that have resulted from international intervention and a small number of investments in recent decades[11] and despite the rapid growth of some types of manufacturing (for example, food and beverages manufacturing had a 15 percent growth rate between 2017 and 2019),[12] the sector as a whole continues to be negligible. Manufacturing currently represents only 15 percent of established businesses (which generate merely 12 percent of established firm jobs or about 0.8 percent of total jobs in Somalia)[13] and about 2.4 percent of HH businesses (or less than 1 percent of total jobs).[14] The sector's productivity levels are also lower than those of virtually all other economic sectors in the country (figure 2.1). Thus, structural transformation has been negligible and is likely to continue to be marginal in the short term. Primary low-value-added livestock, fishery, and agricultural goods account for most of the country's productive sector, generating most of the jobs that are outside commerce and other nontradable services (namely, 26 percent of employment).[15] Additionally, they comprise the lion's share of Somalia's export basket. Disaggregated mirror trade statistics show their contribution at about 73 percent of Somalia's exports (figure 2.2), and other analyses estimate their contribution at over 90 percent of locally produced exports.[16]

FIGURE 2.1 VALUE OF EXPORTS BY TYPE OF PRODUCT IN SOMALIA, 2021

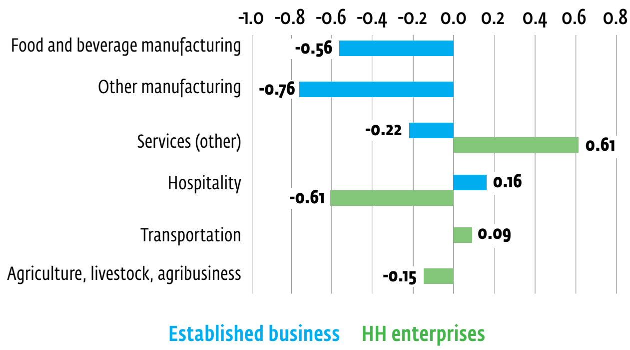
Total exports and % of total exports



Source: Observatory of Economic Complexity.

FIGURE 2.2 PRODUCTIVITY BY SECTOR RELATIVE TO RETAIL IN SOMALIA, 2019

Estimates of log sales per worker per day



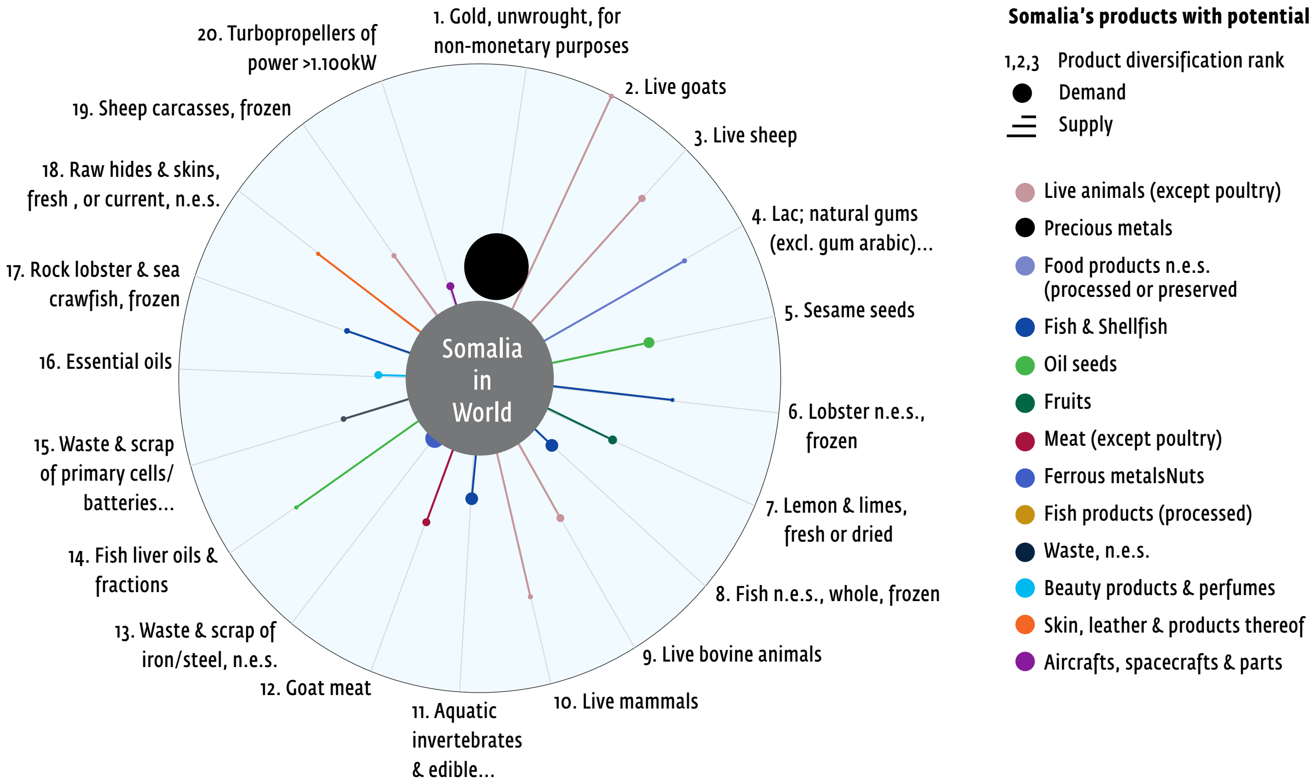
Source: World Bank staff calculations based on 2012 Somalil and Enterprise Survey, Somali High Frequency Survey 2017–18, and 2019 Enterprise Surveys in Mogadishu and Bosaso.

Note: HH = household.

Despite the prevalence and relative comparative advantage of Somali livestock, crop, and fishery products, these sectors are generally subdued. While livestock, fisheries, and agriculture account for nearly all Somali products with a high relative comparative advantage,[17] they have suffered a considerable deterioration in recent decades. Because of Somalia's rapid urbanization and significant vulnerability to climate shocks, survivalist strategies historically used by Somali stakeholders[18] in these sectors have come under mounting strain.[19] As a result, these sectors have gone from generating a large proportion of jobs in Somalia[20] to accounting for only 26 percent of employment now, including subsistence and market-linked jobs.[21] They are also highly underdeveloped and unproductive (figure 2.2). As such, the livestock, fishery, and crop sectors remain the primary productive sectors of the country, not because of their success but rather because diversification of productive activities, while possible (figure 2.3), is challenging. Women carry out the bulk of labor and business activity across these sectors but remain trapped in subsistence-level production because of constraints on their access to markets and networks.[22]

FIGURE 2.3 PRODUCTS WITH POTENTIAL—SOMALIA

Relatedness, demand, and supply indexes



Source: International Trade Center (ITC), https://exportpotential.intracen.org/en/products/analyze?fromMarker=i&exporter=706&toMarker=w&market=w&whatMarker=k; (accessed February 2024).

Note: excl = excluding; n.e.s. = not elsewhere specified.

The livestock sector, while resilient, is primarily subsistence based and exceptionally vulnerable to external shocks. Partly as a consequence of the mobility that characterizes livestock and the cross-border familial relations of herders, the sector has navigated risky environments, from policy shifts and climate shocks to insecurity and state fragility.[23] While the last livestock census in Somalia was undertaken in 1975,[24] estimates suggest that the total stock of camels and cattle has grown since it dipped during the civil war.[25] Similarly, mirror trade statistics suggest that livestock has been the primary export in Somalia for most years of recent decades. However, given the marginal conditions for agricultural production in the country, the livestock value chain is composed primarily of subsistence nomadic and agro-pastoralism aimed at subsistence. Livestock yields are thus unpredictable and low, and livestock morbidity tends to be high.[26] Livestock value chains are also unproductive and characterized by low value addition. There are a few developing commercial meat-processing facilities and commercial milk production businesses, but most meat is processed by households, and milk is generally not processed or packaged.[27] Margins are also often low for pastoral producers, as excessive intermediaries diminish profitability significantly because of poor integration of pastoral producers into markets,[28] multiple tax-claiming authorities,[29] and the control of a significant proportion of livestock exports by oligopolies in specific regions.[30] In this context, livestock sector ventures in Somalia are often low income generating, and a large proportion of the population involved in the sector suffers from extreme poverty.[31] There are also substantial gender disparities in the sector.[32] Furthermore, the livestock value chain remains exceptionally precarious because of erratic rainfall, sporadic livestock bans by trading partners (for instance, the bans by Gulf states in 1998 and 2000[33]), an increasingly threatened viability of current pastoral systems due to land degradation, and a wide range of climate change-induced factors (box 2.1).

The crop sector is underutilized and highly vulnerable. While the conditions for commercial farming in Somalia are marginal,[34] some of its regions boast fertile alluvial soils capable of producing staple cereals, oil seeds, legumes, and horticultural crops. Somalia was once the world's leading producer and exporter of some crops before the civil war, with crop products being the country's second-largest contributor to GDP and exports.[35] However, this trend has changed significantly in recent years. While farming continues to be an important source of livelihoods, especially for rural populations, both rain-fed and irrigation farming have deteriorated significantly.[36] Fields have been abandoned because of security issues, and crops have been affected by deteriorating water infrastructure, poor access to quality inputs, widespread use of low-yielding varieties, poor farming techniques, lack of access to markets and inputs, and almost nonexistent extension and research services. Climate change has exacerbated the vulnerability of crop production (box 2.1). As a consequence of all these factors, crop production in Somalia has declined considerably, with a 66 percent decrease in cereal production per capita between 1972 and 2012.[37] Relatedly, the country's primary crops (such as maize and sorghum) have long-term average yields of 0.5 and 0.3 metric tons per hectare, respectively,[38] which are extremely low compared with those of other countries in the region.[39] Even levels of production of the few crops for which Somalia's yields are in line with those of comparators (for example, sesame) remain low against their potential.[40] As such, Somalia is largely unable to supply food demand within the country,[41] and the revenues and job generation of the sector remain very depressed, despite ongoing initiatives to support their development and some investments in recent decades.[42] Small-scale subsistence farmers in Somalia,[43] who are responsible for the majority of crop production, face persistent poverty and struggle to improve production and modernize their farming practices, with women being particularly disadvantaged.

BOX 2.1 THE IMPACT OF CLIMATE-INDUCED SHOCKS ON SOMALI PRODUCTIVE SECTORS

Livestock, agriculture, and fisheries in Somalia are severely affected by frequent climate shocks. According to the Notre Dame Global Adaptation Initiative, Somalia is not only the second-most climate change-vulnerable country in the world, but also the least prepared for it.[a] Accordingly, the livestock and crop sectors have faced a rapid decline in production because of increasingly erratic and unreliable annual precipitation and a shortening of historical cycles of recurrent droughts. According to the FAO, Somalia has faced climate shocks for eight agricultural seasons since 2016, with each of these shocks having considerable economic impacts. For instance, the drought in 2016–17 caused estimated losses of US$2 billion[b] and led to the internal displacement of about 444,000 Somalis.[c] Impacts have also become more drastic in recent years because of climate change. For instance: (a) livestock mortality has increased by around 30 percent as a result of increased drought conditions;[d] (b) heat stress has decreased livestock productivity through reduced food intake, weight loss, less likelihood of survival, and a reduction in fertility;[e] (c) rising temperatures and changes in runoff patterns compromise not only the future yield of groundwater and shallow water,[f] but also the quantity and quality of forage[g] as well as the number of pests and diseases in the livestock sector.[h] The crop sector is similarly affected, with rising temperatures causing greater evapotranspiration and increased incidence of crop pests and diseases[i] and drought- and flood-related shocks, leading to increased failure of crops. For instance, the Somalia Agriculture Technical Group estimates that grain losses due to climate change in Southern Somalia are more than 20–30 percent of total harvest volumes.[j] Additionally, fishery ecosystems and stocks are increasingly being affected, with marine habitats that are critical as breeding and nursery grounds (for example, corals, seagrass beds, and mangroves) being modified and reduced by the degradation of Somalia's marine and coastal environment from acidification, sea level rise, higher water temperatures, and changes in ocean currents.[k]

a. Notre Dame Global Adaptation Initiative (ND-GAIN), "Country Rankings: Vulnerability and Readiness," https://gain.nd.edu/.

b. World Bank, *Collection of Policy Notes for the New Somali Government—Unlocking Somalia's Potential to Stabilize, Grow and Prosper* (Washington, DC: World Bank, 2022).

c. Gianni Zanini et al., *Rebuilding Resilient and Sustainable Agriculture in Somalia*, vol. 1, Main Report (English) (Washington, DC: World Bank, 2018).

d. World Bank, *Somalia Climate Risk Review* (Washington, DC: World Bank, 2023).

e. World Bank, *Somalia Climate Risk Review*.

f. Hüseyin Gökçekuş, Youssef Kassem, and Abdifatah Mohamoud Yusuf, "Impact of Climate Change on Water Resources in Somalia," *International Research Journal of Engineering & Technology* (IRJET) 09, no. 02 (2022), https://www.irjet.net/archives/V9/i2/IRJET-V9I240.pdf.

g. For more information on this topic, see World Bank, *Somalia Climate Risk Review*.

h. World Bank, *Somalia Climate Risk Review*.

i. Katy Richardson et al., *Climate Risk Report for the East Africa Region* (Exeter, UK: Met Office, Overseas Development Institute, Foreign, Commonwealth and Development Office, 2022).

j. World Bank, *Somalia Climate Risk Review*.

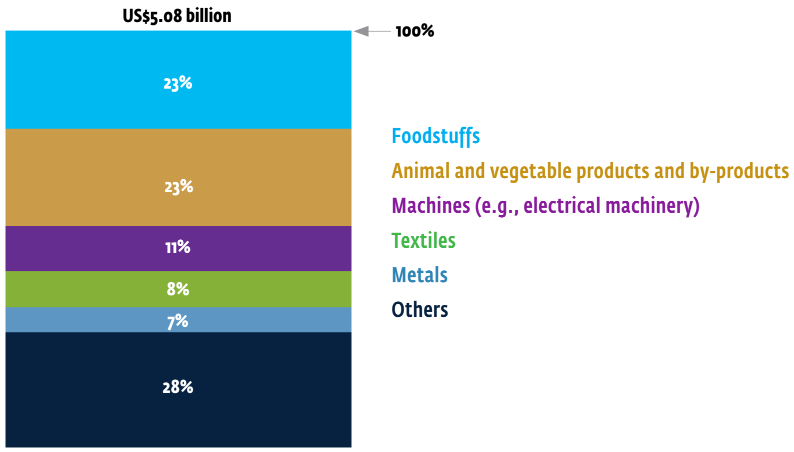
k. World Bank, *Somalia Climate Risk Review*.

Despite its potential, the contribution of the Somali fisheries sector to the economy remains modest. Somalia has the longest coastline in Africa (3,330 kilometers) and an exclusive economic zone[44] of 830,390 square kilometers. Furthermore, while the country has a relatively narrow shelf area in most of its coastline and climate risks on the country's marine and coastal environment are prevalent (box 2.1), Somalia has one of the strongest upwelling systems in the world, which increases the productivity of fishery resources in Somali waters. Although there are significant qualitative information limitations in this sector, some assessments suggest a sustainable annual catch potential of more than 300,000 tons.[45] This includes sizable high-value fishery products (for example, lobster, sea cucumber, tuna, and tuna-like species). Fisheries production in Somali waters expanded until 2007, when it dropped after the outbreak of piracy. In recent years, production has been estimated to be around 140,000 tons per year, with 60 percent done by industrial vessels (largely foreign and some illegally fishing) and 40 percent done by domestic fisheries.[46] Despite its growth potential, the fisheries sector fails to contribute significantly to the Somali economy and livelihoods, with one of the lowest fish consumption levels in Africa (3.3 kilograms per capita in 2014) and fishery exports in 2021 of only US$25 million.[47] Most fishing in the country is artisanal and carried out by coastal communities through either subsistence (nonmarketed) fishing or full-time and seasonal small-scale fishing,[48] which are characterized by considerable capacity challenges.[49] Infrastructure constraints (such as scarce cold-chain infrastructure and poor beach landing areas) and fragmented distribution also bring about significant postharvest losses[50] and low value addition to fishery production,[51] although some private sector entities have made investments in recent years.[52] Furthermore, illegal, unreported, and unregulated fishing by foreign firms has been rampant for many years because of a lack of governance and management in the sector[53]—especially in high-value fisheries products. Difficulties persist despite recent strides to address this issue, especially within the new federal architecture, wherein the FGS and FMS jointly established responsibilities and revenue sharing in the sector (this led to a new offshore licensing system, allowing Somalia to generate over US$3 million in revenue, most of which was shared with FMS). Despite this progress and ongoing reforms to develop Somali fisheries,[54] the sector remains severely underdeveloped.

Because of the subdued state of Somali productive sectors, private sector activity is concentrated primarily in commerce and other mostly nontradable services (for example, construction, education, health care, electricity, and water supply).[55] The extent to which Somali markets are underserved in terms of both volume and range of products[56] continues to generate a cornucopia of highly profitable opportunities for importing goods.[57] As a result, with a few notable exceptions (such as livestock), Somalia depends on imports for most consumable products, including basic commodities (for instance, food and fuel) (figure 2.4). Similarly, mostly nontradable consumption-driven services, fueled by ODA, remittances, and the return of diaspora members, have developed. Accordingly, private sector activity across the country is concentrated in commerce and other, mostly nontradable services.[58] In rural areas, 69 percent of employment is in retail, petty trading, and other nontradable services.[59] In urban areas, retail trade, wholesale trade, and other nontradable services are estimated to account for more than 90 percent of jobs.[60] This is the case across different types of firms in Somalia: (a) retail and other service firms account for 85 percent of established urban firms and contribute to 88 percent of jobs in established urban businesses,[61] (b) 82.6 percent of household enterprises are focused on either trading through shops and street markets or providing other predominantly nontradable services,[62] and (c) petty trading, the informal trade of commodities (such as khat), and other related activities are the primary source of self-employment for urban residents.[63]

FIGURE 2.4 SOMALIA IMPORTS BY TYPE OF PRODUCT, 2021

Total and % of total



Source: Observatory of Economic Complexity.

2.2 MARKET CAPTURE BY A FEW LARGE CONGLOMERATES

Much of Somalia's wealth is captured by a few large conglomerates. Influential conglomerates that are often formally incorporated outside Somali territory[64] while operating almost solely in Somalia control most of the profitable markets in the country.[65] Although economic opportunities in Somalia have increased in recent years, conglomerates have captured most of them. For instance, service sectors (such as the power sector) often operate as local oligopolies generally dominated by conglomerates,[66] and the import-export sector is controlled by a few firms—a 2018 study concludes that fewer than a dozen traders account for more than 50 percent of revenues collected at the Mogadishu maritime port.[67]

The influence of Somali conglomerates has its origins in distortive policies implemented before the civil war. During the final decade of Siyad Barre's regime, state-imposed price controls and foreign currency exchange rates led to a significantly overvalued Somali shilling. Consequently, the public found significant incentives to transfer remittances through black market channels.[68] The situation also motivated the Somali government's endorsement of its *franco valuta* system, through which the private sector was permitted to import commodities as long as the source of foreign exchange for such imports remained outside Somalia.[69] Only a few businesses were able to benefit from the considerable expansion of informal black markets during the 1970s and 1980s to fill the void of goods, services, and currencies that resulted from the mounting failure of chronically underfinanced public sector monopolies.[70] While subsistence-driven ventures remained the majority of the country's subdued productive sectors (for example, livestock rearing, agriculture, and fisheries),[71] it was businesspeople with access to capital in foreign currency who were able to take advantage of the highly profitable import-export market.[72] These firms also benefited from the virtually tax-free status of Somalia during its period of statelessness. Large importers also leveraged the diaspora to channel money into Somalia, collecting cash in hard currency from migrants to buy products that would be imported and compensating migrants' relatives in Somali shillings at black market rates.[73] This practice eventually became a separate business, with firms channeling remittances and giving private traders access to foreign exchange through traditional *hawala* systems.[74]

Larger conglomerates in Somalia have used the liquidity accumulated by the aforementioned distortive policies to capture the markets they currently dominate.[75] With roots in the import-export and remittances sectors, most conglomerates established financial institutions in a nascent but growing financial sector.[76] The enhanced access to finance provided by these institutions, and the possibility of controlling flows and reflows of funds into and out of Somalia, has maintained the liquidity advantage of these conglomerates[77] and has been essential in leveraging burgeoning opportunities in the country in various other sectors.[78] For instance, through a conjunction of their investments in the ICT sector and their control of liquidity,[79] some conglomerates dominate one of the most active mobile money markets in the world.[80] They also exploited their access to liquidity to do the following: (a) create sprawling operations in logistics,[81] tourism,[82] and energy;[83] (b) develop real estate properties, generating substantial competition for developers who sometimes get loans from conglomerates' banks;[84] and (c) protect their dominance in various markets—for instance, market entry to the ICT sector is thought to be currently restricted by cross-subsidization of broadband services via conglomerates' more profitable mobile money businesses.[85] Finally, conglomerates have capitalized on their liquidity to benefit from scale advantages[86] to dominate the export of the few goods produced by Somalis (such as livestock)[87] and to become wholesalers of imported goods (for example, food products, luxury cars, and construction materials), forcing smaller, less capitalized firms into roles as distributors and retailers with less profitability.[88]

These conglomerates also leverage their wide-ranging public influence to maintain market dominance and crowd out competition. The central role of conglomerates in the provision of social services and public goods and the substantial amounts of capital they funnel to the public sphere through corporate social responsibility programs[89] have earned them high levels of trust and influence across Somalia.[90] Conglomerates have often used this position to entrench existing power relations and systems of elite codependence.[91] While initially involved in the political landscape for territorial control of their respective clan lineages, conglomerates gradually expanded their operations and authority across Somalia, consolidating oligopolistic and anticompetitive dynamics of the sectors they operate in across the country. Conglomerates have been able to develop regional monopolies in some markets, benefit from cartelistic behaviors in others, and act in ways that often lead to negative externalities (for example, there are only minor restrictions for the sale of counterfeit or expired medication or spoiled food staples).[92] This has resulted in a series of market failures, including limited interconnectivity between telecommunications companies[93] and exorbitant costs for some basic services such as electricity.[94]

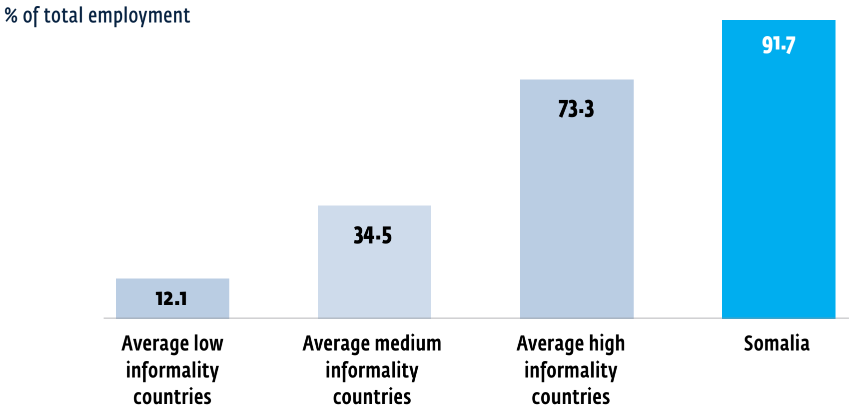
Several nonconglomerate large firms and small and medium enterprises (SMEs) manage to thrive, typically by harnessing social and political networks. A few other large companies and a number of SMEs operate successfully in a range of sectors that conglomerates have been unable to fully capture.[95] Some of these sectors (for instance, logistics) are dominated by cartels of large firms and SMEs.[96] In other sectors, in which barriers of entry are relatively low (such as construction[97]), SMEs exist side by side with larger competitors.[98] Finally, in markets in which low levels of liquidity and international networks are an advantage (such as speculation with rising property prices, activities that capture aid rents, services aimed at elite segments of the Somali population, or development organizations), diaspora SMEs are often successful.[99] There are a few large firms and SMEs in the country with great profitability[100] and productivity levels comparable to benchmarks in similar countries.[101] However, to attain such success, maintaining insider status both socially and politically remains crucial. Social networks help minimize security costs and streamline business operations, enabling engagement in local markets and facilitating the mobilization of capital.[102] Additionally, firms frequently require ownership structures that mirror the clan composition of specific neighborhoods to enhance company acceptance and ensure the likelihood of client payments, while safeguarding their infrastructure.[103] Finally, political connections are a considerable advantage. Although specific benefits are exclusive to conglomerates (such as negotiating favorable tax liabilities),[104] large firms and SMEs with robust political connections benefit from their involvement in networks of political clientelism.[105]

2.3 MISSING MIDDLE OF BUSINESSES IN SOMALIA

Most firms in Somalia remain highly disadvantaged.[106] Firms that lack social and political networks endure a more burdensome business environment.[107] This is particularly common for women-owned businesses, which are generally marginalized within existing political and clan-based networks, reflecting the patriarchal structure of Somali society (box 2.2).[108] Formal SMEs often face a greater tax burden[109] and face challenges in scaling up their operations.[110] As a result, only 3.9 and 12.0 percent of established SMEs in Mogadishu and Bosaso, respectively, reported purchasing new or used fixed assets in the previous 12 months,[111] falling significantly below their regional peers (42.8 percent of firms in the Democratic Republic of Congo, 39.5 percent of firms in Djibouti, and 33.8 percent of firms in Kenya, among other comparable regions, reported similar investments).[112] Similarly, only 8.3 percent of established microfirms in those cities purchased any kind of machinery or equipment during that period.[113] In this context, various assessments indicate a high rate of failure among medium firms.[114]

Businesses in Somalia are thus usually small and informal. There is a missing middle in Somalia, with SMEs accounting for almost 6 percent of established businesses (or around 2.4 percent of total employment).[115] Conversely, it is estimated that almost 94 percent of nonagricultural firms in Mogadishu and Bosaso are micro.[116] Microbusinesses are also largely necessity driven. Almost two-thirds of the microbusiness owners examined in the 2019 World Bank Micro Enterprise Survey started their business because they were unable to find another source of income, wanted to supplement with a secondary source of income, or simply found that their business would be more convenient in terms of location or hours. Most Somali firms are also informal. Two-thirds of firms in Bosaso and Mogadishu are informal,[117] with an even larger proportion of firms likely being informal in rural areas.[118] Established businesses are assessed as accounting for only 1 in every 15 jobs in the country.[119] It is self-employment and HH enterprises that provide employment and livelihoods to most Somalis. Self-employment accounts for about two-thirds of the country's active labor force,[120] and HH enterprises account for about 26 percent of jobs. The percentage of informal jobs in Somalia is 91.7 (figure 2.5). This approximation is consistent with calculations by ILO and IMF of informal employment in Somalia that estimate informality at levels that are slightly different but also above 91 percent.[121]

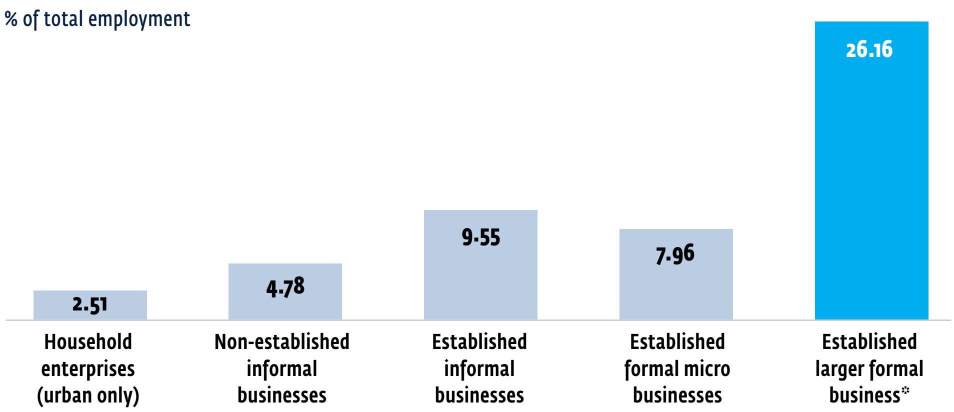
FIGURE 2.5 INFORMAL EMPLOYMENT IN WORLD COUNTRIES AS A GROUP AND IN SOMALIA, 2022



Sources: International Labour Organization Database (ILOSTAT); ILO estimates; and IMF staff calculations in Roberto Cardarelli et al., "Informality, Development, and the Business Cycle in North Africa" (Developmental Paper 2022/011, IMF, Washington, DC, 2022).

This context adversely affects job creation and the overall productivity of the Somali private sector. Somali necessity-driven ventures generate few jobs. Apart from the large proportion of self-employment in the country, HH enterprises consist mostly of firms with one or two employees,[122] and microbusinesses have an average of two employees.[123] Similarly, while statistics for the productivity of the self-employed are unavailable, available data indicate that HH enterprises, established informal businesses, and established micro formal businesses have productivities that are considerably lower than those of larger formal businesses (figure 2.6) and much lower than those of the same type of firms in comparator countries.[124]

FIGURE 2.6 MEDIAN DAILY SALES PER WORKER IN DIFFERENT TYPES OF FIRMS BASED ON 2012 AND 2019 DATA



Sources: World Bank staff calculations based on 2012 Somaliland Enterprise Survey and 2019 Mogadishu/Bosaso Enterprise Survey.

Note: * = firms with at least 100 employees.

BOX 2.2 WOMEN-OWNED BUSINESSES IN SOMALIA

Women-led businesses in Somalia tend to be more necessity driven and have lower productivity than men-led businesses. As women face higher levels of underemployment and are less likely to find jobs that earn a regular wage or salary,[a] they are more prone to start businesses because of economic push factors. Many women also require the flexibility of micro- and small-business ownership to balance their domestic and caregiving responsibilities. Basically, three-quarters of the women in the Somali labor force are self-employed,[b] with recent evidence suggesting that 70 percent of petty traders are women.[c] More than half of all HH enterprises are also owned by women. Female entrepreneurial ventures are also more typically micro than both male-led ventures in Somalia and female-led ventures in other countries.[d] According to the 2019 World Bank Enterprise Survey in Mogadishu and Bosaso, women own a smaller proportion of larger formal businesses, with only 9 percent of nonmicro formal businesses being owned by women. Furthermore, the productivity of women businesses is lower, as they have lower revenues than similar male-led businesses[e] and are largely excluded from high-earning segments of value chains.[f] In addition, they are constrained by the following: (a) Issues with mobility, which are linked to women's social responsibilities assigned by entrenched social norms.[g] (b) Less access to capital, which is linked especially to issues with a lack of collateral, due to restrictions on women's inheritance and ownership enshrined in customary legal systems and discriminatory practices in the Somali rental market. This leads to a particularly strong reliance on informal sources of credit (friends, family, and saving groups), which generally offer small loans with high transaction costs. (c) More limited social and political networks (where information about trading practices is shared), due primarily to marginalization of women in existing clan structures. The lower productivity and job generation of women-led businesses constrain female labor force participation, as women entrepreneurs are more likely to hire women than their male counterparts, contributing most to employment of women.[h]

a. World Bank, *Somalia Urbanization Review: Fostering Cities as Anchors of Development* (Washington, DC: World Bank, 2020).

b. Wendy Karamba, *Improving Access to Jobs for the Poor and Vulnerable in Somalia* (Washington, DC: International Bank for Reconstruction and Development/World Bank, 2021).

c. World Bank, *Somalia Country Economic Memorandum—Towards an Inclusive Jobs Agenda* (Washington, DC: World Bank, 2021).

d. World Bank, *Somalia Country Economic Memorandum*.

e. For instance, according to the 2021 *Somalia Country Economic Memorandum*, women-led household enterprise revenues are 40 percent lower than those of similar businesses led by men.

f. For example, women are excluded from catching and exporting fish, trekking with animals in search of higher market prices, agricultural value chains with the greatest volumes, and currency exchange.

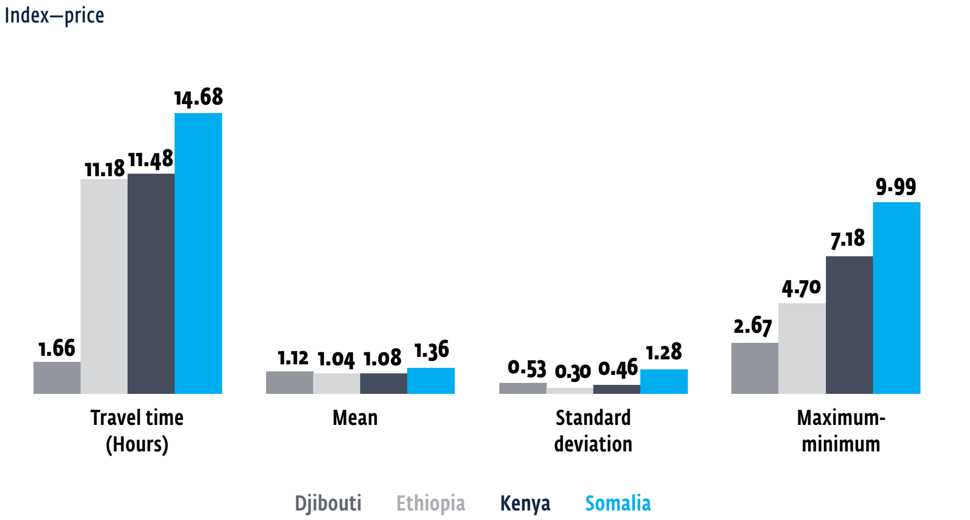
g. World Bank, *Somali Poverty and Vulnerability Assessment: Findings from Wave 2 of the Somali High Frequency Survey* (Washington, DC: World Bank, 2019).

h. In Somalia, women's ownership of household enterprises contributes to one in four jobs for other women. See World Bank, *Somalia Country Economic Memorandum*.

2.4 LOW ECONOMIC INTEGRATION AND THE MINIMAL COMPLEXITY OF FOREIGN DIRECT INVESTMENT

The economic integration of the Somali private sector is minimal internationally and domestically. While official trade statistics severely underestimate trade in Somalia, with cross-border trade being one of the key sources of employment generation in the country[125] (especially in the regions bordering Ethiopia and Kenya), Somalia's integration into the regional and global economy is minimal. Although Somalia has become increasingly integrated with the economies of Gulf states, Türkiye, and the East African region, its exports have shown limited foreign value added and low participation as intermediate inputs in the exports of other countries. As a result, Somalia's backward and forward linkages to global value chains continue to be limited,[126] given the notable geographic and economic fragmentation that defines Somalia's private sector. The nation exhibits the highest within-country price differential in the region, even after transportation and transaction costs are factored in (figure 2.7).[127] Fragmentation is particularly pronounced along corridors originating from the port of Mogadishu, yet it pervades all of Somalia's domestic markets, amplifying producer costs and complicating local competition with imports. This also poses challenges for the private sector to compete as exporters in foreign markets.[128]

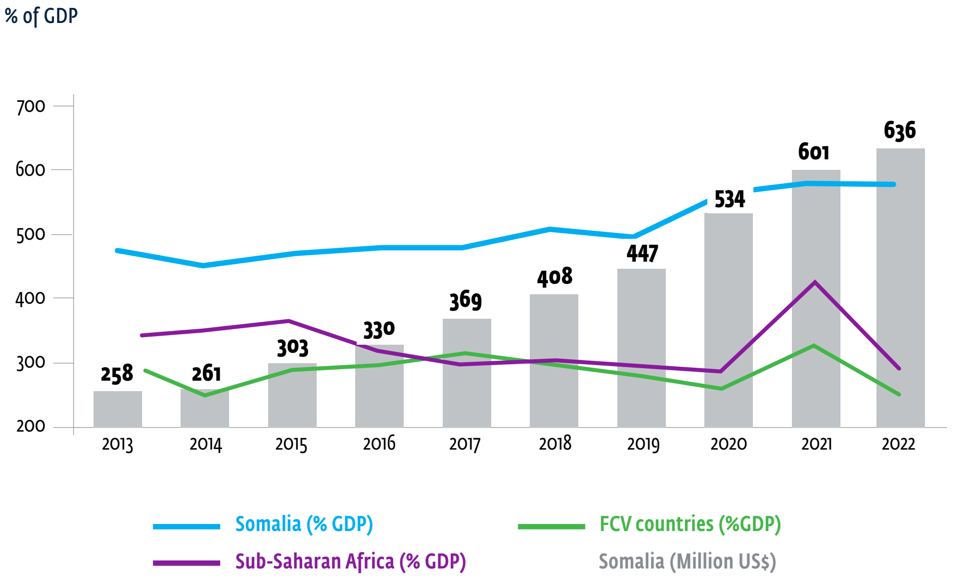
FIGURE 2.7 SUMMARY STATISTICS OF WITHIN-COUNTRY PRICE DIFFERENTIALS, 2021



Source: Habtamu Tesfaye Edjigu, *Market Accessibility, Food Prices and Market Integration in Horn of Africa* (self-published, 2021), mimeo.com.

While FDI in Somalia appears to be sizable as a proportion of GDP, it has not contributed to the country's diversification into higher-valued-added products. Statistics suggest that FDI as a percentage of GDP in Somalia is much higher than averages for Sub-Saharan African and FCV countries (figure 3.8).[129] Accordingly, FDI stocks are estimated to have increased significantly in recent years.[130] However, on a per capita basis, FDI in the country remains small. The share of FDI that is efficiency seeking is also negligible. There have been a few investments in ports and airports by Turkish and Emirati corporations such as Favori, Albayrak Group, and DP World[131] and some investment by small foreign firms in other economic sectors,[132] but FDI in the country has been driven primarily by diaspora and Somali transnational conglomerate investments, as the absence of effective regulation, in conjunction with other cross-cutting constraints in Somalia, limits efficiency-seeking FDI in the country. With respect to diaspora investments, many Somalis abroad have taken steps in recent decades to re-engage with their country of origin in ways that go beyond traditional remittances. Reportedly, 60 percent of Somali diaspora members are active investors in the country.[133] Thus, although most diaspora investments are between US$5,000 and US$50,000,[134] some reports calculate that the sum of diaspora investments is several hundred million US dollars per year,[135] which accounts for a large proportion of the total estimated FDI in the country.[136] However, diaspora investments have largely been unable to stimulate economic development, as they are primarily funneled into low-impact sectors like shops, cafes, and land.[137] With respect to investments from Somali conglomerates, although there are no statistics on their exact size, they are estimated to be large, given the growth of these firms in various markets.

FIGURE 2.8 FOREIGN DIRECT INVESTMENT (NET INFLOWS) IN SOMALIA, 2013–22



Sources: International Monetary Fund, International Financial Statistics and Balance of Payments databases, World Bank, International Debt Statistics, and World Bank and OECD GDP estimates, supplemented by data from the United Nations Conference on Trade and Development and official national sources, Balance of Payments Statistics Yearbook and data files.

Note: GDP = gross domestic product; FCV = fragile, conflict, violence.

