



Assessment Report

SOMALIA ECONOMIC GROWTH STRATEGIC ASSESSMENT

July 2014

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SOMALIA ECONOMIC GROWTH STRATEGIC ASSESSMENT:

FINAL ASSESSMENT REPORT

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ACRONYMS

AML/CTF	Anti-money laundering/counter-terrorist financing
BOT	Build, operate, transfer
DFID	Department for International Development
ERP	Economic Recovery Plan
FAO	Food and Agriculture Organization
FDI	Foreign direct investment
FGS	Federal Government of Somalia
GDP	Gross domestic product
GHP	Good hygienic practices
HACCP	Hazard Analysis and Critical Control Point
IDP	Internally displaced person
IFC	International Finance Corporation
IMF	International Monetary Fund
IUU	Illegal, unreported, and unregulated
KIMS	Kaah Islamic Microfinance Services
LOC	Letter of credit
MSME	Micro, small, and medium enterprise
NBFI	Non-bank financial institution
PEG	Partnership for Economic Growth
PFM	Public financial management
PPP	Public-private partnership
SATG	Somali Agricultural Technical Group
SBF	Somaliland Business Fund
SCCI	Somali Chamber of Commerce and Industry
SMS	Short Messaging Service
SOMPREP II	Somalia Private Sector Development Reengagement Phase II
SPS	Sanitary and phytosanitary
TIS	Transition Initiatives for Stabilization
UAE	United Arab Emirates
UNDP	United Nations Development Programme
USAID	U.S. Agency for International Development
WTO	World Trade Organization

EXECUTIVE SUMMARY

This report was prepared to identify new opportunities for USAID to support economic growth in Somalia.¹ It coincides with the last year of the Partnership for Economic Growth (PEG), USAID's first economic growth project in Somalia in many years,² and comes at a time when the international community is rallying behind the new Federal Government of Somalia (FGS) in Mogadishu and ramping up assistance in the hope that this government can bring the country together and restore stability to the region.

The premise of USAID assistance is that economic growth will contribute to stability. Research on post-conflict recovery shows that rapid economic growth can indeed do so, reducing the likelihood that a country will revert to conflict from 40 to 25 percent.³ This confirms the importance of continuing USAID's support but also making sure it is well designed and targeted. In that regard, the report emphasizes opportunities to promote economic growth that will significantly increase employment, including jobs in industries likely to attract the youth who are most susceptible to recruitment into Al-Shabaab.

CONSTRAINTS TO GROWTH

Somalia's economy, with 75 percent unemployment and a government in Mogadishu just beginning to function, faces innumerable constraints; the following stand out.

The cumulative absence of government

The collapse of government in Mogadishu in 1991 is felt in every way. Social services have disappeared or are being supplied privately. This works in some cases but fails, for example, to educate those who cannot afford to pay. Roads, ports, dams, flood control structures and irrigation systems have deteriorated from lack of maintenance. There has been no authority to establish or enforce the rules of the road for players in the economy and therefore no protection for competition, no independent enforcement of contracts or assurance of financial transparency, i.e. none of the measures that help make sure that the actions of businesses and investors ultimately benefit all. The low starting point to rebuild the capabilities of government in Mogadishu, as well as the Somalis' ambivalence about strong government, mean that government will be limited under any scenario in Somalia. Unorthodox approaches to providing public goods and public order may therefore be required.

¹ "Somalia" in this report refers to Somaliland, Puntland, and South-central Somalia together. There are important differences between the three zones of the country. This report focuses on the constraints and opportunities they have in common.

² PEG works with government and the private sector to improve the enabling environment for business and generate more productive employment. It began in Somaliland in 2011 and expanded to Puntland in 2012.

³ Collier, Paul; Hoeffler, Anke; and Söderbom, Måns. *Post-Conflict Risks*. London: Oxford U, 2006.

Elite capture

The business owners that provided essential services during the civil war, such as electricity, water, telecommunications and trade, performed critically important functions at a difficult time in Somalia's history but are now forming monopolies and cartels, fixing prices and aggressively asserting control over new industries, sometimes violently. Their wealth gives them political influence, which they use to affect legislation and the exercise of government authority over rivals and friends. This problem of elite capture discourages new businesses from starting up and small and medium ones – including women-owned businesses – from growing.⁴ It reduces the flow of investment for new jobs and stifles competition, which contribute to high prices (\$1.00 plus per kWh energy) and poor quality (no interoperability of cellular services). Once an asset, Somalia's business elite is now a constraint.

