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**FEDERAL REPUBLIC OF SOMALIA
SYSTEMATIC COUNTRY DIAGNOSTIC**

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Abbreviations and Acronyms

AfDB	African Development Bank
AMISOM	African Union Mission in Somalia
AML	Anti-Money Laundering
AS	Al Shabaab
ASWL	Association of Somalia Women Lawyers
CAMEL	Capital, Assets, Management, Earnings, Liquidity
CBS	Central Bank of Somalia
CFT	Combating the Financing of Terrorism
COGWO	Coalition of Grassroot Women's Organizations
DFID	Department for International Development
DG	District Government
EEZ	Exclusive Economic Zone
FAO	Food and Agriculture Organization
FATF	Financial Action Task Force
FGC	Financial Governance Committee
GCC	Gulf Cooperation Council
GBV	Gender-based violence
GBVIMS	GBV Information Management System
GDP	Gross Domestic Product
HH	Household
ICT	Information and communication technology
IDA	International Development Association
IDLO	International Development Law Organization
IDP	Internally displaced people
IGAD	Inter-Governmental Authority on Development
IMF	International Monetary Fund
INDC	Intended Nationally Determined Contribution
INPB	Interim National Procurement Board
IPCC	Intergovernmental Panel on Climate Change's
IPV	Intimate partner violence
IRC	International Rescue Committee
LICs	Low Income Countries

MFIs	Microfinance institutions
MICS	Multiple Indicator Cluster Survey
MNO	Mobile network operator
MoJ	Ministry of Justice
MTB	Money transfer businesses
MTOs	Money transfer operations
NISA	National Intelligence and Security Agency
NGO	Non-governmental Organization
NPS	New Partnership for Somalia
NRC	Norwegian Refugee Council
OAG	Office of the Auditor General
PER	Public Expenditure Review
PES	Population Estimate Survey
PMPF	Puntland Maritime Police Force
PPMA	Puntland Petroleum and Mineral Agency
PPP	Public private partnerships
RAI	Rural Access Index
SCD	Systematic Country Diagnostic
SEI	Somali Electrification Institute
SEMG	Somalia-Eritrea Monitoring Group
SGBV	Sexual gender-based violence
SIM	Subscriber Identification Module
SISh	Somaliland shilling
SMEs	Small and Medium Enterprises
SMP	Staff Monitored Program
SWALIM	Somalia Water and Land Information Management
SWDC	Somali Women's Development Centre
TFG	Transitional Federal Government
TFR	Total fertility rate
TIKA	Turkish Cooperation and Coordination Agency
TNG	Transitional National Government
UA	African Union
UNDP	United Nations Development Program
UNFPA	United Nations Population Fund
UN-HABITAT	United Nations Human Settlements Program
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNOCHA	United Nations Office for the Coordination of Humanitarian Affairs
UNOPS	United Nations Office for Project Services
UNSC	United Nations Security Council
WIDEs	Widely diversified enterprises

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Executive Summary

To sustain its positive trajectory, Somalia needs to break out of its dual development trap, where inadequate resources and minimal trust in government are preventing the state from providing the public goods and services necessary to consolidate its legitimacy, while large periodic shocks (such as drought) reverse the gains made and endanger the welfare of the most vulnerable. To break out of this cycle and launch itself on a durable development trajectory, Somalia will need both improved institutions and predictable development financing.

After two decades of civil war, Somalia is on a path to political stabilization—an essential prerequisite for economic recovery and sustainable development. Since 1991, the country has been fragmented by armed conflict, ad hoc regime change, and state capture. Only after political settlements were brokered did citizen security and economic development start to improve. The landmark elections of Presidents Hassan Sheikh Mohamed in 2012 and Mohamed Abdullahi Mohamed in 2017, both benefiting from a peaceful handover of power, suggest that increasing regularization of Somalia's political processes is opening a window of opportunity for sustainable development.

The trust in government and its institutions that was lost over decades of violent contestation for power and resources must be rebuilt to support the emerging but still incomplete political settlement. Economic migration and large-scale forced displacement have uprooted large numbers of Somalis, distorting local economic and political institutions. Asymmetric federal structures, limited government capacity, and a persistent war economy still challenge governance. Only when the government begins to establish its value as a reliable provider of services and security can trust between the people, governing institutions, and various stakeholder groups be rebuilt. Unless that happens, violent conflict will continue to plague Somalia and the government will be unable to perform its core functions without large-scale external support.

The vulnerability of most of its people is clear from poverty rates of 60 percent in Mogadishu, 49 to 63 percent in Somaliland, and 71 percent in the settlements of internally displaced people (IDP). The poor have no buffers against recurrent shocks like the current drought that threaten to reverse what progress has been achieved. Poverty is most prevalent in rural areas and among IDP households. Remittances, which surpass aid and foreign direct investment, provide a lifeline to large segments of the population but far from all.

From a “Changing Wealth of Nations” standpoint (Lange et al. 2018), Somalia is confronted by only intermittent opportunities for and heavy constraints on shared prosperity and sustainable poverty reduction.

To take advantage of the opportunity provided by the current relative political stability, this Systematic Country Diagnostic (SCD) applies a modified version of the “Changing Wealth of Nations” framework. This framework is focused on building up sustainable national wealth rather than maximizing short-term consumption, and is based upon an assessment of the stocks of various forms of capital—natural assets like land, forests, fish, and minerals; productive assets like buildings, machinery, and infrastructure (such as highways, ports, and electricity generation); human assets (population, education, and health); as well as the intangibles (such as the quality of institutions, the vitality of the private sector, and the functioning of the society) that govern the

functioning of the economy. In this framework, development is defined as the process of accumulating a diversified and growing portfolio of national wealth. Among other approaches, by differentiating intangible capital in terms of its social, institutional, and entrepreneurial aspects this SCD more explicitly captures the quality and capacity of public institutions and governance, the functioning of social safety nets, inclusion and the strength of dispute resolution systems, and entrepreneurship. It also makes it possible to identify such obstacles to development as constraints on the accumulation of capital or drivers of capital depletion.

Somalia's natural capital has been the backbone of its economy. Severe degradation and depletion make associated economic sectors vulnerable to recurrent natural shocks, which can easily translate into humanitarian disasters.

Somalia's economy depends heavily on agriculture, fisheries, forestry, and minerals—its natural capital, which is under stress from climate change, overexploitation, and governance deficiencies. Climate variation, with flash floods and extended droughts, weighs heavily on the country's rivers, forests, subsoil assets, and marine resources—and therefore on the livelihoods of its people. Somalia also suffers from mounting environmental change, man-made land degradation, resource overexploitation, illicit charcoal exports, and the spread of invasive species, all of which exacerbate the effects of climate change. The public sector lacks the resources and legitimacy to manage environmental change as needed and to enforce its decisions; until that can be done, it cannot sustainably benefit from its natural wealth.

Despite recognizing that extensive food insecurity is a serious problem, the government has been unable to prepare for food crises caused by extreme weather events. While Somalia has endured numerous episodes of severe drought, little has been invested in anticipating and preventing the risk. In 2011, drought-induced famine killed 258,000 people; in 2017, the toll could have been even higher had it not been for the timely and substantial response of the aid community.

The fisheries sector has great potential for both income generation for coastal communities as well a revenue generation through licensing. However, Somalia has not yet been able to benefit from this potential due to lack of agreement between government authorities and lack of infrastructure for storage and processing capacities.

Exports currently depend on trading livestock with the Gulf Cooperation Council (GCC) countries, though there is considerable potential for diversification. Livestock is the largest contributor to GDP, exports, and employment (particularly in rural areas), but the sector suffers from a lack of market diversification, heavy overgrazing, very low productivity, and lack of a reliable system for monitoring animal health.

Somalia is currently experiencing a “pre-resource curse.” International oil companies are attempting to re-engage but the lack of a clearly defined and agreed governance framework and resource sharing agreement present multiple risks that may outweigh the potential benefits of the sector. The risks of an exploration race are considerable and include the potential for disputes over territory, resource management authority, and revenue sharing.

The information and communication technology (ICT) has revolutionized Somalia, adding to its stock of produced capital. However, the stocks of shared infrastructure, composed of roads, power

generation and transmission, and water supply/storage have been eroded, widening the infrastructure gap and undermining development.

Rapid development of the telecommunications sector has created positive externalities. Sector employment rates and mobile network operator (MNO) services are trending upward. The use of fintech is widespread: three-quarters of Somalis older than 16 use mobile money. To more fully harness this sector's potential, especially its contribution to the government budget and private sector development and diversification, will require committed regulation and enforcement. MNOs provide de facto government functions, such as a payments system, but the delicate political economy poses regulatory challenges. Though MNOs make voluntary payments to the government, the low tax yield demonstrates a power imbalance with the public sector.

Access to affordable and reliable energy is minimal, especially for the rural poor. In 2014 only 20 percent of the population had electricity. The country relies heavily on wood fuel (charcoal) and biomass, which further stresses forest resources. Electricity in urban areas is almost exclusively based on smaller-scale diesel generators. In a decentralized environment, investment in solar and wind power could substantially expand access to reliable and affordable energy.

The road network is limited and mostly unpaved. This poses significant challenges to connectivity and deepens rural-urban divides and fragmentation of the economic space. Roads are accessible to the urban population but are heavily stressed due to unplanned, rapid urbanization. Most rural residents and the nomadic population must travel on informal and unreliable routes.

Somali cities cannot keep up with the pace of urbanization, which has been accelerated by internal migration due to recurring conflict and internal displacement. Local government is crucial to urban development, but limited technical and financial capacity has constrained urban planning, budgeting, and engineering supervision, making donors hesitant to invest in local government infrastructure.

Somalia has the world's lowest rate of access to water and sanitation. This deficiency in coming under increasing pressure in urban areas due to the pace of urbanization. However, the water and sanitation situation is even more dire in rural areas. During periods of drought, this leads to large movements of people moving from rural to urban areas to find water as well as high incidents of AWD and cholera.

Human capital is extremely low, pressured by high population growth and constrained by weak access to quality health and education services.

Poverty and internal strife have taken a heavy toll on Somalia's human capital and the government is ill-equipped to meet even basic needs, while high fertility rates make it hard for households to afford adequate investments in children and their future. Three-quarters of Somalis are under 30 and access to education is marred by gender inequality. Health care capacity is poor, and regional disparities are growing. The health sector suffers from staff, equipment, and funding shortages, and the public role is at best marginal; funding is mainly from international organizations and user fees. Not only are public healthcare facilities understaffed, they also struggle with poor infrastructure and inadequate management; the public sector lacks the resources

for targeted subsidization or quality control. As a result, the private sector provides most health services, and access is not equitable.

The literacy rate is the lowest in the world and is worse for women and girls. At the same time, enrollment in primary schools is below 50 percent and fewer than 10 percent of school-age children attend secondary school. Among the numerous barriers to enrollment are poor health that inhibits ability to attend school and to learn while there, poverty, and household funding constraints.

Improving access to quality education will require significant and continuous investment, especially in teachers. Lack of qualified teachers and textbooks are everyday obstacles for Somali children, even those lucky enough to be enrolled. Only about 20 percent of primary teachers are trained, and education spending is a minuscule fraction of the federal budget.

Remittances represent a vital source of income and provide an informal safety net for many Somalis, but they do not extend to the poorest and most vulnerable. Clan structures facilitate sharing and transfer of resources to needy households through such established mechanisms as *zaqat*, *sadaqah*, or *quaraan*, but recurring conflict has tested the informal system of protection. The most vulnerable households, those living in IDP settlements, rarely receive remittances.

Gender inequality is a major problem. High population growth and early marriage make it difficult for women to be educated and participate in the labor market. Gender-based violence (GBV) is pervasive and exacerbated by conflict and displacement, with a complete absence of public safety provision and enforcement of protection laws; about 25 percent of Somali women suffer from GBV. Displaced women are particularly at risk of violence.

A vibrant private sector is a potential growth engine for Somalia, but challenges of insecurity and informality limit investment and entrepreneurship below their full potential.

The problems of the private sector, which is dominated by small and medium-sized firms, are linked to fragility and weak governance. The sector has adapted to insecurity through informality but may have reached the limits to growth. Entrepreneurship is deterred by multiple barriers to private sector development, such as lack of reliable and affordable electricity, lack of a skilled workforce and lack of access to finance. The financial sector, which is barely regulated, provides little investment capital; most of its activities are focused on payments and currency transactions.

Somali private sector has stimulated the formation of produced and human capital and utilization of its natural capital. Improvements to the business climate—both legal and regulatory—and functioning institutions are essential for the next stage of Somalia’s development and should push up investment, inclusive growth, and poverty reduction.

Public institutions suffer from political discord and mistrust. They must be reformed in order to create an environment that makes it possible for the population to thrive.

In the absence of sound national institutions, resilient clan-based structures have provided safety nets and dispute resolution systems. However, suspicion of central authority and different perspectives on institutional structures hamper the emergence of a consensus-based, rule-bound

state. After a prolonged period during which the state lacked any capacity to undertake the commitments needed to participate in regional and international organizations, the process of rebuilding functionality is slow and requires continuous consultation and negotiation. The question of Somaliland and how it would be integrated into a unified state has yet to be addressed. Somalia's federal system of government is still under development.

Both legal and regulatory reform and more effective institutions are essential. Adequate policies and institutional capacity can bring diversification and transparency to economic growth, absorb the impact of external shocks, and encourage entrepreneurial innovation. They can also create the structures and forums to negotiating and agreeing internal power and resource distribution.

The governments at all levels need to collect revenues on which to build legitimacy by providing reliable services and improved security. However, the ability to do so is impaired by the perceived lack of legitimacy. Improved governance, greater public awareness and continued engagement and consultation with private sector actors can help break the cycle.

The ability of governments in Somalia at all levels to collect and distribute revenues is restricted, which undercuts legitimacy. Security concerns make revenue collection difficult. Governments currently collect taxes primarily on trade, with Federal Government efforts mostly restricted to Mogadishu airport, the seaport, and “visible” businesses. State governments collect other forms of taxes in their territories. Since 2013 efforts to expand the tax base have doubled revenues mostly by depending on customs; attention is now turning to raising more inland revenues, which is arguably more challenging. Somalia's considerable fiscal gap is filled by grants, making the country reliant on international aid.

Currently in debt distress, Somalia has significant arrears that make it ineligible for many sources of concessional financing, including the International Development Association (IDA). Given the structure of Somalia's external public debt, with large arrears to both bilateral and international financial institutions, its debt overhang can only be comprehensively resolved through coordinated debt relief. Preconditions for relief include enough revenue capacity to service post-debt-relief obligations and improvement in the basic monetary and exchange functions of the Central Bank of Somalia. A planned currency reform involving issuance of small-denomination Somali shillings will signal progress in building basic monetary institutions as part of the reforms called for by the current IMF Staff Monitored Program.

Lack of access to sustainable development financing and constraints to revenue collection contribute to frequent fiscal crisis throughout the financial year. These moments of fiscal crises transpire due to lack of predictable domestic and international revenue sources and limited ability to borrow even for short term cash management. They are also intertwined with cycles of crises in the country, having either a causal effect - for example when salary payments are delayed - or compounded by them - for example the impact of droughts on GDP.

Somalia's path to achieving the Twin Goals sustainably is constrained by a “dual development trap”, that is driven by an absence of trust, and exacerbated by limited resilience to the repeated catastrophic shocks.

Somalia has emerging opportunities that, if seized promptly, can meet the aspirations of its growing population. The population is considerably more urban than is typical for the country's level of income, more digitally connected, and younger, offering hope that the next generation could bring in a demographic dividend. Because development traps make this challenging, it is critical that the government seize opportunities where interests, finances, and capacity can be aligned to facilitate investment in enabling infrastructure, both physical, human and social.

Yet, since the collapse of the Somali state in 1991, recurrent cycles of conflict and instability have often undone any progress achieved. Conflict and political instability destroy the effectiveness of, and trust in, national institutions and thereby lock in vulnerability and economic exclusion. There is limited willingness to pay taxes to a state that does not already provide basic services. Without greater political support and fiscal capacity, progress is likely to slow, setting up a return to a continuous cycle of failure. Meanwhile, the Al Shabab insurgency has fused with cross-border violent extremism, drawing in external stakeholders, and further impairing the legitimacy of the Somali state. If this pattern continues, natural, produced, institutional, or human, capital will continue to be depleted. After 25 years this “high-frequency” development trap has become entrenched, threatening to hold Somalia in a low-level equilibrium that makes it vulnerable to exogenous shocks.

The situation is exacerbated by unfavorable climatic conditions which, combined with a lack of effective regulation and management, are likely to bring on more frequent and increasingly severe droughts. This “low-frequency” development trap strikes every few years with particularly severe consequences, as seen in the 2011/2 famine and 2016/7 drought.

Based on the identification of the dual development trap and the potential demographic dividend, this SCD prioritizes three core areas of development effort: improving governance, reinforcing resilience, and providing opportunities for Somalia's youth.

To break out of the high-frequency trap of political strife, fragility, and violence, the government must build its legitimacy by establishing itself as an effective and reliable coordinator of the delivery of public goods and services. In effect this means that the government, at all levels, must be able to collect and then redistribute resources in the form of services, infrastructure and improved business environments.

To break out of the low-frequency trap of repeated and severe shocks, whether natural or man-made, Somalia must build resilience at all levels. This includes increasing resilience to shocks faced at individual, household and community levels. This also includes improving the resilience of the economy to climatic, man-made, and fiscal shocks (market-related for example) by developing a broader portfolio of productive sectors, improving the regulation and governance of natural resource management and diversifying its domestic and international markets. To build economic resilience, a new economic model needs to be considered in the context of changing demographics and changing climatic conditions.

Leveraging the potential demographic dividend will require investments in the human capital represented by the youth of Somalia. Investments addressing gender inequalities will allow Somalia to leverage the full potential of its youth population and leverage additional human capital that is currently excluded. Investments in developing a skilled workforce will be needed in

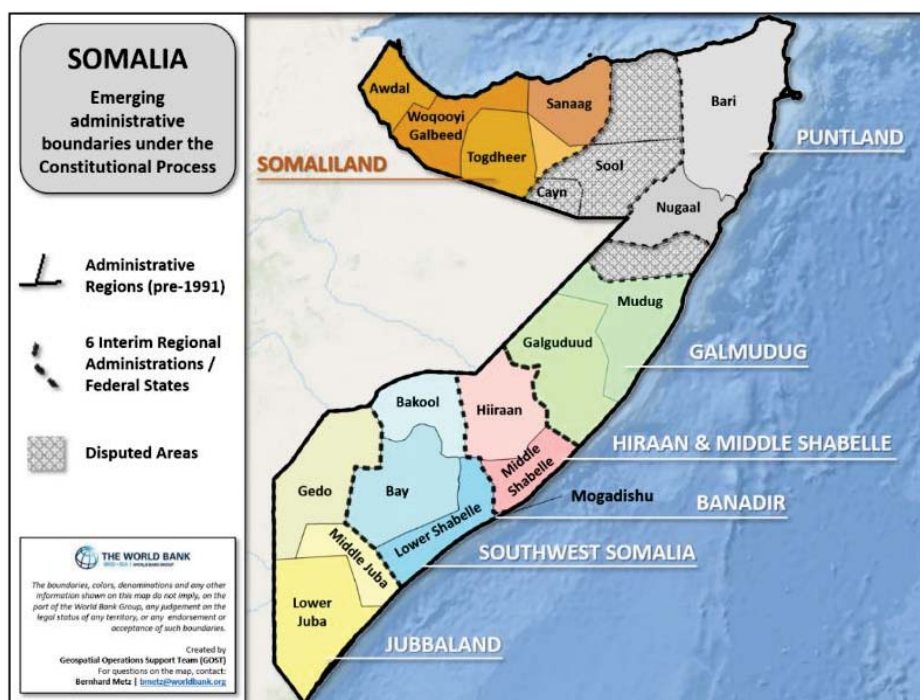
parallel to efforts to create conditions for private sector development and therefore sustainable economic opportunity.

A prioritized list of actions to promote achievement of these objectives maps out a Somali path to development and peace. The realities of what must be done and the fluid context will require leaning into opportunities where the confluence of timing, resources, and personalities can create forward momentum. Peace and stability would make achieving these objectives easier, but a pragmatic consideration of the last three decades in Somalia and international post-conflict recovery experience suggest that the pathway will not be linear and interventions should be adaptive and flexible. If movement toward a full and tangible political settlement slows, more weight should be put on building resilience; but if a settlement emerges more quickly, the complex actions needed to enhance the political economy can be undertaken sooner. Programs that use innovative technological and operational modalities of delivery might help Somalia to leap-frog intermediate stages of development by relying on its advantages of entrepreneurial spirit and a young, connected, and increasingly technology-oriented population.

I. Country Context

1. **After two decades of civil war, Somalia's trajectory, though uncertain, is positive.** It has made significant progress since 2012, when President Hassan Sheikh Mohamud was elected, and the peaceful transfer of power to President Mohamed Abdullahi Mohamed "Farmaajo" is promising. Emerging federal structures are transforming the national political map through a process of state formation; however, the capacity of Somalia's regions is asymmetric, and the nature of conflict and violence continues to evolve with the heightening economic stakes. External intervention, by international and regional actors engaged in both humanitarian relief and conflict, has had a significant role in shaping outcomes.¹
2. **Decades of strife have uprooted substantial parts of the society, created new grievances, and distorted local economic and political relations and institutions.** Migration has created remittance flows that, outweighing international aid flows and foreign direct investment, provide a lifeline to large segments of the population. Nonetheless, food insecurity is pervasive, and many Somalis teeter on the brink of poverty. Recurrent extreme weather conditions have exacerbated Somalia's degraded environment and regulatory incapacity.
3. **Somalia has a history of poverty and today, poverty is still high:** 60 percent in Mogadishu, 49 to 63 percent in Somaliland, and 71 percent in the settlements of internally displaced people (IDP). Poverty rates in other areas are likely to be similar.

Figure 1. Map of Federal Member States and Interim Regional Administrations



Source: World Bank Geospatial Operations Support Team

4. **This SCD applies the "Changing Wealth of Nations" framework (Lange et al. 2018) to examine the difficulties of accumulating various types of national wealth.** National wealth

¹ This document is largely an integration of previous work by World Bank technical teams, colleagues in other development agencies, and various bilateral partners. The authors attempt to give credit where possible; any oversights are not intentional.

is what underpins the income, often measured by GDP or GNI measures, every country generates. To measure wealth, we have to understand the stocks of capital: buildings; manufactured assets, such as factory and machinery; highways, ports, and other infrastructure; natural assets like land, forests, fish, minerals and energy; and human and social capital. Accumulating human, social, and institutional capital while avoiding environmental degradation and resource depletion are central to sustainable development. By emphasizing scaling-up physical and intangible assets rather than focusing on short term GDP growth, wealth accounting promotes a look at the national balance sheet to see what underpins sustainable progress toward reducing poverty and achieving shared prosperity with finite resources. In Somalia violent conflict and the prolonged absence of a functioning state have created extensive divergences between private and social returns, distorted intertemporal tradeoffs, and deterred accumulation of intangible assets. Overall income does appear to be going up, but the underlying degradation of per capita wealth put the sustainability of that income stream into question, leading to the focus on building up wealth.

A. Recent History

5. **Until the arrival of the colonial powers, the Somali people were governed by a decentralized system, of the customary law and informal institutions of the pastoral or agro-pastoral communities in the Horn of Africa.** While political and social organizations were kinship-based and governed by an uncodified law of collective liability, the system was later paired with European models of formalized, individual-based law and institutions, with which customary law continued to operate in parallel. The effects of and variation in colonial rule—influenced originally by the French, the British, or the Italians—continue to influence Somali society even today. In particular, geographical boundaries, and with them nationhood and belonging, were limited by the independence decision in 1960 of the Somali Republic, including Somaliland, leaving large minority Somali communities residing in neighboring states.

6. **Since the dissolution of central government in the early 1990s, Somalia has been closely associated with state predation and armed conflict.** Between 1969 and 1991, under Siad Barre's regime, the security sector absorbed a disproportionate share of government spending. Until recently, the politics of Somalia have been shaped by popular rejection of a centralized state and lack of consensus on what form the state should take. To provide security there was a proliferation of clan and local militia groups organized around personal, family, and sub-clan relationships. As militia security functions evolved from occasional to permanent, they became self-financing by controlling infrastructure and taxing markets, though with no legal basis. Where local political settlements have been brokered successfully, personal security and socioeconomic stability have prevailed. This became evident in 1991 in the Northwest with the establishment of self-declared independent Somaliland, where a coalition of business and political interests created stable conditions for a small democratic administration to govern, despite the absence of formal international recognition. Puntland in the Northeast has had its own constitution and political administration since 1998 but is a champion of a federal Somalia of which it is a part.

7. **Finding a political settlement that supports a stable central government has been a core challenge for Somalia.** In 2000, a Transitional National Government (TNG) was launched but failed to establish legitimate institutions and effective security measures. In 2004, a new interim government, the Transitional Federal Government (TFG), was established under the

auspices of the Inter-Governmental Authority on Development (IGAD).² The TFG was largely sustained by the African Union's deployment of a peacekeeping mission, the African Mission to Somalia (AMISOM) in 2007, at a time when Al-Shabaab (AS) was becoming a significant factor in Somalia. In 2012, after a devastating famine, the Federal Government of Somalia (FGS) emerged from the Provisional Constitution agreed the year before.

8. **Since 2012, there has been significant political progress.** Federal institutions are being established. State formation has progressed significantly with the emergence of Federal Member States (FMS); Jubbaland, South West, Hirshabelle, and Galmudug. Several constitutional bodies necessary for consolidation of the transitional period are now in place. Transparency has increased and accountability for the use of resources has improved, albeit from a low base.

9. **In February 2017, through a UN-facilitated process, Parliament elected as President Mohamed Abdullahi Mohamed, marking the second peaceful transition of power in Somalia since 2011.** The election was followed by appointment of a cabinet and renewal of the partnership with the international community. This New Partnership for Somalia (NPS), agreed at the London Conference in May 2017, redefined the country's relationship with the international community to respond to the political, security, and economic needs set out in 2016 in the National Development Plan prepared after broad consultation in Somalia (DFID and MoD, 2017). The constructive engagement of the IMF and successful reviews of the Staff-Monitored Program (SMP) indicate growing confidence in the state institutions emerging under this reform-oriented administration.