Notes

1. Jamil A. Mubarak, "The 'Hidden Hand' behind the Resilience of the Stateless Economy of Somalia," *World Development* 25, no. 12 (1997): 2027–41.
2. According to IMF's 2022 Article IV Consultation, government expenditure was only 6.9 percent of GDP in 2022 in Somalia.
3. World Bank, *Somalia Country Economic Memorandum: Towards an Inclusive Jobs Agenda* (Washington, DC: World Bank, 2021).
4. Jos Meester, Ana Uzelac, and Claire Elder, "Transnational Capital in Somalia: Blue Desert Strategy" (Clingendael Institute, The Hague, the Netherlands, 2019).
5. For further discussion, see Alex de Waal, *Famine Crimes: Politics and the Disaster Relief Industry in Africa* (Oxford, UK: James Currey Ltd., 1997).
6. Stakeholder consultations in Mogadishu and Nairobi, January 2023, and various secondary sources (for example, Meester, Uzelac, and Elder, "Transnational Capital in Somalia"; and Tobias Hagmann et al., "Commodified Cities: Urbanization and Public Goods in Somalia" [Rift Valley Institute, Nairobi, Kenya, 2020]).
7. Meester, Uzelac, and Elder, "Transnational Capital in Somalia."
8. For more information, see Sherine El Taraboulsi-McCarthy, Nisar Majid, and Barnaby Willitts-King, "Private Sector Engagement in Complex Emergencies: Case Studies from Yemen and Southern Somalia" (ODI [Overseas Development Institute], London, February 2017); and Yusuf Nur, "The Business-Government Partnership Way to Economic Development in Somalia," in *Theorizing Somali Society: Hope, Transformation and Development*, ed. Abdulkadir Osman Farah and Mohamed A. Eno (New Delhi, India: Authorspress, 2022), 150–66.
9. For a reference, see Stig Jarle Hansen, "Civil War Economies, the Hunt for Profit and the Incentives for Peace (The Case of Somalia)" (AE Working Paper 1, University of Bath, UK, 2007).
10. United Nations Development Programme (UNDP), *Human Development Report: Somalia* (Nairobi, Kenya: UNDP, 1998).
11. Some reports state that investments in light manufacturing expanded in larger Somali cities (such as Hargeisa, Mogadishu, and Bosaso) even during the country's period of statelessness (see, for instance, UNDP, *Human Development Report 2001—Somalia* [New York: UNDP, 2001]). Some multinationals have opened factories in Somalia through local agents (for example, Coca-Cola; see Mark Tran, "*Somaliland Bottles Its Hopes in Coca-Cola Plant," the Guardian*, July 20, 2012; A. Ali, "Coke Plant Heralds New Beginning in Somalia," African Business Journal, August-September 2004; and "Coca-Cola Plant Resumes Its Production in Somalia," Shabelle Media Network, December 11, 2012). Finally, some development partners have implemented projects to support the development of manufacturing firms (especially in agribusiness value chains).
12. World Bank, *Somalia Country Economic Memorandum*.
13. Estimated using World Bank staff calculations of the contributions of different types of businesses to employment from the World Bank, *Somalia Country Economic Memorandum*.
14. According to the World Bank 2022 Somalia Household Survey, 2.4 percent of household businesses processed purchased crops or livestock products for sale.
15. World Bank, *Somalia Country Economic Memorandum*.
16. According to consultations with private and public sector stakeholders, gold is mostly reexported after being informally imported in Somalia.
17. Source: Observatory of Economic Complexity.
18. For example, diversification of economic activities or splitting of herds.
19. Ken Menkhaus, *Trends in Somali Society, Governance, Environment, and Transnational Relations: An Introduction and Synthesis* (Nairobi, Kenya: Rift Valley Institute, January 2021).
20. See, for instance, International Labor Organization (ILO), *Somalia Labor Force Survey* (Geneva, Switzerland: ILO, 2014).
21. World Bank, *Somalia Country Economic Memorandum*.
22. Gianni Zanini et al., *Somalia Country Economic Memorandum*, volume 1: *Rebuilding Resilient and Sustainable Agriculture in Somalia* (Washington, DC: World Bank and FAO, 2018), https://documents1.worldbank.org/curated/en/781281522164647812/pdf/124651-REVISED-Somalia-CEM-Agriculture-Report-Main-Report-Revised-July-2018.pdf; and FAO, "National Gender Profile of Agriculture and Rural Livelihoods: Somalia" (FAO, Mogadishu, Somalia, 2021), https://www.fao.org/3/cb6316en/cb6316en.pdf.
23. Little, *Somalia: Economy without State*.
24. A livestock census supported by development institutions is planned for 2024.
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27. Dalberg, "Mapping and Analysis of Value Chains in Somaliland—Livestock and Beverages," internal document, March 2017; and stakeholder consultations in Mogadishu, January 2023.

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29. Ahmed M. Musa, Finn Stepputat, and Tobias Hagmann, "Revenues on the Hoof: Livestock Trade, Taxation and State-Making in the Somali Territories," *Journal of Eastern African Studies* 15, no. 1 (2021): 108–27, https://doi.org/10.1080/17531055.2020.1834306.
30. Ahmed Musa, "From Trust to Oligopoly: Institutional Change in Livestock Trade in Somaliland after 1991" (Working Paper 2019:8, Danish Institute for International Studies, Copenhagen, Denmark, August 2019); and Nisar Majid, "Livestock Trade in the Djibouti, Somali and Ethiopian Borderlands" (Briefing paper, Chatham House, London, September 2010).
31. Sonia Plaza and Caroline Cerruti, "How Drought Insurance and Value Chains Can Support Somalia's Livestock Economy," *World Bank Blogs*, October 3, 2022, https://blogs.worldbank.org/africacan/how-drought-insurance-and-value-chains-can-support-somalias-livestock-economy.
32. For more information, see FAO, "National Gender Profile of Agriculture and Rural Livelihoods: Somalia."
33. Mark Bradbury, Ken Menkhaus, and Roland Marchal, *Human Development Report: Somalia*, 2001 (Nairobi, Kenya: UNDP [United Nations Development Programme], 2001); and data from the Observatory of Economic Complexity, https://oec.world/en/profile/country/som. For an explanation of the impact to the livestock sector of Somalia's institutional and regulatory deficiencies, see Musa, "From Trust to Oligopoly."
34. Less than 5 percent of the Somali territory is suitable for cultivation. Furthermore, only 25 percent of the Somali territory than can be cultivated is suitable for irrigation. For more information, see Albert Tuinhof et al., *Economics of Water: Digging for Data in Somalia—Towards Understanding Water as a Limiting or Enabling Factor for Socioeconomic Growth in Somalia* (Washington, DC: World Bank, 2021); Mark Kipkurwa Boitt, Flomena C. Langat, and John K. Kapoi, "Geospatial Agro-climatic Characterization for Assessment of Potential Agricultural Areas in Somalia, Africa," *Journal of Agricultural Informatics* 9, no. 3 (2018): 18–35, https://doi.org/10.17700/jai.2018.9.3.479; and Federal Republic of Somalia, "National Adaptation Programme of Action on Climate Change" (UNDP, April 2013).
35. Zanini et al., *Rebuilding Resilient and Sustainable Agriculture*.
36. Rain-fed farming accounts for 90 percent of the total cultivated area in Somalia, with irrigated farming accounting for the rest.
37. Bryan Keogh, "Somalia Is Facing Another Food Crisis: Here's Why—And What Can Be Done to Stop the Cycle," *The Conversation*, April 29, 2021.
38. World Bank, *Collection of Policy Notes for the New Somali Government—Unlocking Somalia's Potential to Stabilize, Grow and Prosper* (Washington, DC: World Bank, 2022).
39. For instance, FAOSTAT data for 2015–19 point to average sorghum yields of 2.59 metric tons per hectare (MT/ha)] in Ethiopia, 0.98 MT/ha in Mali, and 0.97 MT/ha in Uganda.
40. Zanini et al., *Rebuilding Resilient and Sustainable Agriculture*.
41. Daniel Maxwell and Merry Fitzpatrick, "The 2011 Somalia Famine: Context, Causes and Complications," *Global Food Security* 1, no. 1 (2012): 5–12. A widening gap between food production and consumption exists, with local crop production unable to supply even half of its per capita cereal needs.
42. For instance, the World Bank Barwaaqo project.
43. Little, *Somalia: Economy without State*; and Carl Collen, "Del Monte Reveals Somalia Banana Partnership," *Eurofruit*, February 2, 2023, https://www.fruitnet.com/eurofruit/del-monte-reveals-somalia-banana-partnership/248235.article.
44. An exclusive economic zone is the area of 200-mile territorial sea of a country beyond and adjacent to its territorial sea (as prescribed by the 1982 United Nations Convention on the Law of the Sea).
45. For more information, see World Bank, "Somalia: Support to the Fisheries Sector and Reconstructing Coastal Livelihoods" (Policy Note, World Bank, Washington, DC, June 2016).
46. Sea Around Us project, consulted August 2023, https://www.seaaroundus.org/.
47. Observatory of Economic Complexity, accessed on July 18, 2023, https://oec.world/en/profile/country/som?depthSelector1=HS2Depth.
48. For more information, see FAO, "National Gender Profile of Agriculture and Rural Livelihood: Somalia."
49. Zanini et al., *Rebuilding Resilient and Sustainable Agriculture in Somalia*.
50. Estimates by FGS's Ministry of Fisheries and Marine Resources suggest postharvest losses of around 40 percent.
51. Consultations with private sector stakeholders in Mogadishu and Nairobi, January 2023.
52. For instance, the Habo Tuna factory improved its cold-chain infrastructure with support from development partners.
53. Jay Bahadur, "Fishy Business: Illegal Fishing in Somalia and the Capture of State Institutions" (Research report, Global Initiative against Transnational Organized Crime, Geneva, Switzerland, 2021).

54. The Ministry of Fisheries and Blue Economy enacted a Federal Fisheries Act in March 2023. In April 2023, implementing regulations that frame the scope of activities in Somalia's Fisheries Exclusive Zone through clear terms and conditions were issued. The World Bank, EU, FAO/Italian Cooperation, US Agency for International Development, and Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) are currently leading projects in the sector.
55. There are a few exceptions of tradable services that developed (such as in ICT), but they are also largely consumption driven.
56. Jos Meester et al., "Financial Disruption and Fragile Markets—A Political-Economic Perspective on SMEs in the Somali Private Sector under COVID-19," *Clingendael Magazine online report*, clingendael.org.
57. Meester et al., "Financial Disruption and Fragile Markets."
58. African Solar Designs, "Off-Grid Lighting Market Assessment for Somalia," 2017, africansolardesigns.com.
59. Wendy Karamba, *Improving Access to Jobs for the Poor and Vulnerable in Somalia* (Washington, DC: World Bank, 2021).
60. World Bank, *Somalia Country Economic Memorandum*.
61. World Bank staff calculations using the 2019 Enterprise and Micro Surveys in Mogadishu and Bosaso.
62. Somalia National Bureau of Statistics, "2022 Somalia Household Budget Survey (SIHBS)—Main Report," February 2023.
63. World Bank, *Somalia Urbanization Review: Fostering Cities as Anchors of Development* (Washington, DC: World Bank, 2020). Small-scale retail and trade are the main source of income and employment especially for women, because of the lack of other viable alternatives, as well as the flexibility it offers in terms of balancing domestic and caregiving responsibilities.
64. For instance, Hormuud is based in Doha, Qatar, and Dahabshiil was incorporated in the United Kingdom and is headquartered in Dubai, United Arab Emirates.
65. Meester, Uzelac, and Elder, "Transnational Capital in Somalia."
66. Hagmann et al., "Commodified Cities"; UNICON Power Master Plan—Development of a Power Master Plan for Somali Project, October 2018; and consultations with private sector stakeholders in Hargeisa and Mogadishu, December 2022 and January 2023.
67. Thomas Cantens, "An Assessment of Somalia Customs Revenue Potential: A Way Forward for Customs Reforms," informal report, 2018.
68. Hansen, "Civil War Economies."
69. For more information, see Jamil Mubarak, *From Bad Policy to Chaos in Somalia: How an Economy Fell Apart* (Westport, CT: Praeger, 1996).
70. Mubarak, "The 'Hidden Hand' behind the Resilience."
71. Vali Jamal, "Somalia: Understanding an Unconventional Economy," *Development and Change* 19, no. 2 (1988): 203–65.
72. Roland Marchal, *The Post Civil War Somali Business Class* (Nairobi, Kenya: European Commission Somalia Unit, 1996).
73. Marchal, *A Survey of Mogadishu's Economy*.
74. While hawala can refer to many kinds of informal money-transfer systems that do not involve the physical transfer of cash, traditional hawala networks are based on trust, enabling them to function in areas that lack a functioning banking system. Customers use brokers based in their respective locations to send and receive money, with the senders paying a small commission and the receivers sometimes using a password to release the funds.
75. For instance, Dahabshiil and Hormuud—which at present own the two largest constellations of firms in the country—developed in this manner. For more information on this topic, see Ahmed I. Samatar, "The Making of Dahabshiil: A Brief Interview," *Bildhaan: An International Journal of Somali Studies 21 (2021),* article 7*; and Marchal, A Survey of Mogadishu's Economy*.
76. IMF, "Somalia: Technical Assistance Report—Bank Supervision and Regulation" (IMF Country Report no.21/68, IMF, Washington, DC, 2020).
77. For more information on this topic, see Hagmann et al., "Commodified Cities."
78. Consultations with a foreign private equity fund that is attempting to create a joint venture with a Somali conglomerate revealed that Somali conglomerates have no issues with making cash investments of tens of millions of US dollars in the country.
79. Ali Yassin sheikh Ali and Ismail Sheikh Yusuf Ahmed, "Factors Influencing Mobile Money Transfer Adoption among Somali Students," *International Journal of Business, Economics and Law* 4, no. 1 (June 2014): 180–88.
80. John Randa and Benjamin Thilasoni, "Rapid Growth in Mobile Money: Stability or Vulnerability?" (Somalia Economic Update no. 3, World Bank, Washington, DC, 2018).
81. This includes logistics of commercial goods but also logistics support for humanitarian actors (for example, overland transportation of aid, import of fuel, the provision of private security, and leasing of property to nongovernmental organizations and international organizations).

82. Meester, Uzelac, and Elder, "Transnational Capital in Somalia."
83. In the absence of a physical national grid in the electricity sector, conglomerates have used their liquidity to invest in isolated distribution grids in major cities, to which new entrants have no access, and to buy out most competitors in large urban cities in an ongoing consolidation of the energy market.
84. Meester, Uzelac, and Elder, "Transnational Capital in Somalia."
85. World Bank, "Somalia Digital Economy for Africa" (Initiative DE4A Report, World Bank, Washington, DC, 2022).
86. Moving goods in container volumes rather than smaller freights.
87. Consultations with private sector stakeholders in Mogadishu and Nairobi, January 2023.
88. Meester, Uzelac, and Elder, "Transnational Capital in Somalia."
89. Taraboulsi-McCarthy, Majid, and Willitts-King, "Private Sector Engagement in Complex Emergencies"; and Nur, "The Business-Government Partnership Way." For instance, conglomerates coordinated considerable relief efforts for the regions stricken by recent severe droughts in parallel and sometimes before government initiatives or international aid.
90. Shabelle Media Network, "Somalia: Hormud [sic] Telecom's Response to Bombing Victims Draws Praise," allAfrica, October 21, 2017, https://allafrica.com/stories/201710230675.html; and Meester, Uzelac, and Elder, "Transnational Capital in Somalia."
91. Ahmed M. Musa and Cindy Horst, "State Formation and Economic Development in Post-war Somaliland: The Impact of the Private Sector in an Unrecognized State," *Conflict, Security & Development* 19, no. 1 (2019): 35–53; and K. Menkhaus, "Elite Bargains and Political Deals Project: Somalia Case Study" (Stabilisation Unit Report, UK Government, 2018).
92. Jillian Clare Kohler et al., "An Examination of Pharmaceutical Systems in Severely Disrupted Countries." *BMC International Health and Human Rights* 12, article 34 (2012).
93. World Bank, "Somalia Digital Economy for Africa."
94. UNICON Power Master Plan.
95. Meester, Uzelac, and Elder, "Transnational Capital in Somalia."
96. Claire Elder, "Logistics Contracts and the Political Economy of State Failure: Evidence from Somalia," *African Affairs* 121, no. 484 (July 2022): 395–417.
97. According to consultations with private sector stakeholders, larger building projects are dominated by a few bigger players. However, there are certain types of smaller-scale construction that do not require such advantages, in which SMEs are able to survive.
98. Meester, Uzelac, and Elder, "Transnational Capital in Somalia."
99. Meester, Uzelac, and Elder, "Transnational Capital in Somalia."
100. Consultations with private sector stakeholders in Mogadishu and Nairobi, January 2023; and consultations with private sector stakeholders in Hargeisa, November 2022.
101. See results of the latest Enterprise Surveys for Mozambique and Zambia.
102. Consultations with private sector stakeholders in Mogadishu and Nairobi, January 2023; and consultations with private sector stakeholders in Hargeisa, November 2022.
103. World Bank, *Somalia Urbanization Review*.
104. Abshir, Abdirahman, and Stogdon, "Tax and the State in Somalia"; and "Report of the Monitoring Group on Somalia and Eritrea Pursuant to Security Council Resolution 2244 (2015): Somalia" (United Nations Security Council, New York, 2016).
105. Meester et al., "Financial Disruption and Fragile Market."
106. Consultations with private sector stakeholders in Mogadishu and Nairobi, January 2023; and consultations with private sector stakeholders in Hargeisa, November 2022.
107. Consultations with private sector stakeholders in Mogadishu and Nairobi, January 2023; and consultations with private sector stakeholders in Hargeisa, November 2022.
108. World Bank, *Somalia Country Economic Memorandum*.
109. Abshir, Abdirahman, and Stogdon, "Tax and the State in Somalia"; and Report of the Monitoring Group on Somalia and Eritrea.
110. Meester et al., "Financial Disruption and Fragile Markets."
111. World Bank Enterprise Survey 2019 done in Mogadishu and Bosaso.
112. Latest World Bank Enterprise Surveys for those countries.
113. World Bank Micro-Enterprise Survey 2019 done in Mogadishu and Bosaso.
114. For instance, Somaliland's National Industry Association found that more than 70 percent of small and medium registered enterprises fail.

115. World Bank Staff calculations based on the 2019 Enterprise, Informal, and Micro Surveys and on the World Bank 2021 *Country Economic Memorandum*.
116. World Bank staff calculations based on the 2019 Enterprise and Micro Surveys in Mogadishu and Bosaso. There is no uniform definition of micro enterprises and SMEs used by the Somali government. Based on World Bank estimates using the 2019 Enterprise, Micro, and Informal Surveys in Mogadishu and Bosaso, and given the small size of firms in Somalia, this CPSD defines micro firms as those with fewer than 5 employees, small firms as those with 5–19 employees, and medium firm as those with 20–99 employees. Average numbers of employees for micro and small urban established businesses in Somalia are 2 and 8, respectively.
117. World Bank calculations for the 2021 Somalia Country Economic Memorandum.
118. Consultations with private sector stakeholders in Mogadishu and Nairobi, January 2023.
119. World Bank, *Somalia Country Economic Memorandum*.
120. Wendy Karamba, *Improving Access to Jobs for the Poor*.
121. Roberto Cardarelli et al., "Informality, Development, and the Business Cycle in North Africa" (Departmental paper, IMF, Washington, DC, 2022).
122. World Bank staff calculations based on the 2022 Household Survey in Somalia.
123. World Bank staff calculations based on the 2019 Enterprise and Micro Surveys in Mogadishu and Bosaso.
124. See results of the latest Enterprise Surveys for Mozambique and Zambia.
125. As pointed out in the 2021 World Bank *Somalia Country Economic Memorandum*, estimates by development institutions suggest that cross-border trade is two to five times higher than official statistics (see, for instance, Afreximbank, *African Trade Report 2020: Informal Cross-Border Trade in Africa in the Context of the AfCFTA* (Cairo, Arab Republic of Egypt: African Export-Import Bank, 2020); and World Bank and UK Department of International Development, *Poverty and Vulnerability in the Ethiopian Lowlands: Building a More Resilient Future* (Washington, DC: 2019). In effect, it is estimated that trading that is composed primarily of cross-border trading employs between 10 and 30 percent of the total population.
126. Analysis by World Bank staff for 2022 trade assessment.
127. As discussed in a recent analysis on spatial differences in domestic prices in the 2021 World Bank *Somalia Country Economic Memorandum*.
128. World Bank, *Somalia Country Economic Memorandum*.
129. FDI statistics in Somalia are not entirely reliable; they are calculated as a residual, given the scarcity of data for the country.
130. UNCTAD (United Nations Conference on Trade and Development), *World Investment Report 2023: Investing in Sustainable Energy for All* (Geneva, Switzerland: UNCTAD, 2023).
131. Contemporary Eurasia and Gor Hovhannisyan, "Turkey's Expansion in Eastern Africa: The Case of Somalia," *International Journal of Eurasian Geopolitics* 11 (December 2022): 44–57; and Jonas Gerding," At Port of Berbera, Dubai Invests in Horn of Africa Shipping," Deutsche Welle, December 26, 2022.
132. It is estimated that US$14.5 million from European firms has been placed in Somalia in recent years. For more information on this topic, see European Union, "European Business: How European Investment and Trade Contribute to Sustainable Development" (EU, Brussels, Belgium, 2021).
133. Jay B. Benson et al., "Somali Diaspora Investment Survey Report: Typologies, Drivers, & Recommendations" (Shuraako program of the One Earth Future Foundation, Broomfield, CO, 2016), https://shuraako.org/sites/default/files/SDIS-Survey-Report.pdf.
134. Benson et al., "Somalia Diaspora Investment Survey Report."
135. Marcus Manuel et al., "The New Deal in Somalia: An Independent Review of the Somali Compact, 2014–2016" (Overseas Development Institute, London, April 2017).
136. SOMINVEST, A Roadmap to *Unlocking Private Sector Investment in Somalia's Energy Sector* (Mogadishu: Somalia Investment Promotion Office, February 2022).
137. Meester, Uzelac, and Elder, "Transnational Capital in Somalia."

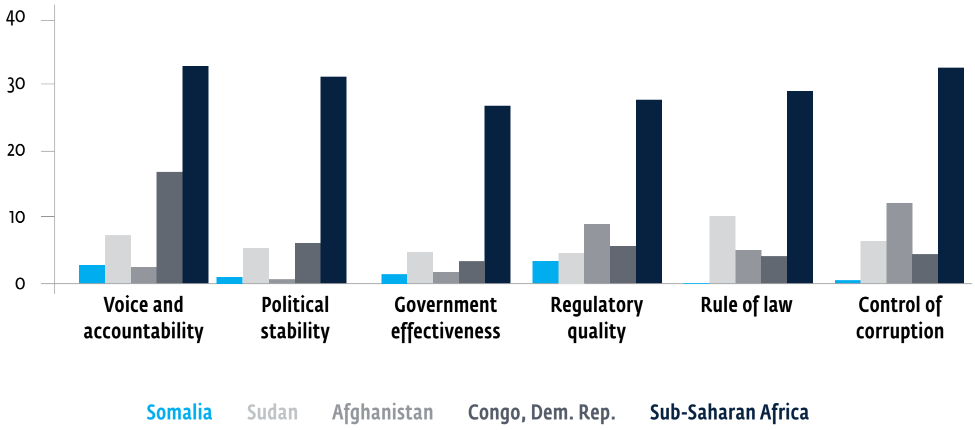
3. CROSS-CUTTING POLICY CONSTRAINTS AFFECTING THE BUSINESS ENVIRONMENT IN SOMALIA

While good progress is being made across a number of areas, weak institutions for the private sector remain a key driver of Somalia's challenging business environment. The Somali private sector continues to rely heavily on trust-based informal institutions which, while a source of resilience, are often also inefficient and inequitable. Conversely, Somalia's formal institutional and regulatory frameworks lack legitimacy with a large number of private sector stakeholders and remain largely ineffective.[1] This situation is partly a result of Somalia's remaining governance challenges (figure 3.1), their effect on levels of corruption, and the prevalence of alternative governance arrangements in the country—all of which are largely related to broader political dynamics whose incidence remains linked to Somalia's state- building process.[2] However, private sector institutions are eager for more stability and predictability,[3] and thus maintain that they are looking for a more developed and effective formal institutional and regulatory framework. Policy reform processes in Somalia can be drawn out, noninclusive and nonlinear, given scarce trust among Somali social groups and with major political institutions, and due to the government's limited enforcement capacity and the considerable power of some private sector firms that have vested interests with government entities. In this context, the country's weak public-private dialogue (PPD) mechanisms need to be improved to attempt enhancing stakeholder buy-in for institutional and regulatory reforms, and to gradually restore social capital and trust.[4]

This chapter focuses on discussing the cross-cutting constraints that are key in explaining the institutional and regulatory fragility of Somalia's framework for private sector development, organizing them around five key areas: (a) incomplete formal institutional, legal, and regulatory frameworks; (b) resulting prevalence of informal institutions; (c) enduring impacts of corruption; (d) competing alternative governance arrangements; and (e) the lack of an effective and inclusive national PPD mechanism to ensure more effective, inclusive, and efficient reform processes. These mutually reinforcing areas are prioritized because of the importance of resolving them to improve the business environment in Somalia.

FIGURE 3.1 WORLD GOVERNANCE INDICATORS: SOMALIA VS. SUB-SAHARAN AFRICA AND FCV COMPARATORS, 2022

Percentile rank among all countries in the world, %



Source: World Bank World Governance Indicators, 2022.

Notes: Higher rank denotes greater success with the indicator; FCV = fragility, conflict, and violence.

3.1 DEFICIENT FORMAL INSTITUTIONAL AND REGULATORY FRAMEWORKS

Although several foundational steps have been taken to develop formal institutional and regulatory frameworks for the private sector, gaps remain. In 2019, in a major milestone, FGS enacted a Company Act. Furthermore, progress has been made in the development of the regulatory and institutional frameworks for investment policy and promotion (IPP); public-private partnerships (PPP); trade, quality standards, and infrastructure; tax regulation; and a national ID. A series of policies for private sector development have also been drafted and approved.[5] These steps have been foundational for Somalia, because they represent the critical building blocks for improving the business environment in the country. The financial sector institutional and regulatory frameworks have also made remarkable progress, which will be discussed in the deep dive assessment of that sector (chapter 5). In this context, a recent survey of firms considering investments in the Somali market found that 56 percent of firms indicated that the formal institutional and regulatory framework in the country has become less difficult in recent years.[6] However, firms still find the formal institutional and regulatory framework to be a primary impediment to private sector activity in the country for a range of reasons.[7] However, firms still find the formal institutional and regulatory framework to be a primary impediment to private sector activity in the country for a range of reasons, including issues with the unfinished political settlement between FGS and FMS. There are also many areas in which regulatory and institutional frameworks for the private sector remain practically absent (such as in competition), a series of gaps in the laws and regulations that have been developed, and capacity constraints in most institutions for private sector development. Finally, the enforcement of regulations is often ineffective due to government constraints and private sector vested interests. These advances and deficiencies will be discussed in more detail in the following paragraphs.

Business entry, exit, and corporate governance

FGS's progress with the 2019 Company Act and related regulations has been transformative for Somalia, but much remains to be done. The 2019 Company Act (and its amendment in 2022) updated pre-1991 legislation in Somalia to provide a regulatory basis for starting a company and for shareholder rights, responsibilities of directors, dissolution of firms, and financial and operational reporting requirements by companies. The enactment of this law and regulations has been fundamental to initiating a transition from a state of affairs characterized by a vacuum of formal regulations and institutions for private sector development, to a situation in which the private sector can leverage these regulations and institutions to grow inclusively. But much remains to be done to fill the remaining gaps. For instance, the framework does not account for bankruptcies in any way. Perhaps more importantly, the Company Act and related regulations are not yet always implemented efficiently at the federal level, and even less so at the FMS level, partly due to capacity challenges at Somali institutions for private sector development.

Reforms to business registry processes have progressed particularly well in Somalia, although they need to improve further. The FGS has transitioned from a situation in which private sector entities relied on the 1974 civil code, which had no process for business registration, to one in which registration processes are relatively streamlined. The new online business registration system at MoCI is making the business registry process easier, faster, and more transparent—not only because business operators no longer need to commute to a MoCI office, but also because the business registry process to incorporate a business now takes only about 23 hours. The timelines for other processes also have been condensed. Despite this remarkable progress, many issues related to business entry remain unaddressed in Somalia. Specifically, these include the following: (a) Registration and licensing fees remain a considerable proportion of the per capita GDP in the country. (b) Some of the provisions in the 2019 Company Act are still not being enforced by FMS because mandates related to harmonization of business licensing and revenue sharing remain unclear. As such, there continues to be a duplication of records across FGS, FMS, and municipalities. (c) A unified business registration regime covering FGS and all FMS—which could support business registry data sharing and facilitate know your customer (KYC) requirements—does not exist. (d) Processes for business licenses, permits, and other post-registration procedures remain fragmented.

Investment policy and promotion

Several reforms have been realized in the past decade to improve Somalia's institutional and regulatory framework for investment policy and promotion. Since 2015, the Somali Foreign Investment Law unambiguously recognized foreign investors and their right to register investments approved by the Somali government. The Foreign Investment Board was also formed in that year as the highest investment policy-making body in the country, and the Somali Investment Promotion Office (SOMINVEST) was created as the country's national investment promotion agency (under the Federal Ministry of Planning, Investment, and Economic Development). Since then, several additional steps have been taken to enhance SOMINVEST's ability to promote FDI and facilitate investment entry and retention. A National Investment Promotion Strategy was developed in 2020, a decree was issued that year by the Prime Minister's office to expand SOMINVEST's role, an Investment Agency Promotion Bill was drafted to increase SOMINVEST's independence and better delineate its role (which is under review by the Somali Parliament[8]), and a collaboration framework was signed in 2021 by FGS and FMS to facilitate the coordination between SOMINVEST and FMS Investment Coordination offices. These steps have enabled investment promotion institutions in Somalia to host a series of outreach events and to start working with the private sector to navigate investment entry and establishment requirements.[9] Laws establishing special economic zones have also been enacted for specific regions in Somalia.[10] Finally, an Investor and Investments Protection Act (IIPA) was enacted in March 2023, complementing the investment protection provisions in the 2015 Foreign Investment Law, improving some standards of treatment for investors, providing guarantees against unlawful expropriation, and allowing for the free transfer of funds.

However, several constraints to FDI are still prevalent in the country. First, foreign investors continue to face a series of market access restrictions. While it is clearly defined that certain economic sectors (such as minerals and extractives, military manufacturing) are regulated not by Somalia's investment laws but rather by its Mining Code and Mining Regulations, there is still no transparent framework to determine in which sectors foreign investment is restricted or limited. For example, there are limitations to foreign investor market access in the services sector.[11] Furthermore, the screening and approval mechanism for investments entering the country is also discriminatory and not aligned with international best practices. For example, foreign investors seeking entry to Somalia are required to complete forms for approval, subject to the revision and consent of Somalia's foreign investment board—which may reject an investment certificate if any of a series of discretionary performance requirements are not satisfied. Second, there is still a general lack of transparency in the incentives regime in Somalia. Third, while the 2023 IIPA improved the country's investment protection framework, international best practices are still not followed in certain aspects. More specifically, while both the 2015 Foreign Investment Law and the 2023 IIPA uphold that the principle of nondiscrimination should be consistent with domestic law, protection provisions are relative and do not cover all types of investors. In addition, these laws fail to provide a most favored nation treatment guarantee, a definition of indirect expropriation under the law, or the opportunity for investors to resort to international arbitration before all local remedies are exhausted. Fourth, the country is still not a contracting state for the New York Convention for the recognition of foreign arbitral awards. It has signed only four bilateral investment agreements, of which only two are currently in force (those with the Arab Republic of Egypt and Germany) and, having been signed in the 1980s, are largely outdated in terms of international investment law and policy making. Fifth, SOMINVEST's technical capacity, while improved, remains nascent.[12] According to a recent survey by SOMINVEST,[13] 100 percent of firms determined that finding reliable information about investment opportunities in the country is an obstacle to entering the Somali market. A majority of firms also believe SOMINVEST's overall technical capacity for investment promotion, entry and establishment, protection, and retention is underdeveloped.[14]

Public-private partnerships

PPPs hold potential to help Somalia overcome its shortfall in infrastructure investment and provision of public goods; however, capacity to effectively leverage PPPs needs to be strengthened. Although some PPP arrangements have been facilitated in recent years in Somalia, most have been anchored by bilateral agreements and sector-specific laws.[15] For those projects that have not been able to leverage such agreements, the country's regulatory framework does not enable an effective, transparent, and cost-effective procurement system for PPPs, with severe deficiencies in the regulatory framework that guides the implementation of PPPs in the country. Specifically, the Public Procurement, Concessions, and Disposal Act of 2016—which governs PPP procurement in Somalia—suffers from a wide range of gaps. To begin, there is little clarity as to which institutions are responsible for approving key decisions in the concessions process. The procurement and concession processes also lack clarity, allowing stakeholders to act in a highly discretionary manner. For instance, (a) there is no legal requirement to carry out prefeasibility studies or feasibility studies of proposed projects and (b) there is no clarity on how an entity may propose a project for concession,[16] on which entity has to evaluate expressions of interest/requests for quotation of proposed projects, on who should approve the shortlisted bidders of a concession, and on what needs to happen after the negotiation with a bidder has been completed. Furthermore, Somalia's Procurement Act does not provide a framework for unsolicited proposals. The current PPP governance framework also has institutional gaps. For instance, the Technical Concession Unit, which according to the prevailing regulatory framework is the secretariat that provides policy guidance and technical support and evaluates concession bids, has not been established yet. In order to close all these gaps, a PPP Act and regulations need to be enacted. With the proper regulatory environment, Somalia could ensure transparency and public participation in how PPP contracts are awarded and could overcome its shortfall in infrastructure investment and the provision of public goods in the areas of the economy in which the public sector or the private sector acting independently would otherwise come up short.

Trade

Somalia is positioning itself to benefit from expanding trade opportunities at both regional and global levels; however, the trade governance framework requires further strengthening. FGS has been working on developing its trade regulations and institutional capacity with support from development partners in recent years. In August 2021, it formally launched a trade information portal, which has already compiled trade regulations and requirements at the federal level and will identify and upload additional content as it becomes available at the FGS and FMS level. Now traders can easily access all existing regulatory information in one place. Somalia has also established a National Trade Facilitation Committee and has stepped up engagement in trade negotiating processes at both the regional and global levels. Specifically, Somalia is part of the Common Market for Eastern and Southern Africa (COMESA) since 2018, is in the process of ratifying the African Continental Free Trade Area (AfCFTA),[17] has applied to join the East African Community, and is taking steps toward its long-term ambition of accessing the World Trade Organization. However, significant steps remain to ensure that the country has a well-functioning trade governance framework. The trade portal, the area in which the most progress has been made, has not been updated since 2021 and has yet to be rolled out to FMS. Other areas have wider gaps. For instance, handling of trade processes remains extremely sluggish in Somalia compared with regional peers, in matters such as lacking electronic cargo systems[18] or single window systems,[19] as well as authorized economic operator programs.[20] The capacity of Somalia's trade related institutions is also very weak at both FGS and the regional level.[21]

Quality standards and infrastructure

Despite some recent progress, quality standards and infrastructure in Somalia are largely deficient, and relevant institutions remain at a nascent stage. Since the collapse of the state in 1991, Somalia has been lacking a government-led quality infrastructure ecosystem. Practical measures for public health and safety to ensure the quality of goods and enable exports are often lacking. Studies have found that quality concerns such as bacteria levels in processed foods have not been a priority in Somali meat and dairy markets,[22] with buyers focusing on assessing products based on culturally understood trade practices and a subjective judgment of the physical and organoleptic properties of products.[23] In an attempt to begin mitigating these issues, FGS established the Somalia Bureau of Standards (SoBS) in 2018 as an independent government agency reporting to the Minister of Commerce and Industry. With the 2020 Somalia Standards and Quality Control Act, FGS also legalized SoBS's mandate to establish robust quality infrastructure and to promote exports through standards harmonization—that is, through inspection, testing, and product and system certification. Relatedly, FGS recently hired an international firm to perform conformity assessments for imports.[24] In this context, SoBS started operations in 2021 and has since led trainings, created various partnerships,[25] and gained full membership to a series of regional and international standard bodies.[26] Regional governments have also set up equivalent institutions.[27] Despite this progress, quality standards and infrastructure in Somalia are largely deficient, and although technical assistance and capacity building by development partners is ongoing,[28] the institutions regulating the sector remain nascent and weak. Proper legislative instruments to create a technical regulation framework and market surveillance system in the country have not been developed yet. A national quality policy and a SoBS strategic plan are in the process of being developed with support from development institutions. The country also has been unable to fully build its national accreditation body and to obtain international recognition on this front.

Property rights

Property rights remain a key barrier for private sector entities. The country's "property rights and rule-based governance" is rated with the lowest score of 1 from a possible score of 6 by the World Bank's Country Policy and Institutional Assessment (CPIA).[29] The property rights component of the Heritage Foundation's 2021 Index of Economic Freedom also ranks Somalia as 169th out of 182 countries.[30] These ratings are unsurprising as legal and institutional frameworks remain underdeveloped and fragmented across property types. For instance, intellectual property rights, for which a ministerial decree was issued in November 2019, remain weak. Perhaps more importantly, formal government institutions of various functions and geographies compete for control of the land administration agenda.[31] Because the central government generally lacks legitimacy with local communities,[32] nonstate actors—including the private sector—have a considerable role delivering land administration services since the civil war.[33] The outdated legal framework[34] that currently governs land administration in the country does not provide federal and local governments with a strong enough ability to register land and protect land tenure from land grabs.[35] Additionally, agencies in charge of land administration do not publish all required data for land property transactions,[36] and there are many issues related to land tenure that are not regulated at all. In this regard, recent attempts by the FGS to craft new policies around land administration and to resolve the aforementioned issues have had limited success. Land tenure insecurity thus remains high and land contestation is prevalent,[37] with land claims being negotiated in various formal and informal forums to which more vulnerable and less connected members of society have little access,[38] and land grabbing by powerful groups is very frequent (as will be discussed in section 3.3), affecting women more heavily.[39] In effect, according to a recent report by USAID,[40] land disputes are overwhelmingly the largest justice issue in Mogadishu. There is also a substantial gender disparity with land tenure in the country – with only 38 percent of residential land and 29 percent of agricultural land owned independently being registered to a female owner.[41] That situation is being aggravated by the extension of contestation over land in the aftermath of successive waves of displacement that is now extending from urban to peri-urban areas, affecting poor and displaced women the most.[42]

Tax burden

Tax administration reforms in recent years have been substantial. For instance, FGS has implemented a series of reforms to strengthen tax administration, including the establishment of a Tax Policy Unit for evidence-based reports and informed policy decisions, the establishment and operation of the Large and Medium Taxpayer offices, the transfer of collection fees from specific ministries to the Ministry of Finance, the development of a tax audit strategy, and the continuous training of tax officials. Progress has also been made in automating domestic revenue mobilization systems (such as introduction of electronic declarations and manifests), and the taxpayer registry has been linked to the Financial Management Information System in FGS. A longer-term solution, an Integrated Tax Administration Automation System, is under way and expected in 2024–25. Other initiatives in progress to enhance tax collection include extending the collection of sales taxes, such as through automated payment points, and increasing nontax revenues, particularly for highly profitable firms (such as in the telecommunications industry and other service sectors) that pay relatively low levels of taxes. FGS has also made considerable progress in harmonizing Somalia's tax system at the FGS and FMS level.