Finance

There are no conventional financial institutions in Somalia. *Hawalas* and a mobile money system facilitate many payments between Somalis, though not all.⁵ Most damagingly, there are no financial institutions to attract and pool savings and intermediate them into productive investments elsewhere in the economy. The lack of finance arises in most discussions with Somali businesses. It perpetuates the problem of elite capture – those with existing resources or with access to resources from family and clan remain in a better position to invest. Less connected startups, small- and medium-sized businesses (including diaspora ones) and businesses owned by women struggle.

Business climate and commercial law

Somalia has one of the most difficult climates for business in the world as measured by conventional indicators.⁶ The protection of property, sanctity of contracts and ability to enforce contracts, investor protections, cost and efficiency of export/import among others are all extraordinarily weak. This discourages new investment and the expansion of existing businesses. It, too, reinforces the problem of elite capture – the segment of the business community that already has power has the ability to protect its interests while others have not.

Product safety standards

The industries with greatest potential to grow and create new jobs – fisheries and horticulture – have small domestic markets. Success will depend on exports, which will in turn depend on the ability of Somali producers to satisfy international standards for food safety. Food imports

⁴ Smart business people look for niches in the market – large enough to make it worth their while but not large enough to attract the attention of the elite – before investing in a new business.

⁵ *Hawalas* are money transfer companies that move funds within their own network. They will not transfer funds to another *hawala* network.

⁶ *Doing Business in Hargeisa 2012*. no. 74663. Washington, DC: World Bank, 2012.

from Somalia have been banned in some markets in the past. Food safety systems are complex and require close cooperation between the public and private sectors. Establishing a safe system would be an ambitious goal for Somalia but essential if these growth industries are to achieve their potential.

Business services and market research

The failure rate of new Somali businesses is unusually high.⁷ The lack of finance, elite capture and a poor business climate bear much of the blame. But insufficient market research is a painfully obvious factor as well. The very largest Somali firms undertake market research, but others do not. Somalis in business take pride in their ability to tap family and clan networks for information and dismiss the value of market research. But multiple examples show that, as the economy grows and gets more sophisticated, this no longer works

Skills

Somalia's civil war produced a generation with little education and a limited supply of the skills demanded in the current labor market. Many donors have supported vocational training, with mixed results. The critical skill shortages in several key industries are not addressed in vocational training programs. Higher level technical skills are required, for example, to size, design and install refrigeration and ice-making equipment in fisheries (or to remove field heat in agriculture), or to design and install transmission systems for renewable energy facilities. These master-level skills are not only missing in industry, but also within the vocational training industry itself. Companies import the skilled workers they need from Kenya. The vocational training system, meanwhile, continues to provide training only to level 1, ignoring the higher levels 2 and 3 because there is no one to teach them.

Women and youth

Women and youth are disproportionately affected by the low level of economic activity in Somalia and face unique additional constraints to greater economic participation. Women face much narrower opportunities than men when seeking employment and higher barriers to starting and operating their own businesses. Youth bear the weight of the collapse of education during the country's long civil war and suffer an even higher rate of unemployment than the 75 percent average for Somalis overall.

Limits on the economic prospects of women and youth create, in turn, additional constraints to Somalia's ability to recover from past events and move forward. Unemployed youth are the primary source of recruits for Al-Shabaab, particularly in South Central Somalia. Persistent high

⁷ There are few reliable statistics, but anecdotes abound and this is a frequent theme in discussions among investors and business people. In *Private Sector Investment and Barriers to Growth Analysis in South-Central Somalia and Puntland*, Adam Smith International cite Somalia Chamber of Commerce and Industry data that 43 of 53 light industrial firms in existence in 2008 are no longer in business.

youth unemployment contributes to the insurgency. While women's multiple clan affiliations give them the potential to reduce conflict by bridging clan and sub-clan lines, their lack of economic power reduces the authority with which they can perform this function. Future activities to promote economic growth in Somalia need to pay special attention to increasing the economic opportunities open to youth and women.

ASSETS TO BUILD ON

Despite the array of constraints, Somalia also has some important assets on which it can build.

Entrepreneurial culture

Somalis are extraordinarily entrepreneurial and willing to take risks. Despite the challenges of operating in such an unstable environment, the hotels of major cities are full of Somali investors exploring one idea or another. Word of success spreads rapidly. Even before PEG commissioned the first wind farm in Somalia, half a dozen groups were planning their own.

