COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN SOMALIA

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

Executive Summary

June 2024

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2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433
www.ifc.org

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.
4. Fragile States Index, 2023, https://fragilestatesindex.org/country-data/.
5. World Development Indicators, 2021.
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).
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THE WORLD BANK

1818 H Street NW,
Washington, DC 20433 U.S.A.

worldbank.org

IFC

2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433 U.S.A.

ifc.org

CONTACTS

Asta Bareisaite
abareisaite@worldbank.org

Juan Andrés Cartwright
jcartwrightramon@worldbank.org

Mounir Bari
mbari1@ifc.org

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