However, Somalia's tax and revenue administration continues to be cumbersome for the private sector. Exemptions on corporate income tax, customs duties, and sales taxes on imported goods lack transparency.[43] As a result, Somalia's formal domestic revenue mobilization institutions are much less trusted than traditional or communal authorities.[44] Furthermore, many of the tax harmonization agreements are yet to be implemented. The federal government institutions needed to operationalize these agreements (such as the Somalia Revenue Authority and Somalia Revenue Allocation Commission) are also yet to be established, and revenue assignments across federal structures are yet to be clarified. As such, for all intents and purposes, the country continues to have stand-alone revenue administrations in each region, with each FMS having its own inland revenue legislation and collecting and retaining its own taxes along with various fees. Similarly, with each FMS having adapted its own version of the Customs Act of 1961, Somalia has independent customs administrations for each operational port (with different tax rates across ports).[45] In this context, the Somali private sector faces multiple taxation and high compliance costs (as firms must navigate different procedures in each state). Accordingly, the 2023 World Bank Logistics Performance Index ranks Somalia 140th out of 140 countries in the efficiency of customs and border management clearance.

Trusted ID verification

Trusted identity (ID) verification remains a challenge for the private sector in Somalia. Only 9 percent of the Somali population has a form of legal identification, with women being less likely to have any identity documents[46] because of the customary involvement of clan elders in the process of obtaining such documentation.[47] The lack of widely accepted and verifiable identity credentials represents a challenge, as global evidence suggests that trusted and inclusive identification systems can help the private sector by decreasing costs, increasing revenues, and improving the overall business climate.[48] This gap is particularly critical for the development of the Somali financial system and for strengthening financial sector integrity, discussed in chapter 5.

In this context, the enabling legal and institutional environment for a Somali ID system has progressed considerably in the past couple of years, yet large-scale ID registration is yet to commence. Since 2018, the FGS has made several significant steps toward the creation of a digital ID system. FGS adopted the Somali Digital Identification Policy in 2019, laying out the government's vision for an ID system. In March 2023, a law setting out the ID system's purpose and key features was adopted. The same law also (re)established an ID authority—the National Identification and Registration Authority (NIRA)—that is in the process of being fully operationalized. However, implementing regulations for the ID law have not yet been adopted. While the ID system was launched officially in Somalia in September 2023, a full-scale countrywide inclusive registration campaign is yet to commence.

3.2 OUTSIZED ROLE OF INFORMAL INSTITUTIONS

Given Somalia's state fragility, the private sector has leveraged informal trust-based institutions that have underpinned the country's resilience for many decades. Since the 1980s, trust-based parallel informal institutions have been central to Somali business relations.[49] Some are linked to clans and *Xeer* customary law,[50] with reciprocal obligations to members of the same subclan or sub lineage units allowing for strong trade and transnational capital networks, even when their common ancestors are many generations removed.[51] Relationships of trust and credit that are based on clan identity are thus key features of business relations.[52] There are also a series of self-sustaining non-clan trust-based informal institutions that have been essential to the functioning of the Somali private sector in recent decades. For instance, the development of *mu'amala*—which consists of the social capital developed through good conduct across repeated transactions—has historically allowed Somali livestock exporters to access informal credit advances that replaced the formal credit advances on which they depended before the civil war. Another example, often used by Somalis as a dispute settlement and collective insurance mechanism, is the informal institution of mu'salaha—in which a committee of trustworthy traders not only mediates and makes binding decisions in cases of default between businesses but also fundraises money to cover debts in cases of force majeure.[53]

However, Somali informal institutions have a wide range of issues that reproduce socioeconomic inequalities and make relying on them for inclusive private sector development unsustainable.[54] Many Somali businesses are able to reap the rewards of lax regulatory frameworks while relying on informal trust-based institutions, but continued private sector growth that depends solely on these social contracts would be very difficult for many reasons. First, the weakness of formal institutions such as legal contracts increases risks, uncertainty, and fraudulence despite sanctions imposed by informal institutions. This is especially true when there are issues with enforcement between clans of differing political or military power, or when business counterparts are beyond the reach of traditional societal networks. For instance, the number and value of livestock exporters robbed by livestock agents from Middle Eastern countries is considerable.[55] Second, informal institutions in Somalia are largely inequitable, even when they work properly. This situation has significant impacts for businesswomen. For example, women entrepreneurs are often unable to rent land or obtain informal loans without the support of a male guarantor or relative.[56]

3.3 CORRUPTION

Despite considerable efforts to address the issue, corruption affects the effectiveness of all formal institutional and regulatory frameworks that have been developed for the Somali private sector. The FGS has been making strides to increase transparency across multiple dimensions—including on the fiscal and financial sector governance,[57] anti-corruption,[58] and anti-money-laundering/countering the financing of terrorism (AML/CFT).[59] Despite these efforts, Somalia continues to be ranked as one of the countries most affected by corruption, as evidenced by third-party corruption indicators, including Transparency International's Corruption Perception Index, Verisk Maplecroft's Corruption Index, and the World Governance Indicator's control of corruption indicator.[60] Similarly, out of 194 countries measured by Trace International for its Bribery Risk Index in 2023, Somalia comes in at 182nd, putting it below most FCV comparators.[61] The African Integrity Indicators also give Somalia a score of zero in a range of corruption-related areas, including the level of independence of officials appointed to the body investigating public sector corruption.[62] This impression is mirrored by the perception of Somalis. According to a rapid firm survey conducted by the Somali Chamber of Commerce and Industry in December 2019, 64 percent of all firms and a larger proportion of small firms listed corruption as a major issue.[63] Similarly, 61.5 percent of respondents to a 2016 survey conducted by the Legacy Center for Peace and Transparency singled out corruption as the primary issue faced by private sector stakeholders.[64]

Issues with corruption, in the implementation of many of the formal regulatory frameworks for the private sector, have not been completely addressed. For instance, corruption can influence business registry, licensing, and trade processes. In the fishing industry, some local Somali agents enable fishing vessels of mostly foreign origin to engage in illegal, unreported, and unregulated fishing practices.[65] In the import-export industry, many products tend to be smuggled across Somalia's porous borders and extensive coastline,[66] enabling some private sector stakeholders to exert unfair competitive pressure on firms that do not avoid customs. As another example, corruption has a significant effect on land registry and tenure processes.[67] Land grabbing by powerful groups has become a recurrent land appropriation strategy and is often enabled with the eventual issuance of land title deeds,[68] with land brokers, local governments, and other stakeholders involved in land management receiving fees.[69] In some cases, local governments also sell off land to politically connected people or facilitate long-term leases of public land to private companies at low prices.[70]

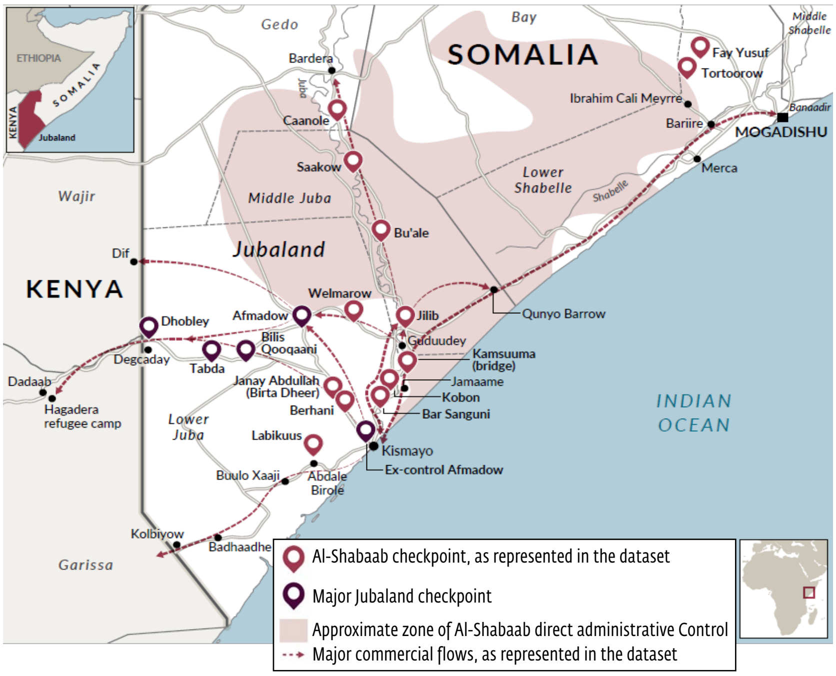
Public procurements and legal proceedings can also be affected by issues related to bribery and corruption. This is especially true in cases of public procurements, in which targeted allocation of lucrative public sector contracts to favored firms with little transparency continues to occur despite the PFM Act being approved in 2019 and the Procurement Law and related regulations being issued and implemented.[71] Instances of targeted recruitment of favored individuals in lucrative public sector positions,[72] diversions of in-kind external assistance,[73] illicit sales of tax-exemption status to individuals and firms importing or exporting goods,[74] and illicit sales of resource extraction permits[75] have also been reported in the Somali context. Businesses also sometimes deal with corruption when dealing with the courts.[76]

3.4 PREVALENCE OF COMPETING ALTERNATIVE GOVERNANCE ARRANGEMENTS

Coercion by armed groups lead to multiple levels of taxes and fees, and an elevation of private sector entities' tax burden. Apart from overlapping public administrations, there are also de facto governance arrangements with nonstate entities. For instance, the payment of "taxes" to Al-Shabaab through a range of revenue streams is seen by many businesses as the most extractive of taxes.[77] Al-Shabaab's continued control over some of Somalia's hinterland, despite recent territorial losses, allows for illicit taxation at roadblocks on trade corridors (figure 3.2).[78] Al-Shabaab also has revenue streams which are extorted outside of the territory it controls. These include (a) forced *Zakat*[79] contributions, which are collected twice a year on agriculture, once a year on other wealth, and once a year at the end of Ramadan;[80] (b) extortion of businesses and individuals operating in the Mogadishu and Kismayo ports, facilitated through an infiltration of government institutions to access manifests with data on businesses' imports and exports;[81] (c) kidnappings for ransom; and (d) service charges.[82] All of these revenue streams have significant implications by imposing an additional layer of "tax" burden on the private sector, increasing the cost of doing business for firms and complicating FGS's efforts to improve its domestic revenue collection.[83] The multiple taxation of trade through formal checkpoints by multiple public administrations, and illicit checkpoints by nonstate actors like Al-Shabaab, also contributes to the geographic fragmentation of Somalia's domestic market.[84]

Private sector entities also need to be aware of different and often conflicting judicial governance arrangements. The Somali private sector suffers from legal pluralism with a range of state, customary, and religious norms coproducing governance.[85] The FGS justice system is perceived by most Somalis as not serving justice,[86] and as such, justice and mediation functions have broadly fallen to clan and religious authorities. Al-Shabaab's courts are also often perceived by Somalis as the most efficient and effective in the country's most remote areas,[87] and sometimes in urban regions as well. Legal pluralism makes it complicated for private sector institutions to know which rules to follow.[88]

FIGURE 3.2 TRANSPORT ROUTES AND AL-SHABAAB VEHICLE TAXATION POINTS, 2022



Source: Jay Bahadur, "Terror and Taxes: Inside al-Shabaab's Revenue Collection Machine" (Global Initiative Against Transnational Organized Crime, Geneva, Switzerland, 2022).

3.5 LACK OF AN EFFECTIVE AND INCLUSIVE NATIONAL PUBLIC-PRIVATE DIALOGUE MECHANISM

The unique relationship between the private sector and government institutions in Somalia underlines the importance of an adequate PPD mechanism for the country. As mentioned in chapter 2, on the state of the private sector, some private sector firms have attained considerable influence and maintain an outsized role in the provision of social services and public goods. However, market inefficiencies and competition issues preclude efficient market outcomes and impede inclusive and sustainable growth in Somalia.[89] The country's under-regulated environment thus needs to be further reformed. Discussions on the role of the state and the private sector in the provision of services and the overall development of Somalia are also necessary, so lines for public-private cooperation can be drawn. Some influential private sector firms seem to be increasingly aligned with this standpoint.[90] Private sector entities generally understand that the state is essential for political and economic stability, and that institutional reform would help eradicate certain aspects of the complex and fluid current business environment. A number of them are also reaching a growth threshold that will be complicated to surpass without a broader and more inclusive economic growth trajectory that expands demand for their businesses.[91] However, a dearth of trust among different stakeholders is still constraining progress on this front.[92] Experiences in other countries suggest that PPD among societal stakeholders, government entities, and the private sector can be very helpful in creating a culture of dialogue and transparency, and in achieving greater trust to resolve a country's issues.[93] Developing efficient PPD mechanisms in Somalia is therefore essential.

In this context, many steps have already been taken to develop PPD in Somalia. With support from development partners, the government has engaged with the private sector since the first PPD was launched in 2016, and private sector entities contributed to the 2017–2019 National Development Plan. During this process, existing chambers of commerce met for the first time, and a series of recommendations were agreed on. A PPD conference also occurred in London in May 2017, bringing together some of Somalia's most influential private sector firms, development institutions, and government leaders. Since then, development partner–supported PPDs for specific economic sectors have led to the development of some sector-specific legislation (including the Communications Law and the Electricity Act). PPD on a series of other topics is also ongoing. On another note, a number of business member organizations (such as Somalia Banker's Association) have developed. These business member organizations (BMOs) are currently focused on incentivizing PPD to provide input in the development of legal and policy frameworks in their respective markets.[94]

However, inclusive sustainable national dialogue has not been achieved, and the lack of trust between different stakeholders remains a considerable issue.[95] There are a wide range of reasons for this. First, the few national high-profile PPD meetings that have taken place have not led to an institutionalized PPD mechanism. The momentum of Somalia's initial steps on PPD has in effect waned with the Somalia National PPD mechanism established in 2016 having ceased to exist.[96] Second, despite recent consolidation efforts, BMOs (such as chambers of commerce) tend to be largely territorial, and PPD efforts are often conducted at a regional level.[97] Third, the endeavors implemented to develop PPD at a sectoral level have been mostly time-bound sector-specific processes that have been set up to solve a set of issues and then disbanded. There are thus no sustainable and structured forums for a collaborative PPD process which could increase trust between stakeholders over time. Furthermore, while some of these processes have had significant achievements, many have failed because of a lack of resources. Fourth, PPD processes often include only a few influential firms and BMOs. Furthermore, while BMOs with a certain level of formality and capacity exist in the country,[98] and cooperation among larger BMOs has improved in recent years,[99] Somali BMOs cover only a small proportion of the firms in Somalia and suffer from weak governance arrangements.[100] Other membership organizations that support the interests of private sector ventures in Somalia (such as pastoral groups and village savings and loan associations) remain largely underdeveloped. Accordingly, although FGS does consult with the private sector for inputs to inform legal, regulatory, and institutional reforms, it does so only with a selected group of stakeholders, leaving the voices of more than 90 percent of private sector stakeholders outside the conversation.[101] This is particularly true of women-led businesses, which have very limited representation in public and private sector leadership positions.[102]

Notes

1. Consultations with private sector stakeholders in Mogadishu and Nairobi, January 2023.
2. The World Bank and development partners are already addressing some of these drivers through politically feasible reforms that aim to restore and strengthen basic state functions (including the World Bank Somalia Second Inclusive Growth Development Policy Operation), but this process remains nascent.
3. Consultations with private sector stakeholders in Mogadishu and Nairobi, January 2023.
4. Andreja Marusic et al., "Trust between Public and Private Sectors: The Path to Better Regulatory Compliance?," *Trust Literature Review*, September 2020; and World Bank. *Public-Private Dialogue in Fragile and Conflict-Affected Situations—Experiences and Lessons Learned* (Washington, DC: World Bank, June 2014).
5. For instance, an MSME policy, industrial development policy, and trade policy have been developed and approved in recent years.
6. SOMINVEST (Somali Investment Promotion Office), *A Roadmap to Unlocking Private Sector Investment in Somalia's Energy Sector*, February 2022.
7. SOMINVEST, *A Roadmap to Unlocking Private Sector Investment*.
8. Facility for Talo and Leadership, "Somali's Parliamentary Committee Seeks Clarification on Investment Promotion Agency Bill," February 3, 2023, https://www.ftlsomalia.com/somalias-parliamentary-committee-seeks-clarification-on-investment-promotion-agency-bill/.
9. Consultations with Somali private sector stakeholders and SOMINVEST in Mogadishu and Nairobi in January 2023. See also Douglas Okwatch, "Somalia: Africa's New Investment Frontier," *African Renewal*, December 2022, https://www.un.org/africarenewal/magazine/december-2022/somalia-africa%E2%80%99s-new-investment-frontier.
10. See, for instance, Somaliland's Special Economic Zones Law (93/2021).
11. For instance, there is a maximum for foreign ownership in new locally incorporated tourism companies (limited to 49 percent); commercial banking boards of directors must have at least one resident of Somalia; and maritime-freight transport services are obligated to use local service providers, among other issues.
12. Consultations with Somali private stakeholders in Hargeisa, Mogadishu, and Nairobi between November 2022 and January 2023.
13. SOMINVEST, *A Roadmap to Unlocking Private Sector Investment*.
14. Consultations with Somali private stakeholders in Hargeisa, Mogadishu, and Nairobi between November 2022 and January 2023; SOMINVEST, *A Roadmap to Unlocking Private Sector Investment*.
15. For instance, investments by Favori LLC in the Mogadishu airport and by Albayrak Group in the Mogadishu seaport. For more information on this topic, see EY, *Draft Rapid PPP Assessment for the FGS* (financed by the World Bank), April 2017.
16. A project can only apply for a concession certificate if it has been included in the Annual Concession Plan. However, there is no provision in the Procurement Act and related regulations as to how projects are included in that plan.
17. Discussion in the parliament for ratification started in mid-August 2023.
18. An electronic cargo tracking system (ECTS) is a tool based on GPS devices, Wi-Fi, cellular data, or radio frequency identification (RFID) used by Customs agencies to ensure the integrity of cargo moving in transit through their territories.
19. A single window system offers a single point of entry and a single submission of trade-relevant data for traders, and a more efficient and faster handling of trade processes.
20. World Bank, Horn of Africa Secretariat, "Regional Trade Facilitation Roadmap 2022–2025," June 2022.
21. World Bank and Swedish International Development Cooperation Agency (SIDA), "Somalia: The Road to WTO Accession" (policy note, World Bank, Washington, DC, 2021); and World Bank, *Somaliland Trade Regime Review: Improvement and Reform Plan*, 2018.
22. Oxfam, "Market Analysis of the Somaliland Dairy Sector," 2018.
23. World Bank, "Somalia Quality Infrastructure—Supply and Demand Assessment" (internal document, World Bank, Washington, DC, August 2020).
24. Consultations with public sector stakeholders in Mogadishu and Nairobi between January and July 2023.
25. For instance, it has entered into a trade and economic partnership agreement under the Türkiye-Somalia Economic Cooperation Commission to cooperate in the fields of technical regulation, standardization, conformity assessment, accreditation, and metrology.

26. These organization include the (a) International Organization for Standardization (ISO), (b) Standards and Metrology Institute for Islamic Countries (SMIIC), (c) African Organization for Standardization (ARSO), (d) Arab Industrial Development, Standardization and Mining Organization (AIDSMO), (e) International Electrotechnical Commission (IEC), and (f) Codex Aliamentarius, an international body that sets food standards, guidelines, and codes.
27. For instance, the Somaliland Quality Control Commission (SQCC).
28. For instance, the World Bank and development partners are supporting FGS in developing a Feasibility Single Window, a Veterinary Drug Policy, guidelines for a National Veterinary Policy, a Food Safety Policy, and a Livestock Identification Traceability Assessment and Policy. The World Bank and development partners have done assessments of testing needs to satisfy Somalia's requirements in some export markets (such as livestock and crops) and in the potential needs of domestic markets.
29. World Bank, *CPIA Africa: Policies for Economic Resilience in a Turbulent World* (Washington, DC: World Bank, 2023).
30. See https://www.heritage.org/index/explore.
31. World Bank, *Somalia Urbanization Review: Fostering Cities as Anchors of Development* (Washington, DC: World Bank, 2021).
32. Rift Valley Institute, *Land Administration and Governance Challenges of Rapid Urbanization and Forced Displacement in Somalia (Kismayo, Mogadishu, Baidoa): Mogadishu Report* (Nairobi, Kenya: Rift Valley Institute, 2020).
33. For more information on this topic, see World Bank. *Somalia Urbanization Review*.
34. Somalia lacks a comprehensive land law. Key land legislation comprises (a) the Law of Urban Land Distribution (no. 41 of 1973), (b) the Law on Agricultural Land (no. 73 of 1975), (c) the Law on Urban Land (no.61 of 1981), and (d) the Decree on Appropriation of Land for Public Interest.
35. Rift Valley Institute, *Land Administration and Governance Challenges*.
36. Consultations with Somali private stakeholders in Hargeisa, Mogadishu, and Nairobi between November 2022 and January 2023.
37. Rift Valley Institute, *Land Administration and Governance Challenges*.
38. Tobias Hagmann, Not So Public Goods: The Political Economy of Urbanization in Selected Somali Cities (Nairobi, Kenya: Rift Valley Institute, 2019).
39. Upon the death of a male relative, women are especially at risk of land grabbing, owing to their lack of recognition in Somalia's predominantly customary land tenure system. For more information on this front, see Food and Agriculture Organization of the United Nations (FAO), *National Gender Profile of Agriculture and Rural Livelihoods* (Budapest, Hungary: FAO, 2021).
40. United States Agency for International Development (USAID), "Pathways and Institutions for Resolving Land Disputes in Mogadishu" (Washington, DC: USAID, 2020); Expanding Access to Justice Program, *Access to Justice Assessment Tool: Baseline Study* (Nairobi, Kenya: Pact and the American Bar Association Rule of Law Initiative, 2020).
41. Somali National Bureau of Statistics, "2022 Somalia Household Budget Survey (SIHBS)—Main Report," February 2023.
42. Juliette Syn and Laura Cunial, "'Who Are You?': Linkages between Legal Identity and Housing, Land and Property Rights in Somalia" (Norwegian Refugee Council, Oslo, 2022).
43. Gilbert Kalyundu and John Norregaard, "Designing Federal Tax Policy for Enhanced Domestic Revenue Mobilization" (technical report, International Monetary Fund, Washington, DC, 2020).
44. Sher Khan et al., *Somalia Customs Compliance Study: Assessing Enforcement, Facilitation, and Trust* (draft report, Washington, DC: World Bank, 2021).
45. For more information on this topic see: Thomas Cantens, "Somalia: Assessment of Customs Revenue Potential and Proposals for Reform" (internal document, World Customs Organization Research Unit, World Bank Somalia Governance Program with Support from UK Department for International Development, 2018). See also World Bank, *Collection of Policy Notes for the New Somali Government: Unlocking Somalia's Potential to Stabilize, Grow and Prosper* (Washington, DC: World Bank, 2022).
46. Somali National Bureau of Statistics, *2022 Somalia Integrated Household Budget Survey*.
47. Syn and Cunial, "*Who Are You?*"
48. World Bank, "Private Sector Economic Impacts from Identification Systems" (World Bank, Washington, DC, 2018).
49. Jamil A. Mubarak, "The "Hidden Hand" behind the Resilience of the Stateless Economy of Somalia," World Development 25, no. 12 (1997): 2027–41.
50. *Xeer* is an unwritten code of conduct that evolved orally over time on the basis of interactions between various Somali clans since the 1800s. It is usually implemented by groups of respected elders (*Xeer Begti*) and is often the first line of recourse for dispute management in the country.

51. Paul Goldsmith, "The Somali Impact on Kenya, 1990–1993: The View from the Camps," in *Mending Rips in the Sky: Options for Somali Communities in the 21st Century*, ed. H.M. Adam and R. Ford (Lawrenceville, NJ: Red Sea Press, 1997); and Stephanie R. Bjork, "Modernity Meets Clan: Cultural Intimacy in the Somali Diaspora" in *From Mogadishu to Dixon: The Somali Diaspora in a Global Context*, ed. Abdi M. Kusow and S.R. Bjork (Trenton, NJ: Red Sea Press, 2007).

52. Neil Carrier, *Little Mogadishu: Eastleigh, Nairobi's Global Somali Hub* (London: Hurst, 2016); Neil C. M. Carrier and Hannah Elliott, "Entrust We Must: The Role of 'Trust' in Somali Economic Life" (DIIS Working Paper 2018:2, Danish Institute for International Studies, Copenhagen, 2018).

53. For more information on this topic, see Ahmed A. Musa, "From Trust to Oligopoly: Institutional Change in Livestock Trade in Somaliland after 1991" (DIIS Working Paper 2019:8, Danish Institute for International, Copenhagen, August 2019).

54. Mahdi Abdile, "Customary Dispute Resolution in Somalia," *African Conflict and Peacebuilding Review* 2, no. 1 (2012); and Joakim Gundel, "The Predicament of the 'Oday': The Role of Traditional Structures in Security, Rights, Law and Development in Somalia" (final report, Danish Refugee Council and Novib/Oxfam, Nairobi, Kenya, 2006).

55. Musa, "From Trust to Oligopoly"; and Nisar Majid, "Livestock Trade in the Djibouti, Somali, and Ethiopian Borderlands" (Briefing Paper AFP BP 2010/01, Chatham House, London, September 2010).

56. World Bank, *Somalia Country Economic Memorandum*: Towards an Inclusive Jobs Agenda (Washington, DC: World Bank, 2021).

57. For instance, note the following: (a) The Somalia Financial Management Information System was fully implemented in 2019; (b) various improvements have been made to budget preparation, cash management, and legislated sequestration rules; (c) the Public Financial Management (PFM) Act was approved in 2019 and significant efforts have been made on transparent fiscal reporting, expenditure control, and procurement; (d) the Central Bank of Somalia (CBS) has made important progress in improving its governance, transparency, and capacity; (e) banks and money transfer businesses are subject to regular on- and off-site inspections and annual relicensing, and the CBS launched in 2021 the licensing and regulation of mobile money operators.

58. For instance, under the National Anti-Corruption Strategy, (a) a Code of Conducts for civil servants was established; (b) clear policies have been developed on dismissal, career advancement, career development, and other areas relevant to the management of public servants; and (c) the National Civil Service Commission now advertises positions with clear job descriptions and expected work outputs.

59. For instance, (a) Somalia passed the AML/CFT Act in 2016, (b) the Financial Reporting Center (FRC) was set up, and (c) the National Money Laundering/Financing of Terrorism (ML/FT) Risk Assessment was finalized and published in 2022.

60. In 2021, Somalia ranked jointly 178th of 180 with Syria, just ahead of South Sudan. Its score improved slightly from 8/100 in 2015 to 13/100 in 2021. See www.transparency.org.

61. Trace International, Bribery Risk Matrix 2022, TRACE Bribery Risk Matrix | View Country Risk Scores (traceinternational.org).

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77. For more details, see United Nations Panel of Experts on Somalia, "Report of the Panel of Experts on Somalia," submitted in accordance with resolution 2551 (2020), 6 October 2021, https://www.undocs.org/en/S/2021/849.
78. IAAAP Somalia Accountability Project, "Beyond Isbaaro: Reclaiming Somalia's Haunted Roads" (Transparency Solutions, Hargeisa, Somalia, 2016). For more information see Jay Bahadur, "Terror and Taxes: Inside al-Shabaab's Revenue Collection Machine" (Global Initiative Against Transnational Organized Crime, Geneva, Switzerland, 2022).
79. *Zakat* is an Islamic tax of 2.5 percent on all wealth.
80. United Nations Security Council, "Letter dated 16 September 2021 from the Panel of Experts on Somalia addressed to the Chair of the Security Council Committee pursuant to resolution 751 (1992) concerning Somalia."
81. United Nations Security Council, "Letter dated 28 September 2020 from the Panel of Experts on Somalia addressed to the Chair of the Security Council Committee pursuant to resolution 751 (1992) concerning Somalia"; and United Nations Security Council, "Letter dated 16 September 2021 from the Panel of Experts on Somalia."
82. The United Nations Security Council's Somalia panel of experts investigated in 2021 attempts by Al-Shabaab to extend its illicit "taxation" to a series of professional services professionals, including doctors, teachers, and university professors.
83. According to consultations with Somali private sector stakeholders in Hargeisa, Mogadishu, and Nairobi, sector "taxation" at checkpoints needs to be paid only if a driver uses Al-Shabaab transit routes, which commercial drivers often prefer to do, because revenue collection in these routes is viewed as more consistent and predictable than that at roadblocks administered by government-aligned security forces. But both government-administered and Al-Shabaab–administered checkpoints are drivers of the elevated tax burdens on transport in South Somalia.
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94. Kim Eric Bettcher, "Mapping Report: Formalisation of Cooperatives and Private Sector Organizations" Somalia Investment Promotion Office, 2022.
95. Consultations with Somali private stakeholders in Hargeisa, Mogadishu, and Nairobi between November 2022 and January 2023.
96. Made up of a high-level forum, a secretariat, and advisory council to discuss broader enabling environment topics aligned with business environment indicators and working groups for various economic sectors (such as financial, information and communication technology, agribusiness, and electricity).
97. Consultations with Somali private stakeholders in Hargeisa, Mogadishu, and Nairobi between November 2022 and January 2023.
98. Bettcher, "Mapping Report."
99. Consultations with Somali private stakeholders in Hargeisa, Mogadishu, and Nairobi between November 2022 and January 2023.
100. The largest national BMOs in Somalia, which comprise firms from various regions in the country, have around 2,000 members. Other BMOs are significantly smaller. For more information on this front, see Bettcher, "Mapping Report"; and World Bank and Dansk Industri, "Organizational and Membership Assessment of Business Member Organizations in Somalia, 2018.
101. Consultations with Somali private stakeholders in Hargeisa, Mogadishu, and Nairobi between November 2022 and January 2023.
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4. CRITICAL ENABLING SECTOR BOTTLENECKS TO THE PRIVATE SECTOR

Further efforts are needed to address issues related to access, availability, and performance of enabling sectors for private sector development in Somalia. Efficient and accessible delivery of key enabling services is critical to facilitate diversification to higher-value-added activities, which, in turn, is critical for the generation of high-quality jobs in Somalia. This is the case not only in general, but also for the food value chains in which such diversification and value addition are most likely to be achieved in Somalia. However, delivery of services in key enabling sectors was incrementally spoiled after the civil war.[1] The private sector has stepped in during recent decades to provide some of these services, but it avoids investing in nonexcludable products and infrastructure, leading to a situation in which services are insufficient and provided only in select regions to people who can afford them. This situation occurs in a context of low technical capacity to significantly scale up government-led service delivery and of financial resources for this purpose that are not only scarce but also ineffectively used—with little coordination among the ministries stewarding the sectors.[2] This section outlines key enabling sector issues that are major constraints to diversification to higher-value-added activities in food value chains—including transport and logistics, digital connectivity, water, education, and business services. The energy and financial sectors, which also constrain such diversification in Somalia, will be discussed in depth in chapter 6 of this CPSD.[3]

4.1 TRANSPORT AND LOGISTICS

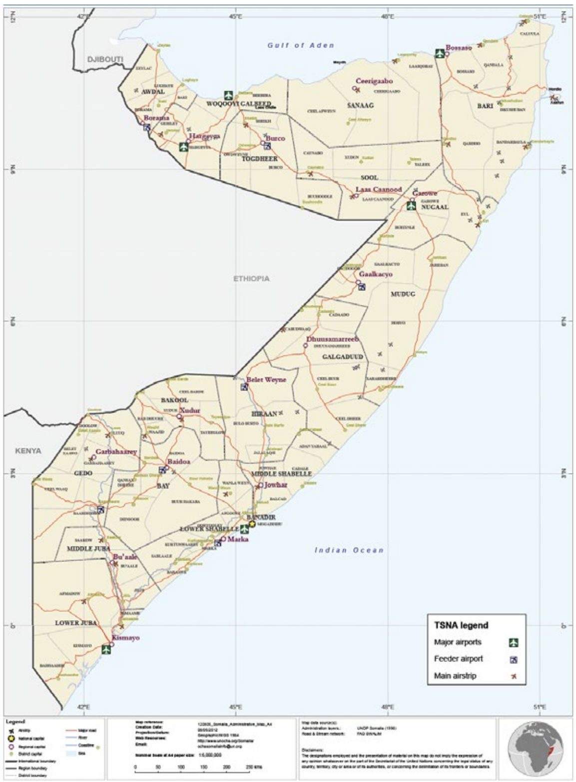
Deficiencies in the transport and logistics sectors severely constrain economic development in Somalia. The country is afflicted by elevated road transport prices and high port and airport fees as well as security challenges and other constraints to long-haul transport. Although trade goes on uninterrupted in Somalia despite widespread security issues (even in the most insecure areas of the country),[4] Somalia's geographic economic fragmentation is considerable, especially between landlocked versus coastal areas and rural versus urban areas. This situation results primarily from three factors in addition to the governance issues mentioned in previous sections (such as illegal road checkpoints): (a) poor transport infrastructure, (b) market distortions in the logistics industry, and (c) weak governance with nascent and low-capacity institutions in the logistics sector.

Transport infrastructure gaps prevail across Somalia

Although there is very little information on the transport sector in Somalia, the limited data available point to significant transport infrastructure gaps. Transport infrastructure in Somalia consists primarily of airfields, ports, and roads since there are no railways or notable inland waterways. The country's ranking in the World Bank's Logistics Performance Index has declined from 127th out of 150 in 2007 to 138th out of 140 in 2023. More specifically, in quality of trade and transport-related infrastructure, Somalia ranks 133rd out of 140 countries. National institutions in the transport sector are either weak or nascent; as a result, the Somali government lacks capacity for transport infrastructure planning, development, and management.[5] There is also a scarcity of analytical data to underpin development of a pipeline of investments to close transport infrastructure gaps, establish tools for good sector management, and delineate steps for institutional and capacity development.

Of all modes of transport in Somalia, aviation is the one that works best, though with a number of limitations. Regulated by the Somali Civil Aviation Authority, the aviation sector serves as a key gateway both to the country and within it, although most intra-African air transport remains largely closed to Somalia. Almost all smaller urban centers in the country maintain at least one airstrip capable of handling small aircraft.[6] The country has six major airports, seven feeder airports, and 23 smaller airstrips. All of these airstrips are used by humanitarian flights and by the local commercial carriers that filled the void created by the collapse of Somali Airlines in 1991 (figure 4.1).[7] Some international commercial airlines also operate in Somalia. The main demand for aviation services in Somalia continues to stem from government, humanitarian and development cooperation and medical emergency activities.[8] As such, the number of passengers per year in traffic from Somalia and the ratio of passenger movement to urban population are both relatively small.[9] Although there are no statistics available for total volumes of cargo handled by Somali airports, some reports suggest that these volumes are also low in per capita terms when compared with those handled in neighboring country airports.[10] This is partly a result of the underdevelopment of the private sector in some regions of the country, but it is also because the largest international airport in Somalia (Mogadishu's Aden Adde International Airport) has little space for logistics and warehousing of private sector goods because of the intensive use of its facilities by development institutions and state agencies.[11] Safety is also an issue for both international and domestic airports in Somalia. The series of costs that airlines need to assume in Somalia due to these safety issues,[12] in conjunction with a subdued volume of operations and considerable trade taxes by FGS and FMS, make airline transport in Somalia extremely expensive.

FIGURE 4.1 MAJOR AIRPORTS AND AIRSTRIPS IN SOMALIA



Source: United Nations, Office for the Coordination of Humanitarian Affairs. Taken from African Development Bank, *Somalia—Transport Sector Needs Assessment and Investment Programme* (Abidjan, Côte d'Ivoire: AfDB, 2016).

FIGURE 4.2 SOMALIA ROADS NETWORK

Source: World Food Programme. Taken from Inros Lackner SE, HEFI, and Africa Enablers GmbH, *Port Master Plan – Final Report* (Ministry of Finance of the Federal Republic of Somalia, December 2017).

Although there is little available information about Somali maritime port facilities, existing assessments suggest that their performance is subpar. There are five operational international ports in Somalia that serve as gateways to major transport corridors in the country. The port in Kismayo is officially run by Somali federal government institutions; there are long-term concessions to international firms for the management of the maritime ports in Berbera, Bosaso, and Mogadishu;[13] and local private investors are self-financing the port in Gara'ad. Assessments point to these ports being in a reasonable condition but also suggest that they are characterized by relatively poor performance.[14] Although information about maritime ports remains outdated and partial,[15] factors that are affecting their performance appear to include outworn infrastructure and equipment, low utilization of resources, lack of modern handling equipment, a dearth of navigational aids, inadequate maritime safety and security, lack of supporting information technology operation systems, and outdated working practices of dock workers, among others.[16] Traffic volumes at Somali ports are also not high enough to justify construction of competing terminals by different private operators within ports, preventing the positive impacts on efficiency that such competition could create. Occupancy at Somalia's seaports was estimated to be around 20 percent of its capacity by a recent transport needs assessment.[17] Apart from inefficiency, port operations in Somalia are also characterized by their high costs. Although costs vary considerably by port, charges are generally excessive. For example, the published handling charge in Berbera Port is US$140/20-foot container, and terminal handling charged by CMA CGM Group[18] in that port is US$591/20-foot container—both are many times higher than charges in Indian subcontinent ports.[19] These charges are one of the main sources of domestic revenue mobilization for all jurisdictions.[20] That said, the charges are also ridden with hidden costs.[21]

Somalia's road infrastructure, which is the country's principal mode of transport, faces a number of deficiencies. With a total 21,830 kilometers of roads,[22] Somalia's road density is approximately 3.5 per 100 square kilometers of territory, which is lower than most benchmarks in Africa and the world (figure 5.2). The overall condition of Somalia's road network is poor, with over 90 percent of the 2,860 kilometers of paved roads in Somalia having deteriorated beyond their design life.[23] The rest of the country's roads have gravel or earth surfaces that are extremely hard to traverse, especially during rainy seasons. In effect, a mere 31.2 percent of the country's rural population is within 2 kilometers of an all-season road, compared with 56 percent in Kenya.[24] Such challenging infrastructure, in conjunction with Somalia's difficult topographical conditions, leads to elevated fuel consumption for road transport providers and to high maintenance costs and an aging and poor-quality road transport fleet vehicles. This issue, in conjunction with other factors such as checkpoints, roadblocks, and the lack of a unified database of vehicles and drivers, makes road connectivity between major cities in the south and north extremely costly (for example, total transport costs to a large city are US$20 to US$50 per ton, despite relatively short distances).[25] Travel times are also quite high (for example, it can take five days to travel the 1,400 kilometers from Mogadishu to Bosaso) owing to the dilapidated state of the country's road infrastructure.[26] Finally, Somalia is not well connected by roads to its neighbors,[27] restricting the role of the country in trade integration within the region and limiting the potential economic growth that could result from it. Efforts to resolve these issues are constrained by Somalia's security challenges, limited fiscal space, lack of institutional capacity, and governance challenges. In this context, development institutions are providing ongoing support to FGS and FMS in the preparation of a range of roadwork interventions aimed to improve major corridors and secondary and tertiary roads.