B. Conflict and Violence

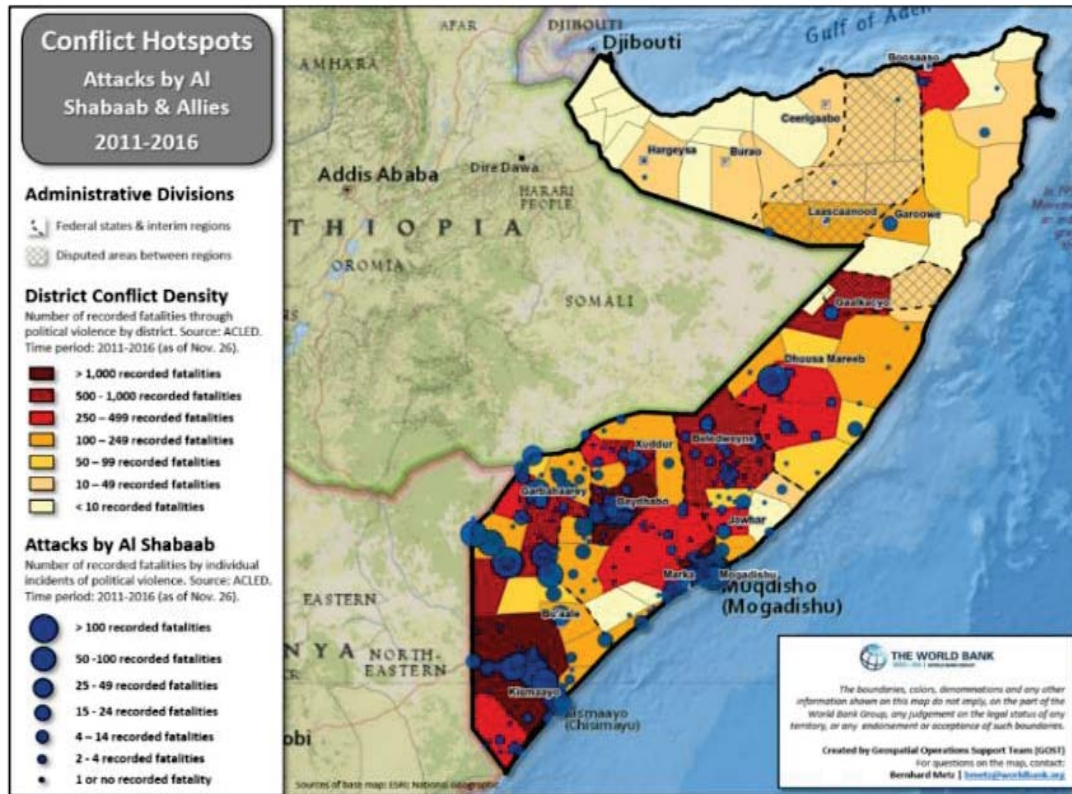
10. **Conflict in Somalia is extraordinarily complex.** The present political and social configuration has survived in Somalia, essentially unchanged, since before the collapse of the Somali state - this suggests that institution-building will continue to be a slow and iterative process. Progress towards institution building is also not irreversible – it will require both patience and a careful navigation of the fragmented Somali polity.

11. **The security sector in Somalia presently comprises an overlapping patchwork of militias, armed groups and regional forces,** of vastly different capabilities and levels of effectiveness, and opposed to/by Al-Shabaab (AS) to varying degrees. The Somali National Army presently lacks the capability to effectively deal with AS on its own, and relies heavily on the African Union Mission in Somalia (AMISOM) peacekeeping force, which currently comprises 21,524 troops from six Troop Contributing Countries (TCCs). A phased handover or 'draw down' from AMISOM to Somali forces is currently envisaged to build a capable, accountable, acceptable, and affordable Somali-led security sector.

12. **Clan-based conflicts remain the most common form of violent contestation in Somalia for most Somalis.** These conflicts, based on primordial identities, revolve around scarce resource allocation and access, and remain a key source for mistrust across the Somali population. Al Shabaab (AS), the terrorist group plaguing Somalia for more than a decade now, capitalizes on these local conflicts and injects new energy in its waning campaign against the emerging formal institutions in Somalia.

² The Intergovernmental Authority on Development (IGAD) is a trading bloc based in Djibouti. Its member states include: Djibouti, Eritrea, Ethiopia, Somalia, Sudan, South Sudan, Kenya, and Uganda. IGAD expanded its activities in 2008 with initiatives to improve the investment, trade, and banking environments of member states.

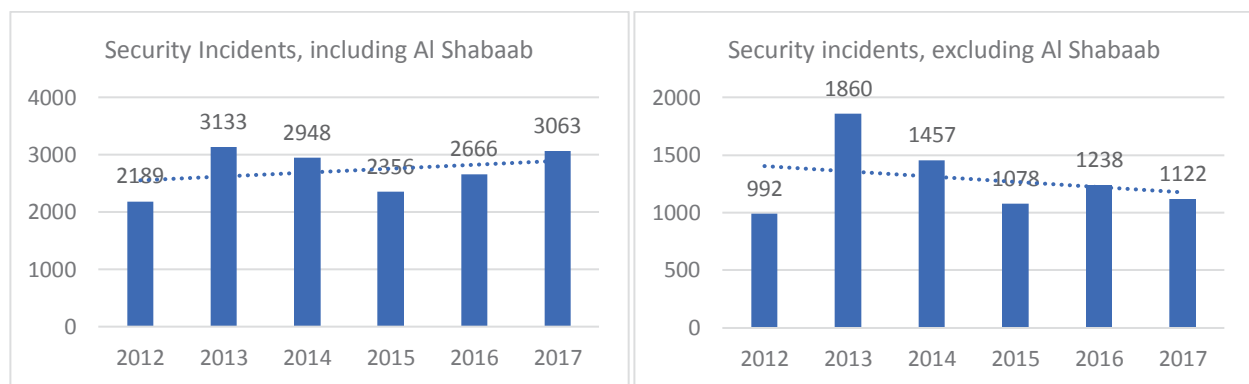
Figure 2. Conflict Hotspots in Somalia



Source: World Bank Geospatial Operations Support Team (from ACLED data).

13. **Violent contestations between emerging Federal Member States can often be attributed to clan-based conflicts that manifest along FMS borders.** Long-standing grievances and memories of past marginalization impede the process towards reconciliation. Figure 3 shows the substantial effect AS has on the security situation in Somalia, where more than half of all incidents are connected to AS. The increase in AS related incidents outpaces the overall decline in security incidents, since 2013. Figure 2 shows the spatial distribution of AS-linked incidents.

Figure 3 - Total incidents and fatalities in Somalia



Source: ACLED (2018)

Box 1. The Al Shabaab Insurgency

Since Al Shabaab (AS) emerged in 2005 in Somalia, it has shaped domestic and regional security and political relations—and caused suffering for many in the Horn. Arising as an enforcement group for the Union of Islamic Courts, its power and reach grew with the 2006 fight against the Ethiopian army in parts of the country. At its peak, between 2009 and 2011, AS had effective control over most Somalis in major urban areas and over key sources of revenue. In 2011, AS restricted humanitarian access to many areas hit with one of the worst droughts in Somalia's history, causing the death of almost a quarter million Somalis. After the AMISOM-supported push against AS control of Mogadishu, Kismayo, and most other cities, AS was able to change itself from a governing, territory-holding force to an insurgency-style terror group waging large-scale attacks against civilians in Somalia and the region and international forces and organizations. At present, AS is still capable of conducting attacks on security and political targets, terror attacks against both urban and rural civilians, collecting illegal taxes, extorting business people, force-conscripting children as fighters, and running a parallel system of justice. AS has successfully navigated the Somali social structure to its advantage, managed factious internal contestation, and taken military action against its leadership. AS is capitalizing on cleavages emerging from the state formation process based on perceived and actual grievances of social groups. The fact that AS can still be an active force and spoiler in Somalia is a symptom of the inadequate capacity of formal state institutions, fluid political loyalties, the interests of the remnants of the war economy, and the absence of effective and integrated security. Though international support is provided on all those fronts, the recurring domestic political crises and external shocks undermine the development gains that could help to reduce AS power and reach.

C. Political Dynamics

14. **Moving forward, the constitutional review process will codify the emerging political settlement within a federal system with strong subnational entities.** A major challenge, as outlined in Somalia's Vision 2016 and again in the new roadmap to 2020, is articulation of an institutional structure to replace the current fluid political arrangements that balance state and federal power. The constitutional review process, the boundary delineation of Federal Member States, the formation of political parties and the electoral system remain the subject of intense debate. FGS political and institutional structures are still anemic, drained by decades of war and competing regional agendas; nevertheless, commitment to political and economic reforms has been sustained for more than four years.³

15. **The FGS and regional stakeholders are confronted by enormous challenges beyond the fragile political process.** Somalia's enduring dynamics of fragility include limited capacity in government, corruption, remnants of state predation and warlordism, armed groups, fragmented and contested authority and political violence. These complex and non-linear dynamics are best understood by an analysis of (a) the resources at stake and (b) the network of elites who shape and deploy violence and undermine rule of law in their pursuit of those resources. Politics in Somalia is highly monetized and competitive.

³ The status of Somaliland remains a risk factor for the process of developing an inclusive federal constitution.

16. **Two interlinked cycles of fragility are clearly visible in Somalia.** First, weak domestic revenues exacerbate the FGS' inability to restore/supply basic services (such as education and policing) which have been fragmented and privatized by conflict in the past. This in turn increases ordinary Somalis' mistrust of the state. This can be described as a 'political/fiscal trap'. It is closely connected to a 'vulnerability/resilience trap' where environmental degradation and climate change lead to degradation of livelihoods, displacement, unsustainable urbanization, and land conflict. In the absence of government capacity, these shocks require frequent humanitarian intervention, further weakening institutions and markets, and increasing the vulnerability of ordinary Somalis in the longer term. Both these 'cycles of fragility' are a result of Somalia's political configuration.

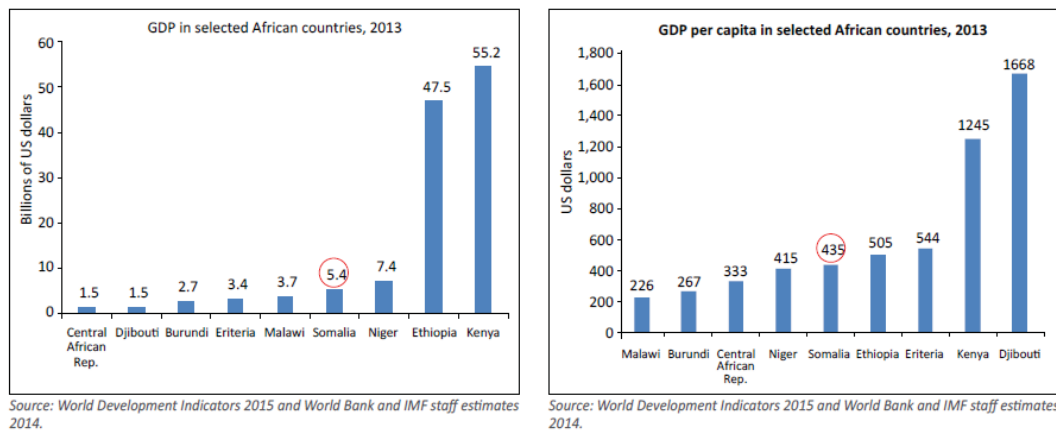
17. **Social structures and population dynamics in Somalia in this context increase the risk for violent contestation among Somalis, with regional spill-over potential.** With 80% of Somalis below the age of 40 and the lowest labor force participation rate in sub-Saharan Africa, competition over scarce public and private resources remains intense. The underlying Somali social structure and its instrumentalization by Somali and external elites has resulted in the past in a zero-sum perception of political decision making and resource allocation among social groups. It increased further the marginalization of particular social groups, women, and younger Somalis, eroding trust and confidence in the emerging state structures, despite significant improvements in governance over the last years. Recurrent crises increase the vulnerability of already marginalized parts of society and increase the risk of joining illicit efforts for resource accumulation.

18. **Nevertheless, Somali political and business elites have shown great flexibility and opportunism in forming cross-clan alliances.** In the violent markets that emerged in Somalia immediately after the state collapsed, businesspeople relied on clan protection, becoming entangled in the politics of the territories controlled by their own lineages. As economic competition increased, and as businesses expanded beyond their traditional territories, multi-clan shareholder arrangements and decentralized franchise companies replaced the parochial organization of businesses.

D. Economic Growth

19. **In 2015 Somalia's GDP per capita was estimated at US \$450, making it the fifth poorest country in the world.** Income per capita income is 20 to 40 percent higher than GDP per capita due to remittances (Somalia Economic Update, 2017). The World Bank has estimated sub-national GDP of Somali states, with Somaliland's GDP about at US \$1.6 billion in 2012 and Puntland's at US \$1.3 billion in 2010 (Somalia Economic Update 2017).

Figure 4. Somali GDP and GDP per capita relative to peers



20. **Despite the civil conflict, the Somali economy has grown at a moderate pace.** Several economic activities, among them telecommunications, money transfer businesses, livestock exports, and localized electricity services, have been growing well. The economy was propped up in part by remittances after the large-scale emigration of skilled Somalis. Remittances grew from a negligible amount in 1990 to about 25 percent of Somali GDP in 2015.

21. **Diaspora remittances provide a lifeline for large segments of the population, exceeding both international aid flows and foreign direct investment.** Remittances in 2016 were estimated at US \$1.2–2 billion, equivalent to 23 to 38 percent of GDP (FAO 2013). Remittances augment household income and create a buffer against shocks. While some are invested (largely in residential construction), most are spent on consumption (often of education and health services). Evidence from the World Bank’s 2016 Somali High Frequency Survey⁴ shows that remittances were received by about a third of urban and 19 percent of rural households and 7 percent of households in IDP settlements. Households receiving remittances are significantly less likely to be poor than those not supported by remittances.

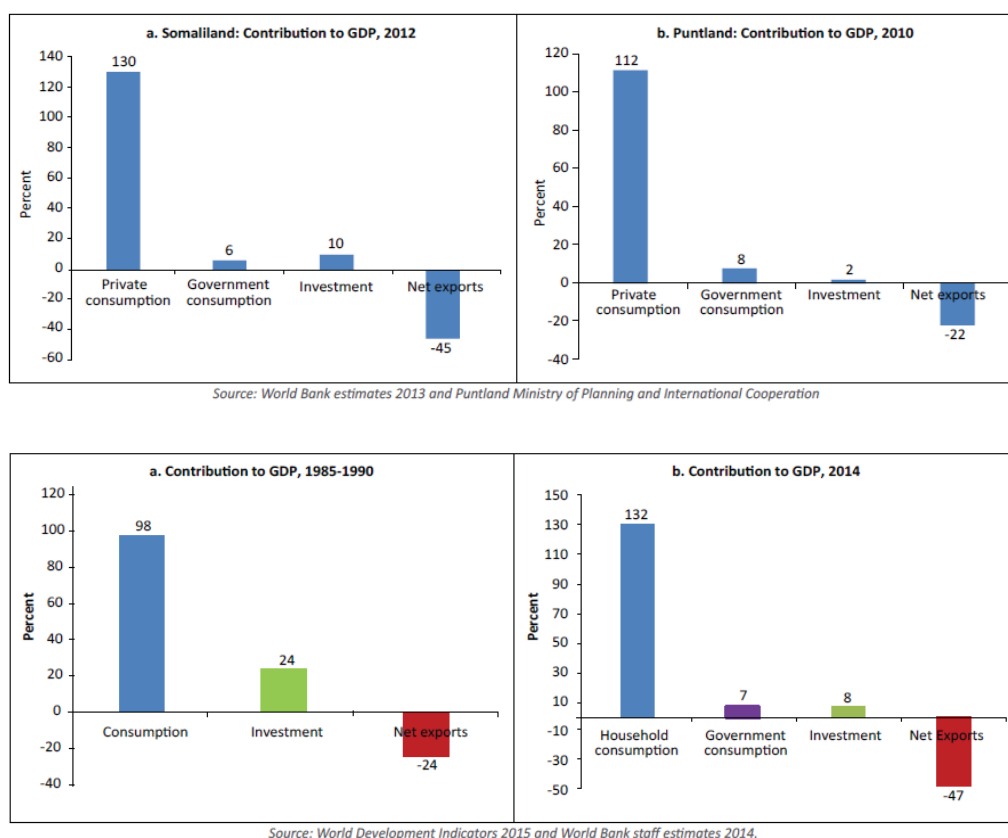
22. **Somalia’s economy is highly dollarized, leaving the Central Bank of Somalia (CBS) with no capacity to manage the national currency.** The last official Somali shilling note was printed in the early 1990s and the stock of shillings consists of a mix of official and counterfeit banknotes accumulated over the years. They are used only for transactions worth less than US \$1. The largest Somali shilling note (1,000) is worth about US \$0.05. With little or no bank credit outstanding, they cannot influence interest rates or affect the money supply. To introduce a new currency, as planned under the current IMF SMP, the CBS would need to substantially enhance its capacity to manage the financial sector and monetary policy. Somaliland uses the Somaliland shilling, which is not valid outside that area.

23. **On the expenditure side, GDP is dominated by private consumption and imports.** In 2014 household consumption, financed by remittances, was equivalent to over 100 percent of nominal GDP, with food and beverages accounting for about 60 percent. The ratio of exports to GDP is about 14 percent but imports account for more than 67 percent of GDP, creating a large trade deficit, financed mainly by remittances and international aid. In the pre-war period consumption was already deriving the economy, accounting for almost 98 percent of GDP on average for 1985–90. As seen in Figure 5, The share of household consumption was similar in

⁴ Data can be downloaded from <http://microdata.worldbank.org/index.php/catalog/2738>.

Somaliland (about 130 percent of GDP) and Puntland (about 112 percent). Government consumption was 6 percent of GDP for Somaliland and 8 percent for Puntland. Investment in Somaliland was 10 percent of GDP and 2 percent in Puntland.

Figure 5. Structure of Somalia's GDP and Sub-regional Contributions



24. **Agriculture's share of GDP has risen significantly from its prewar level of about 62 percent to possibly 75 percent or higher.** Before the civil war, the crop subsector was the second-largest contributor to GDP and exports, after livestock. It remains crucial for food security, but its contribution to the economy is much smaller than it was, as over the past three decades, the volume of cereal production has declined by almost 60 percent from its 1989 peak.

25. **Total agricultural exports have climbed every year since the late 2000s, to a peak in 2015 of US\$634 million, more than five times the value before the civil war.** Agriculture represents about 93 percent of total exports, down slightly from 95 percent prewar. Livestock exports remain by the far the largest category, having risen by a factor of almost 10 between the late 1980s and the mid-2010s. Because of the recent drought and a renewed import ban by Saudi Arabia, the volume of livestock exports fell in 2016 and in 2017. (World Bank, 2018)

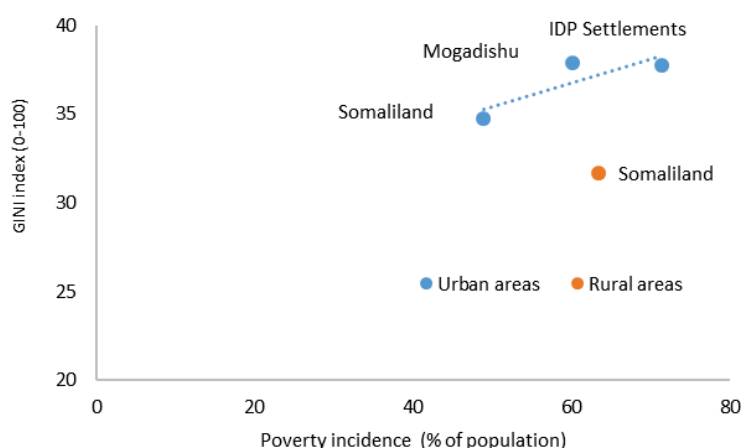
26. **International trade has grown steadily over the past six years.** Data are collected on exports and imports through major ports but are not reliable. More reliable aggregate data from trading partner countries shows that imports reached US \$3.3 billion in 2013 and are estimated to

have been US \$3.7 billion in 2015. *Qat*, a mild narcotic, is the second largest imported product after sugar. The main sources of imports are Ethiopia, Kenya, and China. Exports are estimated to have almost tripled in the past six years, reaching US \$779 million in 2013. Livestock continues to dominate exports, followed by charcoal, fish, and hides and skins (UN Comtrade, 2017).

E. Poverty and Equity

27. **Poverty linked to pervasive food insecurity is a recurring humanitarian issue;** more than half of Somalis were already living in poverty before the most recent droughts and associated consumption shock.⁵ Poverty varies considerably among Somalis; regional differences in poverty between Mogadishu (60 percent) and urban Somaliland (49 percent) and urban/rural variations (63 percent in rural Somaliland) contribute to inequality. As seen in Figure 6, the highest incidence of poverty is in IDP settlements, where 71 percent are poor.⁶ New survey data will increase coverage of poverty estimates and help to better understand the dynamics underlying poverty within and between regions.

Figure 6. Inequality and poverty within Somali regions



Source: Somalia High Frequency Survey

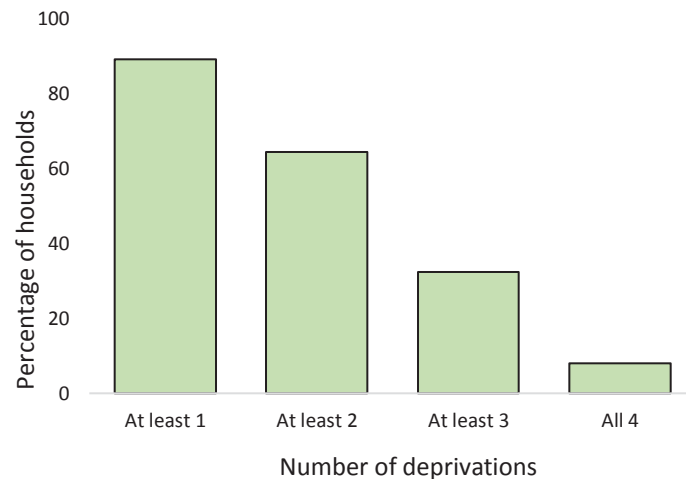
28. **The shares of poor households receiving remittances was similar in 2013 and 2016 but the average amount received declined.** Between 2013 and 2016, poverty increased among urban households that received remittances and decreased among urban non-receivers. However, in rural areas, poverty decreased (20 percentage points) for those receiving remittances, though the reduction in rural poverty is unlikely to be caused by remittances as a similar number of households received remittances, which on average were smaller. Furthermore, the urban-rural gap among households receiving remittances decreased for all households between 2013 and 2016.

⁵ Poverty is estimated using the international poverty line. As that is defined in 2011 US\$ purchasing power Parity (PPP), it must be converted to local currency to measure consumption. The 2011 US\$ are converted into 2011 Somali shillings using the regression-based PPP estimate for Somalia. The change in purchasing power per shilling is calculated by estimating inflation from 2011 to 2016. In the absence of a CPI, consumption shares of the survey are used together with prices collected from 2011 to 2016 by the Food Security and Nutrition Analysis Unit (FSNAU) Somalia. The poverty line is converted back to US\$ using the current exchange rate. The resulting poverty line is US \$1.46 (2016) per day per person.

⁶ The poverty estimates are based on results from Wave 1 of the SHFS. Poverty estimates for Puntland are not reported due to the absence of a sampling frame for the majority of its population that adversely affected the representativeness of the sample. Anecdotal evidence and expert assessments suggest that Somalis in Puntland are in the poorest category.

29. **Microsimulations indicate that many Somalis are vulnerable to shocks.** An assessment of a 10 percent shock (Figure 7) on consumption indicates daily consumption staples could rapidly move thousands more poverty. Moreover, consumption poverty in Somalia is highly correlated with other deprivations, including general consumption, water, education, and information.

Figure 7. Percent of households experiencing multiple deprivations



Source: World Bank staff calculation.

F. Analytical Framework

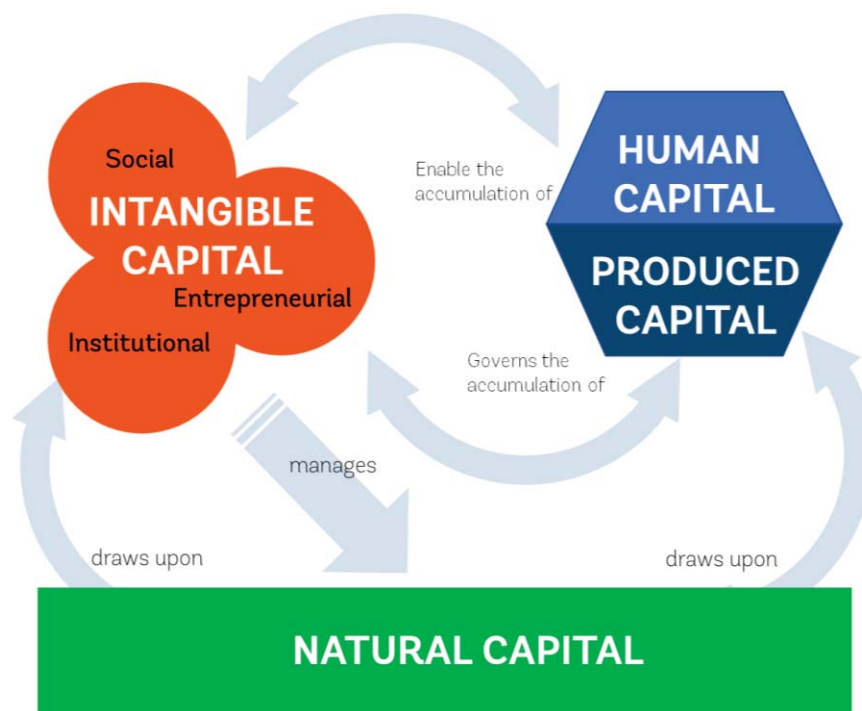
30. **The main goal of this SCD is sustainable achievement of development objectives.** This applies to all notions of wealth (natural, produced, human, and intangible) as well as political sustainability. To operationalize this perspective, the SCD applies the "Changing Wealth of Nations" (Lange et al., 2018) framework linking the stocks of various types of wealth to their contribution to national consumption. Traditionally in low-income countries (LICs), natural capital (waters, plants, soils, minerals) dominates national wealth, and the traditional sustainable development paradigm calls for careful management of this stock of wealth. Development then is largely a function of the accumulation of produced capital (e.g., infrastructure, buildings, machinery) and human capital (better education and health of the population). The Changing Wealth of Nations framework defines all other aspects of national wealth as “intangible,” but although they are difficult to measure, they are critical for good governance and the effective functioning of society.

31. **Our application of the Wealth of Nations framework therefore breaks down aspects of national wealth that most quantitative assessments treat as “intangible” into social, entrepreneurial, and institutional forms of capital.** In addition to large gaps in produced capital, the visible degradation of natural capital, and the slow accumulation of human capital (beyond population growth), some of Somalia’s key challenges, and opportunities, on the road out of fragility derive from deficiencies in intangible forms of wealth. Among them are the lack of formal institutional capital (public institutions and processes), which forces the population to rely on social capital, or informal community networks of processes and to avail themselves of entrepreneurial opportunities to provide essential services. However, this substitution of social and entrepreneurial capital for formal institutional capital in Somalia has thus far failed to deliver the shared prosperity Somalis expect.

32. **Given its minimal development and its persistent poverty-conflict trap the intangible forms of capital have an even greater role in Somalia than in other countries.** The quality of institutions, the vitality of the entrepreneurial sector, and the operation of social norms of dispute resolution make possible more effective property rights, land reform, access of the poor to legal systems and credit, and fair competition. These factors are critical to opening opportunities in unequal societies. In fact, they are recognized as determinative of whether the economy as well as individuals and households can accumulate human and produced capital and sustainably manage natural capital (Birdsall and Londono 1997). However, the reverse is also true: higher-quality human and produced capital can enable faster accumulation of intangible forms of capital—setting up a positive, mutually reinforcing cycle of development. Similarly, more intangible capital can help ensure that natural capital is managed more sustainably way, improve the resilience of households and enterprises that depend on it most directly, and support others who depend on them indirectly.

33. **This framework makes natural capital the basis on which development, classically measured by the accumulation of human and produced capital, is built upon and asserts that the speed at which those types of wealth accumulate is governed by the intangibles of institutions, social norms, and entrepreneurship.** Global experience shows that the poorest benefit the most from growth and from high average levels of education and physical-capital accumulation, as well as the distribution of assets, both physical and human. Inequality in the distribution of assets, especially education, can be particularly costly; lack of access to the assets necessary for increased productivity and income is a fundamental barrier to poverty reduction (Birdsall and Londono1997). Figure 8 shows how the different forms of capital interact.

Figure 8. Categories of wealth assessed



Source: World Bank staff, adapted from Changing Wealth of Nations, 2018.

34. **The theory of change espoused here is that Somalia must accumulate wealth in a more balanced manner so as to have a diverse portfolio of assets to buffer against in crises,**

especially since it is so vulnerable to external and internal shocks, from droughts and conflict, to commodity price shocks. Maximizing a diversity of wealth forms may enable Somalis to hedge against risks and invest in accumulating national, regional, and household capital even with the current economic uncertainty.