Financial sector

A new Banking Law approved in Mogadishu means that three or four commercial banks should be operating in Somalia by the end of this year. This is a huge step forward. The immediate beneficiaries will be exporters and importers who can finally work with letters of credit. Yet the banks will lend only to the largest borrowers for a number of years because creditor protections are weak. Other measures will be needed to encourage banks to start lending "down market" and open finance up to a broader client base.

Commercial law

Somalia has operated with an evolving mix of customary, sharia and formal law since colonial times. During the civil war, in the absence of government, customary law came to the fore but tends to favor the established elite, making it harder for startups, small- and medium-sized business, and women-owned businesses to protect themselves. Moreover, the current formal laws on the books were written by the pre-war socialist government and do not recognize most concepts of a market economy. The FGS has requested that five key commercial laws be rewritten and the World Bank is doing so. The government's ability to implement those laws and the capacity of the justice system to enforce them is questionable, but they will begin to establish the rule of law with equal protections for businesses regardless of size or ownership, at least on paper.

Renewable energy

The electricity generating industry in Somalia's cities and towns is controlled by monopolies and cartels that will strongly resist reforms. But the renewable energy industry outside of Somalia's cities, consisting largely of standalone single-purpose systems, is taking off and offers immediate benefits to agriculture and fisheries among other industries.

Fisheries industry

A drastic reduction in piracy and resolution of a disagreement between the FGS and regional governments over control of deep sea fishing rights have opened the door to development of a fishing industry off the Somali coast with tremendous growth and job-creating potential. Private investors are moving into both the fishing and processing stages of the industry. Yet growth will depend on exports, which means food safety must be addressed. The physical and environmental limits on artisanal fishing⁸ also mean that growth will require a new approach to fishing in between the low-tech approach practiced by Somalis today and the industrial methods used by foreign factory fishing operations off shore.

Horticulture

PEG showed that farmers in Somalia were willing to adopt new technologies and techniques that can significantly improve yields. Horticulture is potentially a large employer in the agricultural areas of south-central Somalia, where Al-Shabaab has capitalized on the dissatisfaction of minorities to attract recruits. Local and diaspora investors are keenly interested and the abandonment of farmland by many IDPs creates the possibility of consolidated farming, agribusiness and rapid increases in employment. Horticulture, like fisheries, however, will ultimately depend on exports and therefore on Somalia's ability to develop systems to track and assure food safety.

STRATEGIC APPROACH

Several systemic activities that affect all sectors horizontally across the economy should be part of any future program. Their goal should be to open up opportunities for new, small and medium businesses by expanding access to Somalia's developing financial system and increasing the availability of business support services, particularly market research and information, to small and medium-sized companies. Success on either front will accelerate economic growth and help to democratize opportunities in business at the same time.

These horizontal initiatives should be complemented with two sectoral – or vertical – ones to increase private investment in industries with large employment potential, especially in regions susceptible to insurgency recruiting. The industries that best fit these criteria are fisheries and horticulture. In parallel to support for new investments, assistance to government and the private sector will be important to:

- develop food safety systems for exports;
- repair or rehabilitate small-scale infrastructure;
- develop the capacity to deliver the technical training needed for the industries to thrive.

⁸ Artisanal fishing is practiced by Somalis in small boats with no cooling facilities, close to shore and in shallow waters over the continental shelf.

An assistance program with these activities should also retain the capacity to help address policy issues that arise in the course of implementing sectoral work. Both the systemic and sectoral elements of the program should include a focused outreach to women.

IMPLEMENTATION CONSIDERATIONS

In future economic growth programming, USAID will need to take into account considerations specific to Somalia. Because the capacity of the government of Somalia will probably grow only slowly during the next few years, the private sector will need to be given the lead on many aspects of project implementation. For example, investors, not government, will need to play the lead role in agricultural extension under the project. USAID will need to consider carefully what the minimum essential roles for government are and build counterpart capabilities to that end.

Secondly, as long as the overarching program objective is economic growth and large numbers of new jobs, the project must focus on where jobs will be in Somalia tomorrow rather than where they are today. In practical terms, this means working to develop the fisheries and horticulture industries, which have significant employment potential, rather than livestock farming, which has not.

Thirdly, a Somalia-wide effort will be complex. Somali society is already fragmented by clan. Future assistance will need to deal with the added complexity of working across three governments – three ministers of fisheries, for example, none of whom will be eager to cede authority to another. It will also require working with a growing number of donors that, despite the apparatus built around the New Deal for Somalia, do not seem well coordinated. The project will need to use mechanisms that bring people together, bridge differences and encourage all to focus on shared problems and interests.