The logistics sector is characterized by market distortions

The political economy has led to oligopolistic dynamics and barriers to entry in the logistics sector. The transporters of livestock and other goods that transformed into logistics contractors in post-independence Somalia during the 1960s not only benefited from a first-mover advantage but also were able to leverage their influence to negotiate power in relation to the Somali state during that decade.[28] The power amassed by these firms allowed them to withstand efforts by the Siyad Barre regime to regulate their industry.[29] It also has enabled these firms to grow their power significantly since then, with the logistics economy becoming increasingly cartelized[30] and logistics firms gaining control over entire supply chains.[31] Furthermore, lead logistics firms have developed political clientelism networks, which they have used to protect their position from policies intended to exert more political control over the logistics economy.[32] In this context, transport is de facto self-regulated[33] and there is very limited competition in the trucking industry—throughout Somalia but especially in the country's South-West and Central regions. Accordingly, margins for transport operators have become extremely high,[34] with truckers earning income that is many multiples higher than that provided by similar labor opportunities in many regions of Somalia.[35]

Weak governance and nascent low-capacity institutions aggravate issues with market distortions and transport infrastructure

At present, the Somali government has limited stewardship capability in transport and logistics. National institutions in the sector are either weak or nascent. Although the Somalia National Highway Authority and Somali Ports Authority are officially established, they are yet to be operationalized at scale. The Ministry of Public Works, Reconstruction, and Housing; the Ministry of Transport and Civil Aviation; the Ministry of Ports and Marine Transport; and the Somali Civil Aviation Authority also often lack the resources, capacity, and analytical foundations to adequately plan for or implement the sector's development.[36] As a result, higher-level strategy and standards setting in transport and logistics; planning and execution of road rehabilitation and maintenance; and cohesive national development of maritime transport, air liberalization, and other relevant policy areas are often underdeveloped and currently at a standstill.[37] Relatedly, there is no national regulation in the transport sector outside of that for aviation. Ports operate in a relatively independent fashion, and land transport regulation is largely missing (with logistics stakeholders often functioning in a regulatory vacuum) but when present varies substantially by FMS. There are considerable regulatory gaps that constrain inter-FMS transit and commerce, including an absent unified database of vehicles and drivers.

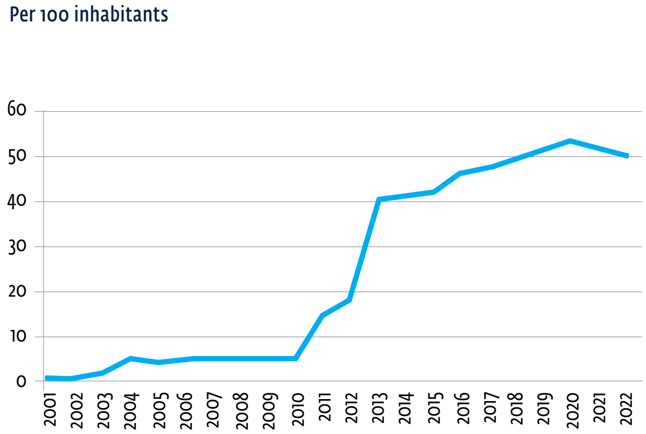
4.2 DIGITAL CONNECTIVITY

Ongoing reforms continue to improve digital connectivity in Somalia while further efforts are needed to close the remaining regional gaps. The country's adoption of mobile communications has increased significantly in recent decades (figures 4.3 and 4.4).[38] Mobile network services have also become substantially more affordable through low voice and data rates, enabling low-income Somalis to communicate more easily.[39] These developments have had a series of positive spillovers to the country's economy (for example, mobile money services have become the dominant retail payment instrument in Somalia)[40] and have played an important role in assisting individuals in rural areas, where poverty is more prevalent. However, broadband penetration and use of internet bandwidth remain low in comparison to regional peers (figure 4.5), limiting the potential digital dividends of the mobile connectivity Somalia has achieved in recent decades.[41] This situation results from both supply-side issues (such as the state of Somalia's telecom infrastructure and market structure) and demand-side issues (such as digital literacy, limited disposable income, and gender bias).

The state of broadband infrastructure constrains internet adoption

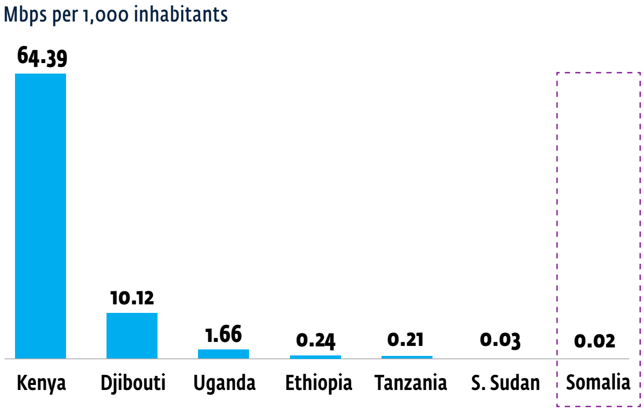
First-mile broadband infrastructure has developed remarkably well in recent decades. Starting in 2012, a wide range of private mobile companies using satellites for international communications have emerged in Somalia, and mobile telecommunications operators have launched services across the country.[42] International fiber-optic connectivity has also improved with the proliferation of submarine fiber-optic cables landing on Somalia's shores and the potential exchange of backup capacity resulting from this infrastructure.[43]

FIGURE 4.3 MOBILE CELLULAR SUSCRIPTIONS, SOMALIA, 2000-22



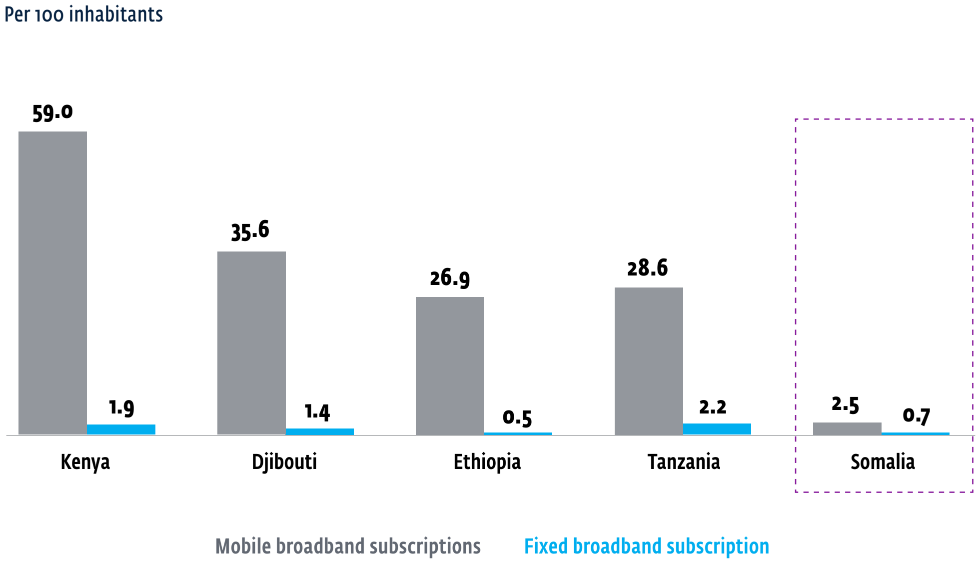
Source: World Bank World Development Indicators, taken from International Telecommunication Union World Telecommunication/ICT Indicators Database.

FIGURE 4.4 TOTAL USED CAPACITY OF INTERNATIONAL BANDWIDTH, SOMALIA AND COMPARATORS, 2017



Source: International Telecommunication Union, https://www.itu.int/itu-d/sites/statistics/ .

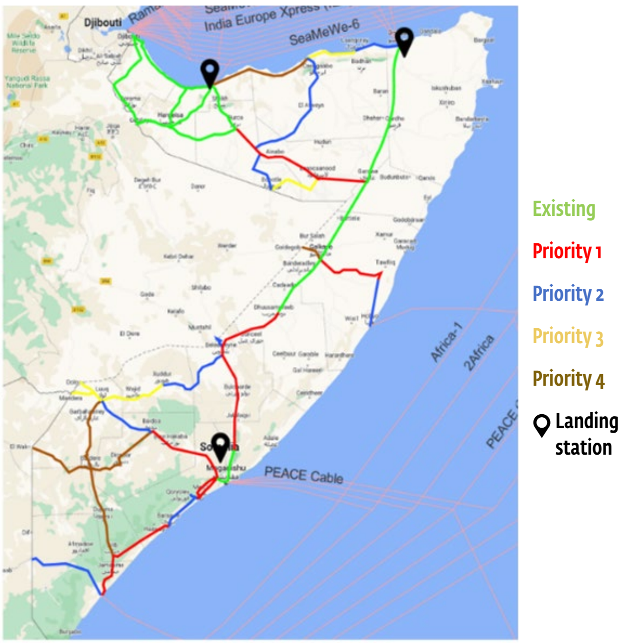
FIGURE 4.5 PERCENT OF INDIVIDUALS USING BROADBAND, SOMALIA AND COMPARATORS, 2022



Source: International Telecommunication Union, https://www.itu.int/itu-d/sites/statistics/ .

Large gaps in Somalia's middle- and last-mile network infrastructure constitute a major bottleneck to uptake of broadband services among Somalis. Somalia's domestic fiber-optic backbone network remains underdeveloped in most of its territory for a range of reasons, including security problems in south and central Somalia. Composed of three highly fragmented regional backbone networks[44] with missing terrestrial fiber trunks or switches, Somalia's domestic fiber-optic backbone network is not integrated. The result is three distinct markets that operate virtually independently (figure 4.6), with terrestrial fiber-optic backbone networks in Somaliland, parts of Puntland, and Mogadishu that are unable to benefit from any sort of redundancy. Vast portions of Somali territory—especially in its southern and central regions—remain unconnected and rely on the use of microwave links (figure 4.7), which have limited transmission capacity and quality. Fixed last-mile broadband connection development in Somalia is also very limited (despite recent deployments of metropolitan fiber); there is a broadband penetration of less than 1 percent of households.[45] Wireless fourth-generation (4G) coverage is limited to Mogadishu, Hargeisa, and a few other major cities; third-generation (3G) coverage has reached only some small cities; and most of the broadband connectivity in the country is mobile. Existing broadband networks also often suffer from low broadband speed and high call drop rates.[46] Latency and cost for operators is also higher than it should be[47] because the internet exchange point that was established in Somalia in 2018 (the Somali Internet Exchange Point) has remained largely inactive owing to its status as a nonneutral carrier facility.

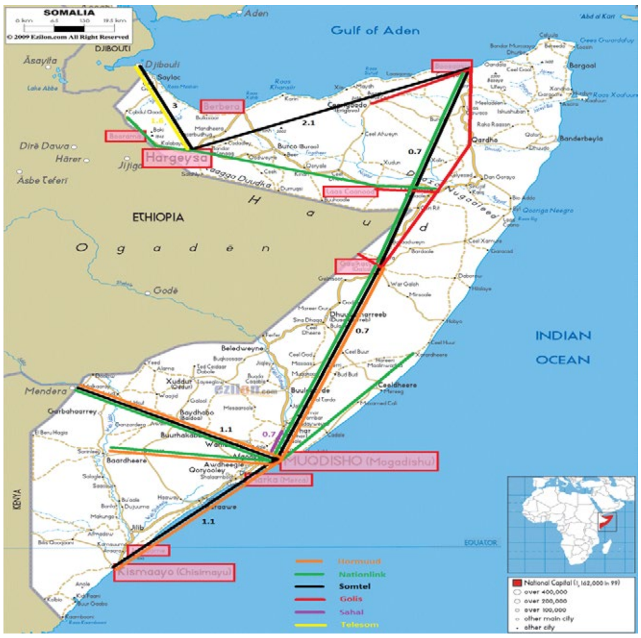
FIGURE 4.6 MAP OF TERRESTRIAL FIBER-OPTIC BACKBONE NETWORK, 2022



Source: World Bank Digital Development Team, 2023.

Note: Existing fiber-optic backbone is in green. The necessary (but not yet existing) fiber-optic backbone of different priorities is in red, blue, yellow, and brown.

FIGURE 4.7 MAP OF MICROWAVE LINK NETWORK, 2016



Source: World Bank, "Somalia Digital Economy for Africa "Initiative DE4A Report, World Bank, Washington, DC, 2022).

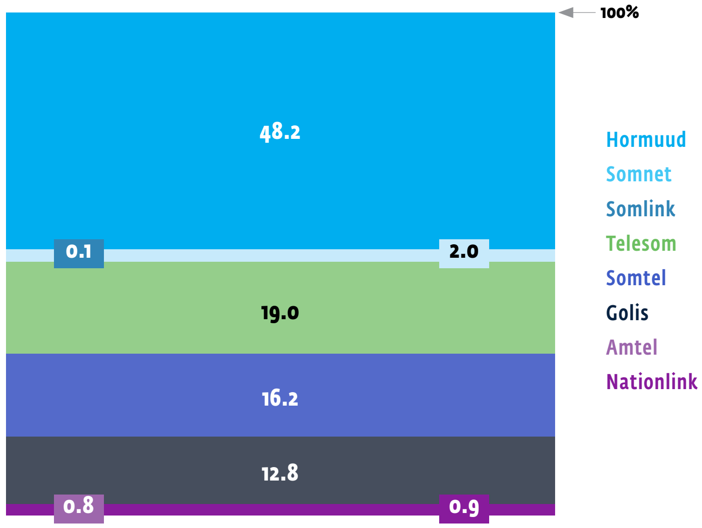
Underdeveloped institutional and regulatory frameworks and market distortions hamper attempts to further develop digital connectivity in Somalia

Despite recent regulatory and institutional milestones, the sector requires more effective government stewardship to address the remaining gaps. Some disputes in the sector continue to be settled using a mix of *Xeer* and Sharia legal mechanisms.[48] The creation of the National Communications Authority in 2018 and the adoption of new legislation and regulations (for example, the Communications Act of 2017 and the 2020 Unified Licensing Framework regulation) have paved the way for formalizing and regulating the ICT sector—such as in adoption of universal licensing. However, the implementation of these institutional and regulatory frameworks is advancing at a slow pace.[49] The country's licensing framework is complex and unclear and requires harmonization. Licensing fees are high compared to those of other countries in the region.[50] Gaps continue to exist in areas such as infrastructure sharing, quality of service, consumer protection, numbering assignments and number portability, cybersecurity, and data protection. Drafted regulations do not properly address competition issues; no regulation deters firms from colluding to allocate markets and customers or from rigging bids.

Taking advantage of regulatory and institutional gaps, some private sector operators have gained dominant positions in the sector—creating a market structure that is limiting competitive behavior and the expansion of digital connectivity. Although the National ICT Policy Strategy (adopted by Somalia's Ministry of Communications and Technology in 2019) aims to support development of an open and competitive digital market, this still has not been achieved. At the moment, the ICT market continues to be primarily composed of oligopolies that lean toward vertical market integration across sites,[51] control subregional markets, and jointly dominate ICT services in the country (figure 4.8). This market structure leads to a range of issues.[52] The requirement for mobile network operators (that is, Homuud, Telecoms, Golis, Sometel, Amtel and Somlink) to interconnect is likely to increase competition, but compliance with these measures remains limited. The market also continues to be plagued by a series of distortions. For example, (a) the informal rules according to which distribution of radio frequency spectrums is managed in Somalia limit availability of radio frequencies to new entrants and to smaller firms looking to roll out their networks; (b) very high termination charges distort markets among interconnected mobile network operators; (c) leading ICT firms refuse to share infrastructure that would reduce the cost of infrastructure deployment; (d) there is limited competition in markets for long-distance fixed connectivity because there is only one independent long-distance operator in each region (other than Somaliland); and (e) broadband services appear to be subsidized by mobile money businesses of the same conglomerate,[53] keeping prices artificially low and preventing effective competition. Furthermore, the fact that the operators are vertically integrated across sites raises significant barriers to entry, such that a new entrant would need to build a network over the entire value chain.

FIGURE 4.8 MOBILE MARKET SHARE BY PROVIDER, 2021

Percentage



Source: TMG Telecom and APTelecom, based on Global System for Mobile Communications Association intelligence.

Note: Providers in blue have south-Central Somalia as their main coverage area. Those in gray have Somaliland as their main coverage area. Puntland is serviced primarily by Golis (in black). The providers in pink have a national coverage area, although they are much smaller than other providers.

Demand issues constrain the growth of digital connectivity in Somalia

Addressing demand-side barriers is also critical to fully addressing digital connectivity challenges in Somalia. Although there is a lack of information on the main demand-side constraints that undergird low broadband usage in Somalia, there are some issues that have been highlighted in consultations and development institution reports. These include (a) limited purchasing power of the population,[54] (b) high costs of smart broadband-compatible devices, and (c) Somalia's lack of a series of building blocks that are necessary for digital development—such as digital skills, which are very limited.

4.3 ACCESS TO WATER

Access to water is problematic and continues to inhibit economic development in Somalia. Despite recent progress to improve access to water in Somalia, in 2022, only 77.7 percent and 74.7 percent of households had access to improved water sources during Somalia's rainy and dry seasons, respectively, with an even lower proportion of the population having access to safely managed drinking water.[55] Rural, nomadic, and internally displaced person (IDP) populations fared even worse.[56] According to World Bank studies, in 2018–19, an estimated 43 percent of established urban firms[57] and a large proportion of rural firms[58] also experienced water insufficiencies, with gender dimension to water scarcity.[59] Furthermore, there are sizable concerns over water quality in the country. Economic activities that need reliable access to high-quality water have been progressively constrained in recent decades. In this context, rural livelihoods are under threat, with crop production depending on an increasingly dry arid and semi-arid resource base; year-round available and affordable quality livestock feed is also gradually becoming scarcer.[60] A much-needed economic diversification in urban areas is also limited by scarce access to quality water and by high water tariffs.[61]

Somalia should have sufficient long-term renewable groundwater and surface runoff resources to meet water demands—if water is efficiently managed and allocated

Water scarcity is prevalent in some regions in Somalia. Most of Somalia is characterized as arid and semi-arid, with high interannual variability of rainfall. The Shebelle and the Jubba are Somalia's only two permanent rivers. Springs often disappear downstream because of evaporation, infiltration, and water withdrawals, and water from deep aquifers is costly to extract and often unsuitable for drinking or irrigation. Drought and inconsistent rainfalls are also increasingly frequent. Despite the country's extraction of groundwater supply, water is scarce in some regions of Somalia. The Benaadir region around Mogadishu has a level of water scarcity that is very high; this scarcity is increasing at a particularly fast pace because of a combination of low water production and growing water demand fueled by forced displacement. There are also serious concerns that significant water shortages will increase in the short to midterm, with an estimated 30 to 40 towns likely to become water scarce given the current rate of urbanization in the country.[62] However, according to recent modeling that incorporates water needs,[63] most regions in Somalia have sufficient long-term renewable groundwater and surface runoff resources to meet water demand without significantly affecting environmental flows.[64]

The state of water infrastructure and a nascent institutional and regulatory environment result in compromised efficiency of water supply in rural, urban, and peri-urban areas. Most of the water infrastructure that was built after the 1920s to control and harness variable river flows in Somalia has been destroyed, looted, or neglected since the civil war. More than half of controlled and flood-recession irrigation schemes are no longer functioning,[65] and most of those that do function are in poor condition.[66] River infrastructure (such as dams and barrages) on the Shebelle and Jubba rivers are in very poor shape.[67] Surface water storage barely exists in Somalia and (where it is available) is subject to high levels of evaporation.[68] Although the availability of small-scale infrastructure for multiuse water harvesting and storage has improved recently, rural infrastructure to collect rainfall and access groundwater also remains unreliable and inadequate.[69] Annual yields and operational expenditure of existing infrastructure also remain high.[70] In theory, the water sector in Somalia has a comprehensive multigovernance framework.[71] In practice, the institutional and regulatory framework for water service provision is underdeveloped. For example, Somalia's water law needs an overhaul in order for it to reflect the existing system. The water sector also continues to be fragmented and ineffective, with a nebulous distinction of roles and responsibilities. Despite recent initiatives, there is also a scarcity of data on water; this constrains the development of comprehensive policies for the sector—especially on urban water delivery.[72] In particular, water governance mechanisms in urban settings, the role of emerging water utilities in urban regions (such as contracting modalities and financing sources), urban water consumption for commercial and industrial users, and current mechanisms for large-scale extraction and storage of water are all topics on which further information is needed. There is also a shortfall of adequately trained personnel and of technical instruments across all functional domains, which has not improved because of the limited financial resources available to government entities in the sector. These shortcomings diminish the coordinative, oversight, and monitoring capacity of federal and state ministries (such as in the setting of tariffs and the standardization of processes for approval of construction and operation of water resources).[73]

The prevalence of water service delivery that is led by loosely regulated nonstate actors with limited government coordination contributes to constrained access to water in Somalia

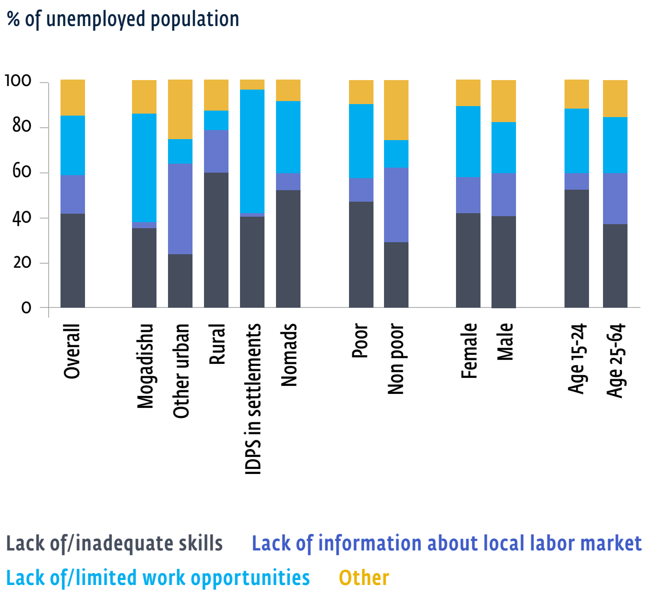
Community-led water service delivery in rural regions is often inefficient and inequitable. Water provision in rural areas has been primarily community-led for many decades, with local committees forming to facilitate and monitor projects funded by development institutions. However, in practice, water points often fall closer to being private assets, with individuals (such as lineages of village heads) claiming ownership of them.[74] Watering lists and queuing rules that regulate access to water are not always equitable, and water committee leaders collude and engage in rent-seeking behavior. This goes mostly unchecked because of very limited enforcement of the roles and responsibilities of water committees, a lack of ongoing external support and monitoring, and the existence of information asymmetries between committees and the Ministry of Energy and Water Resources (MoEWR).[75] Operation and maintenance of water points is also inefficient because capacity building of water committees is often hasty and irregularities in revenue collection may lead to deficiencies of funds for operational expenses and repairs.[76]

In urban settings, the lack of regulation of private water markets is one of the primary drivers of limited access to quality water. In the early 2000s, private companies started leveraging water investments by development institutions to drill boreholes in the outskirts of towns and to establish a reticulation of mini pipe networks for delivery[77] in an effort to fill the gaps left by Somalia's destroyed public water infrastructure. This has led to a water supply and delivery system in urban and peri-urban areas that is generally controlled by private companies—ranging from large quasiwater utilities to small individual water entrepreneurs.[78] Some companies and hotels also have their own boreholes; truck owners, middlemen, and water sellers (such as donkey cart operators) buy and distribute water purchased from a range of sources (including bottled water imports).[79] These stakeholders form part of a range of private sector–led water markets. For example, the water market in Borama is a monopoly, with only one company providing water. Beledweyne is home to 25 water providers. Other urban centers, such as Baidoa, Bosaso, Galkayo, and Mogadishu are controlled by oligopolies.[80] In all of these urban water supply ecosystems, governments are virtually absent.[81] Some government entities are minor partners in water PPPs, and most issue licenses and collect fees, but government oversight and monitoring is generally contested, fragmented, and ineffective, leading to de facto self-regulated private water delivery sectors that are often characterized by anticompetitive behaviors and price fixing.[82] In consequence, although large Somali firms can often negotiate discounted water rates, urban water prices are usually exorbitant, burdening most urban households and firms.[83] There are also no standardized processes for the construction and operation of water resources in Somalia; this affects the quality of water provision across the country.

4.4 EDUCATION AND SKILLS FOR JOBS

A mismatch between labor demand and labor supply hampers private sector development in Somalia. It is estimated that more than 80 percent of the educated elite in Somalia left the country between 1991 and 2008.[84] Although some educated diaspora Somalis have returned in the past decade,[85] the Somali labor force is characterized by deficient skills. Unemployed Somalis cite inadequate skills as one of the main barriers to finding a job, especially among the poor, youth, and nonurban populations (figure 4.9). Jobs that need vocational skills (such as carpentry and welding) are often left unoccupied.[86] However, a majority of urban firms report that employees' skills meet or exceed their business needs (figure 4.10) for jobs that do not require managerial or foreign language skills.[87] There is a clear mismatch between the skills possessed by Somali workers and those needed by employers; this is primarily a result of (a) the problems of the Somalia formal education system, (b) the deficiencies of technical and vocational education and training (TVET) and nonformal education, and (c) labor market frictions that hinder matching jobseekers with job openings.

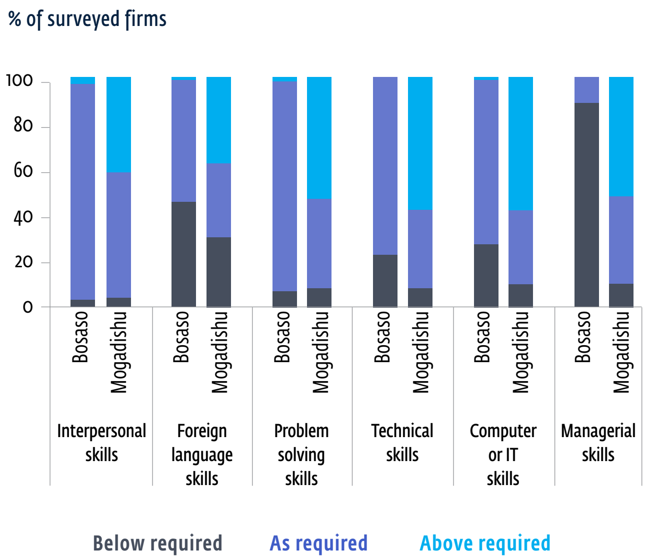
FIGURE 4.9 MOBILE CELLULAR SUSCRIPTIONS, SOMALIA, 2000-21



Source: World Bank staff calculations based on the Somali High-Frequency Survey 2017—18. Taken from Wendy Karamba, *Improving Access to Jobs for the Poor and Vulnerable in Somalia* (Washington, DC: World Bank, 2021).

Note: IDPs = internally displaced persons.

FIGURE 4.10 LEVELS OF SKILLED EMPLOYEES IN URBAN FIRMS BY TYPES OF FIRMS, 2019



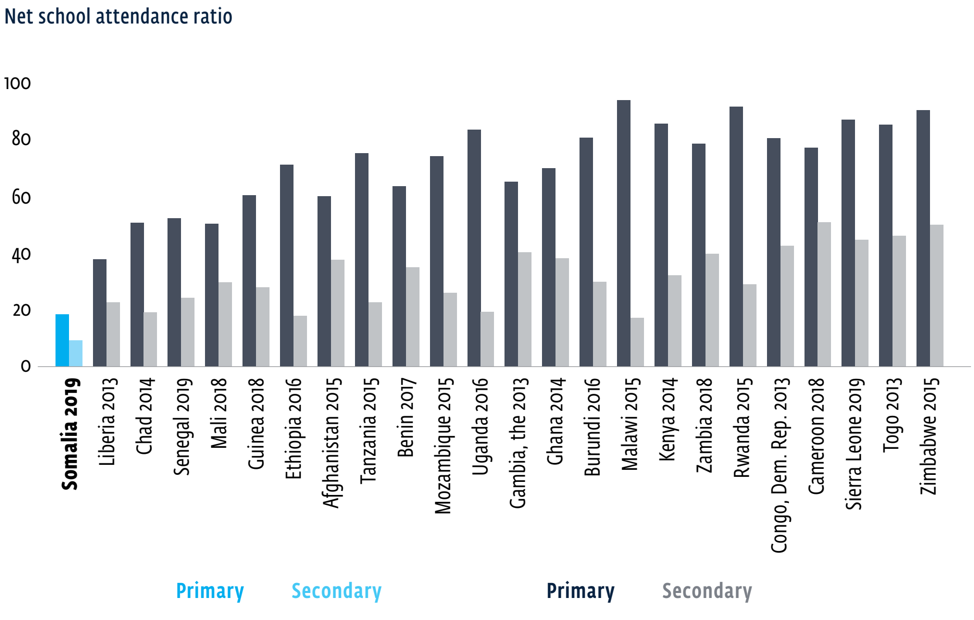
Source: World Bank staff calculations based on the World Bank 2019 Somalia Enterprise Surveys in Mogadishu and Bosaso. Taken from Wendy Karamba, *Improving Access to Jobs for the Poor and Vulnerable in Somalia* (Washington, DC: World Bank, 2021).

Note: IT = information technology.

Despite recent progress, the Somali formal education system has a wide range of problems

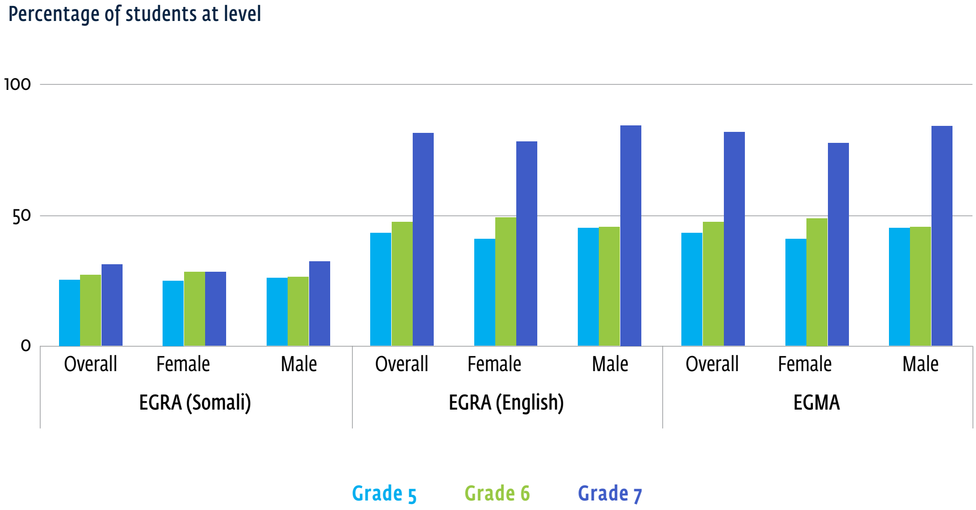
Somalia has one of the lowest levels of formal education in the world. School participation in the country is extremely low. The primary gross enrollment ratio (GER) in Somalia ranges from 9 percent to 30 percent, which is considerably lower than the 99 percent average GER in Sub-Saharan Africa and the 96 percent average in fragile and conflict-affected countries.[88] The number of out-of-school children in the country is even higher at the secondary level, with a GER that ranges from 12 percent to 15 percent, compared to 44 percent and 46 percent in Sub-Saharan African and FCV countries, respectively (figure 4.11).[89] Tertiary education is highly uncommon, especially among the poorest Somalis.[90] Rural students face a situation that is even more dire, with one-third of the 93 school districts in Somalia (which are mostly rural) having an average GER of less than 10 percent. Rural Somalis' rate of tertiary education attendance is less than 3 percent. Women are worse off, with girls receiving an average of only 1.48 years of schooling compared to 1.95 years for boys (see box 4.1).[91] The quality of education in the country also appears to be subpar: the 2018 Early Grade Mathematics Assessment and Early Grade Reading Assessment, as well as a more recent study in schools in south and central Somalia[92] identified very low learning levels in literacy, English literacy, and mathematics among the few children who do go to school (figure 4.12). Given these primary and secondary education outcomes, the pipeline to tertiary education in Somalia is largely nonexistent. Although there are 118 higher education institutions operating in the country (of which 41 are officially recognized),[93] it is calculated that the GER for tertiary education is only 4.8 percent.[94] It is estimated that more than 96 percent of Somalis have no higher education.[95]

FIGURE 4.11 ACCESS TO EDUCATION COMPARED WITH PEER COUNTRIES, 2020



Source: Federal Government of Somalia and STATcompiler, Demographic and Health Survey.

FIGURE 4.12 RESULTS OF 2018 EARLY GRADE MATH AND READING ASSESSMENTS IN SOMALIA



Source: Charles Wafula and Godfrey Mulongo, "Are Children in South and Central Somalia Accessing Education, and Are They Learning? Baseline Information," *Social Sciences and Humanities Open* 2, no. 1 (2020).

Note: EGRA = Early Grade Reading Assessment; EGMA = Early Grade Mathematics Assessment.

BOX 4.1 EDUCATION GENDER GAPS IN SOMALIA

Education of women is severely constrained in Somalia. Gender gaps in school attendance are linked to a series of demand and supply-side factors. They include poverty, long distances from homes to schools, preferential treatment of males, and various social norms entrenched in Somalia's patriarchal society (including social pressures for early marriage, expectations that girls support households, and caregiving).[a] The shortage of female teachers in the country[b] and the belief that only men should continue to advanced levels of education also lead to a low uptake of education services by girls. These factors reduce the pipeline of young women prepared for higher education (figure B5.1.1) and prevent otherwise prepared women from enrolling and remaining in tertiary education institutions (figure B5.1.2). The lack of market-relevant skills, which hinders transition to the labor market, is also particularly frequent among women. Although an estimated 44 percent of youth (between the ages of 15 and 24) are not in education, employment, or training (NEET) in Somalia, the NEET rate is particularly high for young women: 50 percent of all females between the ages of 15 and 24, compared to 39 percent of males.[c] Recent consultations suggest that basic skills are a primary constraint to women with respect to labor market engagement and financial independence.[d]

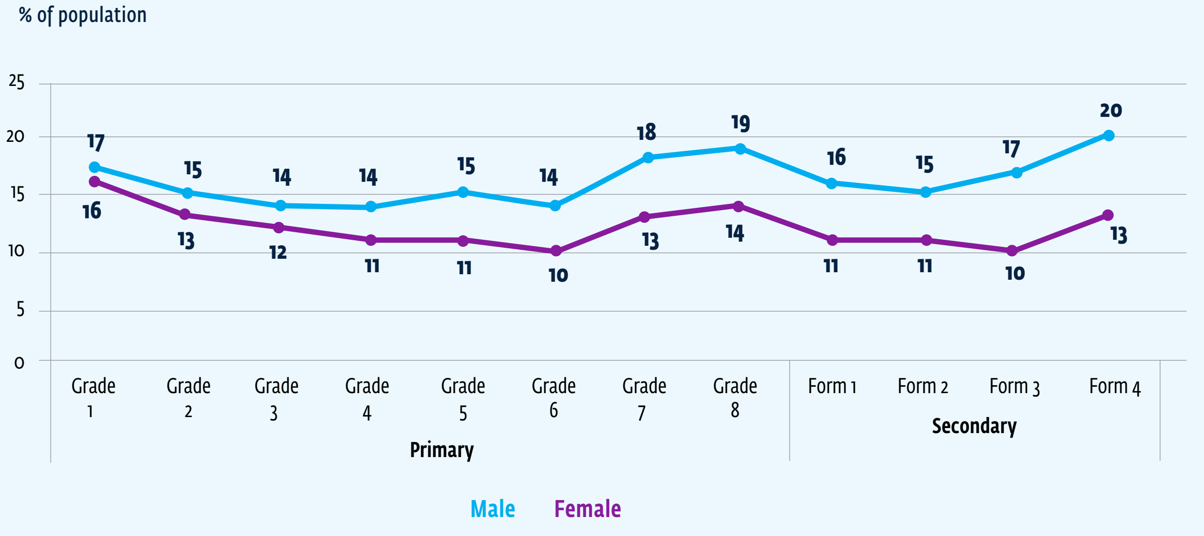
a. Federal Government of Somalia, *Education Sector Analysis: Assessing Opportunities for Rebuilding the Country through Education* (UNESCO Office for Africa, International Institute for Educational Planning, Dakar, Senegal, 2022).

b. For more information, see World Bank, Somalia Education for Human Capital Development Project (Project Appraisal Document, PAD3788, May 24, 2021); and World Bank, "Rapid Survey of Selected Somali HEIs," December 2022.

c. According to the Somalia Labor Force Survey, cited in: World Bank, "Somalia Empowering Women through Education and Skills Project – 'Rajo Kaaba' Project" (Project Appraisal Document, PAD4863, June 2022).

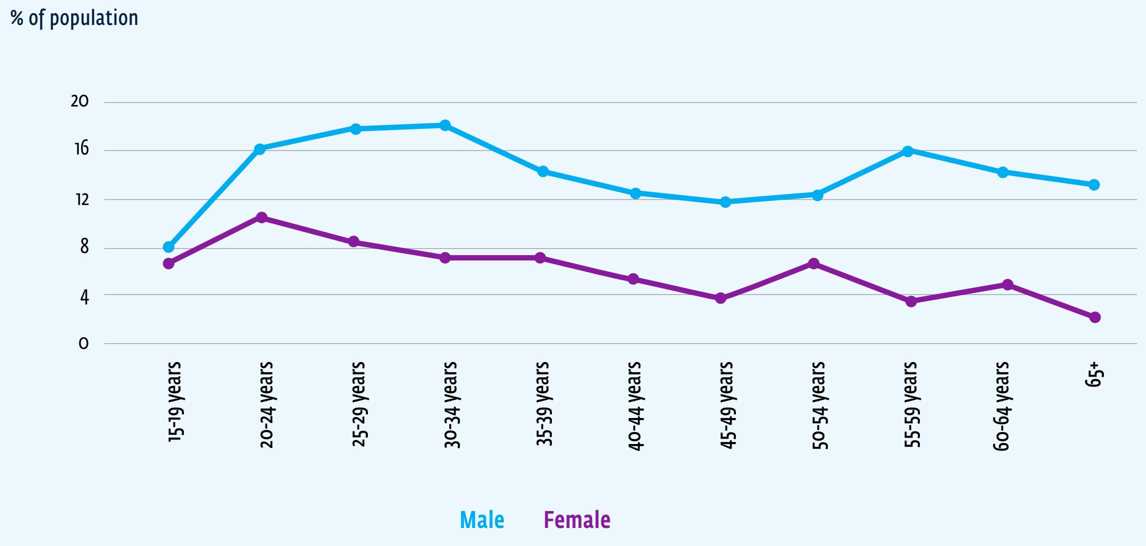
d. World Bank, "Somalia Empowering Women."

FIGURE B4.1.1 INTAKE RATES: PRIMARY TO SECONDARY IN EACH GRADE (OR FORM) BY SEX, 2022



Source: Federal Government of Somalia, *Education Sector Analysis: Assessing Opportunities for Rebuilding the Country through Education* (UNESCO Office for Africa, International Institute for Educational Planning, Dakar, Senegal, 2022).