35. **Focusing on assets is also a useful way to distinguish development from humanitarian response, which is explicitly focused on sustaining consumption and basic services in the face of overwhelming challenges.** Somalia is one of the countries with a very high aid-to GDP-ratio: its official development assistance (ODA) totaled US \$1.3 billion in 2016, giving it an ODA-to GDP ratio of about 21 percent. Along with some US \$1.5 billion in remittances, transfers fuel Somalia's consumption-driven GDP growth. Transitioning away from this dependence requires more attention to accumulating assets at all levels, from the household to the nation as a whole. It is the main path to prosperity in Somalia set out in the recent Drought Impact Needs Assessment (World Bank, 2017).

G. Identification of Constraints

36. **This assessment begins with a description of what is known about the status of each type of wealth and obstacles to its accumulation.** Subsequent chapters summarize the status of each wealth category, identify knowledge gaps, and provide the reasoning on addressing constraints to wealth accumulation and risks to its degradation.

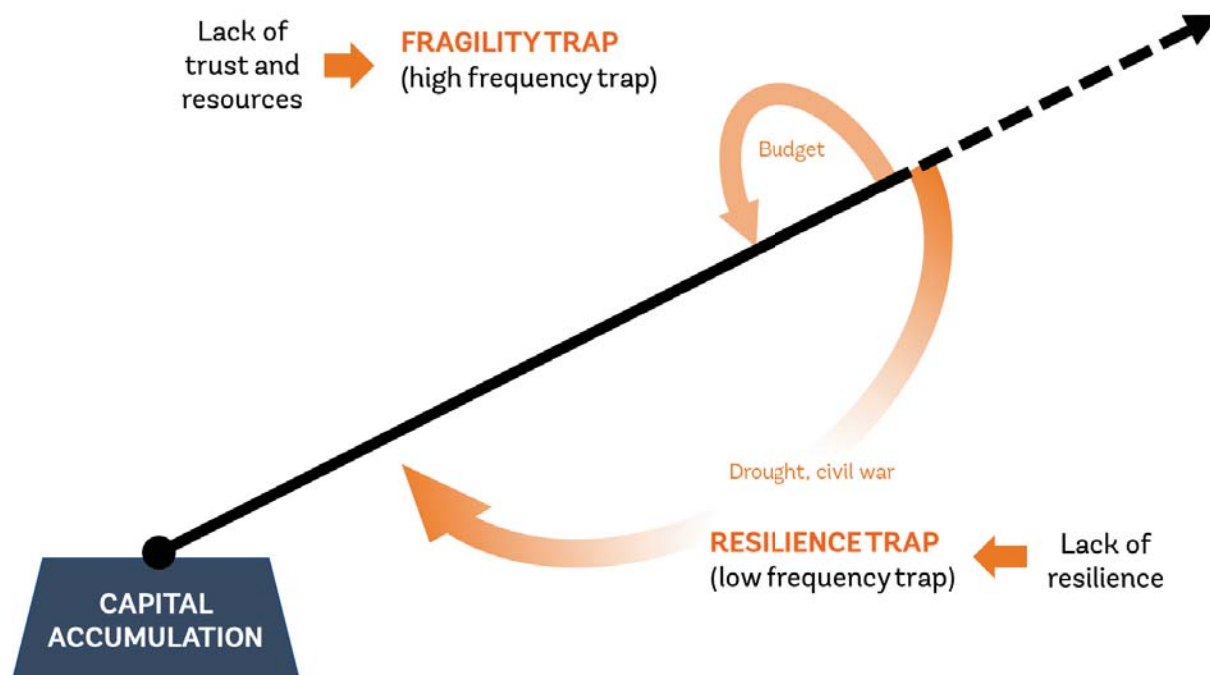
37. **Our hypothesis, however, is that wealth accumulation in Somalia is constrained by a dual development trap of fragility and resilience, that limit the ability of its economy to generate opportunities for the growing population.** Both of these traps have a strong grounding in literature. The high-frequency fragility trap is consistent with *World Development Report 2011*, which argued that institutions often take generations to develop, particularly in countries emerging from conflict where trust is low. In Somalia, cycles of political instability particularly in the 1990s and 2000s diverted attempts to establish credible institutions, undermining the conditions for progress and political stability. The low-frequency trap of low resilience to severe outside shocks such as large scale droughts is consistent with the recent literature findings on poverty trapping effect of climatic stress (see Hallegatte et al., 2016; Chavas, 2016; and Barbier and Hochard, 2018).

38. **A high-frequency trap of recurrent political instability is driven by the lack of resources to provide services and public goods like improved security, which in turn shuts down opportunities for functional institutions to emerge.** Accumulating wealth, particularly in public goods or in investments with long time-horizons, often requires cooperative political engagement and adequate public resources. When there is limited trust in the ability of institutions to deliver on their promises because they lack capacity and resources, without first being able to show results, institutions are not likely to receive greater political support and financing. However, without greater political cohesion and revenues, results are unlikely to be rapid. The result is a vicious short-term cycle of attempted reform and inadequate political or financial resources to realize it. As long as this pattern continues, wealth will continue to be depleted, stagnate or be slow to accumulate—and trust will continue to be lost.

39. **Linked to this is a low-frequency trap in which natural disasters and geopolitical shocks repeat over a longer time cycle but then rapidly undo much of the progress made in the interim.** This is seen in the large-scale droughts that periodically strike the Horn of Africa, severely damaging the rural economy, impacting the most vulnerable, and creating displacement.

Similarly, geopolitical events, such as insurgencies, embargos, and wars in the region, have reversed and could again reverse development gains, as can changes in the involvement of external actors. Vulnerability to this trap is driven by the dependence of Somalia on external support even for its public institutions, a relatively underdeveloped and undiversified private sector, and the general absence of safety nets for households and communities. Together, these factors undermine the resilience of domestic institutions and private actors to future shocks. Figure 9 offers a conceptual model of this interplay.

Figure 9. Dual Development Traps in Somalia



Source: World Bank Staff.

40. In what follows, we will describe each capital type and show how the development traps either constrain its accumulation or, even more worryingly, lead to depletion.

H. Knowledge and Data Gaps

41. While the knowledge base about the state of the Somali economy and society has improved considerably in recent years, large gaps remain. In the subsequent chapters we will present a considerable volume of information, but we should keep in mind that much of the data that is taken for granted in almost all other contexts is unavailable in Somalia. A data ecosystem depends heavily on the ability of the government to collect and manage statistical and administrative data. This capacity is severely lacking, but it is critical to further development as the availability of more credible and reliable data sources can enable stakeholder to discuss issues based on factual information rather than perception. Of course, data alone is not a sufficient condition for consensus to be established – for example inter-governmental fiscal deliberations urgently need reliable and regionally disaggregated population and poverty data, but will also require this to be accompanied by sustained engagement, negotiation and trust building over multiple iterations.

42. **At present, many forms of administrative data are not collected and/or disputed.** Cadaster or business registers are challenged. Basic data on trade volumes is only collected at regional level, there is no common approach to classification and no system for aggregation into national estimates. This forces anyone seeking to estimate these figures to impute them by piecing together other countries' data on trade with Somalia.

43. **Somalia lacks several censuses that are essential for planning and policy-making.** Somalis have endured over four decades without a population and housing census which would normally provide a basis for a sampling frame, provide information for budgeting purposes, and tracks demographic and socio-economic changes. Although agriculture is critical to Somalia's economy in terms of contribution to the GDP, employment and export earnings, Somalia lacks an agricultural census to help better understand the structure of the sector, its production systems, and constraints to productivity. Business/establishment censuses—which are invaluable tools for information on the structure and activities of enterprises, employment, and contribution of private sector in GDP—are currently unavailable.

44. **A few new surveys have helped to mitigate the data gaps.** While the last census was concluded in 1986, high level of fertility, migration and mortality render any projections based on the Census highly uncertain. United Nations' efforts have shed some light on population estimates with the Population Estimation Survey for Somalia (PESS) in 2014. More recently, the World Bank's High Frequency Surveys have provided invaluable insight into consumption patterns and poverty among Somalis.

45. **Production of data on poverty in Somalia is improving but regular collection of household surveys is needed to continue monitor poverty and other socioeconomic indicators.** Since the High Frequency Surveys are designed to capture the core indicators within a short-time frame, some information that may normally be captured in a multi-topic survey are not available. Thus, information on child anthropometry, fertility, price data, time use, savings, health need to be captured in other surveys. The health sector faces an absence of national surveys and weak civil registration and vital statistics. The planned Demographic and Health Survey (DHS) will help to fill these data gaps.

46. **There is a paucity of quantitative data upon which to evaluate macroeconomic development.** The statistical system in Somalia is fragmented and lacks coordination resulting in statistical information that is often incomparable, not nationally representative, and scattered across various national and international stakeholders. Somalia lacks a harmonized, comprehensive, nationally representative CPI data series which are instrumental for poverty measurement and monitoring. Often, prices are collected in geographically limited areas and for a limited set of items and the CPI is produced differently depending on the stakeholder producing the estimates. A series of market price surveys collecting prices across various markets nationally at regular intervals and a full consumption survey are needed to support the generation of the CPI. A nationally representative labor force survey for labor market indicators is not available.

47. **Beyond administrative and statistical survey data, many bio-physical datasets are missing.** Particularly important for an economy in which more than two third of income is derived from natural capital is a better accounting for the status and value of ecosystems and the monitoring of risks to sustainability so that issues of deforestation, flooding, overgrazing and otherwise depleting the natural capital resources can be monitored and assessed more systematically.

Similarly, data on fisheries catch and landing is missing. Improved data on hydro-meteorological, water availability, and factor market conditions would be helpful as would systems that could deliver that information to market participants in urban and rural areas. In other areas, collection of seismological and other data on hydrocarbons has been contracted out to private sector actors through concessions agreements, with proprietary clauses limiting the use of the data beyond the immediate concessionaire.

48. **Finally, improving the understanding on the functioning of key sectors, in particular health and education, as well as helping to build ‘fit for context’ management information systems, would be important in facilitating future reform and in defining the appropriate role of the public sector in service delivery.** Similarly, the understanding of internal dynamics of other sectors – from the labor market to transportation – is necessary if the government is to be able to better coordinate the variety of stakeholders active in the economy. External actors can be particularly helpful by supporting the development of the data sources and of key analytical insights that will help greater transparency about the situation on the ground and enable informed policy making.

II. Natural Capital

49. **Somalia's economy depends on its natural capital: land, rivers, forests, mineral assets, and marine resources.** In the short to medium term, most Somali livelihoods and the bulk of immediate growth opportunities will depend on and derive from the country's natural capital base. However, Somalia's natural capital is heavily degraded and constantly stressed by overexploitation as political disagreements imperil the prospects for sustainable governance.

50. **Somalia's dependence on natural capital for livelihoods and its geographic location make it highly vulnerable to climate variation, the source of devastating droughts followed by floods that can escalate to famine-level situations.** Despite enduring several cycles of drought and flood—the 2011 drought led to a famine that killed 258,000 people—little has been invested in preparing for future events—reflecting in part the crowding-out effect of humanitarian support. Meanwhile, as Somalia is becoming ever more vulnerable to climate change and man-made land degradation, there is emerging a wholesale reduction in food security.

51. **Somalia's economy is heavily dependent on only a few export products and a few overseas markets.** Livestock is the largest support for the economy, the largest employer in rural areas with nomadic cultures, and the largest driver of exports. Yet it is highly vulnerable, because animal health and welfare systems are feeble and export markets are highly concentrated. In addition to livestock, subsistence-oriented smallholder crop production systems are a major source of income and food security for rural households. If they are to expand, both livestock and crop production require investment in groundwater management. Fisheries hold the potential to diversify sources of nutrition and harness additional revenue. Forests are imperiled by over-exploitation, illicit charcoal exports, and the spread of invasive species, jeopardizing ecosystem sustainability.

52. **Although oil and gas development could provide an opportunity for growth, it could also lead to disputes over territorial authority and revenues.** Petroleum exploration in Somalia has been underway since 1956. Foreign oil companies have recently re-engaged, although with different domestic partners, among them subnational entities. The potential of large future rents and their allocation competes with federal capacity. The emergence of transparency and accountability issues is now creating a “pre-resource curse.”

53. **One factor is similar for all forms of natural capital: ineffective regulation and management leads to overexploitation of natural capital and an inability to harness the associated rents in support of sustainable prosperity for Somalis and enhanced resilience.** The two fragility traps (Figure 9) drive the degradation of natural capital. Trapped in the high-frequency fragility trap, the state is unable to achieve consensus on, let alone enforce, rules and norms for management of natural capital, including appropriate pricing. This creates a feedback loop in that failure to establish effective management of natural capital leads to unsustainable and excessive exploitation of natural resources, with the accumulation of rents by first movers or powerful groups and individuals fueling local conflicts that erode progress on development. Over time, environmental degradation and overexploitation also contribute to a more severe low-frequency resilience trap as the combination of an already challenging, arid and variable climate in the Horn of Africa and the lack of collective action and investment to enhance environmental sustainability exposes wide swathes of the population to greater risk of environmental disaster and displacement.

A. Vulnerability to Climate Change

54. **Agriculture, particularly livestock, forms the backbone of the mainly rural economy, accounting for about 80 percent of GDP—the third highest percentage in the world.** Livestock accounts for about 70 percent of GDP and up to 93 percent of export earnings, bringing in an estimated US \$603 million (World Bank/FAO, 2018). Agriculture, which is highly exposed to environmental shocks due to the arid climate (Figure 10), is overtaxing already-stressed pastures and water resources, notably from the two main rivers, the Jubba and the Shebelle.

Figure 10. Average Monthly Precipitation and Temperature Averages, Somalia, 1900-2012



Source: World Bank Climate Change Knowledge Portal 2017.

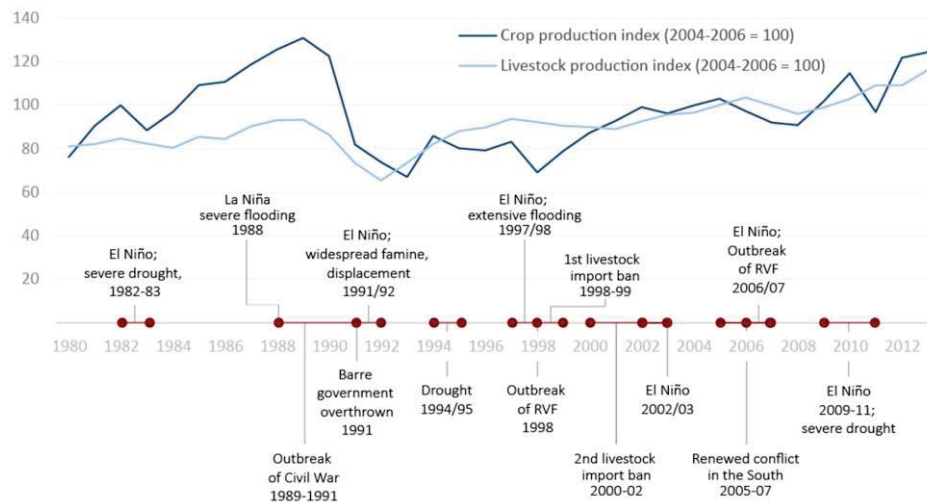
55. **Since 1965 Somalia has endured numerous severe droughts. (see Figure 11).** The country is still recovering from the drought in 2011, which resulted in 258,000 deaths and was followed by famine in areas of Bay and Bakool and the Lower and Middle Shebelle regions (World Bank 2017). In contrast to the declining rainfall trends observed, most global climate models predict that the Horn of Africa will become wetter as global temperatures rise (Christensen et al., 2007; Shongwe et al., 2011). The 2007 assessment by the Intergovernmental Panel on Climate Change expects that seasonal variability and the frequency of extreme rainfall is expected to increase (Kay and Washington, 2008). with far-reaching implications for Somalia's agriculture and economic growth. The Center for Global Development places Somalia first of 167 countries ranked globally for vulnerability to climate change adjusted for coping capacity (Wheeler, 2018).⁷

56. **The 2016/2017 El Niño-induced drought north of the equator, which reached north Somalia, has had massive humanitarian impact.** More than 20 million people in the Horn of Africa are food-insecure and at risk of water- and vector-borne diseases due to the combination of water shortages, poor sanitation and hygiene conditions, high malnutrition, and population displacement. In Somalia, at its peak the drought, which is still affecting Somalia, has left an estimated 5.4 million people in need of humanitarian assistance and over 926,000 displaced since November 2016. Drought-caused damage and losses across many sectors total over US\$3.25 billion and the recovery interventions necessary have been estimated at US \$1.78 billion. Most affected were agriculture (both irrigated and rain-fed crops) at 28 percent of total needs and urban development and municipal services at 16 percent (World Bank, 2017). Drought also reduces livelihood opportunities and household asset, and can heighten school absenteeism as children

⁷ The survey ranks countries on four dimensions—extreme weather, sea level rise, agricultural productivity loss, and overall rankings—based on a comprehensive dataset.

search for water and other resources to support the household. Drought and other climate-related shocks also worsen the security concerns of vulnerable populations, particularly those forced to travel further to collect food and water.

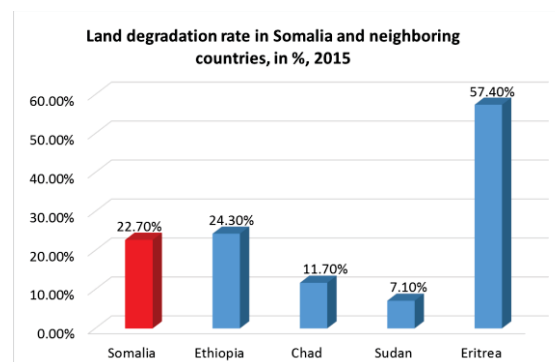
Figure 11. Major Shocks and Agricultural Output, 1980–2017



Source: World Bank, 2017.

57. **At the same time, man-made land degradation has made Somalia more vulnerable to droughts and desertification, slashing food security.** Somalia's land degradation rate is 22.7 percent (Imhoff et al. 2004), among the highest in the region. Since the 1960s, Somali governments have pushed for large-scale, mechanized agriculture, reducing the availability of fertile terrain to its traditional users, subsistence farmers and nomadic herders. Forestry is particularly imperiled by over-exploitation, illicit charcoal exports, the spread of invasive species, and climate change. From 1990 through 2010, Somalia lost an estimated 18.5 percent of its forest cover. Charcoal production ballooned from 420,000 tons in 1991 to nearly 1.2m tons in 2013 (UNSC, 2013). In 2012 an export ban was introduced in Somaliland and Puntland and by the Federal Government in southern Somalia, causing exports to plunge. Meanwhile, the tree cover is still under pressure as demand grows for energy, building materials, and feed/fodder. Arresting such degradation is critical for sustaining the ecosystem foundation of a huge segment of Somalia's economy.

Figure 12. Regional Land Degradation Rates



Source: World Bank, Little Green Data Book, 2017.

58. **Degradation is a major obstacle to sustainable development in rural areas.** Increasingly erratic rainfall and prolonged periods of severe drought and flooding threaten the viability of traditional agriculture. With few alternatives, many Somalis have turned to unsustainable exploitation of natural resources. This threatens the fragile ecosystems on which most Somalis depend and limits the resilience of local communities. The absence of functional governance prevents the collaboration and long-term planning required to address these challenges and leads to short-term actions and repeated cycles of crisis response. Breaking out of this cycle will require a new paradigm.

B. Water Scarcity

59. **The arid Puntland and semi-arid Somaliland conditions of Northern Somalia limit agricultural development, except for livestock grazing.** Throughout the year water lost to evapotranspiration in those regions far exceeds rainfall and can reach 2,000-3,000 mm annually. Annual rainfall may range from over 500 mm near the mountains of the western Gulf of Aden to less than 20 mm on Berbera, Bosaso, and other parts of the coast. Except for natural springs in the northern drainage basins, rivers in northern Somalia are ephemeral; surface water tends to last for only a few months. Distribution of rainfall is linked to the rainy and dry seasons. Drought and inconsistent *Gu* and *Deyr* rainfalls are persistent threats to agro-pastoral people who do not have adequate capabilities for harvesting and storing rainfall. However, soil conditions and water availability in the riparian belts of some major wadis do allow for agricultural activities.

60. **The northern and central parts of Somalia depend heavily on groundwater during the dry season and in times of drought.** Storing surface water storage by traditional means such as *berkads* or *hafirs*⁸ is a traditional means of water collection in permanent settlements. Growing population and increasing local food demand have led in recent years to a growing use of ground water for irrigation. Shallow wells along wadis or in areas where the groundwater tables are shallow as well as deep boreholes can be found, but the latter are very maintenance-intensive.

61. **Water from wadis that incise and drain the land is an additional resource.** Unlike other arid countries, Somalia has no long-term tradition of wadi development. In the pre-war period, internationally backed projects, such as the North-West Agricultural Development and Northern Rangelands Development projects, began to investigate wadi water resources for development purposes, based on a mix of agriculture, pastoral and agro-pastoral land uses.

62. **Southern Somalia receives over 4 billion cubic meters (bcm) of water annually through the Shebelle and Juba rivers – Somalia's only perennial streams.** The current capacity for off-stream storage is near zero. Human consumption in Southern Somalia requires 51 million cubic meters per year (mcm/yr) and livestock about 41 mcm/yr. As are livestock largely pastured away from the rivers, much of this demand is met through watering holes, dugouts, boreholes, and weirs, or is trucked from the rivers. Agriculture uses about 700 mcm/yr, much of which is currently provided by flood irrigation because pre-war water infrastructure has fallen into disrepair (FAO SWALIM). Nevertheless, there is potential for agriculture to use up to 1.7 bcm– pre-war irrigation consumption was about 1.2 bcm/yr. The rehabilitation of barrages, canals, and other infrastructure will be vital for Somalia's agricultural recovery and growth. Improvements in resilience and structured development of the Juba and Shebelle watersheds require the ability to store water

⁸ Berkads are large basins in which surface runoff water is collected and stored, while Haffirs are manmade ground reservoirs in the earth at suitable locations to store water for drinking purposes for both human and livestock uses.

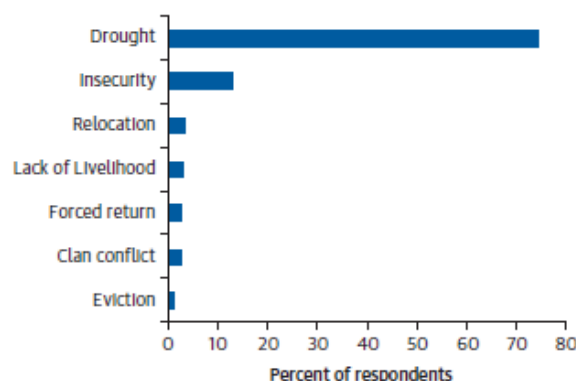
throughout the year and to enable greater food security and agriculture/livestock development. Recent FAO Somalia Water and Land Information Management surveys have identified at least 40 open breakages, another 120 temporarily closed with sandbags, and over 300 potential weak points in berms and water banks. As spring and fall rains arrive, floods damage property and livelihoods. Furthermore, as both Juba and Shebelle originate in Ethiopia, with Kenya partially riparian, issues of transboundary water distribution are likely to again arise and may require a structured transnational process.

63. **With limited ability to use river waters at a distance, much of Somalia is dependent on local water sources.** The FAO mapped about 3,700 water points in 2014, but more than 40 percent are reported as not permanent or not functioning and only about 500 are protected from contamination. Use of these resources is often private, and the technology is sometimes very poor. Half of all boreholes are deeper than 130m and may go down 480m. The cost of drilling is high, often reaching US \$500 per meter, and finding water is not guaranteed. Water pricing commonly reduces access for the most vulnerable.

64. **Alternative providers have become mainstream in urban areas, including Mogadishu, where private boreholes and networks serve over 1 million people and have entirely replaced the municipal water supply system that was destroyed.** The alternatives are generally more expensive and supply lower-quality water than state utilities. Moreover, these solutions lead to unregulated water use and overexploitation, and ultimately failure to preserve surface and groundwater resources.

65. **Water insecurity—e.g., chronic water scarcity, lack of access to safe drinking water and sanitation services, and hydrological uncertainty and extremes (floods and droughts) can severely disrupt and compound fragilities in social, economic, and environmental systems.** Failure to achieve water security can be more damaging where populations are particularly vulnerable to the direct impact, and thus water insecurity can intensify negative perceptions of government capabilities and political will. This erodes the social compact between the government and citizens and acts as a destabilizing force and risk multiplier (Gemenne, Zickgraf, and Ionesco 2015). A review of the shocks inducing displacement found that drought is a common factor along with violence and insecurity (Bryld, Kamau, and Sinigallia, 2014).⁹

Figure 13. Reasons for Migration, Somalis Displaced in 2011



Source: UNHCR 2011.

⁹. The 2011 drought triggered a spike in the numbers of both refugees and internally displaced Somalis, with more than 70 percent of those displaced citing drought as the main reason driving them from their homes (Hammond 2014).

C. Agriculture

66. **Livestock is the largest sector of the economy, the largest employer in rural areas with nomadic cultures, and the main driver of exports.** The industry has been recovering since the lifting of a 9-year ban on the import of livestock from Somalia that aimed to prevent the spread of Rift Valley fever; exports of live animals are now rising at the Berbera and Bosasso ports. In 2015, after heavy FAO investment in animal disease control programs, record 5.3 million livestock were exported to markets on the Arabian Peninsula. High levels of informality due to heavy taxation, limited regional coordination in the formal sector, frequent droughts, overgrazing, and heightened competition for rangeland and water continue to weigh on the sector.

67. **The crop sector, which is dominated by smallholder, subsistence-oriented production systems with limited value-added, contribute about 20 percent to Somalia's GDP.** It is also a major source of income and food for rural households. An estimated 3 million ha of land (less than half of Somalia's total land area) is currently cultivated (FAO, 2018). Of this, less than 5 percent (compared to about 50 percent pre-war) is irrigated, primarily by flood (FAO SWALIM). Maize and sorghum dominate crop production, followed by cowpeas, beans, cassava, fruits (guava, mango, citrus, papaya), and vegetables. Average cereal production has fallen by nearly 50 percent since the 1990s. Yet there is very little processing of primary products for either domestic consumption or export.

68. **Somalia must now deal with a growing food imbalance; in most years domestic production supplies only about 25 percent of per capita cereal needs (FSNAU, 2014).** Current food production, particularly cereal, is estimated to be less than 50 percent of pre-war levels. Food imports, mainly cereals and sugar, account for about 61 percent of total imports, including 11 percent in direct food aid (World Bank/FAO, 2018). Since 2012, sesame production has shot up seven-fold, with unprocessed exports to the Middle East, India, and China valued at about US\$300 million. Conflict and insecurity, low yields due to poor soil and erratic rainfall; limited access to inputs, extension, or credit; and inadequate infrastructure (irrigation, roads) are major barriers to further development of the sector.

69. **Lack of property rights undermine women's agricultural productivity.** A pre-war study in Jubba valley found that only 28 percent of women owned any livestock and only 14 percent owned farms, with their farms tending to be the least productive, least secure, and most rainfall-dependent dryland plots.¹⁰ Insecurity of land tenure for women reflects in part the complex dynamics brought about by the interaction of multiple legal systems; although under *Shari'a* law, women have access to the formal right to property and to inherit, customary law is less equitable, denying women ownership of land, camels, and other assets to protect the property of the patriarchal line (UNICEF Somalia 2002). Because secure land tenure is important to productive investment in land, women's opportunities for escaping poverty are limited (Goldstein and Udry 2008).

70. **Given the vulnerability of agriculture the focus should be on increasing productivity and catalyzing adaptation to climate change by adoption of climate-smart procedures.** This will enhance income stability and reduce premature urbanization as well as improving food security and job creation, especially for youth. It will build on FGS commitments and support

¹⁰ Norwegian Refugee Council (NRC), United Nations High Commissioner for Refugees (UNHCR) & United Nations Human Settlements Program (UN-HABITAT). 2008. Land, property, and housing in Somalia (http://www.reliefweb.int/rw/rwb.nsf/retrieveattachments?openagent&shortid=SNAA-7QU457&file=Full_Report.pdf).

realization of Somalia's Intended Nationally Determined Contribution (INDC), for which adaptation of agriculture is a major theme (Somalia INDC, 2015).

D. Fisheries and Oceans

71. **Somalia's fisheries are an essential, though seasonal, source of income and food and have direct impact on the welfare of the poor.** Somalia has the longest coastline in Africa, with long exposed beaches, sand dunes, and reefs. The new Exclusive Economic Zone (EEZ) makes it possible to harness revenues from commercial offshore fishing and build up inshore fishing for local food security, trade, and economic growth. Licensing of offshore fishing is closely linked to maritime security, public financial management, political equity, and collaboration among the regional states; and the revenues can help public finances. However, the Gulf of Aden is a major transport route for hydrocarbons, which means that given Somalia's lack of capacity to deal with oil pollution, tar bars can form along the Somali coastline.

72. **Fishing involves many rural dwellers and pastoral workers during calm weather.** For many fishing communities the environment is harsh; they are battered by monsoons on exposed coasts and suffer from poor sanitation, health services, and educational opportunities. The sector comprises substantial high-value fisheries, such as sea cucumber, lobster, finfish like grouper, snapper, and tuna, and billfish like sailfish, swordfish, and marlin. While surveys suggest that sustainable catches could be significantly higher, some high-value resources like lobster are overfished. Attention is required to enhancing revenue from current catches by reducing waste; improving infrastructure, logistics, and market opportunities; reducing the costs of production; and building capacity for effective community engagement, cooperation, and management.

73. **Maritime security is of great concern.** The World Bank has estimated that piracy costs the global economy about US\$18 billion a year in higher trade costs. It has been suggested that the indirect costs of piracy are much higher, for naval support, insurance, rerouting of slower ships, legal proceedings, and protective measures by ship owners. Somalia has received an estimated US \$304-317 million in illicit gains from piracy since the first known hijacking in 2005. While piracy may have largely halted, its incentives—poverty and lack of economic opportunities—remain.

74. **Somalia lacks basic economic and social data related to fisheries and the marine economy.** Maritime governance is in its infancy due to the lack of a legitimate EEZ. FAO estimates annual landing of about 30,000 tons, while The Sea Around Project estimates the total catch to be about 65,000 tons, including offshore commercial fishing of about 15,000 tons and non-marketed production of about 8,000 (FAO, 2016).

75. **Investing in sustainable fisheries to restore degraded fish stocks and improve fishery governance and performance will make fishing communities more resilient to shocks, including those associated with climate change.** Rise in sea level, ocean acidification, changes in ocean currents, etc., will inevitably affect local marine ecosystems, fishing and related activities, and coastal life generally. Building natural capital in the form of biologically resilient fish stocks, coastal environments that provide habitats for aquatic life, and natural protections can make coastal communities more resilient to shocks. Improving fisheries to generate substantial net revenue that can be reinvested in a greater diversity of assets and in building financial capital would improve the ability of coastal and peri-coastal communities to cope with shocks.

E. Oil and Gas

76. **Petroleum exploration has been underway in Somalia since 1956.** Exploration has found positive indications of hydrocarbons, and oil shows at the surface suggest the presence of source rock. In the 1980s Conoco-Phillips, ExxonMobil, British Petroleum (Amoco), Chevron, Eni (Agip), and Shell were awarded large concessions for exploration, but after the collapse of the regime in 1991, they claimed the contracts were voided by force majeure.

77. **Though recent major oil and natural gas discoveries across all of East Africa, have triggered an exploration rush, as yet none have been proven in Somali territory.** Security has somewhat improved since 2012 thanks to more effective efforts to fight piracy and Al-Shabab has allowed foreign companies to restart exploration.¹¹ Opportunism and rivalries in the federal arrangement have also generated interest in exploration. A World Bank and U.N. Development Program (UNDP) hydrocarbon analysis in 1991 noted that “the geological parameters” are “conducive to the generation, expulsion and trapping of significant amounts of oil and gas.”¹²

78. **However, some oil companies are negotiating at the subnational rather than the federal level.** For instance, the Puntland administration has set up the Puntland Petroleum and Mineral Agency (PPMA), which issues licenses. A Puntland law also explicitly bars the federal entity from its oil sector, prohibiting individuals and entities from discussing, negotiating, or representing “the Puntland government in hydrocarbon and/or minerals operations in any part of Puntland territory, onshore or offshore, to any Somali or foreign company.” The recent reengagement of foreign oil companies with different domestic players is likely to put stress on federal state-building by heightening regional claims for increased autonomy—a demand the FGS is resisting. However, the current Provisional Constitution recognizes that currently autonomous states “shall retain and exercise powers endowed by their own state level constitution.”¹³

79. **Disputes about territorial authority, especially over natural resources, seem likely to increase.** For example, Somaliland’s control of oil blocks in the Nugaal Valley is disputed by neighboring Puntland, the FGS, and a domestic breakaway movement in Somaliland.¹⁴ Puntland’s claim to the sites has led to the double sale of exploration rights. DNO and African Oil have competing contracts for the same block in Sool. Conoco and Eni claim that contracts issued by the Barre regime¹⁵ allow them to also explore these blocks. In 2013, PetroQuest Africa, an affiliate of Liberty Petroleum, signed an exploration contract for a block with the regional government of Galmudug, a self-declared state to the north of Mogadishu.¹⁶ Meanwhile, Canada’s Africa Energy Corp has announced its withdrawal from Puntland, citing “disagreement between the Somalia

¹¹ BBC <http://www.bbc.co.uk/monitoring/somalias-bright-oil-prospects-stir-hostilities>

¹² <http://investingnews.com/daily/resource-investing/energy-investing/oil-investing/high-risk-vs-high-reward-oil-in-somalia/>

¹³ Somalia Provisional Constitution, Article 142, Existing Federal Member States in Somalia.

¹⁴ “The Nugaal’s residents, members of the Dulbahante sub-clan, claim they were strong-armed into joining Somaliland by the dominant Isaaq clan. They dispute all parties’ right to the oil. Osman Hasan, a member of an occasional Nugaal breakaway movement, sees oil as a bargaining chip to attain autonomy from the Mogadishu government as the federal state of Khaatumo.” The Economist, 2014.

¹⁵ The Economist, The black stuff can be very useful, <http://www.economist.com/blogs/baobab/2014/03/oil-somaliland>

¹⁶ Financial Times, Somalia: Oil thrown onto the fire, <http://www.ft.com/cms/s/0/538e9550-b3e1-11e2-ace9-00144feabdc0.html>

“One diplomat identifies a “triangle of confusion” covering 120,000 square kilometers. Kenyan troops defend the port of Kismayo, south of Mogadishu, notionally in support of the Mogadishu government, but Somali officials worry Kenya is more concerned with securing oil rights.”

central government and Puntland over the legitimacy of production-sharing agreements.” There are also emerging border and maritime disputes for oil drilling between Kenya and Somalia.¹⁷

80. **Transparency and accountability issues in the oil and gas sector are surfacing.** Investment in hydrocarbons could stall if there is no coordinated federal regulation to set revenue-sharing procedures and to reduce the likelihood of corrupt practices by both foreign and local actors. In 2015 Transparency International ranked Somalia was ranked 167th out of 168 countries with a score of 8.¹⁸ The Somalia-Eritrea Monitoring Group (SEMG), an eight-member panel that monitors compliance with UN sanctions, reported that the FGS had signed a series of contracts and cooperation agreements that “highlighted transparency and accountability issues” in state petroleum institutions.¹⁹ It also noted that the “pursuit of Somalia’s mineral and maritime wealth by private companies presents a significant threat in a fragile environment” (UNSC, 2016).

81. **As in many other resource-rich countries, Somalia’s substantial resource endowment could significantly improve revenue and livelihoods but also exacerbates the risks of conflict and deprivation.** To avoid the resource curse, Somalia needs a clear national framework for licensing and transparent agreements with states for revenue and royalty-sharing. Without it, sustainable development of these resources is unlikely. Oil discoveries can constitute a major positive and exogenous shock to economic activity, but the resource curse hypothesis suggests that over the long run they might also be detrimental to growth. A recent study (Cust and Mihaly 2017) has found evidence of a significant negative effect of oil discoveries on short-run growth in countries with weak institutions, creating growth disappointments prior to private and public resource windfalls. This effect is termed the pre-source curse. For a giant oil or gas discovery in 1988–2010, the study estimated an average growth disappointment effect of 0.83 percentage points, measured as the average annual gap between forecast and actual growth over the five years following a discovery. The estimated effect is inversely related to the quality of political institutions and driven by countries with poorer-quality institutions at the time of the discovery—which is consistent with the long-run results documented in the resource curse literature. For countries with below-threshold institutional quality, the growth disappointment effect is larger, measured as 1.35 percentage points annually.

¹⁷ Reuters. 2014. Spike seen in African offshore disputes, oil companies watching. Accessed at <http://www.reuters.com/article/africa-oil-disputes-idUSL6N0SW46S20141106>.

¹⁸ Where 0 is highly corrupt and 100 very clean.

¹⁹ The same report signaled that certain oil companies and the Somali oil ministry are together engaging in corrupt activities.

III. Produced Capital

82. **Somalia's energy sector is highly informal and decentralized.** Only about 20 percent of the population has access to electricity (World Bank, 2017). The price for energy per hour in Somalia is about five times higher than in Kenya. Unregulated, the sector has problems dealing with short-term institutional effectiveness and technical expertise and long-term capacity. The country-wide energy balance relies heavily on wood fuel (charcoal) and biomass, and electricity generation is largely diesel-based and distributed; however, solar and wind energy have great potential for ensuring more reliable access to energy.

83. **Unaffordable and unreliable energy, the poor condition of the post-war transport system, and inadequate urban infrastructure overstressed by a growing population are all obstacles to Somalia's development.** The underdeveloped state structure limits the ability to channel investment into public infrastructure. In some sectors private investment is filling the gap, but it rarely reaches the poor and vulnerable. In addition, major data and capacity gaps make it very difficult to plan and conduct policy.

84. **The road network is short and mostly unpaved.** Most roads are poorly maintained and there has been very little new investment. The network is highly accessible in urban areas but is not well connected to rural areas. Significant improvements will depend not only on laws and regulations but also on a political settlement that gives state commitment credibility.

85. **Telecommunications have a great economic importance.** Its growth has generated numerous positive externalities; for instance, sector-related employment rates and MNO services have notably increased. Nevertheless, a lack of data and the absence of functioning regulation prevent Somalia from harnessing its full digital potential, though recent reform initiatives, such as the National Communications Act, are a step in the right direction.

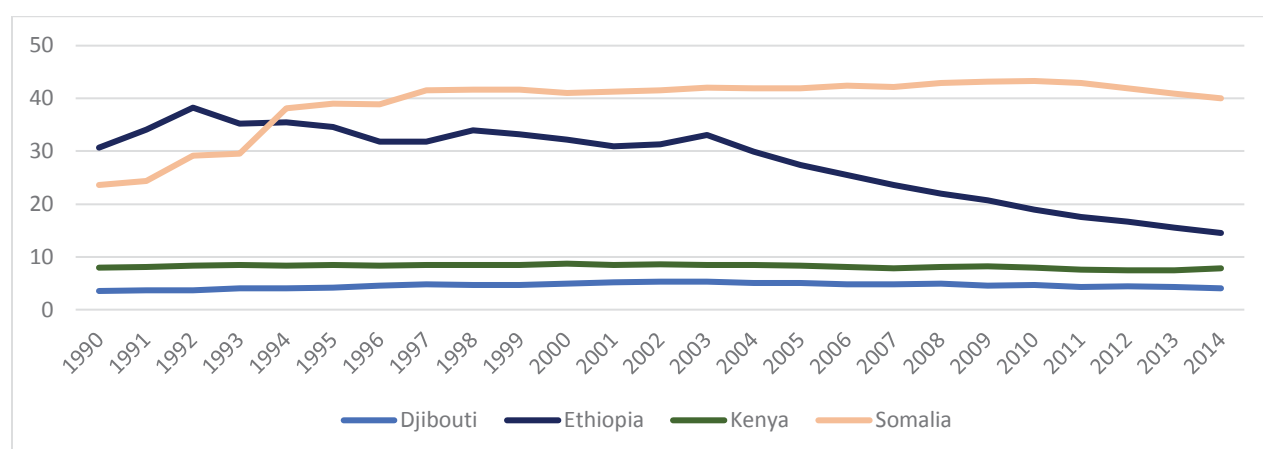
86. **Municipal governments and public utilities regulate urban infrastructure, helping shape urban development. Somalia's urbanization is one result of the recurring conflicts and internal displacement.** Major challenges lie in poor management of solid waste and the world's lowest rate of access to water and sanitation. The dearth of capacity in areas such as planning, training, and engineering supervision has discouraged donors from investing in government infrastructure.

87. **The same fragility trap that affects the protection and management of natural capital impact the accumulation of new and the degradation of previously produced capital.** Public sector inability to finance and maintain basic energy and rural and urban infrastructure results in, among other things, poor roads and unreliable water and power supplies. Combined with uneven state capacity to collect utility tariffs and taxes, this makes users less willing to pay for infrastructure services, which in turn undermines public sector ability to undertake the investment and maintenance necessary to provide reliable and quality services. This is a typical example of the high-frequency trap. Over time, underinvestment and inadequate maintenance create the need for complete (and generally more expensive) replacement of produced capital—which the state cannot afford to provide. Private agents may seek alternative, less coordinated, and less efficient ways to provide and obtain infrastructure services that can themselves contribute to more severe low-frequency traps as private infrastructure externalities take their toll on the environment and fuel competition for resources and conflict between communities and private interests.

A. Power

88. **Somalia's lack of affordable and reliable energy services is a major barrier to inclusive growth.** Almost all its energy demand is supplied from wood fuel and biomass. Yet Somalia's minimal forest resources are already subject to long-term damage and degradation. Its formal power sector is practically nonexistent and in any case poorly defined. To the extent electricity is provided it comes mainly from diesel generators that are occasionally integrated into mini-grids. Absent a publicly administered national grid, power generation and distribution are decentralized and rely on small-scale generators and substandard local distribution systems. Despite a population of 12 million, Somalia's estimated power generation capacity is only 75-150 MW, and only 10-15 percent of Somalis have access. And despite its high poverty rates, at US \$1/KWh Somalia's electricity tariffs are very expensive, as seen by very high levels of energy intensity of GDP with regards to primary energy (Figure 14).

Figure 14. Energy Intensity of GDP from Primary Energy, Somalia and Neighboring Countries, 1990–2014



Note: Units show megajoules/US \$ in purchasing power parity GDP expressed in constant 2011 US \$

Sources: Estimates based on UN Energy Statistics (2014); World Development Indicators, WDI (2014).

89. **Power is generated mainly by the private sector, production capacity is distributed and not integrated, and access is largely urban and overpriced.** The private sector supplies more than 90 percent of power in urban and peri-urban areas using local private mini-grids. The sector has invested in diesel-based systems of 500 to 5,000 kVA installed capacity per mini-grid. More than 68 percent of urban and peri-urban areas have access to electricity, though at high costs of up to US \$1/kWh, making Somalia one of the costliest places in the world to buy power. While there is dynamic private sector activity in generating and distributing electricity, it is poorly regulated and again results in relatively low access and high costs. Businesses operate in a legal and regulatory vacuum with minimal if any formal government enforcement of laws and regulations. Technical capacity is low and grid outages frequent. Diesel forms the backbone of generation, and integrating solar into small grids has been beset with technical problems.

90. **Wind and solar potential represents a major opportunity for electrifying Somalia.** The Horn of Africa has plenty of wind and robust year-round solar irradiance. Private energy utilities have already planned or are planning to integrate renewable energy into their systems (cf.

a 4MW renewable power plant in Hargeisa and Telesom's plan to build solar and wind systems totaling 2.8 MW at seven locations in Somaliland.²⁰

91. **The off-grid and mini-grid markets are growing with almost no government intervention.** Among the actors are NGO, humanitarian, mobile money, and micro-financing operators. While there is high uptake of off-grid solar products, it is marred by considerable market spoilage, low product quality, and inefficient supply chains. Nonetheless, off-grid technologies represent the fastest growing source of power in Somalia.

92. **Lack of an energy policy and a regulatory framework heighten the risk of energy insecurity.** However, efforts are underway to address the issue. Somaliland adopted its National Energy Policy in November 2010. The policy envisages an institutional and regulatory framework that includes establishment of an energy commission. Somaliland has prepared both energy electricity regulations and an Electrical Energy Act, but both initiatives are suffering major delays awaiting discussion by the parliament. Federally, an African Development Bank initiative envisages establishing the Somali Electrification Institute (SEI), an independent body that could regulate and finance electrification. Without formal policies for and regulations on use of energy, electricity, and biomass, the private sector and market forces play a self-regulating role. In the absence of regulation, the sector is changing through mergers and joint ventures: groups of small generators are reportedly trying to form cooperative-type entities to make the heavy investment required to ensure adequate electric power.

93. **Countrywide there are major capacity gaps in all aspects of the energy sector:** policy and regulation, research, education and training, resource assessments, manufacturing and integration, installation, and maintenance and after sales service. The inadequacy of local capacity is evident throughout. There are a few experts who have been involved in energy and renewable energy programs since the 1990s, but Somalia needs many more trained policy makers, managers, engineers, and technicians to manage the trajectory of its renewable energy.

B. Transportation

94. **Though there are no aggregate data on urban road networks, studies estimate that the country has 22,100 km of road, of which 11.7 percent are paved.** In Mogadishu, Hargeisa, and Garowe, most of the few roads that are paved are in a poor state of repair. Most urban secondary and tertiary roads are engineered earth roads without adequate drainage. (Figure 15) Urban mobility is thus inefficient, constrained by poor infrastructure and the absence of even rudimentary traffic management. Long-distance mobility is impaired by insecurity and the heavy presence of security checkpoints.

²⁰ Other projects include wind electric generation systems such as the 900 kW wind farm in Borama, 450 kW wind turbines at Burao and Erigavo, 100 kW wind solar hybrid system at Sheikh, and 60 kW of wind turbines each at Oog, Aynabo, and Bernera and a 20 kW wind turbine at Hargeisa; In Puntland, NEC installed 1MW solar PV; In South Central, Benadir Electric Company (BECO) is planning to implement a 2.5 MWp solar farm with Chinese collaboration.

Figure 15. Satellite-derived Road Network Identification and Population Distribution



Source: Open Street Map and WorldPop spatial population data

95. **Qualitative assessments suggest that most of the transport infrastructure was damaged during and after the civil war.** The length of the official road network is 6,827 km, but there is no geo-referenced network map. Satellite imagery has identified about 104,000 km of roads and pathways, but most are unpaved and in poor condition. The joint 2006 WB, UN, and AfDB infrastructure assessment estimated transport infrastructure needs at US\$1.8 billion.

96. **Yet the system is fairly accessible due to high urbanization.** Good accessibility is not driven by appropriateness of infrastructure but by how much of the population lives close to roads, putting Somalia's Rural Access Index (RAI) at 31.2 percent. In comparison, Kenya has an RAI of 56 percent and Ethiopia 21.6 percent. Somaliland and Puntland have higher RAIs. About 33 percent of Somalis live within 30 minutes of a market (more than 50,000 people); in Kenya the number is 45 percent and in Ethiopia 15 percent. Living within four hours of access to a market are 65 percent of Somalis, versus 80 percent of Kenyans and Ethiopians. There is potentially good port access within four hours for 40 percent of Somalis (UN and World Bank, 2006).

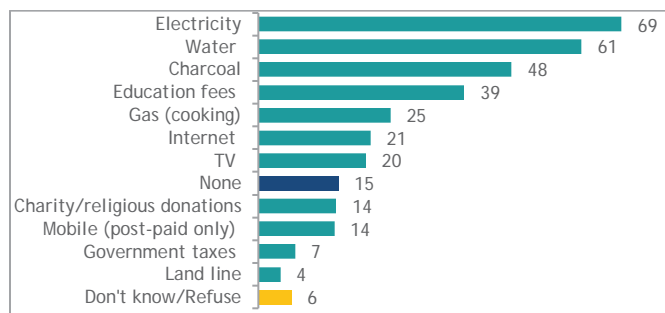
97. **Getting things done is not easy: security concerns and extremely limited funding require strategic prioritization of projects, but there are opportunities for improving regional connectivity.** The main transport network and complementary investments should be given priority, starting with the corridors with most agriculture potential, spot improvement of roads using design-built contracts, and improving access in the most underserved rural areas.

C. Information and Communication Technologies

98. **Somalia's ICT sector has grown significantly in the past two decades.** Its contribution to GDP reached an estimated 11 percent (more than US \$995 million) in 2014, when it directly employed more than 25,000 people. Today, half the country has mobile coverage, with a few 3G sites established and 4G sites underway. In the last decade the price of services has dropped 50 percent, despite the dominance of a single mobile operator (Telesom in Somaliland; Golis in

Puntland; and Hormuud elsewhere in Somalia). Almost 90 percent of Somalis own a phone, almost 33 percent use a smartphone, and 75 percent use mobile money. Yet the sector is still unregulated, untaxed, and vulnerable. Growth of the mobile communications industry has stimulated growth of a mobile economy, with MNOs facilitating services like mobile banking, agriculture, and E-education. Energy bills are among the most common bills Somalis pay (Figure 16).

Figure 16. Use of Mobile Money and Types of Bills Paid



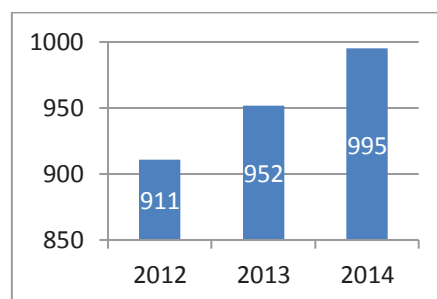
Source: Mobile Money in Somalia: Household Survey and Market Analysis, WBG 2017.

99. **Growth of the telecom sector has spurred positive externalities that are difficult to quantify, but contribution to the GDP is increasing (Figure 17).** Sector-related employment has been increasing rapidly, among new jobs are selling SIM cards and airtime and as agents managing mobile money. MNOs contribute not only to services like mobile banking but also to other social activities in rural areas. Parts of the country are dominated by different single mobile money service. The lack of interconnection across services requires users to buy multiple SIM cards, which has reduced competition by squeezing out smaller players.

100. **Because the ICT sector has been operating informally for two decades there is no information to support estimates of its current revenues and the potential for collecting revenues from taxes and fees.**

Telecom operators do not consistently report such useful information as subscriber base, revenues, or profit. Moreover, the lack of regulation prevents the government from fully capturing the sector's revenue potential. Current telecoms contribution to the public finances is minimal; it consists of monthly voluntary payments from MNOs to the treasury that together total US \$400,000. Because of the conflict, when launched the ICT sector had to operate informally, and still does; no licenses are required and no fees are charged for the use of spectrum and frequencies. If the government would replace these self-protective voluntary payments by installing a formal system of taxation and regulation, ICT could contribute US \$82.5–103.1 million in revenue annually (Lange, 2015). MNOs could also be used to collect government airtime charges and payroll taxes.

Figure 17. Telecom Contribution to GDP, US \$ Million (Estimated)



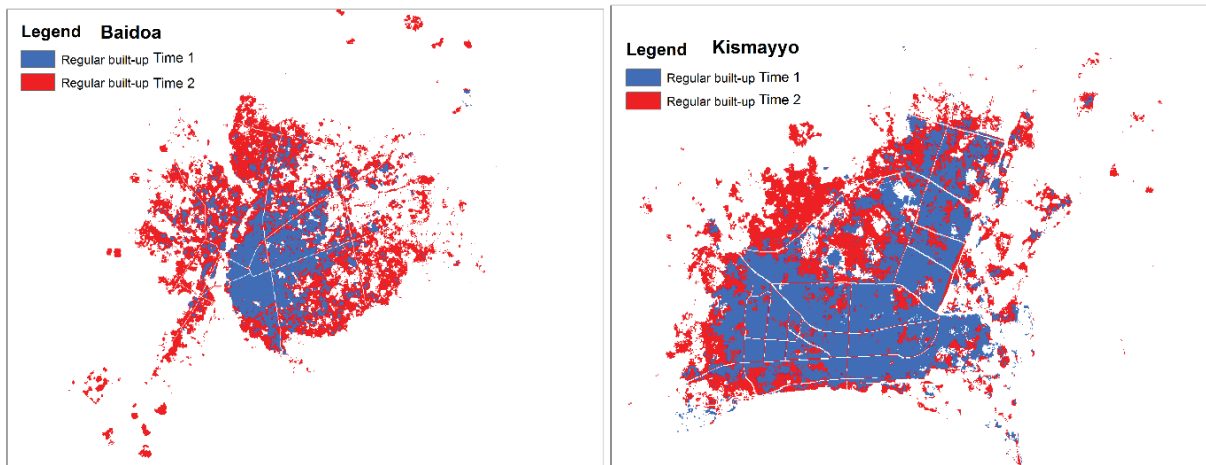
Source: Somalia Economic Update, 2016.

D. Urbanization and Land Administration

101. **Normal urbanization patterns in Somalia are complicated by rural drivers of migration.** Among those drivers are climate change shocks that are leading pastoralists to withdraw from the livestock business, and people fleeing violence, which is most prevalent in rural

areas. Assessments based on remote sensing identify considerable growth in the urban footprint of secondary cities like Baidoa and Kismayo between 2011 and 2015 (Figure 18). Provision of urban services and infrastructure, such as roads and transport, drainage, water supply, sanitation, and solid waste removal, is far from keeping up with the influx of people.

Figure 18. Change in urban extent in Baidoa and Kismayo, 2011 to 2014



Source: Somalia World Bank Geospatial Operations Support Team.

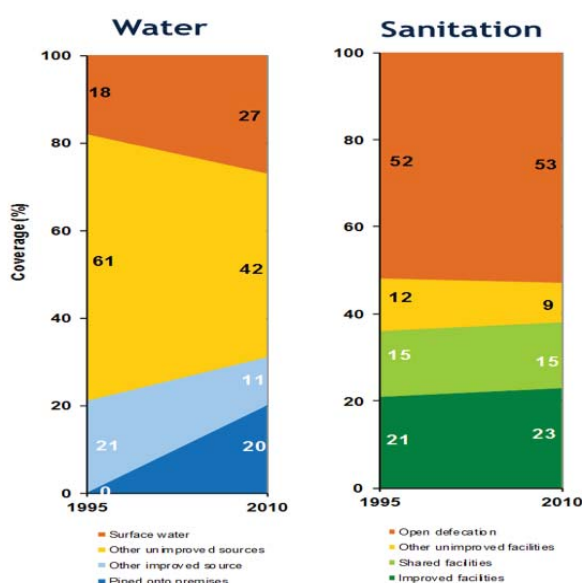
102. **The structure of local government varies among Somali territories but generally consists of regional administrations/states, district governments (DGs), and village committees.** The village committees are constituted under DGs as participatory planning entities and vehicles through which DGs can connect to local communities. There are also public utilities at the municipal level. The role and levels of authority of local governments vary: the legal structure is much more evolved, for instance, in Puntland and Somaliland. DGs rely on some local service charges and local government transfers. Larger cities with more resources command more power and their mayors have more authority, but a range of governance issues retard much-needed improvement in such areas as city infrastructure.

103. **Together with public utilities, municipalities also have functional powers and responsibilities for providing and managing urban infrastructure and services.** Local government links to service delivery are poorly articulated. Local government fiscal and administrative capacity varies considerably across urban areas, as do links to central federal structures. Generally, capacity needs to be built up across the board in governance and mandates, organization culture and leadership, sector strategies and institutional coordination, systems and processes, and HR management.