FIGURE B4.1.2 PERCENTAGE OF SOMALI POPULATION BY AGE GROUP THAT ATTENDED HIGHER EDUCATION, 2020



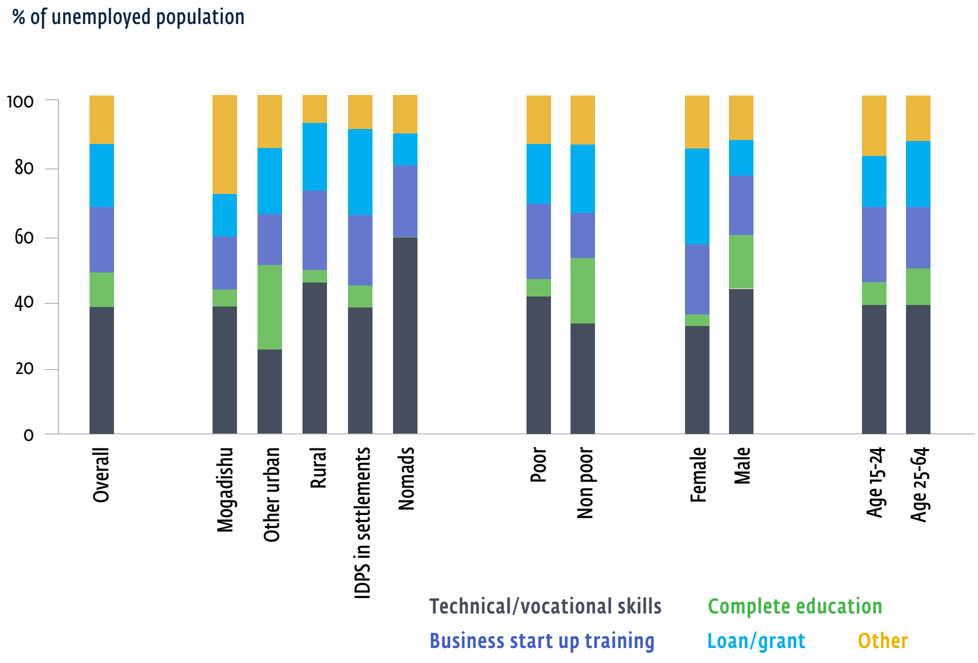
Source: Somalia Health and Demographic Survey, 2020. Taken from: World Bank, "Somalia Empowering Women Through Education and Skills 'Rajo Kaaba' Project" (Project Appraisal Document, PAD4863, June 2022).

The marginal role of the Somali public education system in a sector that is still dominated by nonstate schools is a key driver of poor education outcomes in the country. Somalia spent only 5 percent of its budget on education in 2020, which translates to about 0.25 percent of total GDP.[96] This level of public financing is insufficient to support even core functions of education institutions (such as payment of teachers).[97] Nonstate actors have become the primary provider of education in Somalia following the civil war.[98] These nonstate actors are primarily private entities,[99] although they also include local communities, international donors and nongovernmental organizations (NGOs), umbrella associations,[100] and integrated Koranic schools.[101] These nonstate actors lack effective oversight and stewardship from the public sector. Despite notable progress in education policy and program development by federal and state governments, uniformity is missing on curriculums, education cycles, languages of instruction, and learning standards. Most school funding comes from school fees, even in public schools.[102] Only members of households that can afford school—through income, remittances, or assistance from humanitarian or development partners—can get an education. Schools are also rarely developed in geographic areas where a market-based mechanism cannot be established (for example, regions with high poverty levels or those prone to shocks and violence). As such, large parts of the country remain underserved. The country's teaching force is also ill-qualified, with no uniform preservice teacher training curriculum in the country; there is also a scarcity of professional development programs for teachers.

A strengthened technical and vocational education and training system could help close the skills gap in Somalia

Although a solid TVET system in Somalia could equip its citizens with the knowledge and skills needed to thrive in the country's economy, existing TVET systems are largely deficient in the country. There is a strong demand in Somalia for technical, vocational, and other types of nonformal education, which are currently missing. (figure 4.13). Some of the issues that afflict TVET systems are external, such as the lack of foundational skills. However, Somalia's TVET system is in its infancy, with current TVET centers unable to give trainees the knowledge and skills needed to transition smoothly into the workforce in their chosen careers. Although there have been at least 129 TVET centers established around Somalia,[103] TVET education receives comparatively fewer public resources than other types of education, leading to a scarcity of TVET centers across the Somali territory and making those that exist almost completely dependent on ad hoc, short-term donor project financing.[104] A mere 14,000 people have enrolled in TVET institutions in Somalia since they have been available.[105] TVET centers usually have inadequate infrastructure (such as a lack of fully equipped laboratories, workshops, and classrooms), a scarcity of training textbooks, and an even more severe shortage of qualified teachers than that of formal education institutions.[106] A missing comprehensive qualification framework for TVET is also an issue.[107] Somalia's TVET system is not demand driven because private sector businesses are not sufficiently involved in steering it,[108] leading to a situation in which TVET providers deliver training that is not always practical, relevant, or useful for enhancing the employability of trainees.[109] This situation is also exacerbated by the lack of incentives for private sector enterprises to provide apprenticeship opportunities[110] and by inadequate data collection on the TVET system, which hampers understanding of specific workforce needs in different industries.[111] Consequently, the few Somalis that have graduated from TVET institutions often struggle to find employment, and may end up in informal jobs.

FIGURE 4.13 TRAINING NEEDS ACCORDING TO UNEMPLOYED SOMALIS, 2017–18



Source: World Bank staff calculations based on the Somali High-Frequency Survey 2017–18. Taken from World Bank, Improving Access to Jobs for the Poor and Vulnerable in Somalia (Washington, DC: World Bank, 2021).

Note: IDP = internally displaced person.

Labor market frictions depress labor market dynamics and affect job transitions

Matching jobseekers with job openings is hindered by job market frictions in Somalia. Search frictions and information imperfections caused by societal preferences and norms are typical in the Somali labor market. Given the lack of credibility of TVET systems in Somalia, prospective employers tend to prioritize hiring graduates from higher education institutions with recognized credentials. This hiring practice may result in a discrepancy between job requirements and the skills available in the workforce. Gender segregation into traditionally male and female fields and strong cultural associations between traditional clans and specific professions also affect the job market,[112] with societal norms perpetuating gender imbalances in training programs and the workforce and inhibiting the full utilization of existing talent and skills in the country. Similarly, certain types of manual labor are viewed as low status in Somalia, leading unemployed individuals—however unskilled—to reject these kinds of jobs.[113] Furthermore, job openings are usually not advertised publicly, with employers hiring primarily through personal connections.[114] This marginalizes not only minority clans, but also marginalized groups (for example, IDPs, women, and those who are poor) that are more likely to lack these connections and are thus usually unable to find information about jobs.[115] Even when candidates from these groups become aware of job openings, some employers exclude them from consideration because of their lack of social networks.[116] These issues with matching jobseekers with job openings have a negative influence on the country's ability to make use of existing skill sets for private sector development.[117]

4.5 ACCESS TO BUSINESS SERVICES

The need for business services is elevated in the Somali private sector. A large proportion of unemployed Somalis indicate that they need training and financing to start a business.[118] Established businesses also seem to have a high need for business development services (BDS). According to recent data collection by the World Bank on the demand for BDS by MSMEs in Somalia,[119] more than 90 percent of surveyed firms indicated that BDS services are critical for the success of their firms. The type of BDS required varies by size of firm, economic sector, and the gender and education level of the owner, but the perceived importance of BDS is consistent across types of firms.

The entrepreneurship support ecosystem in Somalia is growing but remains nascent compared to more advanced regional peers. The number of entrepreneurship support organizations (ESOs) in the country has increased considerably in recent years—primarily in Mogadishu, Hargeisa, and Garowe.[120] A few of those ESOs have good capacity and adequate infrastructure (such as coworking spaces), as well as strong core teams, a wide network of mentors, and close collaboration through frequent cohosting of and participation in entrepreneurship events (for example, the Mogadishu Tech Summit).[121] However, the ecosystem remains nascent in comparison to more advanced ecosystems in the Sub-Saharan Africa region (such as Kenya's). Current outreach (300–500 beneficiaries per year) is unlikely to have much of an impact on private sector development. This is especially true because there is little evidence that entrepreneurial ventures supported by ESOs have been able to scale up.[122] The ESO ecosystem is also primarily dominated by incubators, with only a few accelerator programs, angel investors, or hybrid model organizations,[123] some of which lack clarity on the support that should be provided by an incubator.[124] Most ESOs also lack specialization, providing undifferentiated services that focus almost solely on enterprise development skills.[125] Finally, most ESOs do not charge any fees for their programs, which hinders their sustainability.[126]

Demand and supply of commercial business services in the country are also extremely weak. Access to professional services is very limited in Somalia, making it challenging for firms to improve business administration functions (such as accounting), engage in and enforce contracts, and access data and market information.[127] Supply of training and technical business support also remains limited. Most existing BDS providers have significant capacity gaps, provide their services through informal personal networks, and lack a physical place of business.[128] Most existing commercial business service providers do not have a track record of creating value for clients, leading to a minimal demand for these services.[129] Donor-funded business development service organizations[130] have also had only mixed results; they often have sustainability issues and are geographically concentrated in large cities.[131]

Notes

1. Infrastructure and Cities for Economic Development, "Case Studies: Delivering Inclusive Growth through Infrastructure Programming in FCAS—Somalia—Building Infrastructure in a 'Failed State'" (UK Department for International Development, 2019).
2. Consultations with government and private sector stakeholders in Mogadishu, August 2023; Peter Middlebrook, Hussein Siad, and Hussein Haji Mao, "Somalia Vision for Private Sector Development Report" (Working Paper 5, National Economic Council of Somalia, Mogadishu, December 2019).
3. The CPSD evaluated a list of high-potential sectors and short-listed these sectors using a filtering framework consisting of three criteria: (a) desirability, (b) feasibility, and (c) value addition.
4. World Bank, *Somalia Country Economic Memorandum—Towards an Inclusive Jobs Agenda* (Washington, DC: World Bank, 2021).
5. World Bank, *Somalia Horn of Africa Infrastructure Integration Project* (Project Appraisal Document, PAD 4464, Washington, DC: World Bank, September 9, 2022).
6. African Development Bank (AfDB), *Somalia Transport Sector Needs Assessment and Investment Programme* (Abidjan, Côte D'Ivoire: AfDB, 2016).
7. Data collection for the World Bank "Kaalkaal" project.
8. AfDB, *Somalia Transport Sector Needs Assessment and Investment Programme.*
9. A study commissioned by the African Union Commission in 2020 established that Somalia contributed only 316,000 passengers in traffic per year within the African Union. According to the AfDB, Somalia's ratio of passenger movement to urban population is 0.13; this can be compared to that of Kenya, which has a ratio of 0.81.
10. AfDB, *Somalia Transport Sector Needs Assessment and Investment Programme.*
11. Consultations with government and private sector stakeholders in Mogadishu, 2023.
12. For example, airlines (a) need to pay a premium to pilots and crew to go to Somalia and (b) are required to obtain a special permit from regulatory authorities because the country is considered a hostile destination. For more details, see Daisy Carrington, "Flying into Hostile Territory: Somalia Experiences Boom in Air Travel," CNN, 2013.
13. Long-term concession agreements were provided to DP World for the management of the maritime ports of Berbera and Bosaso, and a concession agreement was signed with Albayrak (of Türkiye) for the management of the maritime port in Mogadishu.
14. AfDB, *Somalia Transport Sector Needs Assessment and Investment Programme.*
15. The World Bank transport team was not allowed to visit the ports of Kismayo and others, and the existing port master plan was elaborated remotely.
16. For a detailed analysis of the weaknesses of port facilities in Somalia, see Inros Lackner SE, HEFI, and Africa Enablers GmBH, Port Master Plan—Final Report (Ministry of Finance of the Federal Republic of Somalia, December 2017). Concession agreements might be relevant to the performance of maritime ports because they would define who is responsible for the maintenance and operation of different types of infrastructure. Unfortunately, although a process to review the terms of the concession of the port in Mogadishu is ongoing, development institutions have not had access to the concession terms for the ports in Berbera and Bosaso.
17. AfDB, "Somalia Road Infrastructure Program—Appraisal Report" (AfDB, Abidjan, Côte d'Ivoire, July 2019).
18. CMA CGM is the third largest container shipping company in the world, with presence in 160 countries; it operates 257 shipping lines.
19 AfDB, *Somalia Transport Sector Needs Assessment and Investment Programme*, 2016.
20. As established in Thomas Cantens, *Somalia: Assessment of Customs Revenue Potential and Proposals for Reform* (World Customs Organization Research Unit, World Bank Somalia Governance Program with support from the UK Department for International Development, 2018).
21. There is anecdotal evidence that shadow taxes are paid in ports (mostly to Al-Shabaab) that are often larger than taxes paid to the Somali government.
22. AfDB, "Somalia Road Infrastructure Program."
23. AfDB, "Bank Group Country Brief 2017–2020" (AfDB, Abidjan, Côte d'Ivoire, September 2017).
24. World Bank, SDG indicator 9.1.1., Rural Access Index, https://datacatalog.worldbank.org/dataset/rural-access-index-rai.
25. World Bank, *Somalia Horn of Africa Infrastructure Integration Project.*
26. Inros Lackner SE, HEFI, and Africa Enablers GmBH, *Port Master Plan—Final Report*, Ministry of Finance of the Federal Republic of Somalia, December 2017; SDG 9.1.1. Rural Access Index, https://datacatalog.worldbank.org/dataset/rural-access-index-rai.
27. Infrastructure and Cities for Economic Development, Case Studies." The only established corridor from Somalia's coast to a neighboring country is that linking the port of Berbera in Somaliland to Tog Wajaale on the border with Ethiopia.

28. Claire Elder, "Logistics Contracts and the Political Economy of State Failure: Evidence from Somalia," *African Affairs* 121, no. 484, (July 2022): 395–417.
29. Roland Marchal, *The Post Civil War Somali Business Class* (Nairobi, Kenya: European Commission Somalia Unit, 1996).
30. Claire Elder, "Logistics Contracts and the Political Economy of State Failure: Evidence from Somalia," *African Affairs*, 121, no. 484, (July 2022): 395–417; and Claire Elder, "Somaliland's Authoritarian Turn: Oligarchic–Corporate Power and the Political Economy of de Facto States," *International Affairs* 97, no. 6, (2021): 1749–65.
31. Jatin Dua, "Ambergris, Livestock, and Oil: Port-Making as Chokepoint Making in the Red Sea," *Ethnos: Journal of Anthropology*, 88, no. 2 (2020).
32. Claire Elder, "Logistics Contracts."
33. Tobias Hagmann et al., "Commodified Cities—Urbanization and Public Goods in Somalia" (Rift Valley Institute, Nairobi, Kenya, 2020).
34. According to an assessment by World Bank staff for the 2021 *Somalia Country Economic Memorandum*, estimated margins of transport operators potentially exceed 50 percent of transport prices.
35. A. K. Jama, "A Comparative Analysis of Public Private Wages in Somalia: An Evaluation of Wage Differentials," *Journal of Economics and Sustainable Development* 7, no. 16 (2016).
36. Although some activities on this front (funded by the AfDB, the EU, and the World Bank) are ongoing, creating effective institutions in this sector will require decades of sustained effort.
37. Consultations with government and private sector stakeholders in Mogadishu, 2023.
38. It is possible that this figure underestimates the scale of mobile phone ownership in Somalia. An earlier 2017 World Bank household survey found that 92 percent of respondents ages 16 and older reported owning at least one mobile device.
39. Y. M. Mubarak, "Mobile Networks Evolution in East-Africa: Opportunities and Challenges in Mobile Networks in Kenya and Somalia" (master's thesis, Helsinki Metropolia University of Applied Sciences, 2017), https://www.theseus.fi/bitstream/handle/10024/136924/Mobile%20Networks%20Evolution%20in%20East-Africa.pdf?sequence=1&isAllowed=y.
40. International Finance Corporation (IFC), "Somalia—Market Assessment of Financial Services" (internal document, IFC, Washington, DC, 2022).
41. This is suggested by existing estimates, but it must be highlighted that data on this front is highly unreliable because the national industry does not regularly collect statistics from operators.
42. International Telecommunication Union (ITU), Measuring the Information Society Report 2018, Volume 2, 2018, 166.
43. World Bank, "Somalia Digital Economy for Africa"; and consultations with the Somalia IFC infrastructure investment team.
44. According to ITU, *Measuring the Information Society Report 2018*, the country is served by an Eastern Somalia Backbone Network, a Southern Somalia Backbone Network, and a Central Somalia Backbone Network.
45. World Bank, *Missing Broadband Links in the Horn of Africa Region.*
46. World Bank, "Somalia Digital Economy for Africa."
47. World Bank, "Somalia Digital Economy for Africa."
48. University of Pennsylvania, *Mapping ICTs in Somalia: Policies, Players, and Practices* (Center for Global Communication Studies at the Annenberg School for Communication, University of Pennsylvania, June 2014); and consultations with some stakeholders of the Somali ICT industry, Nairobi, Kenya, January 2023.
49. A series of regulations are also in the process of being drafted. For instance, full implementation of the new regulatory frameworks on spectrum management and interconnection is still pending.
50. For example, the initial licensing fee is almost 19 times that of the equivalent license in Kenya for larger firms, and more than 100 times that of the equivalent license in Kenya for smaller firms.
51. World Bank, "Broadband Missing Links and Regional Market Enabling Environment for the HoA Region—Somalia Feasibility Study, 2020.
52. National Communications Authority, *Market Assessment of the ICT Sector in Somalia*, December 2022.
53. World Bank, "Somalia Digital Economy for Africa."
54 Despite the low prices of broadband services in Somalia, when considering these prices as a percentage of GDP per capita, it can be concluded that they are less affordable for the Somali population than for populations of regional peers.
55. Somali National Bureau of Statistics, "2022 Somalia Integrated Household Budget Survey (SIHBS)—Main Report," February 2023.
56. Somali National Bureau of Statistics, "2022 SIHBS."
57. World Bank, 2019 Somalia Enterprise Survey in Mogadishu and Bosaso, 2019.
58. World Bank, "Water for Agropastoralist Livelihoods Pilot Project in Somaliland and Puntland—Endline Report," August 2018.

59. For more information on this topic, see Food and Agriculture Organization, *National Gender Profile of Agriculture and Rural Livelihoods—Somalia*, 2021.
60. Albert Tuinhof et al., *Economics of Water: Digging for Data—Towards Understanding Water as a Limiting or Enabling Factor for Socioeconomic Growth in Somalia* (Washington, DC: World Bank, 2021).
61. For instance, water tariffs in Mogadishu are around 10 times the world average.
62. Tuinhof et al., *Digging for Data.*
63. M. Mekonnen, and A. Hoekstra, "Four Billion People Facing Severe Water Scarcity,"*Science Advances 2, no. 2 (2016); and A. McNally et al, "Acute Water-Scarcity Monitoring for Africa," Water* 11, no. 1 (2019): 2968.
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125. Data collection by UNIDO in 2022.
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5. ASSESSMENTS OF SECTORS WITH HIGH POTENTIAL TO ACCELERATE SOMALIA'S DEVELOPMENT

One of the primary objectives of the CPSD is to provide sector-specific insights on economic sectors that provide the best near- to medium-term opportunities to accelerate private sector–led development in Somalia. To this end, the CPSD evaluated a list of 10 high-potential sectors: electricity; the financial sector; digital infrastructure; health; education; water; agriculture, livestock, and fisheries; oil and gas; digital services; and affordable housing. The sectors were further short-listed on the basis of a filtering framework consisting of three categories of criteria: (a) desirability, (b) feasibility, and (c) value addition, which are delineated in the framework outlined in figure 5.1. Two sectors surfaced as high priorities for deep dives following this screening exercise: (a) electricity and (b) the financial sector.

FIGURE 5.1 ANALYTICAL FRAMEWORK FOR SELECTION OF SECTORS WITH NEAR- TO MEDIUM-TERM OPPORTUNITIES

Economic Sector Selection Framework

Desirability criteria

1. Job creation potential
2. Effect on economic diversification and resilience
3. Positive contributions to productivity of other economic sectors
4. Other development impacts

Feasibility criteria

1. Comparative advantage
2. Private sector engagement is possible in the near to medium term
3. "Political will" to develop sector is strong
4. Deep-dive is possible within CPSD time frame given existing information and circumstances in Somalia

Value addition criteria

1. Comprehensive analysis of the sector is needed
2. Value in synthesizing existing analysis
3. Value in highlighting the sector in the report

Source: Original figure for this publication.

It is important to highlight that, while the agriculture, fisheries, and livestock sectors were not selected for reasons of feasibility and value addition, they are essential to Somalia's economic development and food security. These sectors are central to enhancing the climate resilience of rural populations. They are also important for the reduction of poverty, forced displacement, and food insecurity of Somalis, and they are critical for the generation of employment and the development of the country's export and productive sectors in the short, medium, and long term. This critical importance is not only because of the sectors' prevalence within the Somali economy, but also because diversification toward higher-value-added activities in the medium to long term is possible in Somalia, especially in food sector value chains, which need robust agriculture, fisheries, and livestock sectors. It is thus a recommendation of this CPSD that ongoing analysis be leveraged and further analysis be done to close any remaining information gaps on these sectors,[1] with a view to prioritizing their development in the short to medium term.

5.1 ELECTRICITY SECTOR

State of the Somali Electricity Sector

Despite significant progress discussed in the following paragraphs, access to reliable, predictable, safe, and affordable electricity remains limited and inequitable in Somalia. While a reliable baseline for electricity access in the country is still unavailable,[2] diverse data sources consistently suggest that a large proportion of the Somali population lacks access to electricity. The 2023 "Tracking SDG 7" Energy Progress report estimates that only 49 percent of the Somali population has access to electricity at a national level.[3] Similarly, a recent household budget survey supported by the World Bank[4] suggests that fewer than 62 percent of Somalis have access to electricity. Certain geographical regions and population groups are particularly disadvantaged, with the household budget survey showing that about 39.4 percent and 8.7 percent of rural and nomadic households, respectively, have access to electricity in comparison with 80.1 percent of urban households.[5] When available, electricity in the country also tends to be unreliable, unpredictable, unsafe, and unaffordable. Delivery and servicing for large customer loads is largely unsuccessful owing to limits to the amount of electricity that can be delivered to consumers by each supplier.[6] Furthermore, shortages are common[7] and safety issues related to electricity infrastructure are frequent—with an estimated 60 percent of fires in the country caused by electrical wiring faults.[8] In addition, the tariffs paid by Somalis for these electricity services are some of the highest in the world. While highly differentiated by region, rates paid by Somalis range between US$0.25 and US$1.30/kilowatt-hour (kWh),[9] in comparison to average rates of US$0.09/kWh and US$0.144/kWh in Ethiopia and Kenya, respectively.[10] As such, Somalia ranks in the upper 5 percent globally for power cost and in the upper 15 percent globally for power expenditure as a share of gross national income per household.[11]

The underdeveloped state of both the on-grid and off-grid electricity sectors is a significant contributing factor to the limited availability of quality electricity services in Somalia. The Somali on-grid electricity sector consists of a fragmented patchwork of small, isolated diesel-based mini-grids, which are run by private sector operators almost solely in urban and peri-urban areas and are beset with intertwined challenges of ad hoc service provision. Meanwhile, although the off-grid electricity sector has developed substantially in recent years, it still comprises short supply chains with weak downstream markets and issues with quality. This section discusses the performance of each of these sectors in more detail.

Performance of the On-Grid Electricity Sector

As is the case in many other countries emerging from conflict, Somalia lacks a centralized grid, with private sector energy service providers (ESPs) supplying most of the country's electricity. The Ente Nazionale de Energia Elettrica (ENEE) was the single public utility operation in the country before the civil war,[12] with an installed capacity of about 70 megawatts (MW), an annual energy production of 250 gigawatt-hours (GWh), and an underdeveloped distribution network. As such, since before the civil war, a significant proportion of large enterprises, SMEs, and MSMEs had to generate their own electricity.[13] During the civil war, this situation was aggravated even further, as most of the scarce infrastructure owned by ENEE was destroyed and looted. Accordingly, ENEE was barely generating any electricity when the Somali state collapsed in 1991, and after the civil war, private firms that had developed an anchor load (such as hotels and telecommunications suppliers) extended electricity connections to nearby households or businesses to sell their surplus power.[14] Initially, these service providers supplied predetermined niches with the help of clan elders in a disjointed political terrain where elevated transaction costs[15] undermined incentives for large-scale investments.[16] However, many of the service providers have emerged or consolidated their operations mostly in urban centers, structured and organized in a vertically integrated basis and with independent electricity generation and distribution networks. The Somali on-grid electricity sector has thus grown to be essentially composed of an ensemble of isolated radial island distribution grids[17] with embedded generators,[18] owned by at least 55 ESPs—which currently supply more than 90 percent of the on-grid electricity in Somalia.[19]

The installed capacity and distribution network of ESPs is insufficient and unevenly distributed. On-grid electricity demand peaked at about 400 MW in 2021[20] and is predicted to increase to between 1,000 MW and 4,600 MW by 2037.[21] In this context, while reliable figures are unavailable, estimates on the current installed generation capacity in the country range from 138 MW[22] to 344 MW.[23] Its penetration to the country is also low and mostly inequitable.[24] According to a 2018 World Bank assessment of the energy sector,[25] penetration varies across regions, but especially between urban cities on the one hand and rural towns and IDP settlements on the other. In effect, because of the high capital costs and timing required to develop and extend an interconnected grid, and because of ESPs' small size, ESPs typically do not reach the rural areas and IDP settlements.[26] As such, according to estimates, while 54 percent of urban households (HHs) are connected to a grid, only 16 percent of rural HHs and 19 percent of IDP HHs have a connection.[27] In some regions this divergence is even more exacerbated, with approximately three-quarters of urban HHs in Somaliland having a connection and an estimated 2 percent of rural and IDP HHs in Hirshabelle having one.[28] Additionally, there is a considerable divergence in the availability of on-grid energy even within urban centers. Most of Somalia's installation capacity is concentrated in a few cities (for example, Mogadishu) supplied by two or more ESPs. Even some of the country's larger cities (such as Burao, with a population of three-quarters of a million people) have power systems that are very small, with daytime loads in the order of 1 to 2 MW and a peak load of less than 4 MW.[29] More critically, installed capacity in small towns is usually limited to unsynchronized captive electricity sources (such as small hybrid solar photovoltaics [PV] and battery systems with a backup high-speed diesel generator [HSDG]) with small stand-alone mini-grids or patchworks of independent power producers (for example, telecommunications firms that sell off their surplus energy).[30]

Despite recent progress, the generation mix of ESPs and their lack of interconnection also result in an inefficient and expensive electricity supply.[31] This is the case despite recent efforts by the Somali government to rehabilitate and optimize existing generation and distribution assets. Although renewable energy (that is, solar and wind) systems have been increasingly integrated into ESP grids since 2015, they remain below an estimated 12 percent of total electricity production in the country,[32] with the generation infrastructure of most ESPs continuing to be primarily composed of multiple HSDGs located at each site with capacities that are as low as 500 kilo-volt-amperes (kVA) (although some reach up to 5000 kVA).[33] This elevates electricity generation costs. As local sources of petroleum fuels have yet to be exploited in Somalia, the price of diesel is very high[34]—particularly in regions without a seaport, in which the need for road transportation drives up costs considerably.[35] Inefficiencies on ESP grids aggravate this issue. Because most HSDGs have no automation and synchronization technology to improve dynamic reactivity to electricity load variations, "wet stacking"[36] (that is, diesel fuel waste, increased pollution, performance degradation, and shorter HSDG lifespans) is widespread,[37] and there are substantial constraints to the amount of electricity that ESPs can deliver to clients.[38] Relatedly, issues with poorly maintained electricity distribution networks—which predominantly consist of overhead wiring—lead to electricity losses of up to 45 percent.[39] These electricity losses partly comprise technical losses from aging low-voltage lines (that is, 415/240 V) extending over long distances, with leakage current and open circuit losses, bad workmanship (such as spaghetti wiring), and low load factors, among other issues (such as long distribution lines and imbalances between phases, the inadequate size of conductors, transformers distal from load centers, and the lack of protection from rain, wind, and humidity).[40] Commercial losses related to the theft of electricity and low collection rates also occur as a result of deficient (or tampered) metering systems that constrain ESPs from collecting reliable electricity consumption data.[41] Finally, ESP size limitation and the significant duplication of generation, distribution, technical, and maintenance infrastructure cause overhead power line and electric pole congestion and constrain ESPs from cost-effectively maintaining their infrastructure, making a large proportion of installed capacity inoperative or in poor condition[42]—especially as the prevalence of "wet stacking" increases unscheduled downtimes and labor costs necessary for maintenance.[43]

Performance of the Off-Grid Electricity Sector

While off-grid solar PV value chains have made noteworthy progress, they remain underdeveloped. The off-grid energy market has been developing in Somalia for a long time, given the scarce access of on-grid electricity in the country. Telecommunications companies and development organizations[44] have used solar arrays since the 1980s, and commercial household PV product markets started to develop in the mid-1990s and have experienced an accelerated growth since 2010.[45] Over-the-counter trading of small-scale PV products (such as solar lanterns and solar kits) has also expanded considerably in the past decade, and a Somali Green Energy Association (SOGEA) was established in 2021. Furthermore, in recent years, the government of Somalia—supported by development institutions—has reduced market barriers and supported capacity building of solar integrators[46] by providing business development services, results-based expansion grants, and seed grants. The performance of sponsored solar integrators has thus improved with increased inventories, revamped policies and procedures, and more innovative marketing and distribution strategies.[47] Accordingly, some solar integrators[48] have been able to become increasingly focused on representing solar PV product international brands[49] and implementing off-grid projects of more than

1 kilowatt (kW) (such as solar home systems) for large clients—including commercial businesses, clinics, government institutions, and NGOs, among others.[50] However, only a few solar integrators have been able to progress in this way. Many others continue to be small and opportunistic—with underdeveloped sales networks to aggregate volume and achieve economies of scale, as well as scarce specialized knowledge.[51] A proportion of solar integrators in Somalia thus remains involved in selling the stocks of equipment they carry (such as batteries, inverters, and lanterns) at a retail level,[52] keeping supply chains of solar off-grid PV products short and downstream markets weak in spite of recent progress. Relatedly, many generalist retailers that focus on selling small-scale solar PV products (such as battery- and solar-powered torches and rechargeable lanterns) to households, SMEs, and other over-the-counter clients as part of a wider merchandise range (such as consumer electronics and household appliances)[53] continue to source them directly from manufacturers or international distributors instead of buying from local integrators, keeping their transaction costs high.[54]

Demand for solar off-grid products is thus still unmet, although the supply of these products has improved considerably in recent years. The solar PV sector continues to evolve quickly. Business models are changing in the sector, with great strides being made to improve off-grid solar PV product supply. For instance, there has been a considerable increase in the installation of quality-verified solar home systems (SHS),[55] which has allowed household electrification to increase over the circumstances in 2017, when three-quarters of the solar PV market was concentrated in large commercial or institutional systems.[56] The supply of small-scale solar PV has significantly expanded, with some reports indicating that the number of units sold every six months now equals the total market size for these products in 2017. However, market spoilage with poor-quality products continues to pose a daunting challenge to the development of Somalia's well-supplied solar market. Off-grid PV product value chains are still unable to meet the demand for these products[57]—which in 2017 was woefully undersupplied, with the entirety of the market being equivalent to only 3.8 MW per year despite a demand that was approximately five times greater.[58] Furthermore, demand for these products continues to increase in Somalia, with consumer awareness and acceptance of solar off-grid PV products increasing substantially in recent years,[59] a high willingness by varied population groups to pay for off-grid power,[60] and off-grid solar PV options usually providing electricity at a lower cost than current alternatives.[61] This demand comes partially from urban households and MSMEs that continue to be dissatisfied with the costly and unreliable supply of electricity from mini-grids,[62] as well as from rural and peri-urban communities that need dispersed small- or large-scale captive generation (such as solar home systems), given a continued scarcity or nonexistence of on-grid electricity. However, the demand also originates from population groups that require different technology approaches to electrification,[63] like IDP and nomadic communities (for example, mobile pastoralists), for whom portable electricity delivery systems (such as pico solar devices) are the primary solution to increasing electrification needs driven by the growing significance of electronic devices (such as mobile phones) in everyday lives.

Despite recent developments, the quality of commercial solar PV products requires further improvements in Somalia. A wide range of steps have been taken in recent years to improve the quality of off-grid solar PV products in Somalia. Technical assistance has been provided to prepare the Somali government for an eventual adoption of Lighting Global and International Electrotechnical Commission (IEC) quality standards, and trainings have been imparted to staff members from Somalia's Ministry of Energy and Water, the Somali Bureau of Standards (SBS), and Somaliland's Ministry of Energy and Minerals on processes of standards adaptation implementation and how to control counterfeit solar products in the off-grid solar market. A consumer awareness and communications strategy to increase use of quality solar off-grid energy solutions has also been developed,[64] with receptiveness to higher-priced quality products increasing in some markets.[65] However, the quality of solar PV products continues to vary greatly throughout the country. At present, only a portion of solar PV products has gone through a quality verification process, and very few supply-side stakeholders provide after-service support for their products.[66] Awareness of the importance of purchasing quality products and of how to identify counterfeits, while growing, also continues to lag consumers' more general awareness about off-grid PV solar products.[67] In this context, anecdotal evidence points to solar PV products still being a commodity in Somalia, with pricing continuing to be the primary driving force of supply and demand decisions, a large proportion of consumers continuing to have low expectations from these products, and branding being uncommon.[68] Most of the currently available solar PV products continue to be of poor quality, with some failing after only a few months and with some suppliers continuing to choose to stock such products with the expectation that their merchandise rotation will increase.[69] The commercial supply of quality solar PV off-grid solutions also continues to be hindered by the subsidized distribution of poor-quality products by NGOs[70] and the fact that—in a context in which the financed PayGo supply of pico and solar home systems[71] remains scarce—most retailers require up-front payment for these products with cash, which is beyond the reach of many customers.[72]

Opportunities for Private Sector Investment in the Electricity Sector

Given the growing demand for affordable electricity in Somalia and the subpar performance of both the on-grid and the off-grid electricity sectors, there are numerous untapped opportunities in these markets. As identified by a recent geospatial analysis for least-cost electrification in Somalia,[73] in the short to medium term, these opportunities lay primarily with mini-grid and stand-alone solutions.[74] More specifically, these opportunities for private sector investment include (a) the improvement of the operational efficiency of existing mini-grids and distribution network infrastructures and (b) the greater use of renewable technologies for electricity generation. These opportunities are discussed in more detail throughout this section.

Upgrading ESP On-Grid Infrastructure

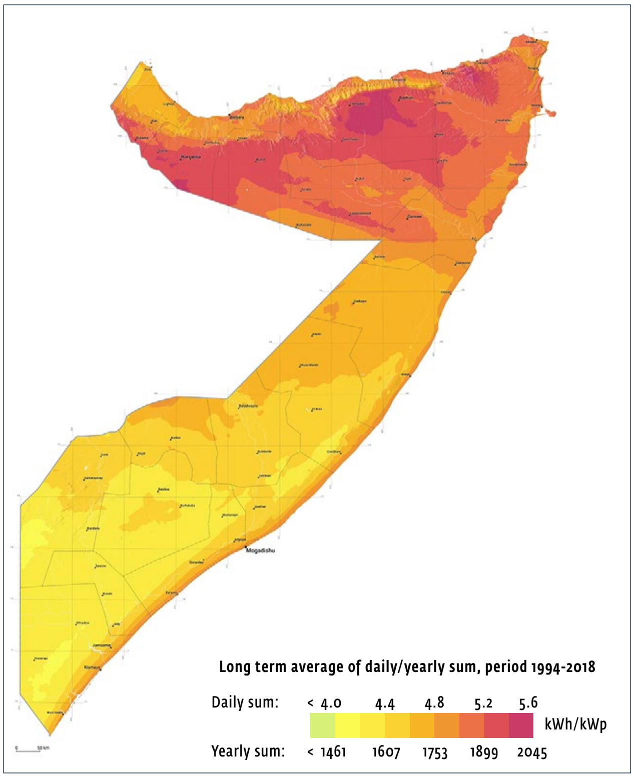
The interconnection of current ESP distribution networks and generation infrastructure has the potential to accomplish considerable improvements in network reliability and operational efficiency, improving both top-line and bottom-line financial performance. Investments in synchronization and automation that enable the use of parallel generation for better generator performance and improved dynamic reactivity to electricity load variations can reduce the significant amounts of "wet stacking" that characterize Somali electricity ESPs at present. Accordingly, such investments could allow ESPs to achieve significant revenue growth and margin improvements due to escalations in maximum generation power output, an increase in the lifespan of generator engines, and a reduction of maintenance costs and unscheduled generation downtimes. Similarly, investments in MV distribution network reinforcement infrastructure (such as poles, conductors, line accessories, distribution transformers, and metering equipment) could allow ESPs to optimize their overall distribution network operations integration and generation synchronization. This would enable firms to improve their top-line and bottom-line financial performance by helping them reduce distribution network duplications, increase network capacity, and reduce network losses, as well as invest in larger generating units that allow for economies of scale.

Greater Use of Renewable Technologies

Given the small portion of total installed generation capacity that comes from renewable sources[75] and the exceptional renewable energy potential in Somalia, the untapped market for renewable solutions is considerable. The country's level of solar global horizontal irradiation is one of the highest in the Horn of Africa at 5.38 to 6.74 kWh/square meter (m^2),[76] with the north of Somalia having solar irradiation rates and a PV power potential that are even more elevated (figure 5.2). Accordingly, recent estimates indicate that solar power alone could potentially generate an excess of 2,000 kWh/m^2 in the country.[77] Likewise, having the largest coastline in Africa, Somalia experiences an average wind speed of 9.01 m/s and a mean power density of 784 W/m^2 in the windiest 10 percent of its territory (figure 5.3). Somalia has the highest potential for onshore wind power on the African continent, and it has an estimated offshore wind electricity generation of up to 283 GW.[78] There are also other renewable energy sources that could be pursued in Somalia, such as hydroelectric, wave, tidal, ocean current, and geothermal energy, although its plentiful sun and wind resources are the most promising pursuits.[79] However, in-depth evaluation of renewable resources has to be conducted before large-scale projects can be initiated to harness them for power generation.