104. **Solid waste management and sewerage systems, if any, are rudimentary.** While there are no national data available, major cities have high levels of uncollected solid waste throughout their public spaces. Of the estimated 1,500 tons per day of solid waste produced, only a small percentage is collected and disposed of in specified dump sites, even in areas where public-private partnership arrangements with TIKa and UN-HABITAT are in place. Without engineered infrastructure for storm water drainage in urban areas, natural streams and rivers act as drainage “sinks” and networks for conveying away household sewerage. High rainfall causes flooding when there are constrictions in neighborhood drainage patterns.

105. **Somalia has the lowest rates of access to water and sanitation in the world.**²¹ Nationally, just 31 percent of households have access to improved water and only 23 percent have access to improved sanitation (Figure 19). Rural access appears to have worsened. These services are complex to deliver and even harder to maintain. Rural households often self-supply using *berkhads*, but the water quality is often very poor. Access to urban water and sanitation has improved marginally; these services are often provided by numerous small suppliers rather than formal utilities. Positive urban examples of these improvements are seen in Hargeisa, Buraro, Garowe, and Baidoa.

Figure 19. Water and Sanitation Trends in Somalia, 1995–2010



Source: UNICEF Somaliland Multiple Indicator Cluster Survey (MICS) 2011 Final Report, 2014.

106. **Access to improved water supply has expanded over the past two decades but its quality and the consistency of delivery are still major problems.** Reportedly, in urban areas there is now 66 percent coverage of “improved” water supply and 52 percent coverage of improved sanitation services. Yet even when rationing routines are established, water may only be supplied for a few hours a week. A 2012 UNICEF/WHO water quality survey also found that of the 290 wells and boreholes in Mogadishu, only 104 were considered safe. Similarly, connectivity to the water supply network is often low: 36 percent in Hargeisa, for instance, and 39 percent in Garowe.

107. **There is a substantial difference in donor engagement with municipal institutions across Somalia, with Somaliland and Puntland receiving significant external support in recent years.** The Wadajir framework, launched in March 2016, is a national approach to local governance designed to strengthen links between federal and district authorities and harmonize donor programs. Once fully operational, it is likely to affect municipalities across the country, but the new administration’s support for the process will determine its success. In any case, the sheer scale of the urbanization challenge requires considerable investment and improvement in local governance and ability to advance their functioning if cities are to become successful drivers of the Somali economy.

²¹ The 2006 MICS reported that 38 percent of Somalis under 5 years old were stunted and 21 percent had had diarrhea at some time in the two weeks before the survey; both health problems can be linked to poor water quality.

IV. Human Capital

108. **Somalia's human capital suffers from the lack of availability and access to both health and education, trapping many Somalis in poverty by denying them opportunities to prepare themselves for sustainable livelihoods.** Developing economies grow and poverty is reduced when people, especially the young, have better schooling and better health (Lange et al., 2018). In Somalia, the legacy of conflict and the continuing fragility have taken a huge toll on the country's human capital, as reflected in alarmingly low health indicators and poor educational outcomes. The persisting lack of access to health and education continues to deprive the young from engaging in productive livelihoods. With 75 percent of Somalis younger than 30, this presents a critical constraint on future economic growth and poverty reduction but also presents a risk of young men especially seeking illegal and violent livelihoods when there are no other opportunities.

109. **The educational problem is even more severe for IDPs and other girls and women.** Probably because of marriage and pregnancy, older girls are less likely to attend school. In the labor market husbands often do not allow their wives to work. IDPs, especially in designated settlements, are among the poorest and least educated Somalis, and there is not much hope that displacement will end or that without dedicated support they will escape poverty.

110. **The private sector partially mitigates the lack of public education and health care but high user costs again exclude the poor and most vulnerable.** The public sector allocates only small amounts to finance the health and education systems. Funding comes mainly from local user payments, communities, and international organizations; user out-of-pocket payments are quite important. Both hospitals and schools suffer from shortages of staff and equipment, poor infrastructure, and bad management. Private health and education facilities are usually in better shape but their user fees are high. Remittances help poor households access those services, creating better outcomes, especially in education. However, remittances do not reach the most vulnerable Somalis, such as those internally displaced.

111. **High-frequency fragility trap that prevents the accumulation of productive human capital manifest itself in several ways.** A lack of resources, both public and private, leads to under-investment in education, which deprives many Somalis of the skills needed to generate enough wealth to spend more on education. A lack of spending on health care reduces both life expectancy and the productivity increase associated with more experienced workers. In addition to underinvestment in girls' education and the prevalence of early marriage, Somalia has one of the highest fertility rates in the world. The resulting increase in the share of children and young people in the population creates an additional barrier to women participating in the labor force and spreads already meager health and education spending over a larger number of children, further complicating accumulation of productivity-enhancing human capital. This vicious cycle can produce a low-frequency trap—if, for example, too little education deters adoption of more advanced agricultural technologies that could encourage more sustainable farming practices. The resulting environmental consequences then contribute to the likelihood and severity of famine and drought. Failure to invest sufficiently in health care and health systems heightens the risk of disease and pandemic, possibly intensifying both high- and low-frequency development traps.

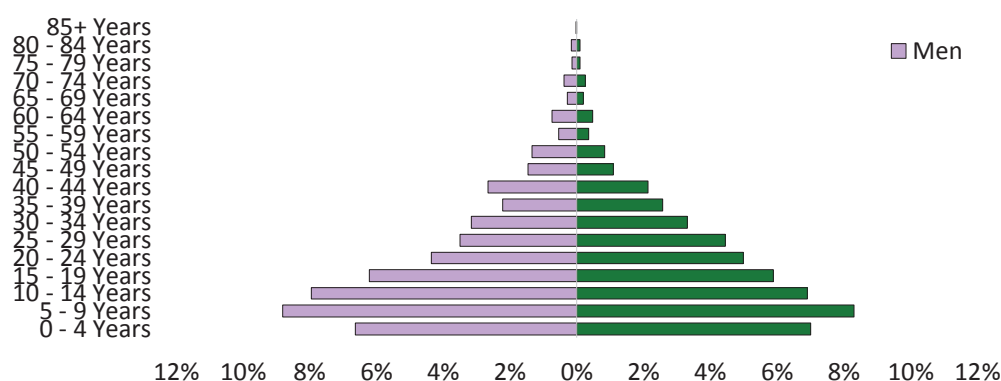
A. Population

112. **The UNFPA's Population Estimate Survey (PES) in 2014 produced the first population estimates for Somalia in many years.** Total population was estimated at 12.4

million— 42 percent urban, 26 percent nomadic, 23 percent rural, and 9 percent displaced. With the population estimated in 1990 at 6.3 million, the estimate reflects annual average population growth of about 2.9 percent, driven by a fertility rate of over 6 births per woman. Meanwhile, after falling in the war period life expectancy is improving, reaching an average of 55 years in 2012— 53 years for men and 56 years for women—which is only slightly lower than the Sub-Saharan average of 56 years. (UNFPA, 2014)

113. Young people constitute the largest population cohort in Somalia. The Somali population pyramid (Figure 20) is extremely skewed to youth: 86 percent are under 40, 75 percent under 30, and 58 percent under 20. About half of all women are between the ages of 15 and 49. Thus, the population is expected to continue to grow at a high rate, especially if improved health systems reduce mortality rates. Without livelihood options and opportunities for young adults, especially young men, the opportunity of a youth dividend creating economic growth can turn into a risk of increased violence.

Figure 20. Somalia Population Pyramid



Source: Population Estimation Survey, UNFPA, 2014.

B. Health

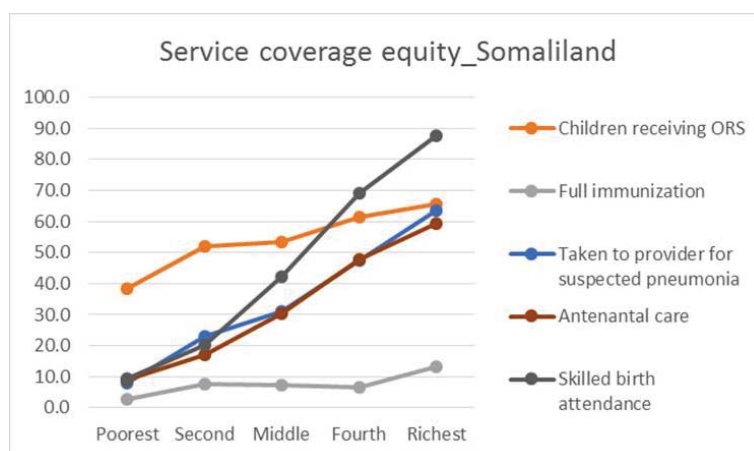
114. Somalia's health indicators are still as depressed as in the 1970s. In 2015, estimated life expectancy at birth was 55 years, the under-5 mortality rate was 137 per 1,000 live births, maternal mortality was 732 per 100,000 live births and the total fertility rate (TFR) was over 6. These have changed only slightly since 1970, despite a functioning government in Somalia until the early 1990s. The civil war exacerbated these rates, and in 1991 and 1992 crude mortality rates surpassed those recorded in Ethiopia during the 1984–85 famine. High fertility aligns with a low rate of contraceptive use (15 percent), which explains Somalia's considerable population growth despite its high mortality rates. Over 90 percent of births take place in the home and only about 33 percent are attended by a skilled birth attendant.

115. Although partially rebuilt in recent years, the health care system is still not thriving. Most hospitals and health centers must deal with equipment shortages, poor infrastructure, and inadequate capacity while depending on patient out-of-pocket fees that limit access, particularly for the poor. The mix of providers (public, private, NGOs) is neither well-counted nor known for the quality of their care. Nonetheless, the most recent mapping of public facilities, in 2010, identified 544 health posts, 260 health centers, and 34 hospitals nationwide. Although foreign agencies have contracted with hundreds of NGOs to manage public facilities, little attention has

been given to primary health services, such as prevention and health promotion; donors mostly focus on vertical programs, and patients tend to use services only when they are very ill. Pharmacies (usually private) often serve as the first point of care. Though one of the largest sections of the economy, pharmaceuticals are under-studied. Procurement and supply channels are fragmented and largely unregulated, and pharmacy medicines are regularly out of stock.

116. **Health financing in Somalia is a mélange of government, foreign agency, Islamic charity, diaspora, and service user financing, and regional disparities are large.** Government, particularly in southern Somalia and in Puntland, is a relatively minor source of funding. For 2014 The Federal Ministry of Health budgeted US \$60,000 for operational expenses and US \$24,000 for travel and per diems, and the Puntland budget was about US \$500,000 per year—about 10 cents per capita. In Somaliland, between 2009 and 2015 the health budget saw steady growth, from US \$1.1 million to US \$7.1 million. Despite substantial funding from foreign agencies, there are still large per capita spending disparities across zones, ranging from US \$1.90 in 2009 to US \$14.30 in 2014. Out-of-pocket costs in Puntland are estimated to be about US \$12 per capita. A large proportion of health funding and service delivery bypasses the government in terms, e.g., of Islamic charity and diaspora support to the private sector and donor support to UN agencies and NGOs. Private investments are skewed to hospital care and donor support to vertical disease programs. Basic reproductive, maternal and child, and nutrition services are seriously underfunded.

Figure 21. Health Services Coverage in Somaliland, Percent



Source: UNICEF Somaliland Multiple Indicator Cluster Survey (MICS) 2011 Final Report, 2014.

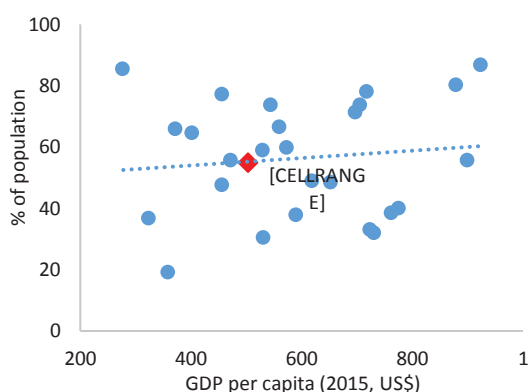
117. **Regulation and oversight of the health sector are minimal, and a lack of data undermines evidence-based policy analysis.** Whereas in most countries, the health sector is usually dominated by the public sector. In Somalia, limited government funding and capacity have created a private and community-led health sector that suffers from limited availability and quality of services. Even when available these services are often too expensive for the poor and vulnerable. The severe lack of data on the number of providers, the quality of services, etc. severely constrain any meaningful policy analysis.

C. Education

118. **While Somalia's literacy rate is on a par with its peers, educational attainment is not.** Because the public education system was not functioning, two generations of Somali children have

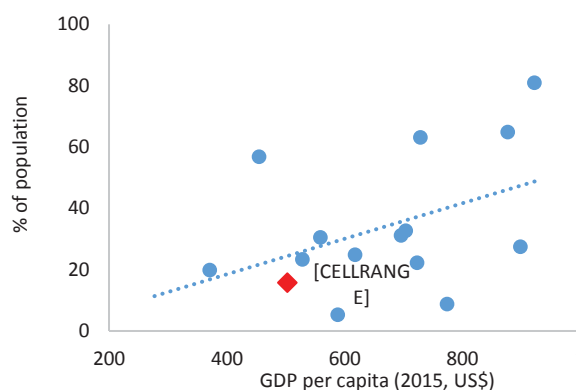
missed out on an education. Given the very low levels of public funding, primary education has expanded mainly because of nonstate providers (integrated madrassas, private schools, NGOs, donors), with financing supplemented by household funding, remittances, and foreign grants. There are also alternative delivery models, such as accelerated programs for primary education. However, these are rarely monitored for quality assurance. As a result, only 55 percent of Somalis can read and write, a rate similar to that of other Sub-Saharan countries where no school was available for generations of children. However, only 16 percent of Somalis have completed primary school compared to 34 percent in low-income Sub-Saharan countries as a group, and only 7 percent have finished secondary school, compared to 19 percent in Somalia's regional peers.²² While Somalia has the literacy rate that might be expected given its GDP per capita, primary educational attainment is considerably lower. Statistics do not consider nomadic children, of whom only an estimated 22 percent have formal schooling, which makes them one of the groups most excluded from education in Somalia. Without general improvements in educational attainment, Somalia's human capital will not grow, and the literacy rate will also trail expectations given the large number of youth who should be in school. This can also affect health: there is evidence that for every extra year of education for young women, child mortality drops 9.5 percent.

Figure 22. Literacy Rate, Sub-Saharan Low-income Countries



Source: Somali Poverty Profile 2016, World Bank.

Figure 23. Primary Educational Attainment, Sub-Saharan Low-income Countries



Source: Somali Poverty Profile 2016, World Bank.

119. Poverty is closely associated with the likelihood that a child will be enrolled in school; poor households are less likely to spend on education. On average, poor households spend US \$25 a year on education, and the nonpoor spend US \$47. Only 52.9 percent of Somali children are enrolled in school, compared to an average of about 70 percent in low-income African countries generally. About 63 percent of children in nonpoor households are enrolled, but just 45 percent of children in poor households. There are serious disparities in enrollment and educational expenditures by region: in Somaliland, 6 in 10 children are enrolled, compared to just 4 in Mogadishu and IDP settlements.²³

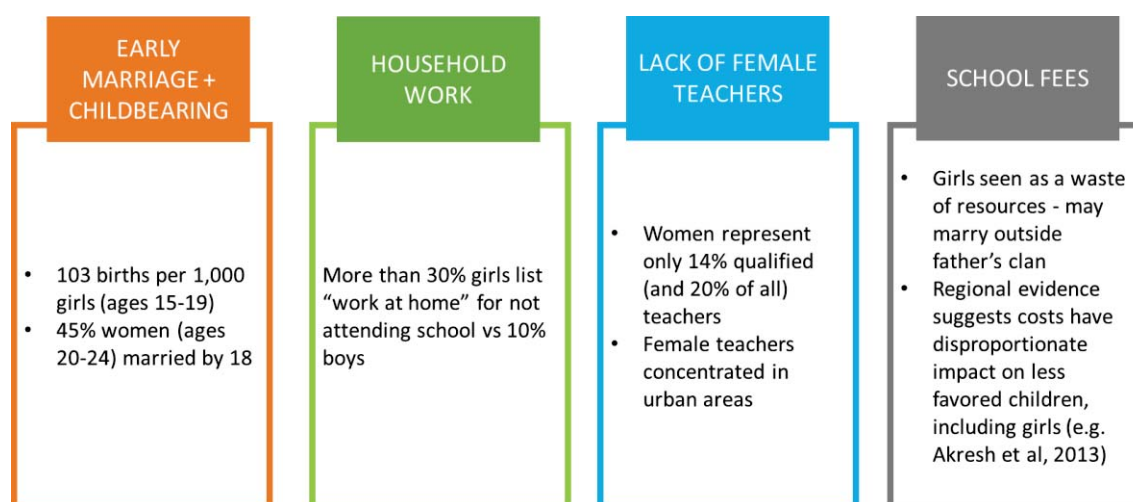
²² Among low-income Sub-Saharan countries, Zimbabwe has the highest literacy rate (87 percent) and levels of primary education (81 percent) and secondary education (61 percent); Niger, Burkina Faso, and Chad have the lowest rates: literacy 19 percent, primary education 5 percent, and secondary education 6 percent.

²³ Differences in nonfood expenditures across regions (i.e. expenditures in education, health services, electricity, etc.) may be caused by regional differences in prices, which depend on the relative supply, demand, and degree of tradability for that product/service.

120. **The gender disparities prevailing in education disadvantage girls.** On average, school enrollment is 4 percentage points higher for boys, though the gaps are smaller in Mogadishu and Puntland. Enrollments of children in households headed by women are much lower than in male-headed households in Mogadishu and IDP settlements, where poverty is more severe. Such low access to education for girls is likely to have numerous negative impacts, among them higher population growth; poorer future opportunities for employment, lower wages, and ultimately lower GDP; heightened vulnerability; and poor health outcomes for women and their children. There are 0.4–0.9 percentage point differences in per capita GDP growth between East Asia and Sub-Saharan Africa that can be accounted for by differences in gender gaps in education (Klasen 2002).

14. **Gender gaps in enrollment widen between primary and secondary school, influenced by adolescent fertility and traditional gender roles.** In Puntland, the Gender Parity Index (ratio of female to male enrollment) is 77 percent at the primary level but drops to 54 percent for secondary. The figures are not much better in southern parts of Somalia (81 percent for primary and 70 percent for secondary) and Somaliland (81 percent and 63 percent). Entrenched norms that emphasize female domestic responsibilities may depress enrollment. Over 30 percent of girls “work at home” and are not attending school, compared to 10 percent of boys (UNDP, 2012). Additional constraints are prohibitive school fees, which are especially significant for girls, who may be regarded as a waste of resources.

Figure 24. Major Drivers of Gender Disparities in Schooling



121. **A lack of qualified teachers combined with low funding lead to inadequate learning and teaching materials, textbooks, and school facilities, create a poor learning environment for children.** Only 20 to 30 percent of primary and secondary teachers are trained in Somalia. Public spending on education at all levels is very low: in 2015 it was 1.4 percent of the federal budget, 5 percent in Puntland, and 7.2 percent in Somaliland. There is no information on how much actually is spent. Teacher gender disparities may also affect girls’ enrollment rates: the 14 percent of qualified teachers who are women are concentrated in urban areas. Private providers prefer to hire unqualified men, who cost less and do not require maternity leave. While basic education is the priority, training teachers might require targeted expansion of secondary and higher education, with appropriate quality assurance.

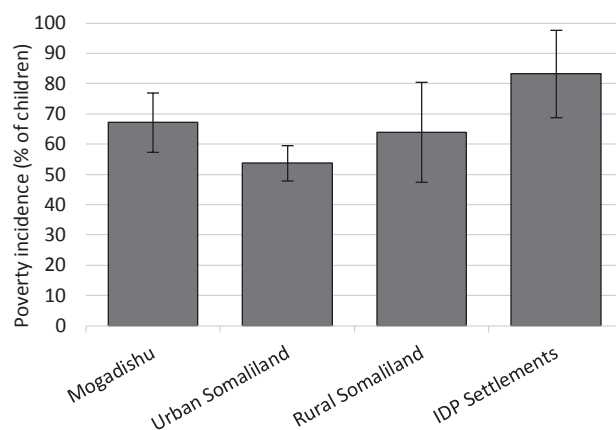
122. **Remittances help households to send their children to school.** Children youth in households that receive remittances have a higher school attendance by 13 percentage points and youth in those households have higher attendance by 17 percentage points. This provides some

evidence that remittances lead to investments in education, since recipient households have higher incomes, are less poor, and are more likely to send their sons and daughters to school.

123. **Poverty is highest among households whose head has no education.** Poverty rates for these households are 4 to 5 percentage points higher than the average. In Somaliland, 68 percent of urban poor people live in households whose head has had no schooling, as is also true for 73 percent of the rural poor. The proportions are similar, but in rural areas fewer poor people live in households whose heads have completed higher levels of education. Poverty rates in rural areas are higher for all levels of education except secondary, which may reflect lower returns to education in rural Somaliland.

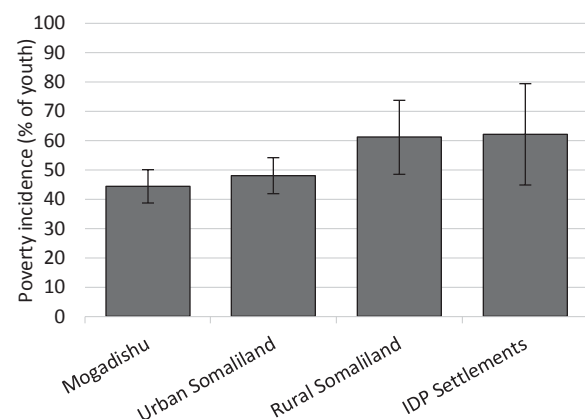
124. **Almost 80 percent of Somali children are deprived in at least one welfare dimension.** Of younger children 79 percent are deprived in at least one dimension and 47 percent are deprived in two; for youth, 85 percent are deprived in one dimension and 54 percent in two. Deprivation is concentrated in rural Somaliland and among IDP populations (Figure 25 and 26). For children, in urban areas and IDP camps consumption deprivation is the most common, and in rural areas lack of access to an improved water source is most common. Along with the lack of access to information, consumption deprivation is more common for youths in Mogadishu and urban areas of Somaliland. Access to an improved water source is the second most common deprivation in rural areas of Somaliland and in IDP settlements.

Figure 25. Child Poverty by Region, Percent



Source: Somali Poverty Profile 2016, World Bank.

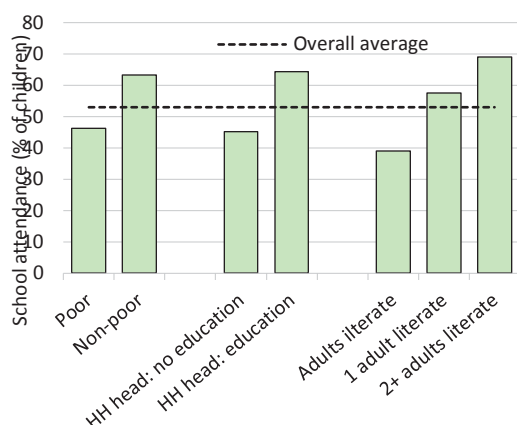
Figure 26. Youth Poverty by Region, Percent



Source: Somali Poverty Profile 2016, World Bank.

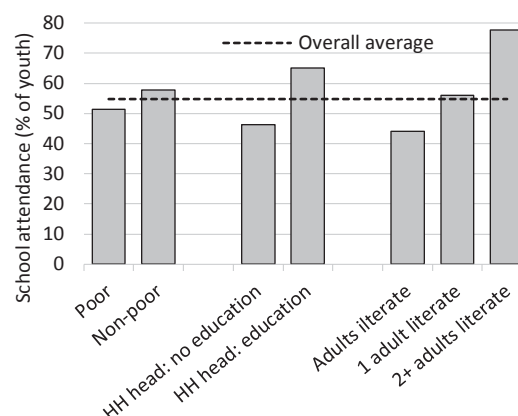
125. **Many poor children and youth, especially in IDP settlements, are growing up in challenging water and sanitation conditions that affect their health and future productivity.** Less than 50 percent of children and youth drink water from a piped source. Children and youth in rural areas are much less likely to treat the water from an unprotected water source. Most children and youth in IDP camps and rural Somaliland rely on other water sources. Water and sanitation can have a deep impact on health and productivity, and thus, on income generation opportunities and future poverty status.

Figure 27. Child School Attendance, Percent



Source: Somali Poverty Profile 2016, World Bank.

Figure 28. Youth School Attendance, Percent



Source: Somali Poverty Profile 2016, World Bank.

D. Labor Markets

126. Somali labor force participation and employment rates are the lowest of all African low-income countries. Only 25 percent of people of working age are active labor market participants, having either worked or sought work in the last seven days, compared to an average of 76 percent for all low-income Sub-Saharan countries. Similarly, only 20 percent of Somalis are employed, compared to an average of 70 percent in low-income Sub-Saharan countries. There may be two reasons for such low estimates of labor force participation and employment: (1) the data might produce skewed estimates because only one respondent per household was asked about the labor market. (2) of the inactive, those who are not seeking employment and have not worked in the reference period, 20 percent report “taking care of own household” as the main reason for being inactive. Both factors may lead to underestimation of labor force participation and employment.²⁴

127. On average, employment among the poor is 9 percentage points lower than among the nonpoor. Employment rates in urban and rural areas, as well as across the regions, do not differ significantly, despite less poverty among those in urban areas. Higher labor force participation is a weak indication of the level of poverty, with labor force participation being higher among the nonpoor in all regions except for the IDP settlements. Lost employment opportunities can undermine human capital.

128. The gender disparities in Somalia are also prevalent in the labor market, as evidenced by an extremely low labor force participation rate for women. Men’s participation in the formal labor force is 32 percent while women’s is at 18 percent. Out of the participating individual, men have a 32 percent employment rate which is more than three times higher than among women. This gender gap in employment (23 percentage points) is much higher than any regional (4 percentage points) or urban-rural (3 percentage points) disparities. Gender disparities in Somalia are also evident, as evidenced by the different reasons for inactivity. For 50 percent of women, housework is the main reason for being out of the labor force, compared to 6 percent of men. On

²⁴ The wording of labor market questions followed ILO guidelines and were adapted to the Somali context to ensure that it did not discourage reporting of casual activity.

the other hand, only 19 percent of women report school enrollment as the primary reason for inactivity, compared to almost 57 percent of men. More than 16 percent of inactive women generally and 30 percent of those living in Mogadishu report “not being allowed by the husband” as the main reason for inactivity. While the gap in school enrollment between boys and girls aged 6-14 is relatively small (4 percent), the gender gap in school enrollment between inactive men and women reflects the lack of educational opportunities for Somali women once they reach adulthood.

129. Illness, disability, and fear of conflict all prevent men more than women from participating in the labor force. Insecurity due to conflict is reported by 6 percent of inactive men but is negligible for women. Disability or illness is reported by 12 percent of inactive men compared to 4 percent of inactive women. Not surprisingly, conflict affects the decision of 25 percent of the men in Mogadishu to stay out of the labor force. The relatively high prevalence of illness-related reasons for men’s inactivity is particularly indicative of the need of health services for this group.

130. Services is the main sector of wage employment for working adults, but agricultural activity is the main source of rural livelihoods. More than 68 percent of the wage-earning population is engaged in the service sector, 17 percent in manufacturing, and 15 percent in agriculture. Within services, employment is concentrated in retail. In many, though not all, rural areas, agricultural income is more important than wage employment, e.g., by 67 percent in rural Somaliland.

131. Wage employment dominates the nonagricultural labor force, closely followed by self-employment. About 53 percent work for wages and 27 percent on their own account. Services represent 67 percent of rural and 71 percent of urban wage employees. Poor and nonpoor households are equally likely to have income from wage employment and nonagricultural self-employment, but the relative significance of these sources differs considerably. In rural areas nonpoor households rely more on wage income and less on self-employment income than poor households.

132. Women are less likely to be paid employees and are more likely to be self-employed or unpaid workers. Unequal domestic and reproductive responsibilities are the main barriers to women’s employment, although other studies have highlighted such additional barriers as clan-based recruitment that favors male workers, lack of skills (lower literacy), lack of female-friendly working environments, and less access to information (e.g., due to lower mobility outside the home and lower technological literacy and access. In general, women tend to have less access to channels through which job opportunities are advertised, such as notice boards, websites, and print media. This limits their ability to break the cycle of poverty.

V. Entrepreneurial Capital

133. **Despite Somalia's vast challenges, its private sector has taken the lead in the formation of produced and human capital and utilization of its natural capital.** Reforms to the business climate—both legal and regulatory—and adequate and efficient institutions are essential for the next stage of Somalia's development and will provide opportunities for increased investment, inclusive growth, and poverty reduction.

134. **A healthy and inclusive private sector raises worker productivity and expands opportunities for workers by linking them to local, regional, and global value chains.** Fulfilling Somalia's private sector potential requires nurturing segments that present compelling opportunities for economic development. Small and medium-sized enterprises (SMEs) are essential to unleash the entrepreneurial agility of Somalis. Efforts to improve access to finance and expand the economic participation of women and youth will also yield significant dividends.

135. **Somalia must also address its continuing security concerns and structural impediments.** Despite renewed hope, multiple market failures complicate the next stage of private sector growth and economic expansion. Among them are insecurity, informality, unreliable and costly infrastructure, lack of access to finance, acute shortages at all skills, lack of effective regulation, and poor trade logistics and support services. Left unaddressed, these will discourage private investment and undermine competitiveness in promising sectors like manufacturing, agribusiness, mining, and fisheries.

136. **The fragility trap model helps illustrate the difficulties confronting firms and policy makers seeking to build entrepreneurial capital in Somalia.** The inadequacy of infrastructure, security, and the rule of law raises the cost of doing business, jeopardizing the commercial viability of potential private-sector ventures. For example, to obtain reliable electricity, firms are forced to operate costly generators; to compensate for the absence of adequate and professional policing, firms must hire private security. This reduces both the profitability of private firms and the retained earnings available to finance investment. In such a risky environment, where enforcing contracts is not easy, access to affordable finance is minimal. These conditions prevent growth in the tax base from which the state can draw revenue to fund basic services. The state is therefore unable to provide the public goods on which most firms rely in order to be competitive; and the cycle continues.

A. Trade and Entrepreneurship

137. **Somalia's private sector is vibrant, and closely linked to the diaspora.** Despite 25 years of violent conflict, the signs of economic improvement are promising. There is anecdotal evidence that some emigrant Somalis are returning to invest and open businesses. Telecommunications and the financial sector in particular have seen rapid growth in recent years, which suggests that high-value services will flourish. The favorable performance might be attributed to two factors: (1) Technology-intensive activities rely less on traditional infrastructure; and (2) these sectors benefit from remittance flows. Telecoms employs about 25,000 Somalis, generates substantial profit, and has made possible a mobile penetration rate of 20 subscriptions per 100 people. For the financial sector, the money transfer business is significant, considering that remittances likely exceed US \$1.2 billion a year.

138. **International trade is a second avenue that has driven private sector growth.** Livestock is the mainstay of Somali exports, comprising 80 percent of total export earnings and primarily bound for the United Arab Emirates, Yemen, Saudi Arabia, and Oman. In 2010, the total value of exports was made up of sheep and goats (61 percent), bovines (13 percent), live animals except farm animals (8 percent), wood charcoal (7 percent), and oil seeds (4 percent). Somalia's location and physical characteristics could allow it to engage in inter- and intraregional trade along several corridors (Figure 29). Over the longer term, it could merge into trade flows connecting Europe, Asia, the Middle East, and Africa, and become a gateway to east Africa. Reaping such benefits will require investments in, e.g., building sub-regional transport connectivity, a task that will require coordination between multiple countries.

Figure 29. Major Potential Corridors Linking Somalia with Neighboring Countries



Source: World Bank Staff

139. **SMEs could further galvanize economic development because they account for 90 percent of employment.** Increasingly, they are in the trade and services industries. Traditionally, the Somali people have been seasoned entrepreneurs used to trading across borders. With the right policies and institutional support, this strength could transform the Somali economy and create further linkages with its diaspora.

B. Competitiveness

140. **In several sectors powerful conglomerates dominate the private sector, which could make it more difficult to open up more expansive business opportunities.** Today's largest widely diversified enterprises (WIDEs), which emerged from the dominant money transfer / hawala businesses, have grown to encompass diverse interests in a range of sectors. Their financial interests include banking, microfinance, and mobile money; nonfinancial interests span telecoms (Internet and mobile), agriculture, real estate, energy, water distribution, and commodities trading (import and export). In different regions, the leading WIDEs tend to create monopolies in some sectors. They have adapted their organizational structures by cross-sector bundling of businesses to lower transaction costs, reduce asymmetric information in financial contracting, and diversify risk. Such consolidation has enabled WIDEs not only to provide a broad variety of services but also to make capital investments that otherwise would not be possible. While new entrants have been calling for a more level playing field, reforms to facilitate competition could face resistance from incumbents who may perceive their interests under threat.

141. **Because it has little ability to raise revenues from individuals and businesses, the Somali government lacks technical and financial resources to make the major public capital improvements and sector reforms that are necessary to enhance the business environment.** Informality is high. Only a small percentage of companies are formally registered with the Somaliland Ministry of Commerce and Investment or Somalia's Ministry of Trade and Investment. An incomplete legal and regulatory structure, burdensome administrative procedures, and high compliance costs exacerbate this situation. In some industries unclear sectoral mandates, such as the lack of a resource-sharing agreement for fisheries, also impede development. Indeed, in Somalia there are problems related to numerous aspects of doing business, from obtaining credit to getting electricity to dealing with construction permits. The *Doing Business 2017* report ranks Somalia last of 190 economies, while *Doing Business in Hargeisa 2012* ranks Hargeisa 174th out of 183 economies on ease of doing business.

142. **Somali industries suffer from an acute shortage of skills, and training and other employment services are often either unavailable or unaffordable.** Economic opportunities for women are inhibited by cultural norms (e.g., women need their husbands' signatures to do business), though this is changing, slowly, because the war left many households headed by women. Giving women more access to finance, labor participation, and educational opportunities is likely to have a disproportionate impact on alleviating poverty. Previous studies correlate women in work with a highly positive impact on poverty reduction, because a greater proportion of their earnings is deployed for child health care and education. However, the large numbers of Somali youth that have no access to meaningful job opportunities and the resultant risk of disenfranchisement is troublesome.

143. **Lack of access to finance is another major constraint, especially for SMEs.** Somalia ranked 185 out of 190 economies on getting credit.²⁵ Its nascent financial sector lacks breadth and depth, the main products being limited to money transfer and trade finance. Most commercial banks are concentrated in Mogadishu and Hargeisa; there are few branches in other parts of the country. SMEs in particular lack access to financing, creditors' rights are weak, and there are no laws that enable businesses to collateralize assets—especially movable assets—to generate capital. However, mobile money (Zaad, EVC Plus, E-maal, Sahal, and E-Dahab) could in future offer opportunities to unlock financing, particularly in underserved areas.

144. **Because only 3 percent of Somalis have a birth certificate and the majority lack any proof of identity at all, vast segments of the population confront significant barriers in accessing critical services and becoming full members of society.** Exclusion is concentrated among the poorest, who face additional barriers. Current functional ID systems are designed and implemented from different points of entry for service delivery (e.g., an expensive passport system, a fragmented approach to social protections such as the WFP program, and accessing services from other humanitarian agencies and NGOs); the result is an untrustworthy ID landscape, substantial inefficiencies, and high costs, both private and public.

145. **Foundational ID systems are designed to register and identify individuals and enable generation of unique government-recognized credentials (e.g. digital ID numbers, paper/plastic/laminated cards, smart cards, digital certificates, and mobile IDs) that can be used as proof of identity.** Foundational and national ID systems can be integrated if there is political consensus that such a document is needed and funds are authorized. Implementing a foundational ID framework would require the collaboration of a number of stakeholders – e.g. the telecom sector for registration and rolling out SIM card registration with telecom operators, humanitarian and social protection actors who can use cash transfer programs to drive participation, and the financial sector for subsequent authentication, such as know-your-customer (KYC) bank systems.

C. Financial Sector

146. **Somalia's financial sector is concentrated, with larger banks and money transfer operations (MTOs) operating as WIDEs subsidiaries.** The three most recognized names are Dahabshiil Bank International, Amal Bank, and Salaam Bank. Two takaful (insurance) companies operate in Somalia, FISO and TIA. According to the CBS website, there are 14 licensed MTOs and several microfinance institutions (MFIs), among them Micro-Dahab, Kaah Express, Kaamil MFI (Puntland), and Kaaba MFI (Somaliland). CBS does not regularly monitor MFIs.

147. **Regulatory and oversight capacity to monitor the financial sector is minimal.** The CBS oversees Somalia's licensed banks and MTOs but does not have much regulatory and supervisory capacity. Informality is high—as of 2015 an estimated 35 active MTOs were functioning as primary financial institutions, but very few are registered with the CBS. The financial sector tends to rely on traditional mechanisms for dispute resolution and contract enforcement. For instance, a bond in Somalia is considered to be a loan surety issued by well-regarded elders of a clan or community, just as a guarantor will fulfill obligations to a financial institution. Other examples are

²⁵ Economy Profile 2017 Somalia, 2017; The Enterprise Survey (ES 2013) in Somaliland, 2013.

credit referencing, where loan committees comprise members of the community rather than just staff of financial institutions, and deposit taking, which entails safekeeping of funds by MTOs.

148. **Inadequate regulatory and supervisory capacity threatens the access of Somali financial institutions to global banking and remittance and insurance networks.** Those are needed both to channel ODA and remittance flows and to perform risk intermediation. Of the reportedly 35 MTOs that were operating out of the UK, in the past few years 16 have seen their bank accounts closed. This is symptomatic of a broader trend of commercial banks ending relationships with Somali clients, who are deemed to be too high-risk. There is little oversight of possible MTO involvement in money laundering, and no measures to confirm the extent to which these remittance channels might be used to transfer funds to Al-Shabaab or other terrorist organizations.

149. **High international standards of financial integrity have implications for the financial services arms of WIDEs.** Incumbents are too large to rely on informal channels to securely and conveniently move funds globally but they are too small for international partners who must comply with global standards to justify the risk exposure. This exerts pressure for two types of reforms: (1) There needs to be increased transparency in the ownership structure, governance, and financial operations of the commingled financial sector interests of WIDEs. And (2) Somalia must build an effective supervisory system, both to safeguard the stability and integrity of its financial market, and to promote access, depth, and efficiency.

D. Public-Private Partnerships

150. **Public-private partnerships (PPP) are mainly found in the transport and telecommunications sectors.** Information on PPP projects in Somalia is difficult to acquire, except for commercial information and telecommunications projects. The World Bank PPI Database lists 17 projects in Somalia between 1990 to 2016; except for one in the transport sector (the Aden Adde Airport), all others are in telecommunications (World Bank 2016). Given the high level of informality and the lack of transparency, the universe of PPP projects will be much larger, especially at the municipal level.

VI. Social Capital

151. **The devastating civil war destroyed the trust of Somalis especially in a central state authority, confining many transactions to clans and thus delaying development of social capital.** With the outbreak of the civil war, as state authority declined, clan structures filled the gap, facilitating traditional state functions such as redistributing resources to households in need, for example through religious tithing and alms mechanisms like *zaqat* and *sadaqah*. While those transfers mitigate hardship for receiving households, they are often insufficient and not well-targeted, failing to reach the most vulnerable households, such as IDPs. The absence of a formal, transparent, and well-targeted program makes it difficult to rebuild trust in institutions and to overcome such binding constraints as lack of access to health and education.

152. **Gender inequality and gender-based violence (GBV) are major challenges throughout Somalia.** GBV numbers are alarmingly high; in Puntland 25 percent of women are affected, with similar percentages likely in other areas of Somalia. Displaced women are particularly at risk of violence. Any development approach that hopes to secure strong and inclusive growth will need to address the pervasive gender disparities.

A. Justice and Dispute Resolution

153. **An effective justice system must be functional and legitimate.** While broad institutional capacity-building efforts are underway, in comparison with the security sector, the judicial and corrections sectors are under-resourced and highly contested. Ultimately this reduces the effectiveness of the security sector. The process of state formation and continuing security threats are heightening demands on Somalia's justice institutions—particularly the police, the courts, and corrections—to respond to citizen needs and establish the rule of law. As the capacity and effectiveness of the civilian police is established, the justice sector will need to respond to rising criminal, civil, and commercial caseloads.

154. **The justice system is fragmented and originates in disparate sources of law** derived from at least four sources: the Italian and the British legal systems, customary *xeer* principles, and Sharia law (itself open to varying interpretations). Generally speaking, judges rule according to their individual legal educational and social background. In Al-Shabaab (AS) controlled areas, where there is no formal justice system, Islamic court types often dominate. The formal federal court system reflects old state structures; in practice, there is neither a unified court system nor a single law or jurisprudence that applies across the board.

155. **Most Somalis rely primarily on traditional or clan-based dispute resolution (*xeer*) or Sharia courts.** Cases taken to federal courts are sometimes resolved through traditional or customary mechanisms, where a mix of *xeer*, Sharia, and statutory law may be applied (Gundel, Berg, and Ibrahim 2015). In many regions outside of Mogadishu and Garowe, where formal court structures have not been established or are embryonic, traditional elders are often the conflict resolution authority, relying primarily on the authority of their clan or militia to enforce judgments.

156. **The formal court system is considered expensive, inaccessible, and prone to manipulation.** According to a 2013 survey, only 13 percent of Mogadishu residents trust the formal courts compared to 48 percent who trust clan leaders and 29 percent religious leaders,

(Gundel, Berg, and Ibrahim 2015). Payments for processing a case go far beyond legally mandated court fees, and judicial decisions are often subject to political and economic pressures. Judges as well as parties to cases face serious security threats. Between 2007 and 2013, 27 FGS court staff were assassinated, 10 in 2013 alone, although in recent years there have been fewer assassinations. Appointments to judicial positions are seen to favour the dominant clan in each jurisdiction, leaving few options for minority clans to access an impartial justice system.²⁶ Women and marginalized groups, such as IDP, who are not under the protection of the dominant clan, are at particularly high risk of insecurity and therefore unlikely to receive justice without financial and legal assistance.

157. The federal court structure established in the Provisional Constitution is still in the early stages of implementation. The constitution sets out a judicial structure comprised of Federal and Federal Member State (regional) courts. The Constitutional Court is yet to be formed, regional courts are still being established, and it is not clear exactly what constitutes a federal or a member state court. The constitution does not address how courts will relate to one another and whether the member states and federal court systems will be separate or unified, with state courts that can decide all matters and federal courts that make final decisions on federal law. Somalia lacks the human resources in terms of judges, prosecutors, and defense counsel that will be necessary if this version is to function properly.

158. NGO legal aid programs seek to improve access to the formal system. The Association of Somalia Women Lawyers (ASWL), Somali Women's Development Centre (SWDC), and Coalition of Grassroot Women's Organizations (COGWO) work with lawyers and paralegals to provide free legal aid to groups at higher risk of insecurity, such as women and IDPs, in Mogadishu and in some areas in the south. Comparative international experience suggests hybrid approaches are optimal for allocating cases between federal, customary, religious, and alternative dispute resolution systems. Politically sensitive cases, such as those dealing with wartime atrocities, are often handled in special chambers, in hybrid or international bodies, or through customary mechanisms governed by specific legal frameworks.²⁷ Traditional forms of dispute resolution already have the trust of the Somali people. However, it will be crucial to ensure alignment with international human rights standards while allowing for customary characteristics to preserve trust with the public (Harper 2011). Recognizing the importance of traditional mechanisms of dispute resolution, the Ministry of Justice (MoJ), with international support, has established a Traditional Dispute Resolution Unit to determine links between the formal system and traditional or customary mechanisms.

B. Displacement and Land Rights

159. Seasonal movement between sources of water, pasture, and livestock markets prevent a significant proportion of Somalis from relying on public lands for their pastoralist way of life. About 60 percent of Somalis are considered pastoralist and 26 percent nomadic. About 20 percent, who belong to minority groups, are agriculturalists with small landholdings; they are overrepresented among refugees and IDPs.

²⁶ On average, only about 80 civil and 45 criminal cases are completed annually for every 100,000 FGS inhabitants. This is a significantly lower caseload than in Somaliland, which completes 138 civil cases and 102 criminal cases annually per 100,000 inhabitants.

²⁷ See, for example, the *Gacaca* courts processing of genocide related crimes in post-conflict Rwanda.

160. **Forced displacement, conflict, and land grabbing are the reality in the region.** About 20 percent (2.3 million) of Somalis have been affected by forced displacement. Refugee camps in the Horn of Africa house over 1.1 million Somali IDPs (10.8 percent of the home country's population)—the seventh largest IDP population in the world (UNOCHA, 2015). Most have been displaced because of more than 20 years of internal conflict, insecurity, political uncertainty, human rights violations, and governance failures, compounded by acute food shortages caused by periodic droughts. Many communities have been displaced many times because of forcible acquisition of their land by armed clans, destroying their assets and livelihoods (Verwimp and Maystadt, 2015).

161. **Women and children are affected most by forced displacement.** Most Somali IDP households are headed by women (UNICEF 2011, UNDP 2012). In the absence of family or community structures and norms protecting them, displaced women and children lack protection, and migration to camps often exposes them to security threats. An assessment by the International Rescue Committee (Murray and Achieng, 2011) reported that Somali women and girls in transit to Dadaab were often targeted for sexual and physical violence by bandits and armed groups along the way. The risk of violence is exacerbated within IDP and refugee settlements.

162. **To some extent, clans drove displacement and remain an impediment to return, particularly for minority urban residents, agriculturalists, farmers, and fishing communities** Most Somali refugees are in Ethiopia and Kenya. In Ethiopia, they live in the Dollo Ado and Jijiga camp complexes and a small number live in an eight-camp compound in Addis Ababa. In Kenya, Somali refugees are mainly in Dadaab camps; many of them have lived there for over 20 years and more than 70 percent have expressed a desire to stay and even apply for the shrinking number of asylum spaces in Kenya. Dadaab is the largest refugee settlement in the world—its population equals that of Kenya's fourth largest city. In the spring of 2015, following an attack at Garissa University, the Government of Kenya announced its intention to close the Dadaab refugee camps within three months and to repatriate 350,000 Somali refugees back to Somalia (UNHCR and World Bank, 2015), but the decision has been tied up in judicial review creating even greater uncertainty.

163. **More recently, conflict in Yemen has caused many Yemeni refugees to seek shelter in Somalia and Somalis who had taken shelter in Yemen to return.** Hence, a critical condition for Somalia is these displacement challenges, which are compounded by poverty and vulnerability. To respond effectively to the distinct vulnerabilities of the displaced, there need to be investments in the productive asset part of social capital: housing, land, skills, livelihoods—and governance. While there have been humanitarian approaches to addressing displacement, the obvious drivers of migration and conflict require a resilience-based approach that promotes national, local, and household systems to help affected populations cope with shocks and stresses. Since most IDP settlements are in urban locations (400,000 IDPs are in Mogadishu alone), reinforcing the viability and resilience of Somalia's cities is central to a development response to displacement. Somalia is one of the world's fastest urbanizers and the people in its cities are already vulnerable. There is a critical need to invest in city services and infrastructure to absorb massive population growth, address vulnerability, and prevent deeper internal marginalization. There is also a need to empower municipal authorities to plan, monitor, and budget to ensure that cities grow effectively.

C. Social Protection

164. **Somalia has no formal, government-led social protection programs.** The government has made social protection its priority but it does not have the institutional capacity to make it

happen. Without the support of a formal social protection system, to cope with shocks and vulnerabilities, Somali households rely on three sources: remittances from family and friends; clan-based traditional safety nets and redistribution mechanisms; and interventions by international organizations.

165. Most interventions by development organizations began as a response to the humanitarian crisis caused by recurrent climatic shocks. Gradually, however, they have begun to establish long-term protections for the poorest and most vulnerable households. They mostly partner with the local government or clan leaders. Though their own presence, capacity, and reach are limited, through these partners they can help deliver assistance rapidly. Most safety-net interventions by international organizations are cash-based.

166. In fragile and conflict environments, community-based targeting can both promote social cohesion by encouraging joint decision making and ensure that programs generate broad benefits. Most current interventions in Somalia were designed after consultation with the community. However, relying on community leaders can also lead to marginalization of minority and vulnerable populations. Community-based approaches to delivery should be just part of the future social protection model to incorporate social dialogue.

167. The technology infrastructure for mobile payments is very well-developed, which makes it the preferred way to deliver cash or in-kind transfers. Almost all major mobile networks provide mobile money transfer (MMT) services. These initiatives have gained popularity because Somalia does not have a formal banking system. Usage of these services is also high, tracking cell phone use. According to the World Bank's survey, in 2015 there were 52 cellular subscriptions per 100 people in Somalia, but in a Gallup poll, 72.4 percent of respondents reported owning a cell phone. Other delivery mechanisms include smart cards and e-vouchers, though these are prone to problems, such as biometrics not matching, retail stores charging a "social tax," and lack of nearby points of purchase.

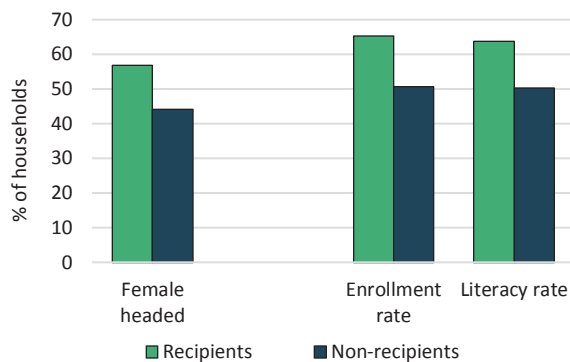
168. Deficiencies in institutional capacity are the main barrier to introducing effective social protection programs. The Ministry of Humanitarian Affairs and Disaster Management has taken the lead on social protection but the ministry is relatively new. The government is still drawing up a social protection policy but it lacks human resource and the skills to design, much less carry out, such projects. However, once the policy is drafted, the government could coordinate actors and programs to achieve a harmonized approach to addressing poverty and vulnerability. There should be close coordination between donors, implementing agencies, and both federal and state governments. With a coherent and coordinated approach to social protection policy, financing, and monitoring, efforts can be aligned and time and resources used efficiently to meet social protection goals. This will also help development partners to coordinate activities and reduce costs and overlaps.

169. The one in five Somali households that receive remittances (25 percent of households headed by women) are highly dependent on these transfers. They receive an average of US \$233 a year—about 37 percent of their average household income—and mostly spend remittances to meet basic needs. Without this support, recipients are likely to fall below the poverty line. Corroborating this dependency, households that received smaller remittances than in the previous year were more likely to be poor. In most cases, because remittances are received on a regular schedule, they are a reliable source of income to which households have adjusted their

consumption. Since the senders are usually close relatives the amount is adjusted to the changing needs of the household (World Bank, 2017).

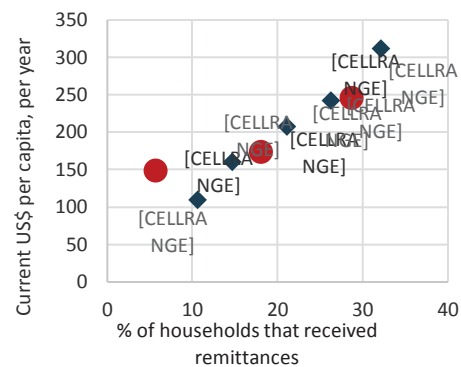
170. **Typically, recipient households are urban, wealthier, headed by women, and better educated, but their labor market behavior does not differ much from that of nonrecipients (Figure 30 and 31).** Wealthier and urban households are likely to receive larger remittances. Recipient households, especially those that are poorer, are more likely to enroll their children in school and spend more on education: remittances allow them to offset much of their educational disadvantage. The effect of remittances on labor market behavior depends on whether household members use the funds to top up income from work or to substitute for work activities. The latter implies either lower labor force participation (full substitution) or fewer hours on the job (partial). There is no significant difference in labor force participation and hours worked between recipients and nonrecipients, so remittances mainly top-up household income from work.

Figure 30. Characteristics of Recipient Households



Source: Somali Poverty Profile 2017, World Bank.

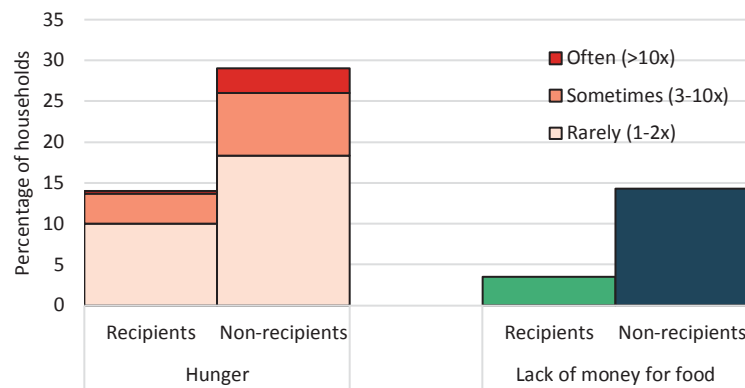
Figure 31. Value and Incidence of Remittances



Source: Somali Poverty Profile 2017, World Bank.

171. **With recipients less vulnerable to poverty and hunger, remittances function as a resilience mechanism (Figure 32).** Poverty is 18 percentage points lower among recipients. They also consumed more, experienced hunger in the previous month only half as often, and were less likely to lack money to buy food. But remittances are neither widely prevalent nor effective in reducing poverty. While IDP households are among the poorest and most vulnerable, they are least likely to receive remittances (7 percent) and receive the lowest amounts. Many recipient IDP households also saw the value of their remittances fall relative to the previous year. Small amounts are not effective in reducing poverty because the average daily per capita value of remittances for poor IDP households is only 13 percent of their consumption shortfall.

Figure 32. Hunger, Recipients and Nonrecipient Households



Source: Somali Poverty Profile 2017, World Bank.

172. **The effect of remittances on welfare shows how regular and long-term cash transfers might provide an effective means of resilience to adverse shocks, but without a formal social program, it is difficult to reach out to the most vulnerable, many of whom are nonrecipients.** However, high dependency on remittances leaves recipient households vulnerable to the volatility of diaspora incomes and the uncertainties surrounding money transfers to the region. Policies to facilitate and de-risk remittance transfers would reduce this kind of vulnerability. More formal and predictable cash transfers are thus necessary and suitable to mitigate the most urgent shortfalls in basic needs.

173. **Without effective resilience-building social protection programs, natural shocks like droughts can escalate into a catastrophe that brings millions of Somalis to the brink of starvation.** Currently, several development partners, including UN agencies, are working to improve the welfare of Somalia population. Their programs lack coordination mechanisms, making it difficult to estimate coverage (World Bank 2017). Nor is there much information on the demographics of the targeted population. However, the effort to implement long-term reliable safety nets is new to Somalia, which is experiencing a shift from a humanitarian to a development approach. This transition is the first step to building a resilient social protection system. A well-targeted and effective social protection program adaptable to local contexts is an over-arching objective to avoid famines and open a path to sustainable poverty reduction and shared prosperity. It would also help build trust in state-run programs, and ultimately in state authority.