FIGURE 5.2 PHOTOVOLTAIC POWER POTENTIAL, 2020

kWh/kWp per day and year

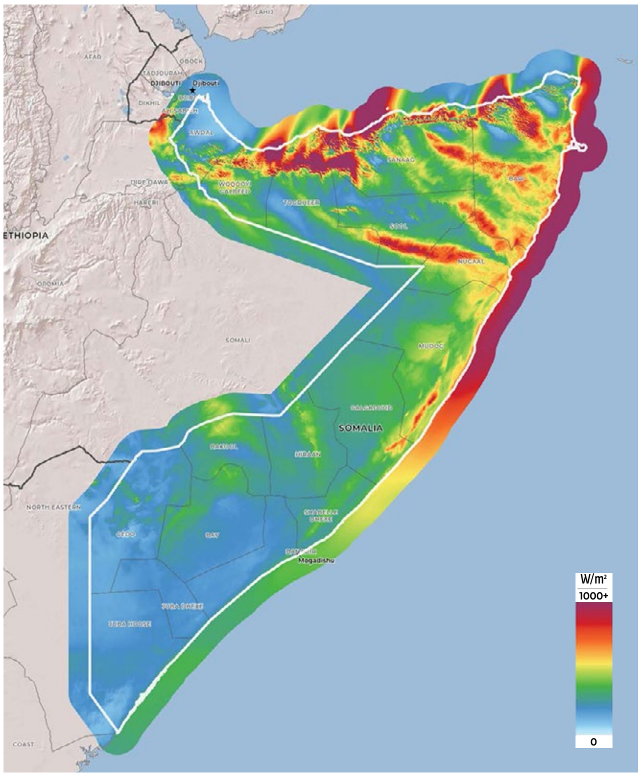


Source: World Bank, Global Solar Atlas 2.0, Solar resource data: Solargis, 2020, https://solargis.com/maps-and-gis-data/download/somalia.

Note: kWh = kilowatt-hour; kWp = kilowatt peak.

FIGURE 5.3 MEAN POWER DENSITY AT 100M, 2020

W/m^2



Source: World Bank, Global Solar Atlas 2.0, Solar resource data: Solargis, 2020, https://globalwindatlas.info/en/area/Somalia.

Note: m = meter; W = watt.

In this context, investments in the hybridization of generation networks with batteries constitute an attractive opportunity. The complementarity between energy sources in hybrid generation networks for both mini-grids and standalone captive solutions can result in substantial improvements in fuel consumption and efficiency, the extension of HSDG lifespans, and decreased reliance on diesel imports. These improvements are especially substantial when such systems use battery energy storage systems to provide a more effective variable dispatchable source of electricity for load demands and thus allow for rapid-response peak-load generation capacity. Furthermore, in recent years, greater prospects for hybridized generation have emerged following significant decreases in technology costs. Automation, smart network management, and lower storage expenses, among other technological advances, have diminished the costs of electricity generation with renewable energy solutions. The levelized cost of electricity for autonomous mini-grids using only renewable energy sources, for instance, fell to between US$0.39 per kWh and US$0.75 per kWh by 2020 and has continued to decrease since then, with prospects of reaching US$0.20 per kWh in 2035.[80] Given the high costs of generation in Somalia, it is estimated that, together with the synchronization of generation units, hybridization could contribute to an average reduction to generation costs of about 25 percent in Somalia.[81] In effect, some of the higher cost ESPs that have hybridized their generation systems in Somalia[82] have been able to reduce generation costs by up to 40 percent.[83] In addition, capital costs for renewable generation are also projected to continue dropping in the next few years,[84] making hybridization of mini-grid systems in Somalia an even more attractive investment opportunity and mitigating what has been one of the primary constraints to increased hybridization investments in the country.[85]

The scaling of PayGo schemes[86] could fulfil suppressed private sector demand for off-grid standalone solutions. Demand for these products in the country is suppressed because they are beyond the reach of many consumers, in a context where little credit is offered. However, willingness to purchase off-grid electricity is high when financing options are provided.[87] Given that 97 percent of Somalis have access to mobile money accounts in the country,[88] there is a fertile ground for PayGo systems. In effect, private-led pilot projects of two types of PayGo models have already been deployed in the country at various stages of the value chain. That is, PayGo systems have already been implemented for both local solar enterprises[89] and final consumers.[90] While these pilots have had mixed results, most of the pilots have failed because of the plug-and-play mentality of the implementing enterprises, which have not tested different business and marketing models to find the best one for the Somali market. Furthermore, some of the challenges that constrained the pilots' development are poised to be resolved in the short term. For instance, the appetite for off-grid standalone products has increased in recent years. Similarly, the noninteroperability of mobile money platforms that disincentivized electricity service providers from adopting PayGo systems[91] should be resolved now that mobile network operators (namely, Homuud, Telecoms, Golis, Sometel, Amtel, and Somlink) are required to interconnect.[92]

Sector-Specific Constraints to Private Sector Development in the Electricity Sector

The potential of the electricity sector in Somalia is challenged by a number of bottlenecks that introduce uncertainty and inhibit investment, hindering the sector's development and constraining improvements in its performance. Issues with the sector's enabling environment persist despite recent progress. Given a still unresolved regulatory vacuum and an unfavorable political economy, the scarcity of sector-specific technical skills and the inconsistency and scarcity of information on energy use across various population centers constrain further development of energy firms and limit investments in the Somali energy sector.

A Number of Gaps Remain to Be Addressed to Create Adequate Enabling Environment for Electricity Sector Firms

While Somalia has made enormous strides in recent years toward improving the enabling environment for the electricity sector, the sector continues to be characterized by a de facto institutional and regulatory vacuum. A new Electricity Act was enacted in March 2023, which better defines institutional roles and mandates and develops the critical building blocks for the operation of electricity services under license. With the new act, the Ministry of Energy and Water Resources (MoEWR) is assigned the responsibility of setting sectoral policies and undertaking least-cost planning development, implementation, and monitoring for generation, transmission, on grid-expansion, as well as the oversight and control of rural electrification planning and coordination. Conversely, the National Electricity Authority—established by the Electricity Act as an independent entity[93]—is tasked with implementation, enforcement, and monitoring of the law, including the regulation of tariffs and technical standards, the handling of licenses, and the imposition of penalties and damages arising from the violation of the law. The manner in which a public power transmission system will be administered in the country and the general framework that electricity generation and distribution firms (which are ultimately tasked with delivery of electricity) need to abide by, are also defined by the Act. It additionally sets out high level conditions for investments in the electricity sector, describes the rights of electricity companies and consumers, and underlines the proscription of market power abuse in the sector. With this framework, Somalia could potentially increase the number of players in the electricity sector, incentivizing private competition, encouraging energy access and affordability, and fostering the deployment of renewable energy. Two secondary regulations (that is, the tariff and licensing regulations) were also drafted and enacted in the first quarter of 2023.[94] However, a de facto institutional and regulatory vacuum continues to characterize the electricity sector at present.[95] Some secondary legislation (such as regulation of zoning and renewable energy), codes, and standards necessary to operationalize the Electricity Act have yet to be enacted, while the operationalization of those already enacted (such as the tariff and licensing regulations) is underway and calls for greater support. Furthermore, despite recent capacity-building efforts,[96] existing government institutions (such as MoEWR) continue to suffer from chronic understaffing and underfunding and the lack of technical capacity to operationalize the Electricity Act and more generally manage the power sector.[97] Policies for least-cost electrification and electricity access are also lacking. Furthermore, while the National Electricity Authority has recently been put in place, most regional institutions are not fully functional—and those that are functional lack any sort of harmonization with federal institutions.[98] Accordingly, the on-grid electricity sector continues to be essentially unregulated by the government, operating on an ad hoc basis at both federal and regional levels.

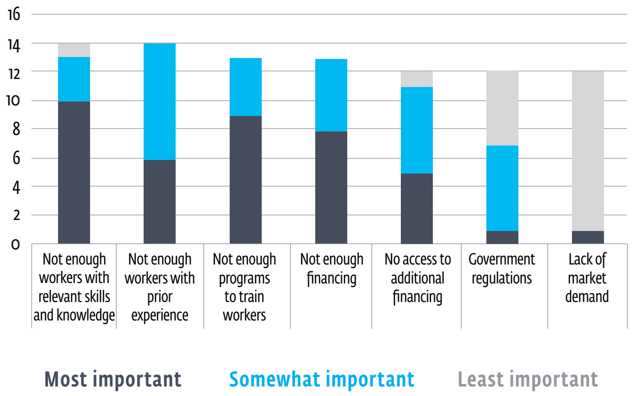
Market distortions in both the on-grid and the off-grid electricity sectors remain widespread, in a context characterized by de facto regional monopolies and a lack of market structure. While some ESPs operate in several regions,[99] urban centers are largely dominated by specific ESPs. In effect, according to World Bank estimates, in 2021 the private ESP BECO owned about 85 percent of the total installed capacity in Mogadishu, SomPower owned approximately 95 percent of the on-grid network in Hargeisa, BEC operated the entirety of the on-grid network in Berbera, NESCOM controlled most of the electricity generation and distribution in Garowe, and ENEE owned 85 percent of total capacity in Bosaso.[100] Similarly, on-grid electricity supply in Merca, Balad, and most smaller urban centers is controlled by a sole ESP.[101] This dominance of local on-grid electricity markets has likely become more deep-rooted in recent years due to a significant interest among ESPs to undergo mergers and acquisitions.[102] These mergers and acquisitions have increased technical and staffing efficiencies (such as rationalization of distribution networks) and economies of scale,[103] but they have also led to anticompetitive behaviors including a lack of competitive pressure on tariffs and the barring of other operators from accessing the energy distribution infrastructure dominated by specific ESPs.[104] In this context, ESPs benefit from cartelistic behaviors and freely increase electricity tariffs on the basis of the best commercial case for each firm.[105] Meanwhile, solar PV value chains continue to operate in a market with no quality standards or control of counterfeit products. They are also constrained by an inability to supply larger solar PV products to firms that are not ESPs, given an inexistent transmission network and restricted access to distribution grids.[106] Additionally, as foreign investors are obligated to structure any potential on-grid energy projects as joint ventures with existing ESPs, the investors have been unable to de-risk prospective investments because of potential problems enforcing contracts with ESPs and an inability to get political risk and breach of contract insurance in such circumstances.[107]

Gaps in Sector-Specific Technical Skills Constrain Private Sector Development and Investment in the Somali Energy Sector

There is a substantial gap in the supply of skilled labor for the electricity sector. Both the on-grid and the off-grid energy sectors exhibit significant shortages of skilled labor in essential areas such as planning, financial and economic analysis, policy, procurement, environmental and social safeguards, and resource assessment, among others. According to a recent survey by SOMINVEST on the energy and ICT sectors,[108] 80 percent, 74 percent, and 70 percent of firms answered that issues with planning and design, operations and maintenance, and installation of their equipment, respectively, led to financial losses. The same survey finds that 80 percent and 74 percent of on-grid energy firms feel they have skill gaps related to grid systems and systems operation software, respectively, and that a large majority of firms in off-grid system value chains have issues finding technical expertise in areas including the identification of defective equipment. Relatedly, a 2016 workforce survey by Shuraako points to a lack of sufficiently skilled employees as the major constraint to further development of private firms in the renewable energy sector (figure 5.4). About 86 percent of the renewable energy firms that were surveyed emphasized their difficulties with recruitment in Somalia, especially for infrastructure design (such as technical plans, blueprints, and drawings), construction, installation and maintenance skills, general engineering abilities, and technical expertise in specific renewable energy technologies.[109]

FIGURE 5.4 BIGGEST CHALLENGES TO IMPLEMENT RENEWABLE ENERGY SERVICES AND PRODUCTS, 2016

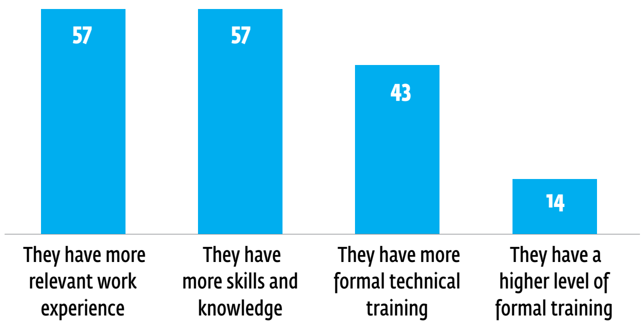
Ranked in order of importance in %



Source: Shuraako, *Somali Renewable Energy Skilled Workforce Survey Report*, Somali Renewable Energy Forum 2016.

FIGURE 5.5 REASONS THAT SURVEYED FIRMS HAVE HIRED A FOREIGN NATIONAL, 2016

Percent of surveyed firms, selection of all reasons that apply



Source: Shuraako, *Somali Renewable Energy Skilled Workforce Survey Report*, Somali Renewable Energy Forum 2016.

Capacity building, tertiary education, and TVET training in Somalia have not been able to address these skills gaps yet, constraining investments in the sector. Energy firms recently consulted by the World Bank[110] ascertained that the skillsets of employees hired directly from universities and technical education training programs are weak and barely sufficient to tackle technical roles. Universities providing education in science, technology, engineering, and mathematics (STEM) fields also experience high rates of student attrition, especially of women.[111] Most of the programs implemented in recent years to improve this situation (by strengthening TVET and higher education institutions)[112] have had mixed results at best[113] because of a range of reasons, including the overall these institutions are ill-equipped and the programs lack alignment with the needs of private sector firms. In this context, firms in the energy sector are obligated to hire foreign nationals (figure 5.5), who are considerably more expensive than local talent, for jobs requiring technical expertise[114]—when such talent is willing to relocate to Somalia and firms have the resources to do so. As this is, seldom possible, most firms in the energy sector are not investment ready and believe they will not be ready unless external technical support is provided for a range of technical issues (such as network and equipment standardization and loss reduction).[115] In effect, according to recent assessments of the Somali electricity sector, one of the primary reasons the country has not been able to fully benefit from its renewable resources for electricity generation is the continued lack of technical skills.[116]

Lack of Reliable Data Hampers Monitoring and Planning Activities in the Somali Energy Sector

Demand forecasting and least-cost planning are problematic for the public and private sectors because of data gaps. Electricity sector stakeholders are unable to adequately monitor and plan generation capacity and associated transmission and distribution grids because of the scarcity of data on the Somali electricity sector.[117] This is largely because ESPs currently do not provide data or information to support planning exercises (or even coordinate among themselves for this purpose), and because the sampling of energy use across various population centers is insufficient. Accordingly, adequate forecasting of load demands and generation requirements is challenging, which increases uncertainty about private investments in the on-grid sector and prevents proper administration and low-cost planning of electricity sector infrastructure by public sector stakeholders—thus limiting electrification outside of the higher-density urban areas. This difficulty with adequate forecasting also constrains strategic and business-planning processes of off-grid solar integrators and retailers, affecting the accuracy of procurement, marketing, and distribution strategies.[118]

5.2. FINANCIAL SECTOR

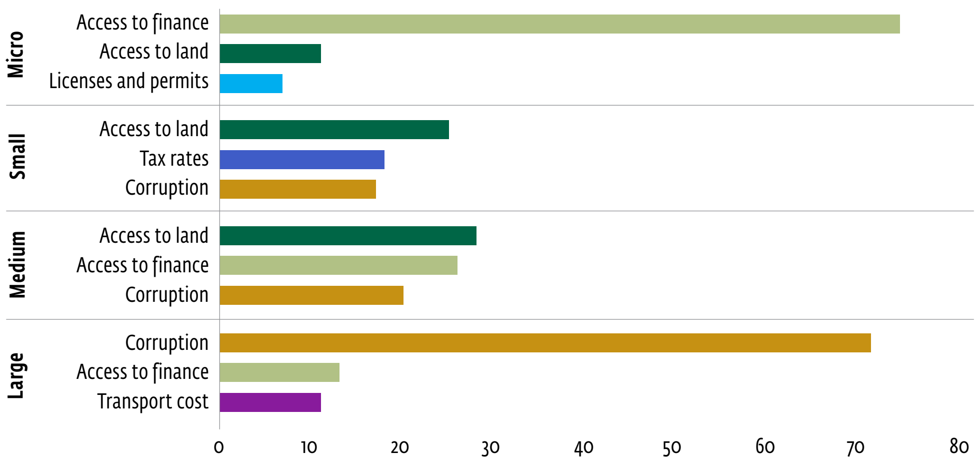
Access to Finance Remains a Key Challenge Limiting Private Sector Development in Somalia

Access to a broad range of financial services is still limited for a significant proportion of the population in Somalia despite a very high uptake of mobile money across the country. Regarding access to financial accounts, financial inclusion in Somalia does not fare badly in comparison to countries in its region owing to a considerable proliferation of mobile money accounts in recent years. Mobile money has become the dominant retail payment instrument in the country, with an estimated 73 percent of the adult Somali population using mobile money services. This is in line with the mobile money uptake in Kenya, a much more advanced neighbor that has been a pioneer in mobile money payments.[119] However, the overall penetration rate of banking services is reported to be between 10 and 15 percent of the adult population, with active accounts being much less and most customers being in urban centers and richer socioeconomic sectors. Therefore, a large portion of the population outside Mogadishu does not use banks, and the poor population has no access to financial services—except for the reception of remittances and mobile money payments or e-wallets.[120] As the financial system is highly dollarized, there is also a significant portion of the population that operates solely in the Somali shilling (SOS) economy,[121] which is excluded from the formal financial system because financial institutions (FIs) do not accept nor offer financial services in SOS.

Unsurprisingly, access to finance for MSMEs and productive sectors remains a key challenge, limiting private sector development. The 2019 Enterprise Survey for Mogadishu and Bosaso found access to finance to be a key obstacle for business development (figure 5.6). The survey also notes that Somali businesses rely on internal sources of funding for 92 percent of their working capital needs (compared to the average of 78 percent in Sub-Saharan Africa), and only 2 percent of needs are met by banks (compared to the average of 8 percent in Sub-Saharan Africa). While 94 percent of the firms in Somalia have a bank account, only 4 percent have a bank loan or a line of credit. Furthermore, the modest financial intermediation that does exist is largely concentrated on short-term trade finance and relatively large loans, whose weight in the total portfolio of FIs increased in 2020 compared to 2019.[122] With an increase of default risk perceptions with COVID-19, by early 2021 about 63 percent of formal firms found access to credit difficult, with a much larger proportion of informal firms having no access to credit.[123] This situation leaves a large unmet market demand for financing in the real economy.[124] The Islamic banking principles followed by all FIs in Somalia also affect the availability of new products and services tailored to meet private sector needs.

FIGURE 5.6 ACCESS TO FINANCE IS ONE OF THE KEY CONSTRAINTS FOR BUSINESS DEVELOPMENT IN SOMALIA, 2019

Top three obstacles faced by firms (percentage of firms in each size category)

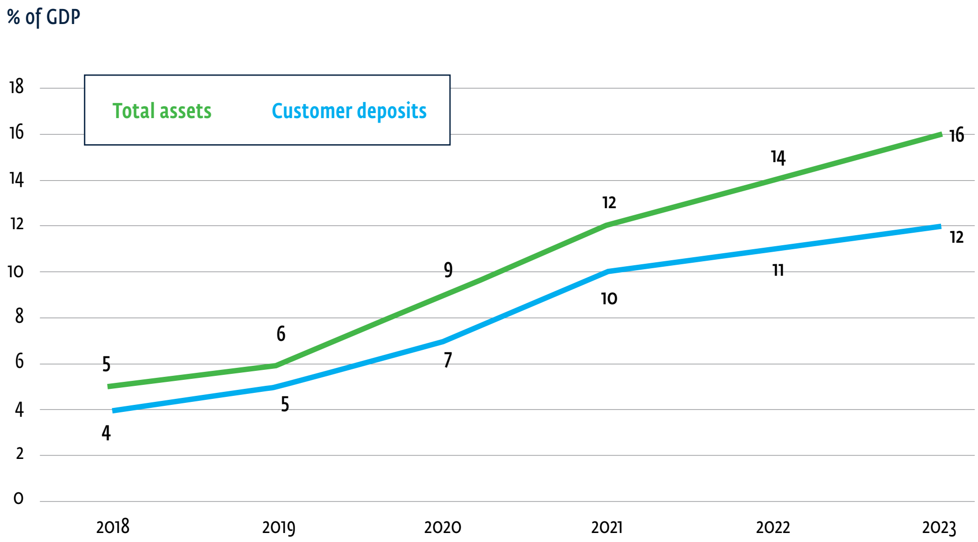


Sources: World Bank, 2019 Somalia Enterprise Survey in Mogadishu and Bosaso; World Bank, *Somalia Country Economic Memorandum: Towards an Inclusive Jobs Agenda* (Washington, DC: World Bank, 2021).

Lack of Access to Finance Is Linked to the Underdevelopment of the Somali Financial Sector in Spite of Its Recent Growth

The Somali financial sector has come a long way in recent years. The estimated size of the Somali financial sector assets quadrupled between 2018 and 2023,[125] increasing from US$512 million to US$2,101 million.[126] Total assets and customer deposits at commercial banks more than quadrupled from US$415 million to US$1,795 million and from US$332 million to US$1,431 million, respectively (figure 5.7).[128] In addition, credit to the private sector more than doubled from US$161 million to US$404 million (figure 5.8). Private transfers, including remittances, increased by 36 percent from US$1,578 million to US$2,142 million between 2019 and 2022.[129] Finally, mobile money use has been growing steadily (according to the Central Bank of Somalia [CBS], approximately 650 million transactions worth US$8 billion were recorded in 2022), with a recent survey by Somalia's National Bureau of Statistics reporting that 97 percent of the surveyed households have access to mobile money or wallets.[130] The number of financial service providers has also steadily increased. With the first commercial bank established in 2009, the Somali financial sector now comprises at least 13 domestic commercial banks[131] licensed by CBS,[132] 20 money transfer businesses (MTBs),[133] seven mobile money operators (MMOs),[134] 11 microfinance institutions (MFIs),[135] seven insurance companies,[136] and multiple MSME financing facilities (table 5.1). The state development bank and a stock exchange, while in existence, remain largely inactive. In addition, the CBS recently granted licenses to two foreign banks, one of which became operational in late 2023, marking a significant milestone for the Somali financial sector's development.

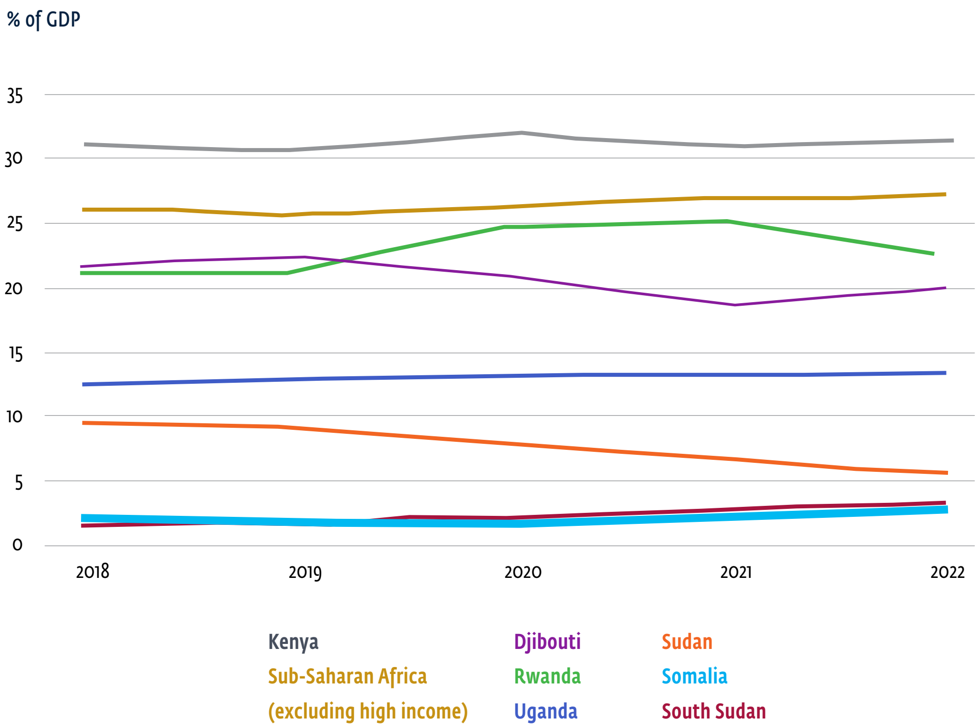
FIGURE 5.7 COMMERCIAL BANKS ASSETS AND CUSTOMER DEPOSITS GROWTH, 2018–23



Source: World Bank staff calculations based on Central Bank of Somalia data.

Note: GDP = gross domestic product.

FIGURE 5.8 DOMESTIC CREDIT TO THE PRIVATE SECTOR BY BANKS, SOMALIA AND COMPARATORS, 2018–22



Source: Central Bank of Somalia; World Bank – World Development Indicators

Note: GDP = gross domestic product.

TABLE 5.1 KEY FINANCIAL SECTOR INSTITUTIONS IN SOMALIA, 2023

	Number[a]	Financial Sector Assets (US$, millions)[b]	% of Financial Sector Assets	% of GDP
Domestic Commercial Banks[c]	13	1757[d]	83.63%	15.26%
Foreign Commercial Banks	1	28	1.33%	0.24%
Money Transfer Businesses	20	-	-	-
Mobile Money Operators	7	-	-	-
Microfinance Institutions	11	21[e]	1.00%	0.18%
Insurance Companies	7	78[f]	3.71%	0.68%
Somali Developmenant and Reconstruction Bank	1	20[g]	0.95%	0.17%
Gargaara (government wholesale finance institution)	1	10[h]	0.48%	0.09%
Somali Stock Exchange	1	187[i]	8.90%	1.62%

Source: World Bank staff calculations based on Central Bank of Somalia data.

Note: GDP = gross domestic product; – = not available.

a. The number of financial sector actors is not exhaustive given limited centralized data. It also includes financial institutions that do not have licenses to operate with Somali regulatory authorities.

b. The figures are based on data obtained from the Central Bank of Somalia and calculations from World Bank staff based on figures in other analytical reports. They do not represent the assets of all the financial sector actors, given limited data availability.

c. It should be noted that two foreign banks were licensed by the Central Bank of Somalia recently. One of these became operational in 2023 and the other is licensed but not yet operational.

d. The reported figure excludes loans from Gargaara to commercial banks. The Central Bank of Somalia reported US$1,795 million in total assets (including foreign banks) at the end of December 2023.

e. According to a United Nations Industrial Development Organization report on the financial sector, asset sizes of microfinance institution (MFI) players ranged from US$0.3 million and US$3 million in 2020. The average asset size is therefore US$1.65 million multiplied by the number of MFIs in 2020 (US$18.15 million). Assuming a 5 percent growth every year until 2023 results in US$21.01 million, which rounded, gives US$21 million in assets on average.

f. According to an EY report on the financial sector, the market size was estimated at US$58 million in 2017. Assuming market size is understood in assets and a 5 percent growth every year, insurance market size could be equivalent to US$78 million in 2023.

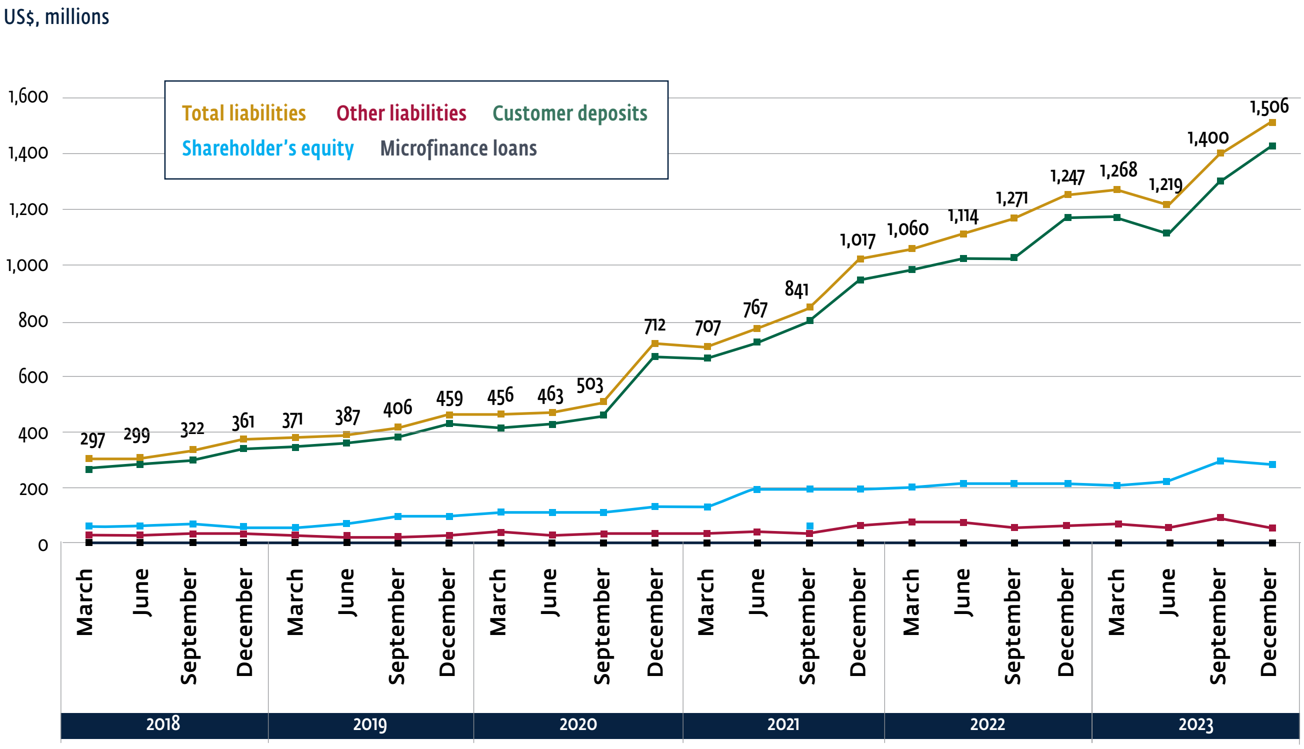
g. This figure represents assets held by the Somali Development Bank before the collapse of the government in 1991.

h. This figure represents the value of Gargaara active loans. The figure does not represent their market value.

i. Market capitalization based on data published on the Somali Stock Exchange website as of December 2023.

However, the financial sector remains in its early stages of development, with low financial depth, scarce market-based financial intermediation, and unknown levels of financial soundness. Somalia's domestic credit to GDP ratio is one of the lowest in the region at below 5 percent, while the average for Sub-Saharan Africa (excluding high-income economies) is above 25 percent. This reflects the context in which market-based financial intermediation continues to be a challenge, given the early-stage development of core financial infrastructure and institutions and the widespread informality that persists in the private sector. For example, the lack of a credit bureau and risk-sharing or de-risking instruments makes financial institutions risk averse, leading to a lack of risk appetite to venture into less known sectors, work with new borrowers, or innovate in products and services. Banks thus prefer holding cash over providing credit. At the end of December 2023, cash on hand was at US$616 million, while credit to the private sector was only at US$404 million, accounting for 43 percent and 28 percent of total deposits of the system, respectively.[137] Furthermore, lenders impose heavy collateral and guarantor requirements, which many of the MSMEs are unable to meet. As a result, a large number of businesses seem to rely on informal financing channels. Not only is extending credit a challenge for banks, but also their loans are concentrated in a few sectors and around urban areas. At the end of 2023, trade finance, construction or real estate, and personal or household loans accounted for 72 percent of the total loan portfolio.[138] Financial institutions also primarily transact in US dollars, including for mobile money transactions, as the country's economy is highly dollarized with limited SOS in circulation (which are mostly counterfeit). In this context, while financial

FIGURE 5.9 CONSOLIDATED COMMERCIAL BANK LIABILITIES



Source: Central Bank of Somalia, "Policy Brief 002/2023: Somalia's Financial Sector" (Mogadishu, Somalia: Central Bank of Somalia, May 2023) and Central Bank of Somalia, Commercial Bank data (2022–23).

soundness of the financial sector appears to be adequate, there is a lot of uncertainty surrounding this issue due to limited data. For instance, while the core capital of banking institutions is reported to range between 12 percent and 15 percent of total net assets in the banking system, the lack of capital risk-weighting regulation does not allow for a good assessment of the solvency of the banking system.[139]

The concentration of the Somali financial sector continues to constrain its development. Despite a recent proliferation of financial institutions in the country, only a few banks continue to concentrate most of the financial intermediation in Somalia. Five banks account for nearly 90 percent of the banking industry's assets, deposits, and loans, and the two largest banks account for over half of the system, in a context in which the banking sector continues to remain the primary form of financing. Although there is a stock market, it has not had much activity. Nonbank financial institutions, though growing in number, also continue to have a minor effect on financial intermediation. While MTBs—14 of which are licensed—continue to play an important role as the preferred service providers for money transfers from Somali diaspora and payments for international purchases,[140] they do not offer other financial services. Microfinance institutions—10 of which are licensed as per mid-2023 World Bank discussions with CBS—are slowly getting organized but have limited access to funds (with a total size just over US$5 million, based on CBS data) and operate in limited areas. Insurance companies, though present for a few years, are yet to gain significant business (they were reported to have total assets of US$70 million in 2022), given limited product offerings and a missing legal and regulatory framework. Meanwhile, although four mobile money operators have been licensed since 2021, one telecommunications conglomerate continues to hold a monopoly in this market.[141] Known benefits of competition in the financial sector (such as greater efficiency in the production of financial services, higher-quality financial products, and more innovation) are thus lacking.

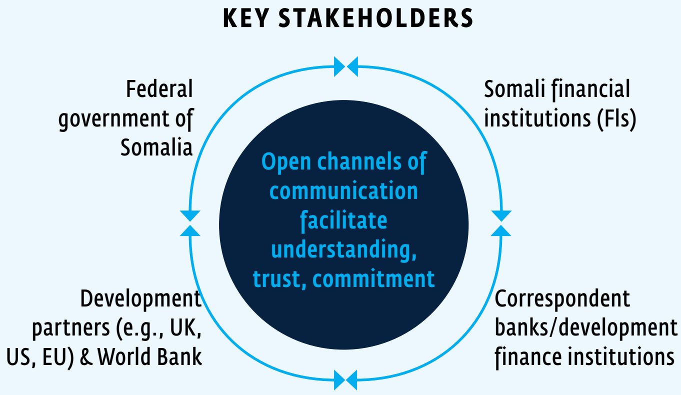
Furthermore, Somalia's banking industry remains isolated from the global financial system. Banks have few functional correspondent banking relationships (CBRs), and only a fraction of international payments are channeled through the banking sector. In contrast, most flows are channeled through the MTB industry, whose arrangements are increasingly becoming regulated. However, the COVID-19 pandemic demonstrated the vulnerability of these channels. The lack of functional CBRs constrains global connectivity and thus poses risks to remittances, ODA, and investment flows. Efforts are underway to facilitate the development of CBRs. Such efforts include working closely with the Somali Bankers Association and its members, with the strong support of CBS, the World Bank, and development partners, in particular through the Financial Systems Initiative (box 5.1). However, the strong perception of anti-money-laundering/countering the financing of terrorism (AML/CFT) risks due to weak legal, institutional, and regulatory frameworks and their enforcement prompt foreign financial institutions to adopt de-risking strategies that hinder the creation of those relationships.

BOX 5.1 SOMALIA FINANCIAL SYSTEM INITIATIVE (FSI)

Re-linking Somalia to the global financial system through capacity enhancements

With the support of development partners from the UK, US, and EU, the World Bank launched the FSI (2021–2025) to help Somalia and its financial institutions reconnect with the global financial system (figure B5.1.1). The FSI is being delivered under the following two phases:

FIGURE B5.1.1 PROMOTING CORRESPONDENT BANKING RELATIONSHIPS IN SOMALIA: KEY STAKEHOLDERS OF FSI



Phase 1: Convene key stakeholders to build consensus on Somalia's barriers to integration into the global financial system. Raise awareness relating to key barriers and gaps (at institutional and national levels), relevant international standards (especially relating to anti-money-laundering/countering the financing of terrorism [AML/CFT] compliance needs), and the tools available.

Phase 2: Use tools to enhance financial system capacity and better align with global financial system needs. Conduct diagnostics of the operational capabilities of commercial banks participating in the initiative and key regulatory bodies; develop technical assistance plans and provide support to implement them. The independent diagnostics will improve credibility of selected financial institution (FI) and national systems and help create trustworthy entity-level disaggregated risk assessments of FIs. FSI technical assistance will improve the internal processes and systems (such as AML/CFT) of selected FIs and strengthen related oversight and the regulatory and policy environment. These diagnostic and capacity enhancements are expected to facilitate the reduction of gaps between global standards and Somali financial system standards and encourage collaboration (correspondent banking partnerships, investor interest, and so on) with Somali financial institutions.

Various Sector-Specific Constraints Limit the Development of the Somali Financial Sector

Supply Side: Gaps in the Legal, Regulatory, and Supervisory Frameworks

Strong oversight capacity is critical to ensure appropriate checks and balances are in place for the financial system's stability, as well as for appropriate policy development for prioritizing reforms and facilitating development of financial services to support individuals and businesses. Despite substantial progress over past years, the legal and regulatory financial sector framework needs to be further strengthened. As discussed earlier, several laws are in various stages of upgrading and development. Furthermore, besides strengthening the legal and regulatory framework, it is also important to ensure their enforcement. These institutional and regulatory gaps in the financial sector, along with weaknesses in the Central Bank Act that allow only limited tools for effective financial stability, do not instill confidence in the system for consumers, investors, and those wanting to transact with the system. For example, though AML/CFT laws and related regulation and guidance to financial institutions are in place, their ineffective enforcement by banks results in only a handful of suspicious transaction reports being submitted by financial institutions, defeating the purpose of their intent. Similarly, investors shy away from doing business with FIs perceived to be under supervised. The lack of CBRs is significantly related to the low levels of confidence in banks' compliance with AML/CFT regulation and concern regarding the financial status of the banks, given the fledgling nature of the oversight system. A more progressive and open Islamic banking framework and a platform for the coordination of key stakeholders is also lacking. These improvements would provide the additional flexibility needed for the development and provision of a wider range of products and services, including those which leverage digital technologies. Furthermore, limited use of business development services (BDS) constrains FIs in their efforts to strengthen their capacity and fill any information gaps to support business development and explore new products and services.

The government of Somalia recognizes the institutional and regulatory gaps in the financial sector and has been consistently undertaking reforms in response. The CBS Strategic Plan (2020–2024) supports a transition of the CBS from a fiscal agent of the government to a more policy-oriented institution. As part of this plan, the CBS has been slowly but gradually strengthening the legal framework (table 5.2). Regulatory capacity building is ongoing through new regulations, guidance, and directives to the industry in priority areas, as well as through the strengthening of supervisory function through staffing and training. As per recent updates from CBS,[142] the institution has so far issued nine prudential regulations, four guidelines for commercial banks, six regulations covering nonbanking institutions (five regarding MTBs and one regarding MMOs), and one AML/CFT regulation for the financial sector. The Capital Adequacy and Liquidity Management regulation has also been updated recently. The National Payments System Bill and a Takaful Bill are expected to be enacted in the last quarter of 2023. The Central Bank Act from 2012 is under revision to strengthen CBS's ability to maintain financial stability in the country, and a new financial institutions law is expected to be enacted in 2023. The implementation of these new and upgraded laws and regulations will require continued capacity building and upgrading for effective oversight of the fast-growing system. Therefore, CBS has also been undertaking significant reforms to advance its capacity, organizational structure, and governance, with the support of the World Bank and other development partners. For example, CBS has staffed the nonbanking department in anticipation of the new laws, upgraded its human resources systems, introduced programs to incentivize staff members to upgrade their technical skills, and introduced stronger merit- and technical-qualification–based career promotions.