174. **Simulations indicate that a targeted social protection program supporting the consumption for a million vulnerable individuals for four months of the year.** Using observable household characteristics to target poor households, a predictable annual transfer of US \$160 to all eligible households would reduce poverty by 20 percentage points. Targeting this operation to the most vulnerable households in rural areas and IDP settlements would reduce the costs of the program, and is expected to reduce poverty rates in those two categories (rural and IDP) by 27 and 23 percentage points respectively. As with any targeted program, there would be some leakage: 24 percent of poor households would be excluded and 32 percent of nonpoor households included. Nevertheless, it has been estimated that a smaller three-year program would cost hundreds of millions rather than billions of dollars.

175. **A usable, functional, and effective cash-based government safety net system and registry with a reasonable margin for error can be built and operated by private partners.** Somalia is a global leader in cellphone coverage and use of MNOs for regular cash remittances to

households and smaller amounts of occasional donor cash transfers. The same system can be used to deliver an accessible government-owned and safety net system. Multiple partners could help refine and monitor client databases. Given the vast MNO coverage, it will be relatively easy to see which households receive how much in remittances and how often and which receive none or inadequate and infrequent small amounts. Information on client receipt of transfers can be triangulated with the client databases of humanitarian and other development partners, subject to appropriate privacy protections.

176. This approach can serve as a de facto vulnerability targeting method. Triangulation with poverty and vulnerability data by geographical and household data can further refine vulnerability targeting. The refined database would then become a registry system by building on the existing client data base of several MTOs that cover some 75 percent of the population. Hormuud and Golis are building an online platform for organizations that provide cash benefits (largely NGOs and bilateral donors) that will compile all the beneficiary databases. However, each organization will only be able to access its own caseload and control the frequency and timing of payments to those cases. Those not receiving any transfers or very little would be the obvious choice for Government-owned social safety net cash transfers. However, the entire list of clients could be refined through poverty scoring and different providers could serve different regions. If not already in place, biometric data can be added.²⁸

D. Gender

177. High fertility and extremely poor reproductive health outcomes limit women's ability to contribute to economic growth and poverty reduction and prevent Somalia from capturing a demographic dividend. With a world-beating fertility rate of over 6 children per woman, traditional dynamics promoting early marriage, a large number of young women, high adolescent birth rates, and a low 15 percent contraceptive prevalence rate, population growth is inevitable. This undermines the per capita impact of economic growth and will prevent Somalia from capturing its demographic dividend. For Uganda, Klasen (2007) found that reducing the population growth rate by 1 pp could boost medium-term per capita economic growth by 0.6–2.8 pp a year.

178. Maternal mortality rates are extremely high in Somalia—732 to 1,400 deaths annually—for several reasons. About 90 percent of births take place at home and only about 33 percent are attended by a skilled professional. Few women use health services because of limited geographical access to public health facilities and the high fees charged by private providers. Social norms may also be a problem: Often in countries with conservative social norms related to gender husbands decide on their wives' health care, and there are often significant delays in women seeking professional assistance. (Alemayhu and Meskele, 2017)

179. Throughout Somalia gender-based violence is an enormous challenge. A recent survey commissioned by the World Bank and UN partners found that in Puntland alone, 25 percent of women have experienced some form of physical or sexual violence from a nonpartner, and intimate partner violence (IPV) affected nearly 40 percent (Johns Hopkins University 2016). Over 14,000 cases of GBV were reported to the GBV Information Management System (GBVIMS) from January 2015 through June 2016. Persistent violations were rape, physical assault, IPV, abduction,

²⁸ The Communications Act, signed by the President on October 2, 2017, now mandates SIM card registration which was not previously required.

forced prostitution, exploitation, and human trafficking. More than 50 percent were cases of physical assault; rape and sexual assault constituted 30–34 percent. Roughly 20 percent were perpetrated against children under 17 (12–13 percent were between 12 and 17 and 7–8 percent were 11 and younger). In 2015 alone, child sexual abuse accounted for 16 percent of reported cases. Moreover, these estimates likely belie the extent of the challenge: most survivors are unlikely to seek formal support or care due to fear of stigmatization, rejection, or re-victimization. Data further indicate the prevalence of traditional norms, such as early and forced marriage, which appears to have been on the rise at least since 2004. (Gardner, 2007).

180. GBV is associated with pervasive insecurity, increased vulnerability, and displacement (whether by conflict or climate-related disasters), and deteriorating social and customary structures. Displaced women and girls are among the Somalis most vulnerable to extreme poverty, marginalization, and conflict and climate-related shocks. While rates vary across time, according to the GBVIMS, from January 2015 to June 2016, 73–78 percent of survivors of GBV were female IDPs. The separation of many women and girls from community and familial support structures and traditional livelihood activities heightens reliance on marginal, inconsistent, and hazardous livelihood strategies. Current conditions seem to be exacerbating GBV risks; Between April and June 2017, at the height of the current drought, GBV increased 9 percent, particularly physical and sexual assault and child sexual abuse (GBVIMS 2017). Of these cases, over 75 percent of survivors are IDPs, with incidence linked to congestion and poor security conditions in camps, and distances between settlement water and sanitation facilities.

181. The long-lasting and severe impact of GBV has negative implications for social cohesion, economic growth, and women’s health. Physical and mental health impacts include bodily injury, sexually transmitted diseases, and depression. Related economic costs are out-of-pocket health care expenditures, loss of employment, and erosion of productivity. Finally, GBV is associated with negative social outcomes, such as isolation and stigma, not only for the woman but also for children, family, and community. The intergenerational impacts are particularly pronounced. The joint UN-WB survey found, for example, that boys and girls who witnessed or experienced violence as children were at higher risk as adults of experiencing GBV (girls) or perpetrating it (boys) (World Bank and UN 2017, forthcoming).

182. Sociocultural norms assign girls heavier domestic burdens, relegate their roles to the private sphere, and limit opportunities outside the home. Over 30 percent of girls are listed as working at home rather than attending school, compared to 10 percent of boys (UNDP, 2012). Women represent only 14 percent of qualified teachers and are concentrated in urban areas. School fees are prohibitive, especially for girls. The relative lack of access of girls to education is likely to have numerous negative impacts, including for women poorer future opportunities for employment and lower wages, for their families increased vulnerability and poorer health outcomes, and for the economy higher population and ultimately lower GDP.

183. Gender is a critical determinant of poverty and access to services. In Somaliland, household composition has a greater bearing on its poverty status than the gender of its head. If its composition changes from none to one or more children aged 0–14 the probability of its being poor goes up to 54 percent in rural areas and 36 percent in urban, but though female-headed households are common in Somaliland, in urban areas both female- and male-headed households are equally poor (51 percent). In rural areas, similarly, male-headed households have a poverty rate of 64 percent and female-headed households 60 percent—a difference that is not statistically significant. It may be that rural female-headed households may be more likely to have a male

emigrant sending remittances, while female household heads in urban areas are more likely to be divorced or widowed.

184. Men’s absences from home, whether because of war or emigration, have given women new roles and opportunities. It is thought that women may be the main breadwinner in 70 percent of households, though they may not be captured as household head in surveys.²⁹ Although this is shifting in part due to migration patterns, there is a significant opportunity for greater engagement of women in Somali agriculture. Milk is a promising value chain for their economic empowerment: women already account for 80 percent of dairy production and 100 percent of primary milk collection. They are also active in meat marketing, particularly camel meat and beef (World Bank/FAO, 2018). Also, women’s ability to cross clan divides could give them an opportunity to facilitate inter-clan trade and rebuild trust.

185. However, as their low political representations suggests, there is still distrust of women and their empowerment. Politically, women hold only 14 percent of national parliamentary seats (22 percent in South West). The discrimination also transcends legal systems. At the clan level the *xeer* system emphasizes communal stability over individual rights and women are not allowed to speak at hearings. The Family Code of 1975 obliges women to obey husbands, and inheritance rights are based on Sharia law—daughters get only half the amounts awarded to sons. While the 2012 Provisional Constitution and the constitutions in Somaliland and Puntland provide greater protections for women, it is not clear to what extent they have been put into practice. Women are also distrusted in the private sector: While they make up 60 percent of owners of micro businesses, banks ask for a male guarantor even when women have the required collateral.

186. The steady and plentiful supply of *qat* exacerbates the volatility of regional security because weapons are prevalent and often end up in the hands of intoxicated young men. *Qat* (or *mirra*) is a traditional and ubiquitous intoxicant chewed by Somali men, women, and young people that causes mild euphoria and hyperactivity. Chewed regularly, often for several hours a day, *qat* is a drain on household productivity and income. Its consumption makes youth less employable and less productive, diverts scarce water resources away from food crops, and undermines education and health outcomes, both physical and mental. The rapid expansion of *qat* cultivation in the region with significant relief efforts in food aid may be inadvertently reducing the need to grow food in the region and creating space for the production and sale of *qat*.

187. For men, status is inextricably linked to fulfilling social expectations of manhood (a rough translation of the Somali term *raganimo*). For many Somalis, it is shorthand for a broad collection of attributes and ideals considered desirable for a man. Protracted insecurity, violence, and displacement, complicated by too few income-generating opportunities and deteriorating social and customary institutions, have all coalesced to disempower significant segments of the male population, particularly young men, who have little opportunity to engage in public decision-making and are unable to protect or provide for families. Thus, most Somali men find themselves dispensable, with no meaningful role and no stake in the future. Depression, *qat* addiction, economic dependence on women, and an inability to adapt to changing roles and responsibilities at home and in their communities, are all manifestations of resignation; evidence of resilience is most often seen in the willingness of young men in particular to seek economic opportunities through *tahriib*, illegal or irregular migration, often at high personal risk. However, there is no

²⁹ From focus groups for the EU profile.

evidence that war or state collapse has substantially damaged the patriarchal ideology underpinning Somali society (Rift Valley Institute, 2015).

188. **A “youth dilemma” limits individual growth opportunities.** With state collapse, young men were assigned a subordinate position in the male hierarchy that is characterized by delayed adulthood, marginalization from political processes, and a prolonged period during which they are expected to comply with the instructions of older clansmen. Youth’s experience of clan membership and ‘voluntary’ compliance may differ in significant ways from that of older men, yet there is little opportunity to discuss the different perspectives. Young men are confronted in a complex network of beliefs by difficult individual decisions without easy solutions. This can lead to high-risk decision or a loss of moral compass that results in attempts at empowerment by acquiring wealth, legally or illegally, undertaking *tahriib* (illegal economic migration), or joining an Islamist group.

VII. Institutional Capital

189. **Institutional capital refers to the structures and processes that provide core state functions: revenue collection and management of public finance; security; and law and order.** These “horizontal” aspects of development can yield positive spillovers for other forms of capital accumulation. Safeguarding and building on security gains is a priority without which productive activity and inclusive development are unlikely to take hold. Institutional capital refers primarily to core state functions, although in Somalia the providers of such capital span federal entities, state-level organizations, clan-based and religious alliances, private actors, and external interests.

190. **The relatively weak Somali state is likely to be mainly concerned with avoiding reversion to a failed state.** The state institutional apparatus is brittle because of interlocking systemic challenges, such as low capacity, administrative bloat, poor fiscal management, and regional contestation. The consequent inability of the government to deliver crucial services erodes its legitimacy, which makes raising revenue even more difficult and sets a fiscal trap for Somalia. Changing the situation will be challenging and will take years. Meanwhile, for most Somalis services will be provided informally by a mix of state, social, clan-based, and private actors.

191. **Fragility trap of the kind already discussed apply particularly to the accumulation of institutional capital.** For example, without the resources to establish and maintain an effective nonsectarian judiciary and police force, high-frequency fragility trap will reinforce alternative security arrangements that are heavily clan-based and test the legitimacy of a clan-neutral state. The state then cannot enact and enforce laws that are harmonized nationwide or collect the revenues needed to finance courts and the police function. Similarly, the inability of the state to establish and enforce land rights creates a disincentive to investment and thus prevents the economic growth necessary for the state to establish itself as a credible clan-neutral arbiter. Even more serious is the impact of forced displacement along clan lines, which can exacerbate a low-frequency resilience trap with potentially catastrophic consequences for displaced populations. Moreover, the state cannot effectively mobilize the resources needed to operate and be effective unless (1) it can convince prospective taxpayers that it can deliver the services; and (2) it has the capacity to enforce taxpayer compliance. Without the former, taxpayers have no incentive to give resources to the state; without the latter, the state will have no way to establish the credibility of its own policies and commitments. All this will require a combination of external funding (e.g., from donors), transparency, and demonstrations that the state can deliver quality services equitably.

A. Federalism

192. **Despite the success of the political state formation process, Somalia’s federal system of government is still a work in progress.** It is not clear how federal and state governments should work collaboratively to deliver services; the trust deficit and the lack of clarity lead to confusion and duplication. The fact is that the country is currently fiscally decentralized. The Provisional Constitution does not define a government structure, even on issues like the relationship of layers to districts and municipalities and the status of the federal capital region.

193. **The constitution is also silent on the assignment of functions, other than assigning immigration, foreign affairs, national defense, and monetary issues to the Federal Government.** *De facto*, states essentially function as autonomous entities: They deliver or reserve

the right to deliver all services within their territory, even in some regions services reserved for the FGS. The only meaningful services the federal government delivers are security in support of African Union forces and foreign affairs.

194. **Revenue assignments are currently balkanized.** State governments collect all available taxes from the territories under their control, even customs revenue, and the FGS collects all taxes in Mogadishu—62 percent of total domestic revenue comes from customs at Mogadishu seaport and airport—but there is no mechanism to address inequity between states. Taxes and customs duties are not harmonized, and given current capacity and information constraints even identifying a common base for income tax will be formidable.

195. **There are no systematic needs-based or formula-based transfers.** The FGS makes some limited ad hoc and often negotiated transfers to the states, such as the small allocation for current drought relief that mainly played a symbolic and signaling role. Rudimentary ad hoc transfers through World Bank projects, mainly the Recurrent Cost & Reform Financing Facility, lay some foundation for an intergovernmental fiscal architecture. The prospect that natural resource rents (fisheries, oil and gas) could flow through intergovernmental fiscal structures has heightened interest, and development partners have been encouraging, though sometimes creating unintended and possibly undesirable effects.

196. **As revenue capacity improves, however, two types of fiscal imbalances are likely.** The first is a vertical imbalance between spending and revenue between different types of government. It would reflect the reality that, as intended, central government will have control of the nation's most productive taxes, those based on personal and general business income. The second, already apparent, is a horizontal imbalance that occurs when differences in spending needs and revenue-generating ability vary across similar types of subnational governments, since some jurisdictions are richer and have fewer needs than others. This is a particular problem for Somalia, where “premature urbanization” has led to employment-generating agglomeration in centers like Mogadishu, Kismayo, Bosaso, and Hargeisa. Thus, even as inequality due to conflict declines, inequality arising from fiscal structures could increase. Without a mechanism to address inequity, a sustainable federal bargain is unlikely.

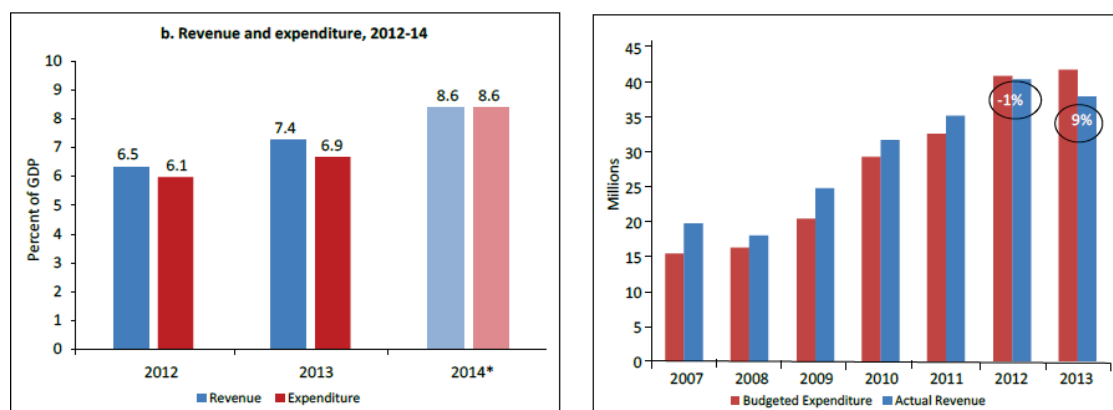
197. **Reform of the governance of tax and customs administrations is needed to separate policy and strategy from operational functions.** Both administrations also need audit and review authority. Enforcing client payments but banning cash payments would address corruption and leakage issues. The tax administration could also be reformed to focus on core administrative functions and to establish separate units for large and medium-sized taxpayers. Customs leakages could be reduced by reinforcing the front-end import declaration and physical examination processes. Harmonized standards to apply rates by value would increase revenues and reduce corruption.

B. Fiscal Policy

198. **Public budgets have expanded significantly in FGS, Puntland, and Somaliland** as revenue has been increasing annually. Between 2012 and 2014 total FGS revenue (including grants) more than tripled, from US\$35.1 million (1.0 percent of GDP) to US\$145.3 million (3.7 percent); and FGS spending expanded by the same margin, from US\$35.1 million to US\$151.1 million. The regional trend is similar: In Puntland, from 2007 to 2013 revenue growth averaged

13 percent and spending grew on average 19 percent. Between 2002 and 2013, in Somaliland revenue went from US\$19.4 million to US\$123.3 million, while spending grew by 22 percent p.a.

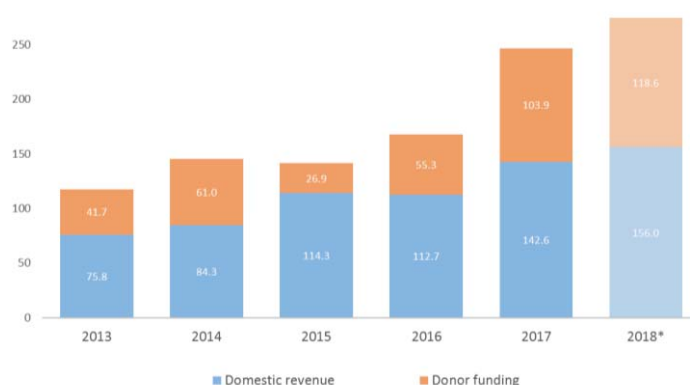
Figure 33. Somaliland and Puntland: Fiscal Balance



Source: World Bank staff calculations and Somaliland Ministry of Finance, 2014.

199. **Though revenue mobilization efforts are paying off, much work remains.** In 2012, FGS mobilized only US\$30 million in domestic revenue, equivalent to 0.9 percent of GDP, and US \$5 million in external assistance. Revenues and grants rose from 1 percent of GDP in 2012 to 3.7 percent in 2014; they were estimated at US \$199 million in 2015, up from US\$145.3 million in 2014. However, that year domestic revenue collection and grants underperformed, particularly indirect and other taxes. Domestic revenue (excluding grants) increased 11 percent in 2014 to US \$84.3 million (2.1 percent of GDP), financing 56 percent of recurrent spending. Domestic revenue contributed an average of 70 percent of total revenue in 2012–14, driven mainly by tax revenue. This trend is expected to continue; domestic revenue was expected to reach 2.8 percent of GDP in 2015 (Figure 34).

Figure 34. FGS Revenue Performance



Source: Somalia Ministry of Finance, 2018.

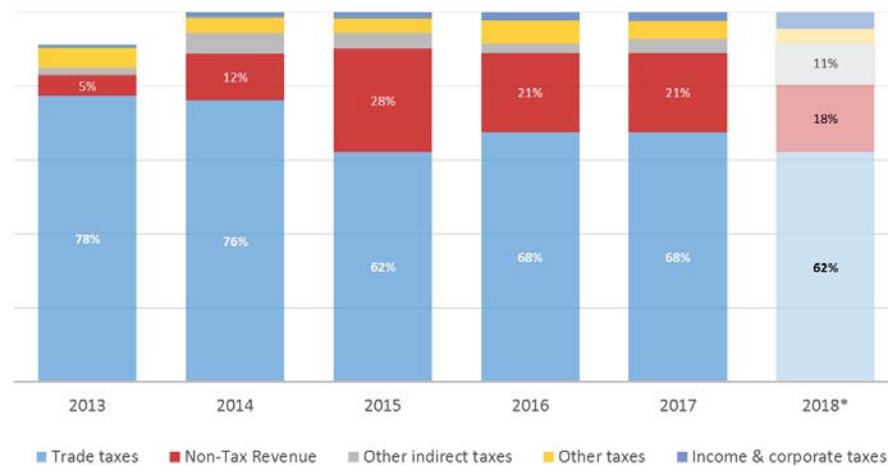
200. **Taxes on international trade drive total tax revenue, accounting for 91 percent on average between 2012 and 2014.**³⁰ From 2012 to 2014 international trade tax revenue rose more than 160 percent, from US \$24 million in 2012 to US \$64 million in 2014. As governments exert more effective territorial authority, they are likely to collect more taxes. Since April 2013, the FGS

³⁰ In 2013, 90 percent of all tax revenue was derived from taxes on international trade but this fell to 87 percent of total tax revenue in 2014.

has been collecting tariffs at the Mogadishu port and airport, which raised total domestic revenue to US \$84 million in 2014.

201. **Personal and business income taxes and indirect taxes do not bring in much revenue, but their share has been increasing in recent years.** After 2015 the share of non-trade taxes has increased to about a third of the revenue. It is projected to grow further from there as shown in Figure 35.

Figure 35. FGS Revenue Composition



Source: Somalia Ministry of Finance, 2018.

202. **Very little development aid is channeled through the treasury and some is off-budget.** Although the dominant source of revenue for the government is now domestic, the FGS still relies heavily on external assistance, which accounted for 43 percent of total revenue in 2015. This is key in the security sector, where donors finance much of both on-budget and off-budget spending.

203. **With greater political stability, government spending has begun to expand as a share of GDP.** The FGS accounted for only 1 percent of GDP in 2012 but this share is rising: federal spending went up by 330 percent between 2012 and 2014, to US \$151 million, with the increase mainly driven by compensation of employees and purchase of goods and services. Similarly, in Somaliland government revenue was projected to reach US \$152 million in 2015.

204. **Somalia's debt distress and significant arrears make it ineligible for concessional development financing from many sources, such as IDA.** As of 2016, total external public debt was US \$5.2 billion, about 90 percent of GDP. Of this, about US \$1.5 billion is owed to multilateral creditors, US \$2.4 billion to Paris Club creditors, and US\$1.3 billion to non-Paris Club creditors.³¹ Meanwhile, average annual development aid inflows are about US \$750 million, not including humanitarian support and anti-piracy operations. While efforts continue to channel these resources through FGS, most is spent outside government through UN or NGOs.

205. **Somalia could access debt relief under the HIPC Initiative as one of the countries ring-fenced for HIPC eligibility,** but it has yet to reach the Decision Point. A formal assessment of HIPC eligibility would be needed, but it is likely that Somalia will meet eligibility thresholds.

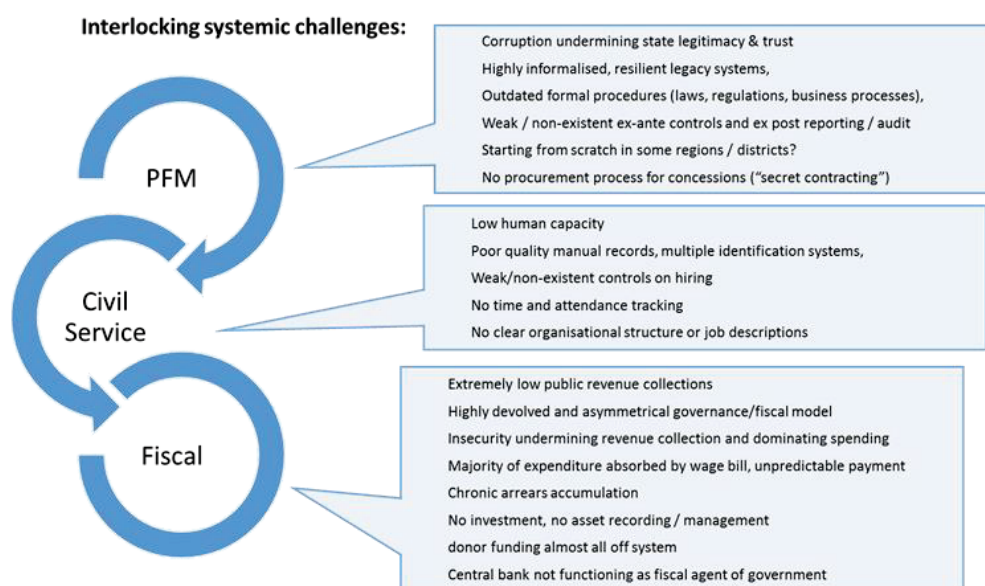
³¹ US\$330 million is owed to the IMF, US\$490 million to the World Bank, and US\$130 million to the African Development Bank (AfDB).

The magnitude of Somalia's obligations to the World Bank and IMF far exceed the country's IDA allocation and IMF quota and would require exceptional arrears clearance.

C. Public Financial Management

206. **Despite progress on PFM, FGS management of its spending is sub-par.** It continues to be unable to fund the core government structure from own revenue. Nearly everyone in the government workforce receives wages in arrears, with differentials between nominal pay and actual payment higher for lower-paid employees. Finally, though effective at disbursing salaries, the government has struggled to access non-salary recurrent cost funding from partners.

Figure 36. Systematic Constraints on the PFM, Civil Service, and Fiscal Continuum



Source: World Bank staff, 2016

207. **To build confidence and improve transparency and accountability, in early 2014 FGS and the international community, led by the World Bank, established the Financial Governance Committee (FGC).** The FGC was established after the Governor of the Central Bank resigned in late 2013 amid concerns over the management of recovered assets. The FGC plays a mix of advisory, monitoring, and catalytic roles. It provides a forum for dialogue on strategic financial governance issues and helps monitor the progress of reforms. Through its international representatives, the FGC gives the FGS access to independent technical advice on such issues as strategic procurement, asset recovery, fiscal federalism, transparent and equitable management of natural resources, revenue mobilization, expenditure management, financial sector development, and access to external financing.

208. **Transparency is crucial to the development of Somali financial management.** Some progress has been made in re-establishing the Office of the Auditor General (OAG). After the new Auditor General was appointed in 2014, the OAG made early progress in auditing the 2013 financial statements and was expected to submit its report to the Parliament in June 2015. In January 2015, an Audit Bill to establish a more independent OAG received parliamentary approval. In overseeing the development of these institutions, the FGC will give domestic

oversight institutions greater visibility. However, it would benefit from support from bilateral agencies and donor institutions, which have thus far been held at arm's length.

209. **A particular concern of the FGC has been contracts and concessions.** Since 2014, at the request of the FGS, the FGC has been reviewing FGS concessions and contracts for more than US \$5 million. Since August 2016, it has been working closely with the Interim National Procurement Board (INPB), which has been mandated by FGS to oversee all FGS concessions contracts and any contracts above US \$2 million until the Procurement Act is fully operational. The majority of the contracts the FGC has reviewed did not result from a competitive tender process but rather from direct negotiations between FGS agencies and contractors, often initiated by unsolicited proposals. Often FGS line ministries have been responsive to feedback from the FGC, but some agencies have ignored its advice or bypassed it altogether without any penalties. Some contracts are still being signed without due process. The FGC is also looking into lack of transparency about the disposal of public assets.

D. Banking and Currency

210. **The Central Bank of Somalia (CBS) is gradually reestablishing its authority and building its institutional capacity.** The CBS ceased operation when the civil war began; in 2009 the TFG reopened it. Despite significant capacity gaps, major scandals, and a high turnover of governors (three in 2013), reform is progressing. Appointment of the governor and board of directors in 2014 complied with the CBS Act, and structures and policies are in place to improve core transaction processes. Its first set of financial statements was produced in 2013 and CBS has started to serve as the fiscal and financial agent for the FGS. Somaliland has established its own central bank and Puntland has a state bank.