However, many weaknesses remain in the government's oversight of the financial sector. For example, on-site supervision of banks is limited to only once every two years. The laws currently do not have provisions for covering supervision of the nonbanking sector (such as microfinance and MMOs), and the related regulation remains deficient compared to global standards on several aspects of those laws. The lack of a strong Islamic banking framework and a limited ability to supervise the fast-growing e-payments are just two constraints that inhibit the financial sector's stability and growth. Similarly, financial integrity—critical to ensuring stability and building confidence in the system—continues to remain a high risk despite the government's efforts. In 2022 the FGS—with support from the Financial Reporting Center, Somalia's financial intelligence unit—published its first National Risk Assessment on money laundering and terrorism financing threats and vulnerabilities, marking a significant milestone for Somalia. A road map to implement the assessment's recommendations has been developed, but implementation has been slow. Somalia also passed a Targeted Financial Sanctions Law earlier in 2023 that reinforces existing legal and regulatory frameworks. Furthermore, Somali authorities are currently preparing for the upcoming Middle East and North Africa Financial Action Task Force (MENA-FATF) mutual evaluation scheduled for mid-2024. Participating in the mutual evaluation would be a critical step toward candid discussion of AML/CFT risk perceptions. Nevertheless, a stronger enforcement of supervisory actions concerning AML/CFT regulations, know-your-customer/customer due diligence (KYC/CDD) operations, and Suspicious Transaction Reporting is needed. Somalia suffers from (a) persistent AML/CFT risks because of the ongoing threat of violent extremism, (b) current gaps in the country's systems to address those risks, and (c) inadequate KYC/CDD protocols. These difficulties with security elevate Somalia's risk profile. For instance, existing KYC/CDD activities are processed manually, which makes evaluating clients time consuming, operationally demanding, expensive, inefficient, and unreliable. Furthermore, Somalia's security situation limits freedom of movement and thereby hampers efforts to conduct field visits to FIs' offices. This prevents regulators, potential foreign investors, and correspondent banks from fully assessing organizations' financial, governmental, and programmatic capabilities and facilities to mitigate financial crimes.

The institutional and regulatory gaps in the financial sector, along with weaknesses in the Central Bank Act that allow only limited tools for effective financial stability, constrain confidence in the system for consumers, investors, and those wanting to transact with the system. For example, though AML/CFT laws and related regulation and guidance to financial institutions are in place, their ineffective enforcement by banks results in only a handful of suspicious transaction reports being submitted by financial institutions, defeating the purpose of their intent. Similarly, investors shy away from doing business with FIs perceived to be under supervised. The lack of CBRs is significantly related to the low confidence in banks' compliance with AML/CFT regulation and concern regarding the financial status of the banks, given the fledgling nature of the oversight system. A more progressive and open Islamic Banking framework and a platform for the coordination of key stakeholders is also lacking. These improvements would provide the additional flexibility needed for the development and provision of a wider range of products and services, including through the use of digital technologies. Furthermore, limited use of BDS constrains FIs in their efforts to strengthen their capacity and fill any information gaps to support business development and explore new products and services. Addressing these gaps is critical for strengthening the business enabling environment.

TABLE 5.2 FINANCIAL SECTOR LAWS AND REGULATIONS

Existing Laws	**Forthcoming Laws**
Central Bank Act (2012) Financial Institutions Law (2012) AML & CFT Act (2016) Targeted Financial Sanctions Law (2023)	Financial Institutions Law (revised) (2024) Takaful Insurance Law (2024) National Payment System Law (2024) AML & CFT Act (revised) (2024) Central Bank Act (revised) (2024) Traditional Insurance Law (2024)
Existing Regulations for Commercial Banks	**Existing Guidelines for Commercial Banks**
Licensing (2014) Capital Adequacy (2015/2023) Liquidity Risk Management (2015/2023) Regulation on Audited Financial Statements (2016) Audit Committee (2016) Related Person Transactions (2016) Opening and Closing Branch Offices (2016) Asset classification and Provisioning (2018) AML/CFT Regulation (2019) [FRC]	Corporate Governance (2018) Operational Risk (2020) Shariah Governance Framework (2020) Islamic Financial Reporting & Accounting (2020)
Existing Regulations for Money Transfer Businesses	**Existing Regulation for Mobile Money Operators**
Registration (2014) Licensing (2014) AML (2015) Customer Registration (2016) Operations (2016)	Mobile Money Regulation (2020)
Existing Circulars for Licensed Financial Institutions	**Other Existing and Forthcoming Relevant Laws**
New requirements to introduce Anti-Counterfeit Currency Measures by Licensed Financial Institutions in Somalia (Circular No.1 of 2021) Additional Requirements to Strengthen Anti-Counterfeit Currency Measures & Acceptance of $50 Note by Financial Institutions (Circular No. 2 of 2021)	National ID Law (2023) Data Protection Law (2023) Cybersecurity Law (2024)

Source: Adapted from Mustafe Abdi, *Access to Finance and Financial Inclusion in Somalia* (National Economic Council of Somalia, 2022) and updated by the CPSD team.

Note: AML/CFT = anti-money-laundering/countering the financing of terrorism; FRC = Financial Reporting Center.

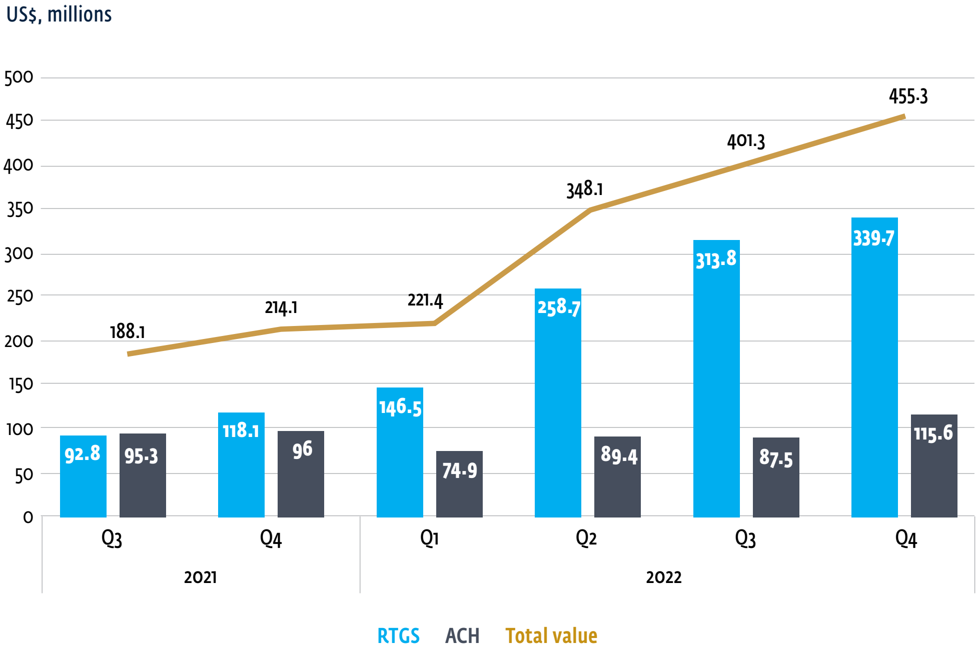
Supply Side: Nascent Capacity of Financial Institutions

Even though some of the FIs in Somalia have a reasonably long history, their products and services, risk-taking abilities, and outreach remain limited. The banking sector—which offers a full menu of services, including depositing, lending, and transfers and payments—is dominated by a few banks. The capture of e-wallets by one bank, is one clear example of the challenges that smaller banks have, when competing in and entering into new and growing markets. The recently established Somali Bankers Association is slowly attempting to improve coordination among its members and build mutual trust. Given a limited ability to understand and manage risk, banks currently engage in limited sectors. In particular, productive sectors (such as agriculture, fisheries, and livestock) are seen as high risk and remain underserviced. Islamic banking in its rudimentary form provides no-cost deposits for banks, which limits the incentives to innovate and develop new products and services. While over past years banks have started to offer a more diverse menu of services (such as MSME, corporate, and consumer or housing finance), the primary instrument is still murabaha (cost-plus financing). A weak capacity and a limited understanding of the sector, company, and customer risk profiles lead to heavy reliance on high collateral and guarantor requirements. On the nonbank side, microfinance institutions play an important role in supporting the relatively weaker segments of the population, but the sector has limited access to funds —in part because of the lack of any formal supervision, which raises the risk profile of these institutions for investors. It must be highlighted that efforts are underway to strengthen banks' and MFIs' ability to serve these underserved segments, including through the Gargaara Facility (box 5.2). MTBs, which dominate the money transfers in and out of the country, do not offer any other services, and their compliance with AML/CFT requirements is difficult to evaluate because they are not currently being actively supervised by the CBS (which is expected to change with the passage of the amended Financial Institutions Law). Furthermore, training opportunities for staff members and personnel of financial institutions are limited and the inflow of a skilled workforce is severely constrained owing to the country's overall security situation.

Supply Side: Financial Infrastructure Progress and Limitations

The launch of the National Payment System (NPS) by the CBS in August 2021 was an important milestone for financial infrastructure development; however, other critical pieces are missing. The system has been adopted by all commercial banks and will integrate automatic clearing house (ACH), real-time gross settlement, and instant funds transfer functionalities within a single platform. It will also contain links between the CBS and the commercial banks to prepare for scaling up Somalia's use of digital payments. The launch of the NPS is expected to boost trade and business and promote financial inclusion by facilitating efficient, low-cost, and fast transactions in a secure manner. The NPS is also expected to strengthen the overall financial stability and integrity of the system, as well as facilitate Somalia's integration with the global financial system. In 2022, the NPS facilitated 922,904 transactions with a total value of US$1.4 billion (figure 5.10). However, the Somalia Payment Switch (SPS) has been much delayed, and focused effort is needed for its operationalization. The SPS would allow banks to connect their ATMs and point-of-sale terminals to a single national network, making card payments interoperable. The lack of an operational SPS also limits the implementation of the IBAN (international bank account number) and QR code initiatives, which are given high priority by CBS.

FIGURE 5.10 GROWTH OF THE NATIONAL PAYMENT SYSTEM



Source: Central Bank of Somalia, "Policy Brief 002/2023: Somalia's Financial Sector" (Mogadishu, Somalia: Central Bank of Somalia, May 2023).[143]

Note: ACH = automatic clearing house; Q = quarter; RTGS = real-time gross settlement.

From the perspective of access to finance, several key pieces of financial infrastructure and related enabling institutions are also lacking. There is no collateral and centralized credit information system or credit bureau in Somalia, and each bank operates with its own databases of clients and depositors. Clear land and collateral titling would over time help change the culture to slowly move away from requiring guarantors and facilitate access to credit. Similarly, effective credit reporting systems can help mitigate a number of market failures that are common in financial markets and most severely apparent in less developed economies.[144] The lack of clear collateral and information on institutional and firm borrowers limits banks' abilities in taking risks and expanding their outreach beyond the handful of repeat or "safe" borrowers in their own databases. A credit bureau would enable FIs to offer more tailored collateral and lending requirements. This would, in turn, allow for wider outreach and product offerings. Good credit history could serve as "reputational collateral" for accessing formal credit beyond established lending relationships, particularly benefiting SMEs and new borrowers with limited physical collateral. Another major limitation in Somalia is the lack of established risk-sharing mechanisms such as a public credit guarantee scheme. Without such a mechanism, banks do not feel confident to take on more risk, and they remain limited in the sectors and customers they provide services to. The high level of cash on bank balance sheets is a clear sign of their risk averseness.

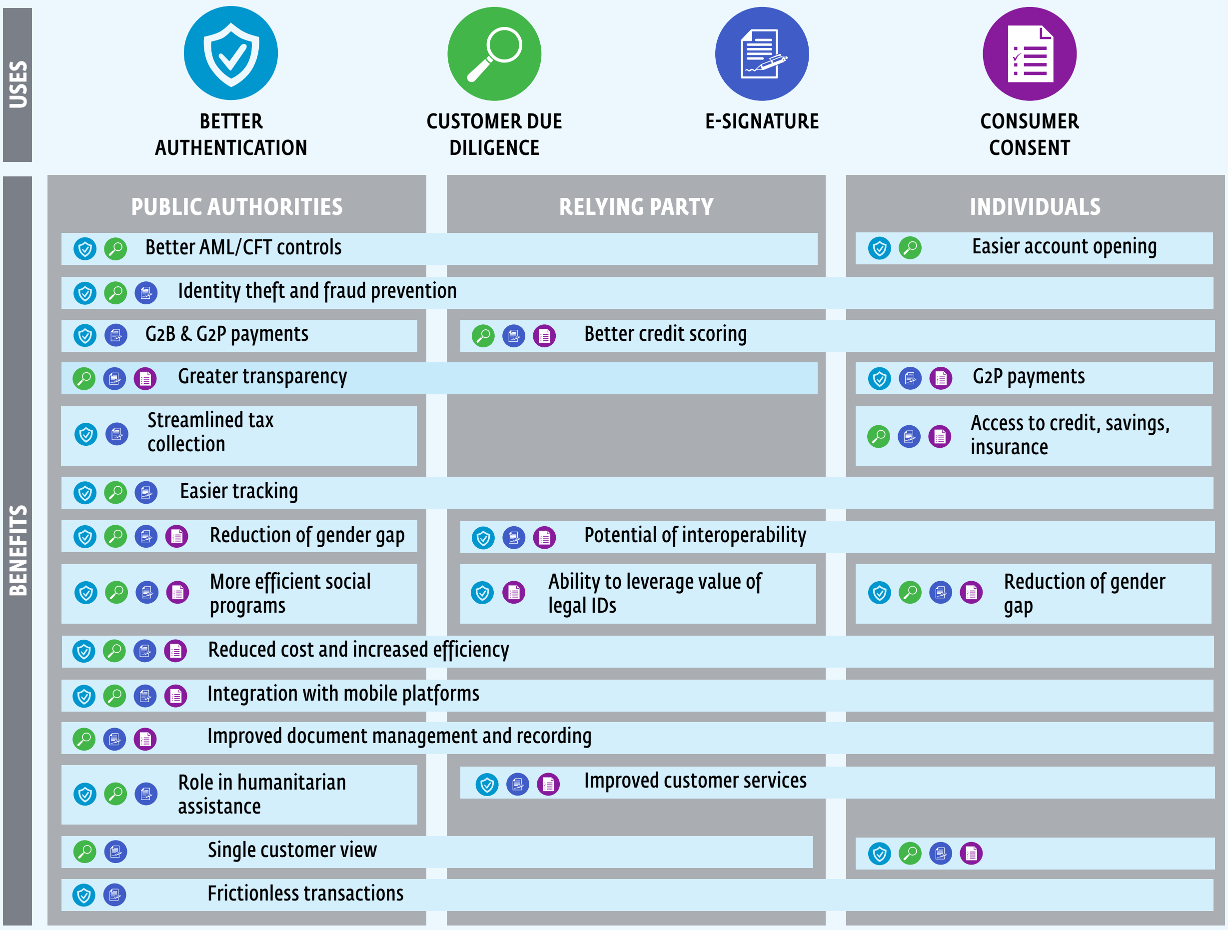
Supply Side: Lack of a National ID

The lack of a national ID to allow for proper KYC/CDD assessments remains a key factor limiting access to financial services in Somalia (box 6.2). Application of e-KYC facilitated by a national digital ID, which is in its early stages of implementation as of September 2023, could significantly facilitate financial inclusion by streamlining identity verification processes. This, in turn, could boost the use of formal financial institutions and potentially provide safer and faster transfer of funds from the diaspora through the development of CBRs.

BOX 5.2 NATIONAL DIGITAL ID USES AND BENEFITS FOR FINANCIAL EMPOWERMENT

The National ID law was passed in March 2023 and the Somalia National ID launched on September 16, 2023. NIRA plans to enroll 10 million individuals by the end of 2026 and is targeting the financial and telecom sectors for operationalizing the use of the national ID. The national ID offers several opportunities that can enhance financial access and economic empowerment. Figure B6.3.1 lists key uses and potential benefits that a national ID can offer.

TABLE B5.3.1 NATIONAL DIGITAL ID USES AND BENEFITS



Source: Harish Natarajan, Mandepanda Sharmista Appaya, and Sriram Balasubramanian, "G20 Digital Identity Onboarding (English)" (World Bank, Washington, DC, 2018), http://documents.worldbank.org/curated/en/362991536649062411/G20-Digital-Identity-Onboarding.

Note: G2B = government-to-business; G2P = government-to-person.

Demand-Side Constraints

A review of existing documentation and industry discussions indicates that there is also a range of demand-side constraints to the development of the financial sector. A lack of physical access to bank branches (due to a concentration in urban areas and security challenges), a lack of proper documentation to open accounts or access banking services, and, perhaps most importantly, a lack of adequate collateral and access to guarantors are important constraints (particularly for smaller firms and the most vulnerable population segments). Scarce sector-specific data also limits business proposal development as well as their evaluation by the financial sector. Furthermore, financial awareness and literacy are extremely limited in the country. Weak financial literacy limits opportunities for lenders and borrowers to connect,[145] and the lack of adequate financial awareness limits the demand of appropriate products and services. Finally, industry stakeholders and policy makers suggested in discussions that individuals and private sector firms are further discouraged from using formal financial services and seeking tailored financial products (including digital financial services) by a fragmented understanding and application of Islamic banking practices and by the scarcity of PPD platforms and consumer forums. Specific supply and demand constraints related to women's access to finance are discussed in box 5.3.

BOX 5.3 GENDER AND ACCESS TO FINANCE

While there are no sex-disaggregated statistics on access to financial services in Somalia, evidence from household and enterprise surveys as well as qualitative studies on entrepreneurship constraints suggests that women are less likely than men to rely on credit as a source of business finance. Similarly, women-owned household enterprises in Somaliland, Mogadishu, and Bosaso are more likely to cite access to finance as a constraint to enterprise than male-owned comparators. Furthermore, compared to men, women household heads and entrepreneurs are less likely to apply and be approved for loans from financial institutions or access alternate modes of financing.

Demand-Side Constraints

- **Limited land ownership and property rights**, which are the main and traditional sources of collateral in the absence of alternate credit assessment models, are the chief constraints on women's access to credit in Somalia. Nearly two thirds of Somali women do not own land and more than 80 percent do not own any property, owing to prevailing restrictions on women's inheritance and property rights under sharia and *Xeer* law.
- **Prohibitive borrowing costs and a high self-perceived risk of default associated with loans from financial institutions also suppress women's access to credit.** Women-owned businesses in Somalia typically have lower and more irregular income streams than do male-owned comparators. This leads them to prefer informal sources of credit, such as borrowing from saving groups as well as family and friends, which have smaller principal amounts, lower interest rates, extended durations, and flexible repayment options.
- **Most women entrepreneurs lack awareness about financial products.** A randomized survey of women entrepreneurs in Mogadishu and Hargeisa found that over 82 percent of respondents were not aware of different credit and financing options available to them. Women who rely on alternate modes of financial access, such as mobile money services, often lack the required level of literacy and numeracy to use these services effectively.
- **As women are less mobile than men, it is difficult for them to access financial institution services, especially from rural areas**. Most financial institutions, especially banks, are situated in urban areas.

Supply-Side Constraints

- **Somalia lacks legislation that prohibits gender discrimination in provision of credit.** Anecdotal evidence suggests that even when women are able to provide collateral against a loan application, they are required by banks to have a male guarantor.
- **The lack of a movable collateral registry has a disproportionate impact on the female market segment.** Movable assets are typically more women-owned than immovable assets are, and they have the potential to be used as collateral.
- **Somalia lacks a national financial inclusion strategy targeting unserved and underserved market segments, including women-headed households and women-owned businesses.** Financial institutions lack incentives to disaggregate customer, portfolio, and staffing data by sex. In the absence of such data and targets, the financial sector lacks incentives to report on and improve the share of women it employs. This is particularly relevant for conservative contexts such as Somalia, where female customers expect to engage with service providers and staff members of the same gender.

Positive Developments

Over the years, interest has been growing to use policy and regulatory incentives to address gender gaps in financial inclusion and credit access. The CBS is planning a financial inclusion survey and considering developing a financial inclusion strategy that could include tailored gender considerations. Recent efforts to establish and refine the NPS also hold promise for the women's market segment, particularly through a potential development of digital financial services. For example, channeling government social security payments through an interoperable digital payments system could bridge the gender gap in account ownership and create a critical mass of potential female customers. Somalia already has some of the elements to emulate such outcomes, including (a) a unified social registry and a system for disbursing social cash transfers through mobile money platforms, (b) a fast-growing use of e-wallets, and (c) a national digital ID system, currently in its early stages of implementation, which can promote know-your-customer (KYC) and limit women's reliance on informal identification and verification.

Source: Staff compilation based on World Bank, *Somalia Country Economic Memorandum—Towards an Inclusive Jobs Agenda* (Washington, DC: World Bank, 2021); Mustafe Abdi, Access to Finance and Financial Inclusion in Somalia (National Economic Council of Somalia, 2022); Somali National Bureau of Statistics, "2022 Somalia Household Budget Survey (SIHBS)—Main Report," February 2023; UNFPA, "Housing and Household Assets of the Somali People," (Nairobi, Kenya: UNFPA, 2016); World Bank, "Women, Business and the Law" (World Bank, Washington, DC, 2021); International Labour Organization, "Sectoral Assessment of Women's Entrepreneurship Development in the Agriculture and Renewable Energy Sectors in Somalia," 2020; Somali National Bureau of Statistics, "Somali Health and Demographic Survey 2020," 2020.

Private Sector Opportunities

Notwithstanding the challenges noted earlier, ongoing reform efforts present growing opportunities for private sector investments in Somalia's financial sector. The upcoming MENA-FATF mutual evaluation will be an important milestone for Somalia's financial sector, as it will show the country's commitment to integrate with the global financial system by openly evaluating its compliance with international standards and developing plans to address related gaps. This would, in turn, help facilitate CBRs and other business partnerships. Furthermore, initiatives such as the Gargaara program and the FSI, which are strongly supported by development partners, offer banks an opportunity to improve AML/CFT compliance and business capacity to manage risks and strengthen internal controls. With a national digital ID launched in September 2023 and rollout planned over the next few years, electronic-KYC and CDD will be significantly improved. An integrated national financial inclusion strategy, combined with several reforms underway to strengthen oversight over the financial industry, will increase investor confidence and open up new opportunities for business partnerships and investments in Somalia's financial sector. In this context, the most promising short- to medium-term private sector opportunities are highlighted as follow:

Digital Financial Services

Leveraging high levels of telecommunications and smartphone access offers opportunities for business development. The rapid expansion of digital wallet use in Somalia indicates basic literacy levels in the use of technology for payments. Opportunities exist for the regulator to play a facilitating role in building the digital financial services (DFS) ecosystem—for example, through a sandbox approach—to encourage innovation and the development of innovative credit and payment products. The focus of the regulator could be to incentivize the private sector to develop (a) merchant payments and credit products, (b) customized consumer credit, (c) targeted or automatic contractual savings, and (d) insurance products. DFS have the ability to reach underserved segments, including women in particular.[146] However, this will require stronger PPD to foster collaboration between the business community, banks, and telecommunications providers, as well as enable regulations and Islamic banking compliance–related support. All these areas offer further opportunities for the private sector to participate on the supply and demand side.

Trade Finance

With a predominantly import-oriented economy and a growing need for efficient international trade transactions, there is a burgeoning demand for trade finance services in Somalia. Private investors can play a pivotal role in establishing trade finance facilities, facilitating the smooth flow of goods, and supporting local businesses engaged in trade activities. By providing crucial financing instruments such as letters of credit, trade credit insurance, and export/import financing, investors can stimulate economic growth, create job opportunities, and contribute to the development of Somalia's financial sector. However, it is essential for investors to navigate the unique challenges, including security concerns and regulatory complexities, while conducting thorough due diligence to ensure the success and sustainability of their trade finance investments in this dynamic market. For example, IFC is in the final stages of preparing both an external due diligence (EDD) and an AML/CFT framework assessment for a few financial institutions operating in Somalia, with a view to evaluate their eligibility for a potential trade finance line under IFC's Global Trade Finance Program.

Microfinance

There has been a growing demand for microcredit in Somalia over past years, and this trend is expected to continue,[147] with a largely unbanked population and a growing number of MSMEs. It is estimated that less than 5 percent of Somali MSMEs' needs for financing are being met, which suggests a market of over 2 million MSME clients across Somalia,[148] many of which are prevented from accessing conventional enterprise financing channels because of informality, a lack of personal collateral, irregular income streams, and a lack of security deposits or guarantors.[149] Against this backdrop, establishing MFIs in underserved regions and investing in or partnering with existing MFIs and MSME-focused lenders not only represents strategic untapped investment opportunities, but also could serve as a catalyst for transformative socioeconomic development in the country. Such investments would empower underserved communities, bolster MSMEs' development and entrepreneurship, create jobs, and promote financial inclusion, among others. However, to unlock these investment opportunities, targeted polices and reforms to address the aforementioned constrains from the supply and demand side are required. These policies and reforms include establishing a regulatory framework that fosters the development of MFIs (such as by developing a microfinance law), developing a credit information system, providing risk mitigation mechanisms, offering tax incentives, strengthening investor protection, promoting technology adoption, encouraging public-private partnerships, and improving financial education and literacy. These reforms would, inter alia, help reduce investment risks, enhance investor confidence, and foster growth in the microfinance sector, thereby contributing to Somalia's economic development, poverty reduction, and financial inclusion.

Insurance

Somalia, a nation in dire need of effective risk management solutions, presents a compelling yet largely untapped investment opportunity in the realm of insurance. As the country's economy continues to evolve and its formal financial sector gradually emerges, the demand for insurance services, especially in priority value chains (such as livestock, crops, fisheries, and construction) and against natural disasters, is steadily on the rise. Despite the pressing need for insurance, the market in Somalia remains significantly underdeveloped, offering limited access to insurance products and services. This unique situation creates an alluring prospect for investors and insurers alike, who can introduce innovative solutions tailored to address the specific challenges faced by this nation. Overcoming the aforementioned supply- and demand-side constraints, as well as addressing sector-specific obstacles like limited awareness about the importance and availability of insurance, the absence of local reinsurance/*retakaful* companies, and weak institutional and regulatory frameworks governing the industry,[150] will be critical to unlocking the full potential of the insurance market in Somalia. To this end, notable reforms are already underway, including the drafting of an insurance bill in 2020, which, once enacted, will enhance the regulation and oversight of insurance and Takaful businesses in the country. In addition, Somalia's membership in the Multilateral Investment Guarantee Agency (MIGA) since February 2020 offers promising prospects by attracting private sector investors and lenders, fostering entrepreneurship, and stimulating foreign direct investment within the insurance sector.

Notes

1. For instance, in-depth analysis of the high-potential value chains in the agricultural sector are very scarce.
2. Through the ESMAP-developed Multi-Tier Framework (MTF), steps are being taken to obtain a more reliable baseline.
3. IEA, IRENA, UNSD, World Bank, and WHO, "Tracking SDG 7: The Energy Progress Report 2023," World Bank, Washington, DC, 2023.
4. Somali National Bureau of Statistics, "2022 Somalia Household Budget Survey (SIHBS)—Main Report," *February 2023.*
5. While there is insufficient data on how household access varies by gender (especially in rural areas), female entrepreneurs have cited electricity and affordability issues across multiple studies. For more information on this front, see the following: World Bank, *Somali Poverty and Vulnerability Assessment: Findings from Wave 2 of the Somali High Frequency Survey* (Washington, DC: World Bank, 2019), https://elibrary.worldbank.org/doi/abs/10.1596/32323); African Development Bank and UN Women, "Country Gender Profile, Republic of Somalia: Trends of Change in a Fragile and Fragmented Context," (Abidjan, Côte d'Ivoire: African Development Bank Group, 2020), https://www.afdb.org/en/documents/somalia-country-gender-profile; International Labour Organization, "Sectoral Assessment of Women's Entrepreneurship Development in the Agriculture and Renewable Energy Sectors in Somalia," 2020, https://www.ilo.org/wcmsp5/groups/public/---ed_emp/---emp_ent/---ifp_seed/documents/publication/wcms_757371.pdf; and World Bank, *Somalia Country Economic Memorandum: Towards an Inclusive Jobs Agenda* (Washington, DC: World Bank, 2021), https://openknowledge.worldbank.org/handle/10986/35943.
6. UNICON Limited, "Power Master Plan: Development of a Power Master Plan for Somali Project," October 2018.
7. Jami Nelson Nuñez, "Powering Progress: The Potential of Renewable Energy in Somalia," One Earth Future Foundation, February 2015, www.shuraako.org/publications.
8. UNICON Limited, "Power Master Plan."
9 World Bank, *Somali Electricity Sector Recovery Project (Project Appraisal Document, November 2021).*
10. National Association of Regulatory Utility Commissioners (NARUC), Cost of Service Study (COS) Manual, 2021, https://www.naruc.org/international/news/new-cost-of-service-study-manual-developed-to-help-ethiopian-energy-sector-stakeholders-design-cost-based-electricity-rates-and-expand-electricity-access/#:~:text=According%20to%20information%20from%20the,%240.04%20and%20%240.06%20per%20kWh; GlobalPetrolPrices.com (database), "Kenya Electricity Prices," https://www.globalpetrolprices.com/Kenya/electricity_prices/.
11. World Bank, "Regulatory Indicators for Sustainable Energy: Sustaining the Momentum" (World Bank, Washington, DC, 2020).
12. Supplying Somalia's main urban centers, including Mogadishu, Hargeisa, Berbera, Burao, Baidoa, and Kismayo.
13. Even firms owned and operated by the government produced power themselves. For more information on this topic, see Emma Lochery, "Generating Power: Electricity Provisions and State Formation in Somaliland," (PhD thesis, Oxford University, 2015).
14. Consultations with MoEWR officials in Mogadishu, January 2023.
15. Unstable political environments raise the costs of monitoring and enforcing property rights.
16. Emma Lochery, "Generating Power"; Roland Marchal, *A Survey of Mogadishu's Economy (Nairobi, Kenya: European Commission, 2002).*
17. Although in a few cases, lines that allow for longer-distance distribution (such as 11 kilovolt to 33 kilovolt) are also used to feed low-voltage feeders.
18. An island network is an electrical energy network capable of operating independently of another electrical network and grid.
19. World Bank, *Somali Electricity Sector Recovery Project.* Independent power producers and NGOs also contribute at a smaller scale. A partially public electricity supply exists in very limited instances.
20. World Bank, Collection of Policy Notes for the New Somali Government—Unlocking Somalia's Potential to Stabilize, Grow and Prosper (Washington, DC: World Bank, 2022).
21. UNICON Limited, "Power Master Plan." These estimates include urban, rural, and IDP populations but exclude nomads, as their lifestyle precludes them from using on-grid electricity.
22. World Bank, "Petroleum Sector Governance Note," *Collection of Policy Notes for the New Somali Government (Washington, DC: World Bank, 2022).*
23. Abdullahi Mohamed Samatar et al, "The Utilization and Potential of Solar Energy in Somalia: Current State and Prospects," *Energy Strategy Reviews 48 (July 2023), https://doi.org/10.1016/j.esr.2023.101108.*
24. Electricity penetration estimates are far from accurate in Somalia as there is little historical data on ESP customer additions. However, directional trends on this front are unmistakable.
25. UNICON Limited, "Power Master Plan."
26. Consultations with energy firms in Mogadishu, January 2023.
27. UNICON Limited, "Power Master Plan."

28. UNICON Limited, "Power Master Plan." While data collected by the 2022 Somalia Integrated Household Budget Survey (SIHBS) provides different numbers on access to electricity, the directional insights remain the same.
29. IFC, "Somaliland Electricity Diagnostic" (internal document, International Finance Corporation, Washington, DC, 2021).
30. African Solar Designs, Ltd, "Off-Grid Lighting Market Assessment for Somalia," World Bank Lighting Africa, 2017.
31. According to IFC consultations in 2020, the estimated cost of generation for many ESPs is so high that they lose money on low industrial tariffs.
32. Abdullahi Mohamed Samatar et al, "The Utilization and Potential of Solar Energy in Somalia."
33. UNICON Limited, "Power Master Plan"; African Solar Designs, Ltd, "Off-Grid Lighting Market Assessment for Somalia." It is estimated that in the major urban centers alone, there are more than 220 HSDG systems that consume over 121,000 liters of diesel fuel per day. Most of these HSDGs have a generation capacity of less than 650 kW. Furthermore, according to World Bank forecasts, it is projected that with increasing demand for electricity, diesel consumption could increase to about 700,000 liters per day in the medium term if additional capacity is to be met by HSDGs alone.
34. Consultations with energy firms in Mogadishu, January 2023.
35. This includes added costs like taxation for transportation by government entities and Al-Shabaab. Consultations with private sector stakeholders in Mogadishu, January 2023.
36. "Wet stacking" is a condition caused by operating the engine at light load for extended periods, sending unburned fuel and soot into the exhaust system.
37. That is, most ESPs are operating their HSDGs at levels that are considerably below their optimal performance because of a range of issues (such as the frequency of light loads).
38. UNICON Limited, "Power Master Plan." Thus, large institutions need to contract two or more separate ESPS in parallel, have their own captive HSDG generation, or add a captive solar PV grid to the mini-grid systems.
39. Data from CPCS collected for the capacity building strategy for the MoEWR in March 2023. This level of power loss is about quadruple the average power losses across Africa and more than double the power losses across FCV countries.
40. Leakage current and open circuit losses derive from network equipment and fixed elements and are more difficult to fix. Other issues lead to variable technical losses (such as elevated line impedances, contact resistances, and Joule heating) and are more easily fixed.
41. Because of metering issues, some ESPs charge a fixed fee based on an estimation of the consumer load, providing a disincentive for end-users to reduce equipment use or buy energy-efficient products.
42. This is especially acute for ESPs within cities with multiple ESPs (such as Mogadishu, Bosaso, Abduwak, Guriel, Hargeisa, Burao, Laascaanood, Borama, and Wajaale).
43. UNICON Limited, "Power Master Plan."
44. For instance, the Expanded Program on Immunization (EPI) vaccine projects.
45. African Solar Designs, Ltd, "Off-Grid Lighting Market Assessment for Somalia."
46. Including stockists, designers, marketing agents, and installers of solar equipment.
47. Like using resellers and other multi-branch retailers in peri-urban and rural markets.
48. Including stockists, designers, marketing agents, and installers of solar equipment.
49. These brands provide integrators not only with equipment but also with design and installation support.
50. Consultations with energy firms in Mogadishu, January 2023.
51. Consultations with energy firms in Mogadishu, January 2023.
52. Consultations with energy firms in Mogadishu, January 2023.
53. It is estimated that the majority of small-scale and pico-solar PV products are sold by generalist retailers.
54. Consultations with energy firms in Mogadishu, January 2023.
55. Several initiatives have been implemented on this front. For instance, the World Bank Somali Electricity Access Project supported the installation of more than 34,000 quality-verified solar home systems by 23 solar service providers in rural and peri-urban areas.
56. African Solar Designs, Ltd, "Off-Grid Lighting Market Assessment for Somalia."
57. Consultations in Mogadishu, January and June 2023.
58. African Solar Designs, Ltd, "Off-Grid Lighting Market Assessment for Somalia." According to a 2017 survey supported by the World Bank, the estimated market demand for off-grid solar PV products in Somalia was in excess of 32 MW. Given population growth and trends in recent years, this demand has likely increased since.

59. IBS and World Bank, *Somali Electricity Access Project (SEAP)—Project Completion Report, June 2022.*

60. According to a 2017 survey supported by the World Bank, most urban, rural, pastoralist, and IDP households would be willing to pay for off-grid solar PV electricity, especially if some sort of financing mechanism (such as a loan or PayGo system) were provided.

61. Consultations in Mogadishu, January and June 2023.

62. Consultations with private sector stakeholders in Mogadishu and Nairobi, January 2023; Consultations with private sector stakeholders in Hargeisa, November 2022.

63. Consultations with private sector stakeholders in Mogadishu and Nairobi, January 2023; Consultations with private sector stakeholders in Hargeisa, November 2022.

64. Steps have also been taken on this front with regional governments. For instance, in Somaliland, a Quality Assurance unit was established, Lighting Global and IEC Standards (such as quality standards 62257-9-8 and IEC 62257-9-5 Test methods) have been adopted, government staff members have been trained on quality standards (such as on IEC 62257-9-8 quality Standards & IEC 62257-9-5 Test methods for Pico solar and SHS products), and a series of dissemination workshops for IEC SHS kit and solar lantern standards have been implemented.

65. IBS and World Bank, *Somali Electricity Access Project.*

66. Consultations in Mogadishu, January and June 2023.

67 Lighting Global (website), "Energy for Prosperity," https://www.lightingglobal.org/country/somalia/.

68 Consultations in Mogadishu, January and June 2023.

69 Consultations in Mogadishu, January and June 2023.

70. Lighting Global, "Energy for Prosperity."

71. Which primarily consist of lanterns and pico products to lower-income groups on a financed basis.

72 Consultations with energy firms in Mogadishu, January 2023.

73. The FGS commissioned the "Preparation of an Indicative Least-Cost Geospatial Electrification Plan to Achieve Universal Access in Somalia" study implemented by the KTH Royal Institute of Technology, Stockholm, 2020.

74. An interconnected distribution network and a transmission grid might be a reality in the medium to long term with support from development institutions, but it is not yet a reality.

75. European Union Technical Assistance Facility, "The European Union Global Technical Assistance Facility for Sustainable Energy," 2022.

76. Global Solar Atlas, https://globalsolaratlas.info/.

77. African Development Bank, *Somalia—Energy Sector Needs Assessment and Investment Programme* (Abidjan, Côte d'Ivoire: African Development Bank Group, November 2015).

78. With 63 GW from fixed-bottom wind turbines and 219 GW from floating installations. For more information on this topic, see a 2021 World Bank analysis of the country's wind technical potential at https://documents1.worldbank.org/curated/en/867151586844687058/pdf/Technical-Potential-for-Offshore-Wind-in-Somalia-Map.pdf.

79. While Somalia possesses hydroelectric potential of 100–150 MW annually, the historical variability in river flows has rendered this energy source unreliable, compounded by the absence of necessary electricity infrastructure for distribution. The feasibility of geothermal energy, despite Somalia's proximity to the Rift Valley, remains uncertain because of a lack of relevant data. Recent studies suggest significant wave energy potential in Somali waters, but precise estimates are unavailable. Additionally, harnessing these energy sources relies on emerging technologies and requires technical expertise currently unavailable in Somalia.

80. IRENA, "Quality Infrastructure for Smart Mini-Grids" (International Renewable Energy Agency, 2020).

81. World Bank, "Petroleum Sector Governance Note."

82. This is being done primarily through solar PV solutions synchronized as part of a SPV-HSDG hybrid system, with the solar component providing daytime generation. There are also some wind power generators installed in Somalia, but only one of those (NECSOM's 0.75 MW wind power generation plant) is functioning as part of a synchronized hybrid generation system.

83. SOMINVEST, "A Roadmap to Unlocking Private Sector Investment in Somalia's Energy Sector" (Somalia Energy Sector Investment Report, February 2022).

84. UNICON Limited, "Power Master Plan."

85. Consultations with energy firms and public sector stakeholders in Mogadishu, Hargeisa, and Nairobi, November 2022 to August 2023.