211. **Most of the regulatory effort to date has been directed at remittance flows but financial sector deepening will require close attention to the institutional underpinnings of both the CBS and the financial sector.** IMF and World Bank technical assistance is helping the CBS to improve financial reporting and better perform its regulatory and supervisory functions, particularly for banks and money transfer businesses (MTB). Today, 90 percent of Somalis own at least one mobile phone and 70 percent use it to access mobile money services. Given the mass adoption of technology and use of mobile money services by Somalis, financial inclusion is a reasonable goal that will help heighten resilience and expand economic opportunities; in particular, it could help the Somali economy to connect to regional and global markets. However, the lack of mobile money regulations is a source of vulnerability and risk.

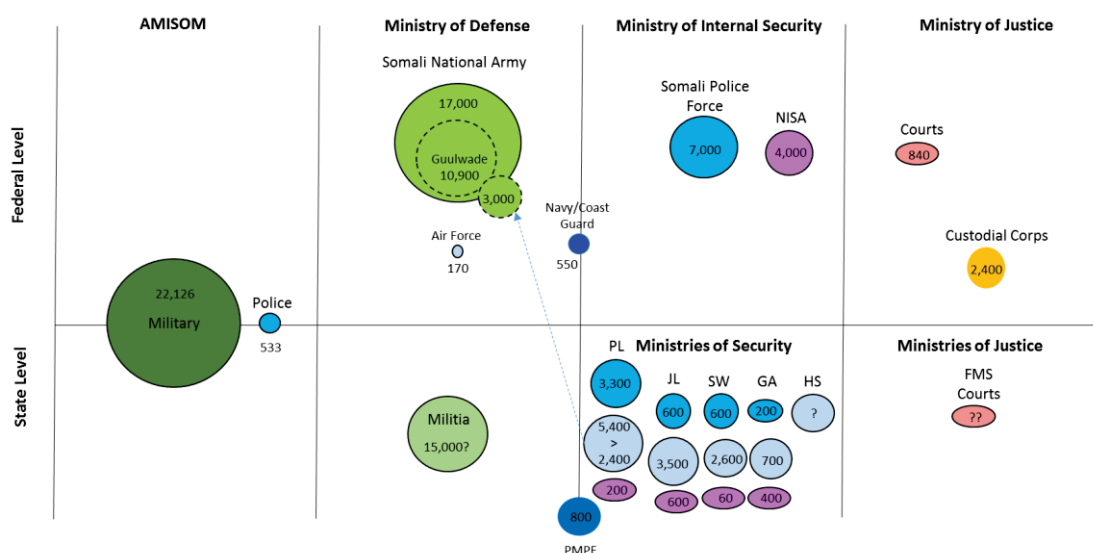
212. **The CBS will need greater capacity if it is to ensure financial stability.** Given planned currency reform (issuance of small-denomination shilling bills), it will need to build capacity to manage reserves, develop management capacity and monetary policy instruments, and identify an exchange rate regime. Also, Somalia will need to enforce an AML/CTF framework consistent with FATF requirements. For commercial banking, the CBS now has a bank licensing program, methods for periodic reporting, a system for bank financial analysis, and the CAMEL (Capital, Assets, Management, Earnings, Liquidity) bank supervisory scoring system.

E. Security

213. **The weakness of Somali security institutions reflects the fragile state of governance.** FGS civilian ministries and legislature have little capacity to engage with the security sector and

there is little accountability for public spending on security.³² The SNA and the SPF, staffed by personnel financed from the national budget and external resources, are generally perceived as formed by militia from different clans. Because of shifting loyalties, the total number of uniformed personnel is unclear, particularly as many are believed to wear multiple hats, and there is little vetting. The recent Somalia Security and Justice Sector Public Expenditure Review (World Bank, 2017) attempted to account for those active in the sector by function and reporting level (Figure 37).

Figure 37. Somali formal and informal security and armed forces



Source: World Bank, 2017 (SJPER).

214. **Somalia is policed by a variety of both formal and informal actors.** The Somali Police Force (SPF) and NISA are the primary national institutions responsible for internal security and public order. Informally, a range of nonstate actors, such as clan militias and private security groups, also provide internal security. Compared to the rest of Somalia, the policing situation in Puntland appears relatively stable, since it has an established state police force. However, the force is yet emergent and suffers from poor training, minimal equipment, limited infrastructure, and restricted operating capabilities. In other states policing is less formal; the SPF operates primarily in Mogadishu and the Banadir region, but there it is frequently contested by armed militias and AS. Given nascent state formation in these areas, there are other entities, such as clan militias, that carry out policing

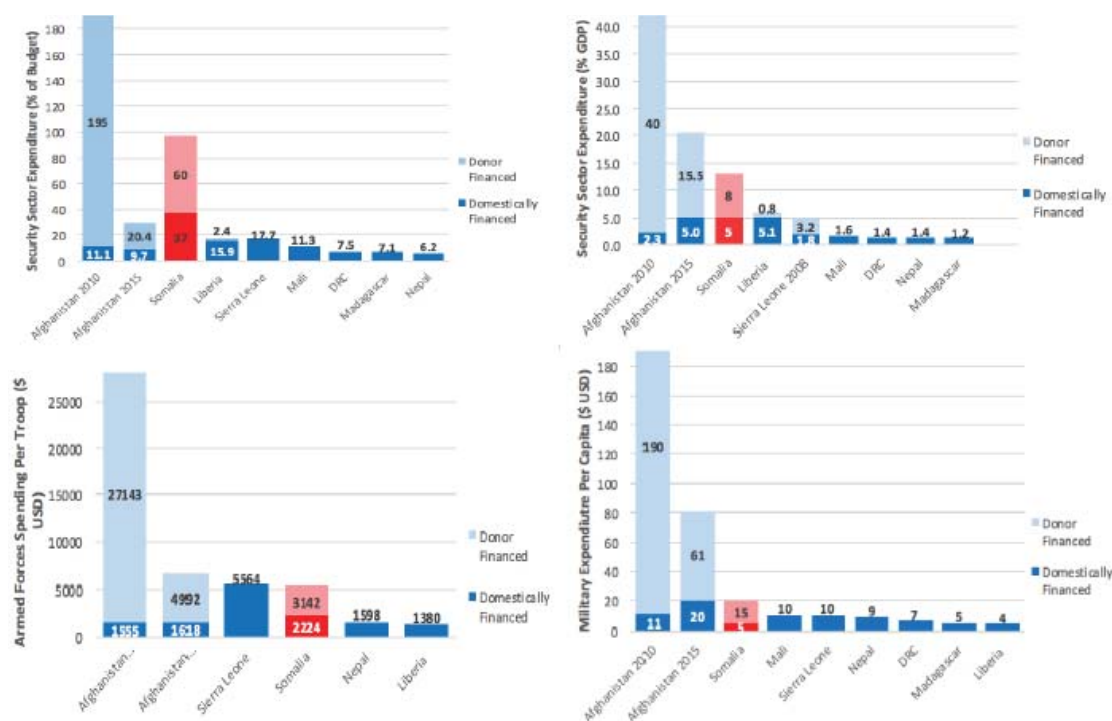
215. **The Navy and Coast Guard are not capable of protecting the Somali coastline or EEZ natural resources (fisheries and potential oil and gas).** The United Arab Emirates support two entities operating in the region, the Bossaso Port Police and the Puntland Maritime Police Force (PMPF). None of the Somali security forces have maritime assets that can reach beyond the 12 nautical miles of territorial seas. International maritime resources are therefore needed to secure the Somali EEZ and address piracy problems.

³² The recent SJPER highlighted a number of challenges with the security sector. For example, available data suggests over 50 percent of SPF personnel and 30 percent of SNA personnel are older than 40 of age. For comparison, in the US armed forces, only 14 percent of active duty and selected reserve members of the Department of Defense are over 41 and in the British Army just 12.5 percent are over 40 years. On the SNA payroll are also about 3,682 orphans, disabled, and retirees who each receive US\$100 monthly.

216. **The African Union peacekeeping mission, AMISOM, is under strain, which threatens hard-won security gains.** The African Union and troop-contributing countries have stated their intention to complete the drawdown of forces by 2020. Partners are signalling the need for a paradigm change to build legitimate and effective Somali security and justice institutions to lead the counterinsurgency. This will be a significant challenge for the incoming government because substantive reforms will be necessary to facilitate the shift from external to domestic provision of security and prevent a relapse into widespread violence.

217. **The affordability of the Somali security sector is a major challenge.** Somalia's military spending per capita (excluding police and prisons) is comparable to that of other conflict-affected states but is high in relation to the country's GDP. Both with and without donor grants Somalia spends more on security as a percentage of its budget than any other fragile state except Afghanistan (Figure 38).³³ However, nonpayment or deferred payment of salaries means that actual spending is consistently lower than budgeted. If the security sector is to be funded enough to be an effective and independent force on the battlefield, spending would likely have to increase.

Figure 38. Sustainability of the Somali Military and International Benchmarks



Source: Somalia SJPER (2017).

218. **Current work on the security payroll offers the potential to improve controls on personnel recruitment and management, connect payroll to core government PFM systems, introduce an HR management system, and reduce costs and corruption risks by moving from cash-based to bank-based payroll execution with biometric controls.** There is also an important agenda for security reform related to establishing systems for operating expenditures, including competitive procurement of rations. Rations contracts for the SPF and NISA have been awarded competitively and reviewed independently by the FGC.

³³ Afghanistan in 2010 (at the height of the counterinsurgency surge and Afghan force build-up) and in 2015 (after the transfer of responsibility to Afghan forces) was higher.

VIII. Priorities

A. Objectives

219. **Since the Somali state collapsed in 1991, Somalia has experienced recurrent cycles of conflict, instability and climate-related shocks that have made it difficult to achieve the World Bank Group goals of eradicating extreme poverty and promoting shared prosperity sustainably.** The repetition of low- and high frequency shocks through political turbulence and violence, coupled with repeated drought and flood events, locks in vulnerability and economic exclusion, particularly among the large youth population, destroys the effectiveness of—and trust in—national institutions and perpetuates the declined in natural capital.

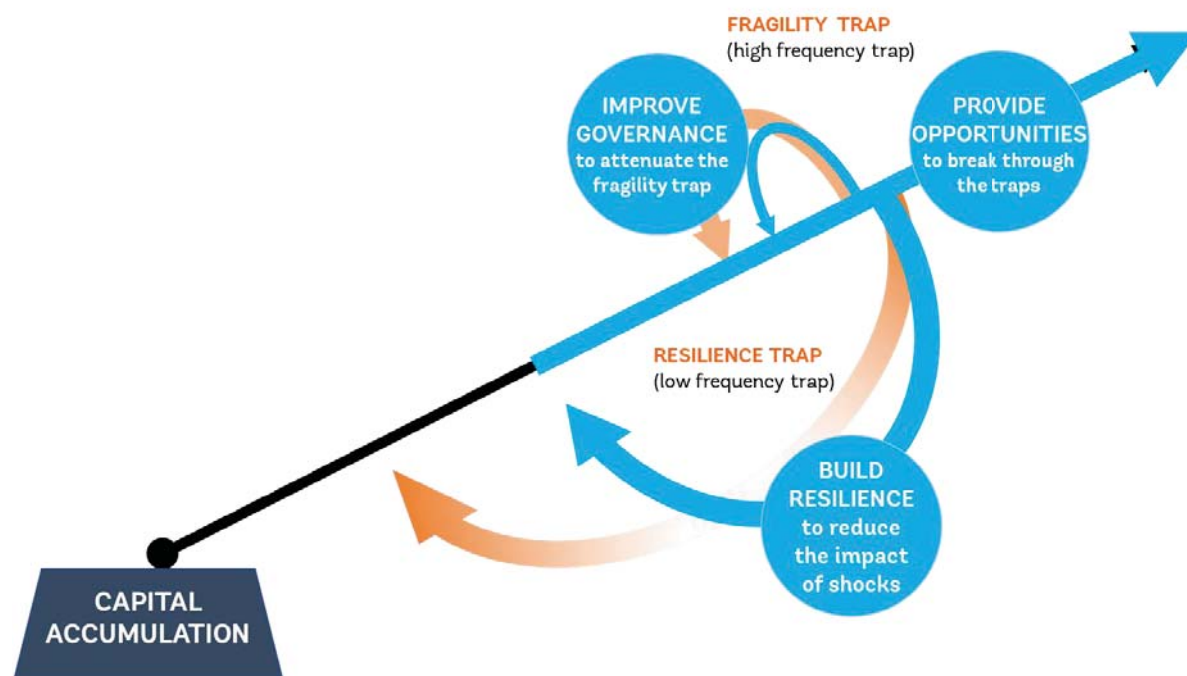
220. **This dual development trap, Somalia’s most binding constraint, is ‘fueled’ by the low levels of domestic and international trust in and the legitimacy of institutions (political, security and economic).** That has resulted in low levels of institutional capital that suppresses the accumulation of other forms of national wealth. Breaking out of this trap will be very difficult. It demands—the first of three priority objectives—a focus on improving governance at all levels to attenuate the intensity of the high-frequency trap and allow for the accumulation of other forms of wealth capital.

221. **The challenge posed by the fragility trap is exacerbated by low resilience to unfavorable climatic conditions that are likely to result in more frequent and increasingly severe shocks, such as in the famine of 2011 and the droughts of 2016/2017.** Somalia is highly exposed to climate change and has limited internal ability to manage these shocks which trigger large movements of people from rural to urban areas. The second objective is therefore to build resilience by moving to manage natural capital better and to convert it into higher-value income streams and diversifying rural & urban economies to preempt the risk of large-scale reversals in Somalia’s development. This will require a new economic model for Somalia based on a larger, more diverse portfolio of productive sectors.

222. **In parallel to addressing the binding constraint represented by the dual development trap the demographic dividend represented by Somalia’s young population can support the accumulation of further national wealth in produced human and entrepreneurial capital.** With half the population under 18, between now and 2030 the Somali labor force is expected to swell. It is therefore imperative as the third strategic objective to provide opportunities for future generations in Somalia to share prosperity. Creating these opportunities begins now: how well the young are being educated will determine the quality of the future labor force and the range of productive enterprises in which they can engage to lift Somalia out of poverty. Furthermore, the population is considerably more urbanized than Somalia’s level of income would predict. Well-functioning urban agglomerations can catalyze growth, development, and the creation of opportunities. Poorly functioning urban areas can have the opposite effect, particularly if they lack investments in and planning of shared infrastructure. Electricity generation is an example of a serious infrastructure deficit that needs to be addressed. But some infrastructure is not physical: financial flows and trade connections undergird entrepreneurship. The intangible fabric of public goods—regulation, safety, security, and consistent and fair dispute resolution for Somali entrepreneurs—needs to be built up so that it can support a more substantive and broad-based accumulation of wealth. Otherwise, small- and medium-sized entrepreneurs especially will find it difficult to scale up their activities and generate jobs.

223. **Breaking out of these traps requires an agile approach from stakeholders in taking advantage of opportunities where the confluence of timing, resources, and personalities can create momentum.** Figure 39 shows the interplay of the three objectives—improve governance, build resilience, and provide opportunities. Given the magnitude and urgency of the challenges, it is necessary to go after these three objectives simultaneously rather than sequentially—we cannot wait to have the best governance or a fully completed political settlement. Drought is surely coming, and Somali youth already entering the labor force will demand expanded opportunities and jobs if they are to make their futures in Somalia.

Figure 39. The Priority Objectives and the Dual Traps



Source: World Bank staff.

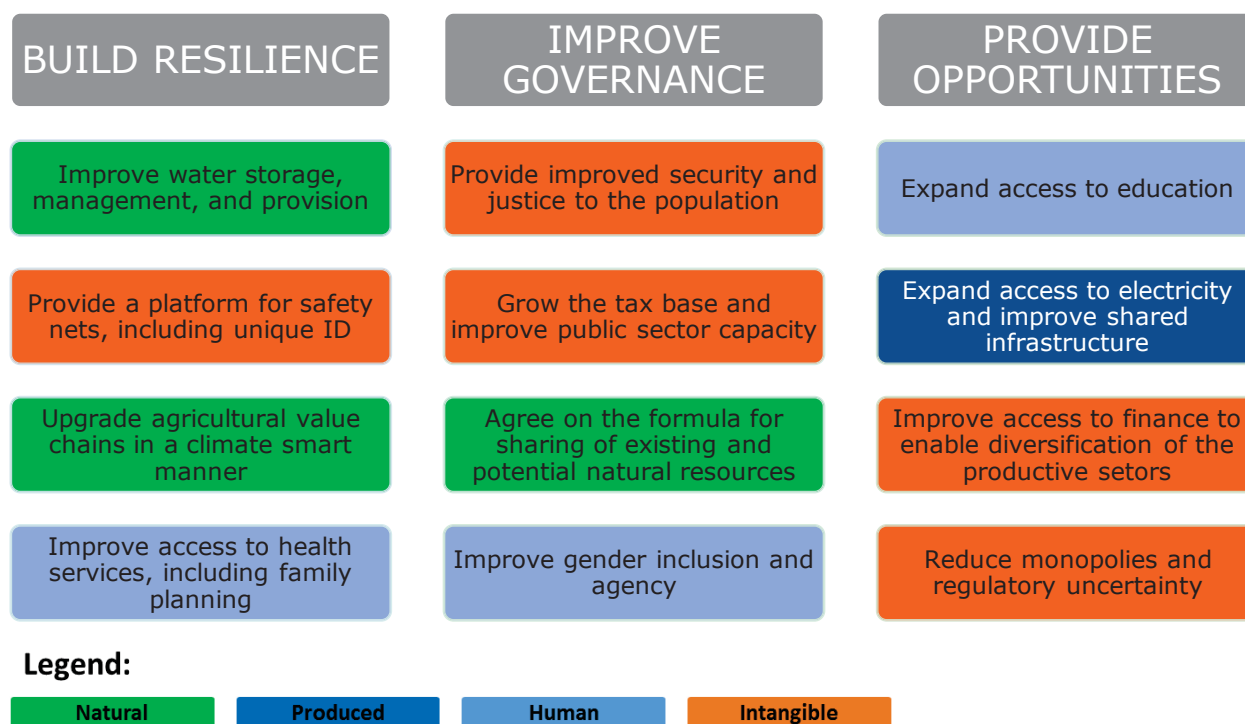
B. Priority Actions

224. **Earlier chapters identified what can help Somalia to accumulate further national wealth and provide its people with incomes that will achieve the World Bank Group’s goals of sustainably eradicating poverty and promoting shared prosperity.** The core SCD team worked closely with the Somalia country team to confirm and prioritize these actions. Sector teams then confirmed that these were indeed the specific actions needed to remove barriers on Somalia’s path out of poverty and toward prosperity.

225. **The country team then rated each action identified in terms of its potential to contribute to each of the three objectives for sustainable development in Somalia: expanding governance, building resilience, and providing opportunities.** Each country team member rated each bundle of actions low, medium, or high on its potential to lift the constraints for each of the three objectives. The ratings were then normalized and aggregated by objective.

226. **Figure 40 shows the top four actions for each objective.** The ranking is only indicative; sequencing and degree of focus will depend on the confluence of resources, capacity, and political timing. While some actions emerged under more than one objective, the importance of an action for all three objectives will not necessarily be helpful once sequencing and political opening come into play.³⁴ The table below also maps the actions to the type of capital of which they primarily support the accumulation; we see that each objective supports - and requires breaking through the barriers for – the accumulation of multiple types of capital, with the overall goal of developing a well-diversified and growing portfolio of national wealth for Somalia.

Figure 40. A Prioritized List for Dismantling Barriers to Somalia’s Achievement of the Twin Goals



Note: While these actions can support the accumulation of different forms of wealth, they are primarily anchored in one capital type, indicated by their background color

Source: World Bank staff.

227. **Improving governance to help Somalia escape the high-frequency fragility trap will require a range of actions to expand the capacity and reach of public institutions.** Institution-building is a long-term endeavor and will of necessity continue in ways that deliver sustainable improvement in governance at reasonable cost. Much effort has already gone into rebuilding and improving formal Somali institutions, particularly those at the center of government and in the security sector, but these efforts are constricted by the lack of adequate and sustained domestic revenue to support them.

228. **The approach to reforms will have to consider the resources available;** an ambitious top-down approach, even in a narrowly defined area, will not succeed if the state government has neither the capacity nor the resources to effectively deliver on its commitments. Institution-

³⁴ Action sets not highlighted were less important for these objectives, but they have been identified as major actions that will be generally important for Somalia to address.

building efforts will also need to be carefully sequenced if they are to be credible and perceived as legitimate. For example, establishing a national identity management system may be feasible early in the process, particularly if leapfrogging technologies can be brought to bear in partnership with telecom providers. Agreement on management of shared natural resources and progress toward agreement on local land rights and land use will take more time. Where it becomes demonstrably clear that lack of a collective agreement is jeopardizing the sustainability of a resource (e.g., fisheries), the case for earlier action could have great weight. Also worth considering are smaller-scale efforts that can be piloted with a sub-group of stakeholders in a particular region or sector for their demonstration effect or to test different approaches and build confidence and trust in the central government as a partner.

229. While donors are eager to support efforts that contribute to stability and good governance, the depth of their financial commitment—including debt relief—will be influenced by the efforts of domestic stakeholders. For that reason, and given the logistics associated with collecting trade taxes and customs duties, improving border control, governance, and management should be given high priority. The importance of using scarce resources where they will achieve the greatest impact should also inform priorities for improving the technical and administrative capacity of public institutions. This entails clear thinking about where the state can most quickly demonstrate its value to Somalis and other stakeholders so that particular attention can be given to these areas.

230. As for actions to facilitate Somalia's escape from the low-frequency trap of recurrent shocks by building resilience, what will be critical are measures that improve management of natural capital and expand and diversify safety nets at a time of crisis. On the current trajectory, vulnerability to climate shocks will continue to rise—another serious drought is only a matter of time. To enhance resilience, the management of natural capital will require cooperative action that will often extend beyond the local community. The absence of functioning mechanisms to facilitate agreement exacerbates unsustainable practices that prevent investment in natural resource-based development and livelihoods. Given the economy's dependence on livestock exports, improving sustainability by better managing rangelands and protecting pastoral livelihoods will require integrated approaches that manage water, reduce soil loss, facilitate animal health, and diversify the livelihoods of the pastoral population. Success of these approaches will depend on the determination of land rights, or at minimum improved agreement on shared community or regional management of resources. These efforts can be boosted by reinforcing agricultural value chains for local consumption; that will also require integrated interventions, these related to roads, animal health, and facility or skill development. Improving the ability of poor farmers and herders to access finance, hedge or insure their investments, and access safety nets to adapt to the uncertainties of climate change could also help Somalis avoid the suffering caused by the 2011 and 2017 droughts.

231. Reaching agreement on the management and sharing of such natural resources as forestry, fisheries, oil, and gas will be vital. The recent temporary fisheries agreement reached by Federal Member States in 2018 is a promising development. There are other areas that can bring the state more revenue, create development opportunities, and diversify the sources of income, but their development requires, at a minimum, early national or state political agreement. These areas also need longer-term planning to avoid the potential negative repercussions of significant inflows of extractives-based wealth. Agreements related to industries that offer a great opportunity to Somalia need to be supplemented by de-risking activities, starting with legal reforms to more

efficiently resolve disputes, enforce the decisions, and more effectively secure the rural areas where currently most violence occurs.

232. The final priority is to provide opportunities to the growing youth population in the rapidly expanding urban areas of Somalia. If Somalia's young, urbanized, and digitally connected population is given more access to skills development and training and becomes productively engaged, their economic potential is tremendous. While some informal local structures have risen to the task of educating and training young Somalis, their performance is highly variable, and many young people are still left out. The needs are considerable, but the potential returns are high.

233. To ensure that urban areas realize the benefits inherent in agglomeration, the infrastructure deficit must be addressed. In electricity, water, transport, and telecoms, the gap is considerable. However, it is not just physical infrastructure that enables private-sector growth. Appropriate and enforceable regulation that facilitates an open and competitive marketplace is necessary for the growth of enterprises, new and old, as is access to affordable finance and payments infrastructure. Action to alleviate these constraints can help unleash Somalia's well-known entrepreneurial spirit.

234. Providing expanded opportunities will also have a positive feedback effect on the resilience of the economy, as it will bring about a structural change and diversification of productive sectors is required. Somalia's over-reliance on agriculture and livestock leave the economy exposed to the risk of climatic shocks. In order to foster a sustainable, resilient economy, one which mitigates the risk of high-frequency fiscal and market fragility, the economic model for Somalia needs to be reexamined. This would consider the rapid urbanization of the country, improved management of natural capital as well as leveraging Somalia's entrepreneurial capital.

Addressing issues of gender inclusion and agency is necessary to create opportunities throughout the population. Access for girls and women to better education, health care, and economic opportunities can make an invaluable contribution by bringing the fertility rate down, which will allow Somali women to participate more fully in the economic life of their country and families to invest in their children in a way that lays the ground work for a more productive work force that is better able to take advantage of economic opportunities as they arise. Efforts to increase the participation of women and girls in all sectors are needed to ensure that Somalia's demographic dividend captures the human capital potential of the whole population.

235. Rather than being conditional on peace and stability, the priorities identified instead contribute to them. Done effectively, these actions will help the country to escape from both high- and low-frequency traps and create opportunities, which in turn will stimulate more trust, contributing to peace and stability. Nevertheless, a pragmatic review of the last three decades in Somalia reveals that mismanagement and inflated expectations have been responsible for many setbacks and disappointments. Steady progress toward a full and tangible political settlement must be Priority One for achieving the goal of poverty eradication, because the positive spillovers to all other activities would be significant.

236. This SCD prioritization does not rely on a centrally managed model of development. Over the past 25 years Somalia has experienced a radical withdrawal of the public sector from the management of the economy. Today's fiscal constraints make it unlikely that this will soon change. However, the public sector still has a useful role to play. In a highly resource- and capacity-

constrained environment, its work may have more to do with coordination and facilitation than execution. A hybrid model of local and community, private, nonprofit, and limited state-level service provision is likely to continue, but external action and government policy can set standards, provide more sustainable and lower-cost financing to better align these efforts with sustainable state-building, and maximize the existing network of private and community services. Somalia has a relatively rare opportunity for a country to learn from or even bypass the experience of other developing countries where public services and management of state-owned enterprises has deterred private sector activity, reduced investment and growth, and kept employment in the public sector.

237. Together the prioritized list of actions in support of these three objectives maps a Somali pathway to prosperity. Getting things done to change realities on the ground will require additional operational filters for making decisions about where to actually engage. These should probably include tests of feasibility for the given time, place, and political moment in Somalia; tests of the long-term sustainability of the intervention given only internal resources and capacities; and tests of the catalytic impact for likely limited resources.

238. Wherever possible, these interventions and programs should use emerging technological and operational delivery modalities to allow Somalia to leap-frog intermediate stages of development and recover lost time. That may well be feasible if the development community builds on Somalia's advantages of entrepreneurial spirit and a young, connected, and increasingly digital population. Given the rapid global pace of technological evolution, it is not necessary, for example, to establish a physical check-clearing system or full physical ID programs first before digitizing. Moving directly to a digital platform at the beginning can achieve the same results and often have the benefit of reducing graft and the political cost of some interventions. Technologies such as distributed ledger (e.g., blockchain) algorithms can also improve trust and transparency by providing open and verifiable logs of transactions or requiring community involvement. Building distributed, small-scale (mini-grid) off-grid solutions for electricity or infrastructure for local water provision and storage can reduce the political cost because they avoid the need for major decisions with nationwide implications, while achieving good outcomes and improving local ownership and the resilience of the solution. Such distributed solutions may be particularly appropriate for Somalia given its culture, history, and geography and would encourage public sector institutions to serve as standard-setter and coordinator and to unleash the energies of Somalia's vibrant private sector to spearhead Somalia's lasting economic and social recovery.

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