86. The PayGo business model combines high-quality solar equipment with prepaid financing and low-cost operations, anchored in mobile money payments (alternative methods include scratch cards, mobile airtime, and cash).

87. African Solar Designs, Ltd, "Off-Grid Lighting Market Assessment for Somalia." In Somalia and other countries in Sub-Saharan Africa, off-grid solar solutions combined with PayGo financing models are increasingly being used to bridge access and affordability gaps and provide electricity access for poor households in areas not serviced by centralized grids. There is some evidence linking off-grid solar provided through PayGo financing to improvements in women's health, time-use and participation in paid work and entrepreneurship, and financial inclusion. However, the body of evidence on the gender effects of this model is largely diffuse, partly because of the general lack of sex-disaggregated data on the customer base and their preferred products and financing models. For more information on this topic, see Sai Krishna Kumaraswamy, "Does PAYGo Solar Improve Women's Lives? A Look at the Evidence," CGAP (blog), April 14, 2021, https://www.cgap.org/blog/does-paygo-solar-improve-womens-lives-look-evidence.

88. Somali National Bureau of Statistics, "2022 Somalia Household Budget Survey."

89. For instance, international manufacturers of solar PV products (such as Greenlight Planet) have provided technology to local energy enterprises on a PayGo basis.

90. Some initiatives on this are already being implemented. For instance, Power Africa and SparkMeter (a US-based digital energy technology company) met with Somali ESPs and developed five actionable recommendations that are now being implemented with NECSOM's pilot of SparkMeter's solution. For more information on this topic, see Power Africa, "Strengthening Power Grids in Somalia with Digital Technology," Medium (website), August 16, 2022, https://powerafrica.medium.com/strengthening-power-grids-in-somalia-with-digital-technology-3536d1889d3e. Similarly, according to the project completion report of the World Bank Somali Electricity Access Project (SEAP), two of the solar PV firms supported by the project started to offer PayGo products (using SunKing products with the Angara PayGo system). Microdahab has also partnered with SolarGen to provide a "lease to purchase" product for solar pumping equipment. However, most of the market is still not offering PayGo products.

91. Because energy providers would need to negotiate pay-bill accounts with multiple telecommunications companies, increasing transaction costs.

92. The new interconnection regime was launched by NCA in March 2023.

93 With the Ministry of Energy and Water Resources being the granting authority for licenses until the Electricity Authority is fully operational.

94. These regulations (if adequately implemented) could help set a more even playing field and mitigate the risk of entry for foreign and international players. For instance, part of the tariff framework development process will include a synthesis of private sector cost data and cost unbundling processes to ensure a transparent and clear methodology in setting electricity tariffs.

95 Although ongoing World Bank–financed projects are currently supporting the Somali government in further development of the legal and policy framework.

96. For instance, the World Bank Somali Electricity Access Project (SEAP) supported targeted capacity-building activities for MoEWR such as the recruitment of Project Implementation Unit (PIU) staff members, formal training, conferences, and seminars. USAID and other development partners have also provided institutional capacity building for electricity sector government institutions in the country.

97. A recent assessment found that 90 percent of the MoEWR staff lacks the necessary skillsets. For more information see CPCS, *Final Report—Consultancy Services for FRS Electricity Supply Industry Institutional Structure Study, 2021.*

98. The State Agency for Water, Energy, and Natural Resources performs this role in Puntland, for instance. Separately, the Ministry of Energy and Minerals (MoEM) and the Somaliland Energy Commission (SEC) oversee and make key decisions for the electricity sector in Somaliland.

99. For example, BECO, ENEE, DAYAH, SOMPOWER, and TELESOM.

100. World Bank, *Somali Electricity Sector Recovery Project.*

101. Consultations with energy sector stakeholders, January 2023.

102 Mergers and acquisitions in Somalia have been taking place at the ownership level with owners of smaller ESPs becoming shareholders of larger ESPs. The merger of operational activities, however, has been slower, with the ability of ESPs to take advantage of economies of scale lagging.

103. According to recent consultations with energy firms in Somalia, the consolidation of independent energy providers and small ESPs into larger ESPs has already had benefits for these firms' consolidated financial and technical bottom lines.

104. Consultations with energy firms in Mogadishu, January 2023.

105. Consultations with energy firms and public sector stakeholders in Mogadishu, Hargeisa, and Nairobi, November 2022 to August 2023.

106. Consultations with energy firms and public sector stakeholders in Mogadishu, Hargeisa, and Nairobi, November 2022 to August 2023.

107. Consultations with private equity funds currently assessing investments in the Somali energy sector, April 2023.

108. SOMINVEST, "A Roadmap to Unlocking Private Sector Investment."
109. Recent focus group discussions conducted by SOMINVEST confirm technical skills gaps in these areas in value chains for off-grid systems. For more information on this front, see SOMINVEST, "A Roadmap to Unlocking Private Sector Investment."
110. Consultations with energy firms in Mogadishu, January 2023.
111. World Bank, "Tracking Employment Gender Gaps in the Somalia Energy Sector," 2021 draft.
112. One example is the Boosting Road Infrastructure Development and Growth of Energy (BRIDGES) project, financed by the EU and implemented by CARE.
113. For instance, in the BRIDGES project, most trainees remain unemployed many months after training programs culminate. See CARE Somalia/Somaliland, "Final Report—Final Evaluation of TVET and Higher Education for Boosting Road Infrastructure Development and Growth of Energy Services (THE BRIDGES) Project," August 2020, https://www.careevaluations.org/wp-content/uploads/BRIDGES-Final-Evaluation-Report.pdf.
114. Consultations with energy firms in Mogadishu, January 2023.
115. SOMINVEST, "A Roadmap to Unlocking Private Sector Investment."
116. UNICON Limited, "Power Master Plan."
117. Consultations with energy firms in Mogadishu, January 2023.
118. Consultations with energy firms in Mogadishu, January 2023. A lack of sex- and location-disaggregated customer data also hinders the development of strategies to boost adoption in underserved market segments (such as female-headed households). For example, there is emerging evidence that female sales agents may outperform men as distributors of off-grid clean energy solutions, especially in culturally conservative contexts where women can leverage their access to the private domestic sphere to influence household-level decisions on energy usage. For more information on this topic, see ESMAP, "Gender Equality in the Off-Grid Solar Sector: Operational Handbook for Gender Equality in the Off-Grid Solar Sector" (Washington, DC: World Bank, 2022), https://openknowledge.worldbank.org/server/api/core/bitstreams/dbf2bea8-5d88-5f1a-ba64-60d350ef71f3/content.
119. According to a survey completed for the 2019 FinAccess Household Survey in Kenya, 79.4 percent of the adult population in Kenya uses mobile money accounts. A more recent World Bank survey suggests that 97.0 percent of households in Somalia have access to mobile money.
120. World Bank, *Collection of Policy Notes for the New Somali Government*. Furthermore, a recent household survey by Somalia's National Bureau of Statistics noted that only 6.4 percent of women own accounts versus 11.5 percent of men. For more information on this front, see Somali National Bureau of Statistics, "2022 Somalia Household Budget Survey."
121. The World Bank 2017 mobile money survey shows that mobile money usage is highest in urban areas (83 percent), and in displaced persons camps in urban areas for people who depend on remittances (72 percent). Only 55 percent of rural residents use mobile money, and the gap between income groups is also large (96.9 percent among those earning more than US$500 use mobile money versus 59.8 percent of those earning between US$100 and US$150).
122. World Bank, "Somalia Economic Update: Impact of COVID-19 Policies to Manage the Crisis and Strengthen Economic Recovery" (World Bank, Washington, DC, June 2020).
123. Consultations with private sector stakeholders in Mogadishu, January 2023.
124. United Nations Industrial Development Organization, "Somalia Financial Sector: Technical Report" (UNIDO, Vienna, January 2020).
125. The figures included in this analysis are estimations and are subject to change. GDP figures for the year are based on the projections from International Monetary Fund (IMF), *Somalia Sixth Review under the Extended Credit Facility Arrangement and Technical Assistance Report—National Accounts Statistics Mission* (Country Report 23/438, Washington, DC: IMF, December 20, 2023) and from IMF, Technical Assistance Report—National Accounts Statistics Mission (Country Report 23/364, Washington, DC: IMF, November 9, 2023).
126. Central Bank of Somalia data analysis, December 2023.
127. Central Bank of Somalia data analysis, December 2023.
128. Central Bank of Somalia data analysis, December 2023.
129. International Monetary Fund (IMF), *2022 Article IV Consultation and Fourth Review under the Extended Credit Facility—Press Release; Staff Report; and Statement by the Executive Director for Somalia* (Country Report 2022/375, Washington, DC: IMF, December 16, 2022); IMF Country Report 2023/187; IMF, *Somalia: Sixth Review under the Extended Credit Facility Arrangement* (Country Report 23/438, Washington, DC: IMF, December 20, 2023).
130. Somali National Bureau of Statistics, "2022 Somalia Household Budget Survey."
131. The banks identified are Agro Africa Bank, Amal Bank, Amana Bank, Bushra Business Bank, Dahabshil Bank International, Daryeel Bank, Galaxy International Bank, Idman Community Bank, International Bank of Somalia, MyBank, Premier Bank, Salaam Somali Bank, and SomBank.

132. Dara Salaam Bank is not included as it operates primarily in Somaliland and is not licensed by CBS.
133. EY, "Unleashing the Potential of FinTech in Banking," 2017.
134. Among those MMOs, only four have a license with CBS: Hormuud, SomTel, SomLink, and Golis. The other MMOs identified during research are TelSom, AmTel, and SolTelCo.
135. The MFIs identified are KIMS, Bushra, RAAS, Maal, Sahal, Amana, Tijaaro, MicroDahab, Midnimo, Kobciye, and Kaaba.
136. The insurance companies identified are First Somali Takaful and Re-takaful, Takaful Insurance of Africa, Baraka Takaful, SomTakaful, Horn of Africa Insurance, Salmastar Insurance, and Amanah Insurance.
137. World Bank FCI Central Bank of Somalia data analysis, 2023.
138. World Bank FCI Central Bank of Somalia data analysis, 2023.
139. World Bank FCI Central Bank of Somalia data analysis, 2023.
140. On the basis of CBS data, MTBs facilitated US$4.8 billion of remittance inflows to the country in 2022. See Central Bank of Somalia, "Policy Brief 002/2023."
141. Unsurprisingly, the mobile money sector has low service standards and a limited redress mechanism for consumers.
142. Central Bank of Somalia, "Policy Brief 002/2023."
143. Central Bank of Somalia, "Policy Brief 002/2023."
144. World Bank (website), "Credit Registry," https://www.worldbank.org/en/publication/gfdr/gfdr-2016/background/credit-registry.
145. Mustafe Abdi, Access to Finance and Financial Inclusion in Somalia (National Economic Council of Somalia, 2022).
146. World Bank (website), "Using Digital Solutions to Address Barriers to Female Entrepreneurship: A Toolkit."
147. Mustafe Abdi, *Access to Finance and Financial Inclusion in Somalia*.
148. Dominique Wells, "Accelerating Change in the Somali Microfinance Sector," Innovest Advisory, September 16, 2022.
149. International Finance Corporation, "Somalia: Market Assessment of Financial Services" (IFC, Washington, DC, March 2022).
150. Mustafe Abdi, *Access to Finance and Financial Inclusion in Somalia*.

6. COMPREHENSIVE LIST OF CPSD RECOMMENDATIONS

In light of Somalia's FCV context, initiatives for private sector development must be carefully sequenced and designed not only to incentivize short-term dividends, but also to enable an economic transformation of the country in the medium to long term. The report highlights several recommendations to improve private sector development in Somalia, although it is important to note that structural challenges related to high levels of insecurity, governance challenges, and fragile state legitimacy significantly undermine the potential growth and inclusiveness of the private sector. What is possible in the short to medium term is limited because of the constraints to private sector development (such as, corruption, road checkpoints by armed groups, market distortions); in addition, the root causes of FCV must be addressed and significant progress must be made on the country's broader state-building agenda. Relatedly, while mitigating the performance issues of key enabling sectors to foster an economic transformation in the medium to long term should be a priority, the types of interventions that are possible to resolve those performance issues in a post-HIPC environment are currently limited by the government's fragility, weak institutional capacity, and limited fiscal space, as well as the expected reduction of concessional financing. Finally, policies could easily aggravate the country's inequality if issues with existing market distortions and capture are not taken into account, and yet policies will likely encounter resistance from vested interests if such issues are considered. (The Chamber of Commerce and Industry at the federal and state levels encompasses influential members from the telecom sectors, import and export businesses, and financial sectors, among others, and provides collective bargaining power. The members contribute most of the domestic revenues collected by the federal and state authorities and as a result have strong influence and networks within the government that either facilitate or slow down government reforms.[1]) Regulatory and institutional reforms will thus be complicated and slow to implement. At the same time, it makes no sense to wait for these issues to be resolved in Somalia before taking steps for private sector development, as it is unlikely that the country's reform momentum will take root unless short-term inclusive dividends can be generated for its growing population. In effect, previous experience with fragile states suggests that initiatives to develop the private sector need to begin early in the relief-to-development continuum to avoid backsliding.[2]

Recognizing the fragile context and structural constraints, the Somalia CPSD proposes three mutually reinforcing recommendations:

- Establish legitimate, effective, and equitable formal institutional and regulatory frameworks for private sector–led growth.
- Promote private participation and improve public stewardship of key enabling sectors to facilitate an economic transformation in the medium to long term.
- Improve growth and productivity of selected value chains for short- to medium-term dividends.

The three recommendations reinforce each other when implemented in parallel, and priority actions under each of the recommendations are presented in table 7.1. Importantly, in line with the country's ongoing state-building agenda, several of the recommendations require cooperation among different levels of government—including at the FGS, FMS, and more local levels—for effective implementation (for example, in building consensus on key reforms and developing harmonized systems and standards).

Recommendation 1: **Establish legitimate, effective, and equitable formal institutional and regulatory frameworks.** Despite considerable advances in recent years, Somalia's business environment remains very challenging, which has left private sector stakeholders dependent on informal trust-based institutions and has reproduced socioeconomic inequalities; thus, regulatory and institutional reforms should remain a priority (table 6.1). These reforms are essential to increase economic growth and firm productivity, and to enable effective public-private cooperation (for example, in service delivery). The reforms are also essential to enable an increase of efficiency-seeking FDI in the medium to long term. Unfortunately, in a fragile country with Somalia's political economy, these reforms provoke considerable resistance from vested interests and as a result they are often unsuccessful.[3] To avoid this, inclusive dialogue on economic issues in the country must be improved through the creation of business member organizations to facilitate the agglomeration and collective action of firms that have previously been marginalized from PPD,[4] and a sustainable national PPD structure must be developed to improve stakeholder buy-in for reforms.[5]

Recommendation 2: **Reform and promote private participation in key enabling sectors to facilitate an economic transformation in the medium to long term.** A diversification to higher-value-added activities is critical for the generation of quality jobs in Somalia. However, this transformation is severely constrained by the subpar performance of enabling sectors discussed previously. Given the vast magnitude of challenges, this CPSD focuses on a subset of these issues and provides recommendations to address enabling sector shortfalls and gaps by better leveraging private sector arrangements. These arrangements have proven to be fruitful in other fragile countries with limited fiscal resources.[6] However, a series of hurdles must be overcome for their successful implementation. Namely, apart from the lack of institutional and regulatory frameworks for private sector participation, the stewardship role of the Somali government could still be improved and investment incentives for private entities are weak. To improve these areas, the following actions must be prioritized: develop sector-specific institutional and regulatory frameworks, address information gaps, and de-risk private investment in markets where incentives are weak (see table 6.2). In addition, the recommendations highlight the importance of completing these actions in an organized and coordinated manner that identifies national and regional economic corridors, along which anchor and ancillary investments can be made to enable priority economic activities and to maximize their multiplier effect.

Recommendation 3: **Improve growth and productivity of selected value chains for short- to medium term dividends.** Institutional and regulatory reforms and structural changes discussed previously take significant time to affect jobs creation and economic growth, especially in fragile countries like Somalia;[7] and thus, alone, these reforms and changes will not be able to sustainably increase the generation of good quality jobs in the short term as Somalia needs. Value chain development plans have proven to be successful on this front,[8] given their incremental, flexible, and bottom-up approach.[9] These plans can improve short-term economic opportunities and reduce poverty incidence in Somalia, especially when targeting the value chains that conglomerates have failed to fully capture and in which productivity gains are possible (for example, livestock,[10] crops, and fisheries). (See table 6.3.) This approach also reinforces the first and second pillars of recommendations when conducted in parallel, because value chain development (a) helps rebuild trust and social cohesion between value chain participants in the short to medium term, providing a basis for collective action against predation and rent seeking, as well as better local governance;[11] and (b) improves the upstream supply chain of inputs, enabling the growth of higher-value-added activities in the medium to long term, especially if implemented using a cluster approach—focusing on areas that are on or near identified economic corridors.

TABLE 6.1 RECOMMENDATIONS TO ESTABLISH LEGITIMATE, EFFECTIVE, AND EQUITABLE FORMAL INSTITUTIONAL AND REGULATORY FRAMEWORKS

Area of focus	Recommendation	Time frame
Improve public-private dialogue on economic and private sector development issues		
Institutionalized national public-private dialogue structure	• Conduct a stakeholder mapping and a political economy assessment to identify the best PPD platform structure for Somalia.	Short term
	• Identify and gain the commitment of a group of well-respected champions for a national PPD process from the private sector (such as, owners of the largest conglomerates) and the public sector (such as, prime minister's office or president's office).	Short term
	• Continue to support sector-specific PPD processes through working groups on specific issues and sectors.	Short term
	• Support the development of an institutionalized and sustainable PPD structure (in conjunction with development partners) that will continuously enable a dialogue on national priorities and steps to achieve them.	Medium term
Inclusive public-private dialogue	• Use a *group-based model* to serve as an avenue for socialization of PPD to businesspeople from disadvantaged groups (such as, female entrepreneurs).[a]	Medium term
	• Support the creation and capacity building of BMOs (for example, cooperatives) to include the interests of businesses of all sizes and sectors in policy dialogues.	Medium term
	• Leverage community engagement mechanisms to include livelihood and informal need-based ventures in policy dialogues to ensure gender equity.	Medium term

a. This has been implemented already in various FCV-affected countries in Africa. See, for instance, the Women's Affinity Groups created by the World Bank's Nigeria for Women Project.

Area of focus	Recommendation	Time frame
Develop institutional and regulatory frameworks for PSD		
Business entry, exit, and corporate governance	• Develop and implement a unified national business registration regime to enable a single unique business number across FGS and FMS and harmonize the online business registration and licensing system nationally.	Short term
	• Develop a roadmap to create a one-stop shop for business licenses and permits (including sector-specific ones) and other postregistration procedures.	Short to medium term
	• Assess the capacity-building needs of MoCI to better enforce laws and regulations and to support the institution in closing these gaps.	Short to medium term
	• Adopt the business licensing law following consultations to harmonize processes and clarify mandates between FGS and regional governments.	Medium term
	• Update the 2019 Company Act and develop regulations to establish a legal framework for the protection of minority shareholder rights and other aspects important to the Somali business community.	Medium term
Quality standards and trade	• Conduct analyses of cross-border trade at international or FMS borders.	Short term
	• Roll out a trade information portal to Somali regions outside of Banadir.	Short term
	• Streamline trade processes (for example, implement electronic cargo tracking systems and single window systems).	Short term
	• Assess the capacity-building needs of the Somalia Bureau of Standards (such as, for metrology, labs, testing, certification, accreditation) and support the institution in closing these gaps.	Short term
	• Develop proper legislative instruments to create a technical regulation framework and a market surveillance system for quality standards.	Short term
	• Create a national accreditation body.	Medium term
Investment policy and promotion	• Publish a foreign investment *negative list* to increase transparency and provide legal certainty on applicable rules.	Short term
	• Abolish the country's discriminatory screening process and any discretionary behavior by the government.	Short term
	• Take steps to ensure that the IPP regulatory framework guarantees the consistent implementation of laws and regulation for all types of investors.	Short term
	• Ensure that all incentives programs follow good international practices to maximize the effectiveness of FDI in the Somali economy.	Short term
	• Ratify international conventions that protect investors (such as the 1958 New York Convention) to improve Somalia's dispute resolution framework.	Short term
	• Consider negotiating and signing bilateral investment agreements with main trade/investment partners.	Short to medium term
	• Support SOMINVEST in developing its technical capacity, with a focus on (a) developing a local supplier database, (b) improving its matchmaking services capacity, and (c) implementing an investor aftercare program aimed toward Somali diaspora investors.	Short to medium term

Area of focus	Recommendation	Time frame
Property rights	• Develop short-term solutions to resolve issues with land governance (for example, communal land leases, certificates of occupation/land use), including for groups with insecure tenure, such as women.	Short term
	• Carry out a detailed assessment of property rights and land tenure to determine urgent policy reforms on property rights and property registry.	Short term
Public-private partnerships	• Enact the drafted PPP regulatory framework in line with best international practices.	Short term
	• Support the institutional setup for PPPs delineated in the aforementioned regulations, and provide capacity-building to established institutions.	Short to medium term
Tax and customs regime	• Implement agreement on harmonization of tax identification numbers (TINs).	Short term
	• Harmonize a national tariff schedule and ad valorem valuation database.	Short term
	• Implement the Integrated Tax Administration System and Customs Administration System, ensuring the harmonized TIN structure is included.	Short term
	• Clarify revenue assignments across federal structures.	Short term
	• Limit tax exemptions, ensure predictability in taxation rates, automate processes, and strengthen enforcement.	Short term
	• Revise revenue regulations related to agreed harmonized taxes.	Short term
	• Harmonize domestic revenue legislation and implement harmonized tax rates as per the August 2023 FMFF agreement.	Medium term
ID system	• Adopt implementing regulations for the ID law (for example, clarify the purpose of mandatory versus optional nature of the data provided at time of registration).	Short term
	• Provide capacity building to NIRA (for instance, develop an implementation strategy).	Short term
	• Ensure an adequate budget allocation for NIRA's operations, including an increase in the size and capacity of its workforce, the implementation of a communication campaign to raise awareness about the new ID system, and the hiring of a temporary external workforce for the large-scale ID registration and delivery effort necessary when the ID system is established.	Short to medium term

Note: Note: BMO = business member organization; FDI = foreign direct investment; FGS = Federal Government of Somalia; FMFF = Finance Ministers' Fiscal Forum; FMS = federal member states; ID = identification; IPP = investment policy and promotion; MoCI = Ministry of Commerce and Industry; NIRA = National Identification and Registration Authority; PPD = public-private dialogue; PPP = public-private partnership; PSD = private sector development; SOMINVEST = Somalia Investment Promotion Office.

TABLE 6.2 RECOMMENDATIONS TO REFORM AND PROMOTE PRIVATE PARTICIPATION IN KEY ENABLING SECTORS TO FACILITATE AN ECONOMIC TRANSFORMATION IN THE MEDIUM- TO LONG TERM

Area of focus	Recommendation	Time frame
Overall: Key enabling sectors		
Improved coordination among government stakeholders in relevant enabling sectors	• Develop an integrated national investment strategy that identifies anchor investments (such as, road corridors and ports), ancillary investments (for example, power and water), and spinoff investments (such as skills development and BDS) to enable priority economic activities along selected national and regional economic corridors.	Short term
	• Develop an interactive geo-spatial platform that aggregates investment priorities of all relevant ministries to maximize synergies between investments of different kinds.	Medium term
Infrastructure sectors		
Reforms specific to transport and logistics	• Operationalize government institutions for the transport sector (such as the Somali National Highway Authority and the Somali Ports Authority).	Short term
	• Prepare a prioritized list of projects ready for implementation that private sector entities can fund through various transactional structures (for example, PPPs).	Short term
	• Conduct a market assessment of the Somali logistics sector.	Short term
	• Perform a viability assessment for a greenfield airport in Mogadishu.	Short term
	• Perform an updated assessment of port utilization and performance.	Short term
	• Explore feasible sustainable financing mechanisms for transport infrastructure development in Somalia.	Short term
	• Develop national transport policies, strategies, and plans (for example, a national transportation security strategy, a national transport master plan, or a state safety program).	Short to medium term
	• Establish a mechanism to constantly monitor the conditions of port management and exploitation, with a view toward improving operations of ports and (if necessary) revising conditions of concessions.	Medium term
	• Harmonize vehicle registration and driver licensing systems across FMS (including creating a unified database of vehicles and drivers).	Medium term
	• Provide catalytic funding for the development of dry storage and cold chain infrastructure in key areas where investment incentives are weak.	Medium term
	• Join the Single African Air Transport Market (SAATM) and implement associated commitments.	Medium term

Area of focus	Recommendation	Time frame
Reforms specific to digital connectivity	• Implement interconnection regulations, and adopt frequency spectrum licensing fees that do not present a barrier for market entry.	Short term
	• Finalize the draft interconnection policy to ban preferential treatment among operators related to interconnection and termination costs.	Short term
	• Strengthen capacity for systematic sectoral data collection by the industry regulator (that is, the National Communications Authority) and improve understanding of demand side constraints for broadband adoption (ensuring data collection is gender disaggregated).	Short term
	• Enact the drafted National Communications Authority Competition Regulation.	Short term
	• Draft and enact laws to enable and promote trust in digital transactions and services (for example, e-transactions, data protection and privacy, cybersecurity and cybercrime, electronic documents and e-signature, and data sharing and information access).	Short term
	• Develop a new national and subnational ICT Policy and Strategy (2024–2029).	Short term
	• Provide catalytic funding to unlock infrastructure deployment in unserved or underserved areas (such as, Wi-Fi hotspots in borderlands and in IDP/refugee camps).	Short to medium term
	• Enhance regulatory and institutional frameworks on infrastructure sharing, mobile roaming, quality of service, spectrum management, consumer protection, numbering, cybersecurity, and data management.	Medium term
	• Incentivize the establishment of a carrier neutral internet exchange point.	Medium term
	• Support digital skills programs for MSMEs and individuals, and support the integration of digital skills modules in livelihoods programs targeting low-income groups (including women).	Medium term
Reforms specific to access to water	• Capacity building of water government institutions on the management of multi-use water points and the institutionalization of water sharing agreements to ensure inclusivity of access to water points.	Short term
	• Conduct a water security diagnostic and a market assessment of the water delivery sector for all major cities and towns in Somalia.	Short to medium term
	• Conduct an upstream investment analysis of town water supplies in all major cities and towns in Somalia.	Short to medium term
	• Define an urban water service delivery model.	Medium term
	• Review the current water law and provide a policy note to guide reforms to reflect Somalia's federal system.	Medium term

Area of focus	Recommendation	Time frame
Reforms specific to access to energy	• Appropriately staff the National Electricity Authority.	Short term
	• Draft and enact missing secondary legislation (for example, zoning regulation, renewable energy regulation), codes, and standards, and implement existing secondary legislation (that is, tariff regulation, licensing regulation) with a view toward operationalizing the Electricity Act.	Short term
	• Prepare a National Least-Cost Development Plan (for generation, transmission, and distribution), and an Electricity Access Strategy to inform public and private sector investments.	Short term
	• Continue to provide technical assistance to the Somali government (for instance, SoBS) for the adoption and implementation of Lighting Global and International Electrotechnical Commission quality standards for off-grid solar PV products.	Short term
	• Provide support to off-grid energy services providers interested in adopting PayGo systems in the exploration of partnerships and development of options that will lead to the establishment of PayGo businesses.	Short term
	• Undertake detailed feasibility studies for renewable energy projects (for example, site-specific wind resource measurement, renewable mini-grid prefeasibility study) to incentivize private sector investment.	Short term
	• Provide technical support (such as, network and equipment standardization, losses reduction, appropriate metering) to ESPs to assist them in becoming more investment ready.	Short to medium term
	• Provide catalytic funding for the development of hybrid mini-grids in geographical areas where investment incentives are currently weak.	Short to medium term
	• Conduct regular sampling of energy utilization via a limited energy census.	Medium term
	• Harmonize regulatory and institutional frameworks between FGS and regional governments.	Medium term
Education and skills		
Increase the stewardship role of the Somali government in education	• Develop regulatory and policy frameworks on teacher standards and management and the regulation of nonstate providers.	Short term
	• Support capacity building of the Ministry of Education, Culture and Higher Education to strengthen its capacity for sector stewardship (including in curriculum design, assessment of schools).	Short term
	• Develop a national system for recurrent student learning assessments and teacher proficiency tests, and create comprehensive teacher training programs.	Medium term
	• Establish a comprehensive, standardized framework that harmonizes curricula, examinations, and certifications across all TVETs.	Medium term
	• Implement robust data collection mechanisms to foster a thriving TVET sector that meets the evolving needs of industries and students.	Medium term
	• Incentivize private sector collaboration with TVET programs (such as, outcome funds for apprenticeship programs).	Medium term
	• Incentivize training of female teachers.	Medium term

Area of focus	Recommendation	Time frame
Incentivize expansion of schooling for the disadvantaged	• Link conditional cash transfers or cash vouchers to families with the enrollment of disadvantaged students (for example, girls, the poor) in school.	Short term
	• Provide nonstate schools with subsidies per student to incentivize enrollment of disadvantaged students (for example, girls, the poor).	Medium term
	• Develop PPPs to enable the establishment of schools in partnership with local communities in areas that do not have any education providers.	Medium term
	• Explore catalytic financing arrangements (such as outcome-based finance) to improve education outcomes in the country.	Medium term
Increase supply of programs to develop skills for life and labor market success	• Provide small grants to fund skills development services for youth and women (for example, technical, entrepreneurial, and life skills) imparted by existing local and international nongovernmental organizations, public and private TVET centers, and private firms.	Short term
	• Invest in the development of programs for second-chance education and skills development (including digital and financial literacy programs).	Medium term
	• Support the development of the Somali TVET system and incentivize increased employer participation in the design of curriculum review committees.	Medium term
Decrease labor market frictions	• Develop job matching systems to improve the formal links to the job market.	Short term
	• Engage the broader community in targeted community-based interventions to shift social norms, including those that limit occupations that women can participate in.	Medium term
Access to business services		
Improve capacity and effectiveness of business service providers	• Develop a pay-for-success initiative to incentivize competitively selected business service providers to strengthen their operational efficiency and quality when delivering expertise to targeted firms.	Short to medium term
Financial sector		
Improve enabling environment and system confidence through the development of a strong legal and regulatory framework	• Upgrade legal and regulatory framework by finalizing and enacting the Financial Institutions Law, National Payment Systems Law, and Insurance Law.	Short term
	• Amend central bank and AML/CFT acts to better align with international standards.	Short term
	• Enhance prudential regulation to strengthen financial system oversight (especially for mobile money, nonbank financial institutions, and consumer protection).	Short term
	• Strengthen the national framework for Islamic banking by leveraging knowledge from global experience.	Medium term

Area of focus	Recommendation	Time frame
Boost financial sector soundness by building the capacity of financial institutions	• Support development of standardized training for banks and nonbanks, and strengthen their capacity to mitigate risk perceptions and to develop a diverse offering of shariah-compliant products and services.	Short term
	• Develop platforms to strengthen coordination between different regulatory bodies and policy institutions, and promote public-private dialogue and stronger engagement between stakeholders (including through strengthening related industry associations).	Short term
	• Strengthen the capacity of financial oversight institutions (CBS, FRC) to more effectively supervise and support financial system development.	Short to medium term
	• Capitalize CBS to allow it to deliver its mandate effectively.	Medium term
	• Extend the use of country systems to federal member states.	Medium term
Strengthen financial infrastructure to reinforce financial system foundation	• Operationalize the Somalia Payment Switch.	Short term
	• Continue to upgrade the payment system.	Medium term
	• Operationalize the national ID system (for example, digital customer verification system/eKYC protocols, enhanced customer due diligence, etc.).	Medium term
	• Develop a national collateral registry.	Medium term
	• Develop a credit information sharing system.	Medium term
Promote financial inclusion to expand opportunities for economic empowerment	• Develop programs to improve financial literacy and strengthen consumer protection. Pilot financial awareness and customer outreach programs with gender-differentiated messaging strategies.	Short term
	• Develop a national financial inclusion strategy (including exploring opportunities for developing digital financial services and defined sex-disaggregated targets for reaching underserved market segments).	Medium term
	• Promote the collection of sex-disaggregated data on customer base, product portfolio, and staffing of the financial sector; and calculate market opportunity for bridging existing gaps in gender financial inclusion and credit access.	Medium term
	• Incentivize lending to unserved and underserved segments and de-risk engagement in priority but high-risk areas (for example, through risk sharing mechanisms, public credit guarantees, etc.).	Medium term
Integrate Somalia in the global financial system by strengthening financial integrity	• Implement recommendations from the National Risk Assessment.	Short term
	• Facilitate the development of correspondent banking relationships and related capacity development at banks.	Short to medium term
	• Leverage MENAFATF mutual evaluations (planned for July 2024) to enhance AML/CFT capacity at financial institutions.	Medium term

Note: AML/CFT = anti-money-laundering/countering the financing of terrorism; BDS = business development services; CBS = Central Bank of Somalia; ESPs = energy service providers; FGS = Federal Government of Somalia; FMS = federal member states; FRC = Financial Reporting Center; ICT = information and communication technology; ID = identification; KYC = know your customer; MENAFATF = Middle East and North Africa Financial Action Task Force; MSMEs = micro, small, and medium enterprises; PPPs = public-private partnerships; PV = photovoltaic; SoBS = Somalia Bureau of Standards; TVET = technical and vocational education and training.

TABLE 6.3 RECOMMENDATIONS TO IMPROVE GROWTH AND PRODUCTIVITY OF SELECTED VALUE CHAINS FOR SHORT- TO MEDIUM TERM DIVIDENDS

Area of focus	Recommendation	Time frame
Support analytics to improve availability of data on selected sectors	• Compile and harmonize insights from existing analyses of the livestock, agriculture, and fisheries sectors to reveal existing data gaps and to understand if any additional analytical studies are necessary to select value chains (ensuring gender disaggregation of data wherever possible).	Short term
	• Conduct demand and supply assessments of enterprises in selected value chains, and perform a mapping of firms' capacities and location using a cluster approach (focusing on areas in or near identified economic corridors).	Short term
	• Conduct an assessment of quality testing needs for selected value chains.	Short term
Enhance productivity	• Support the development of extension services and the transfer of technology in selected value chains.	Medium term
	• Support technical assistance and BDS for established MSMEs and upskilling of livelihood and need-based ventures in selected value chains.	Medium term
	• Support the integration of small-scale and emerging firms into value chains by improving their capacity to finance and execute productivity-enhancing investments and to respond to the requirements of end markets and buyers (off-takers).	Medium term
Develop economic links	• Develop a database with mapped enterprises in targeted value chains.	Medium term
	• Actively "match" organized and creditworthy anchor enterprises (off-takers) with aggregated groups of producers.	Medium term
	• Aggregate producers in select value chains to improve market access.	Medium term
Improve value chain–specific access to finance	• Develop credit plans for micro formal and micro informal private sector ventures (including self-employment ventures) in selected value chains.	Short to medium term
	• Develop facilities to de-risk investments (for example, from the Somali diaspora) in selected value chains.	Short to medium term
	• Develop risk-mitigation products (for example, takaful insurance products) to increase the resilience of private sector entities in selected value chains.	Short to medium term
	• Create financial literacy and capacity-building programs for firms in selected value chains.	Short to medium term
Strengthen value chain–specific institutional and regulatory frameworks	• Provide technical assistance and capacity building of key organizations overseeing selected value chains (for example, sector-specific quality monitoring and trade facilitation).	Medium term
	• Assess the regulatory frameworks in selected value chains (for example, diagnostics of current procedures, sector-specific fiscal regulations, and investment incentives, among others), and implement reforms necessary to strengthen those frameworks.	Medium term
	• Develop cluster development plans and public-private sector stakeholder platforms for selected value chains.	Medium term

Notes

1. Information on the Somalia Chamber of Commerce and Industry's structures and relationships, and how they support or oppose government-initiated reforms is scarce. However, in 2021, the federal government tried to change the leadership of the Chamber of Commerce and Industry owing to alleged accusations that it was infiltrated by al-Shabaab, and that al-Shabaab was profiting from illegal taxation of business organizations. See Abdulkadir Khalif, "Somalia Government Rescinds Decision to Disband Chamber of Commerce," the East African, January 15, 2021, https://www.theeastafrican.co.ke/tea/business/somalia-chamber-of-commerce-3258094.
2. Nora Dudwick and Radhika Srinivasan, *Creating Jobs in Africa's Fragile States—Are Value Chains an Answer?* (Washington, DC: World Bank, 2013); DECD (Donor Committee for Enterprise Development), "Business Environment Reforms in Fragile and Conflict-Affected Situations" (Discussion paper, DECD, Cambridge, UK, October 2020); G-20, "The G-20 Compact with Africa: A Joint AFDB, IMF, and WBG Report"—G-7, "Briefing Note 3: The Private Sector in Conflict-Affected States," 1.
3. Scott Kleinberg, "Business-Enabling Environment and the Value Chain" (Briefing paper, US Agency for International Development, Washington, DC, 2008); Canan Gündüz and Diana Klein, "Conflict-Sensitive Approaches to Value Chain Development" (microREPORT 101, USAID, Washington, DC, 2008).
4. For information on the fact that business associations are best placed to take collective action in the business sector in civil society, see Shantayanan Devarajan, Stuti Khemani, and Michael Walton, "Civil Society, Public Action, and Accountability in Africa" (Policy Research Working Paper 5733, World Bank, Washington, DC, 2011).
5. Andreja Marusic et al., "Trust between Public and Private Sectors: The Path to Better Regulatory Compliance?" (World Bank, Washington, DC, September 2020); World Bank, *Public-Private Dialogue in Fragile and Conflict-Affected Situations* (Washington, DC: World Bank, June 2014).
6. See, for instance, Naoise Mac Sweeney, "Private Sector Development in Post-Conflict Countries" (Donor Committee for Enterprise Development, Cambridge, UK, 2009), https://www.enterprise-development.org/wp-content/uploads/PostConflict_PSD_EN.pdf.
7. Lant Pritchett and Frauke de Weijer, "Fragile States: Stuck in a Capability Trap?" (World Development Report background paper, World Bank, Washington, DC, 2001).
8. Mac Sweeney, "Private Sector Development in Post-Conflict Countries."
9. For more information, see Abhijit Banerjee and Esther Duflo, *Poor Economics: A Radical Rethinking of the Way to Fight Global Poverty* (New York: Random House, 2011).
10. In this regard, FGS launched the De-Risking, Inclusion and Value Enhancement of Pastoral Economies in the Horn of Africa Project (DRIVE) in late August 2022, with World Bank support. Besides enhancing resilience in one of the few value chains that conglomerates have failed to capture, the project aims to (a) provide financial services for pastoralists (for example, drought insurance, savings, and digital accounts); (b) link pastoralists to markets, exporters, and processors so they can sell quality animals through a Livestock Value Chain Facility; (c) strengthen sector-specific regulatory frameworks; (d) de-risk and mobilize private investment in livestock value chains; and (e) improve quality assurance standards in the sector, among others.
11. Nora Dudwick and Radhika Srinivasan, "Creating Jobs in Africa's Fragile States: Are Value Chains an Answer?" (World Bank, Washington, DC, 2013).

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