Finally, Somalis are proud of their identity and traditions and will not see why they should replace customary systems of law with foreign ones unless they see a compelling need. USAID's experience with legal and regulatory reform is consistent with this and suggests an opportunistic approach, which addresses specific legal or regulatory constraints as counterparts perceive the need to do so rather than following a pre-scripted agenda. This transactional approach requires flexibility in implementation and the patience to wait for counterparts to determine the pace of change.

SYSTEMIC INTERVENTIONS

Democratizing finance

Several steps can lower the risk to banks of lending down market, encouraging credit to flow beyond the largest customers to smaller, newer clients.⁹ Step one should be helping to develop a leasing industry. Leasing gets credit to ordinary businesses in the form of trucks, refrigerated trucks, coolers, tractors, forklifts, pumps and other equipment important in agriculture and fisheries. Leasing companies compete with banks, forcing them to be more responsive to clients who may weigh leasing as an alternative. Step two would be assisting private banks and the Central Bank to develop a credit information bureau. Credit bureaus provide information to lenders about the payment records of potential borrowers, reducing the risk to the lender and the time and expense required to determine whether to make a loan. Credit bureaus have been developed in an increasing number of poorer countries, relying initially on records of individuals' phone and utility payments to establish a repayment history whether or not they have had prior experience with loans. Finally, a lot can be achieved by helping suppliers of inputs and purchasers of product to expand the use of supplier or buyer credit, especially within the fisheries and agriculture industries.

Democratizing information

There are very few business service providers in Somalia but nine or ten are trying to get started and some university departments are working in that direction too. Development of both the demand for and supply of market information and the application of that information to investment and management decisions by Somali businesses, especially smaller ones, should be encouraged. The goal is more successful investments and, through them, faster growth and jobs.

SECTORAL INTERVENTIONS

A future economic growth program could complement these systemic activities with assistance to increase investment, growth and jobs in two industries with large employment potential, including in areas where youth are particularly susceptible to recruitment into Al-Shabaab. A competitiveness approach would be extremely helpful, bringing together all players in an industry – including donors – to identify constraints and work toward their shared interest in the industry's success.

The fishing industry

According to the FAO, the only “underfished” fish stocks anywhere in the world are off Somalia's Indian Ocean coast. The income and employment potential is tremendous and Somalis could expect an order of magnitude increase in the size of their fish catch. The goal should be to develop an intermediate fishing industry with – largely Somali – investors, targeting levels of

⁹ It would not make sense to implement financial sector activities in Somaliland until the government in Hargeisa legalizes commercial banking. Otherwise, the systemic interventions suggested here can be applied in all three zones of the country.

technology and investment between those of the artisanal fishing Somalis currently pursue and the deep-sea, high-technology and heavily capitalized foreign off-shore fishing industry. New, larger boats would be required as well as new processing facilities and a continuous cold chain including both land and air transport. Fisheries experts estimate this industry will employ 20 people on land for every five jobs created at sea. The principal impact would be felt in Puntland and South Central Somalia, but Somaliland would not be left out.

Horticulture

Horticulture is concentrated in the rain-fed, partly-irrigated areas of South Central Somalia. A competitiveness approach should involve investors in production and processing, energy providers, input providers, exporters and freight companies, government officials from related departments, university faculty, donors and the media. The objective should be to increase yields, employment and profits and, ultimately, exports. In parallel with partnerships with investors, it would be important to assist government and the private sector to improve the suitability of inputs including certified seed, establish a food safety certification system for exports and address policy constraints as they are identified. The impact of support to the horticulture industry would be concentrated in south-central Somalia.

WOMEN AND YOUTH

Given Somalia's high level of unemployment, overall economic growth will be the most important single factor for creating jobs and economic opportunity for youth and women. The systemic interventions in finance and business services recommended here would go further by relieving binding constraints to overall growth that also particularly constrain these groups. Similarly, the sectors proposed here for program focus have the greatest potential for creating jobs in the economy overall while also offering a disproportionately large number of employment opportunities to women and youth, including in key recruiting grounds for Al-Shabaab.

Two additional measures would significantly improve the prospects for women starting and operating their own businesses. USAID should encourage financial institutions, business service providers, investors and providers of agricultural extension services to employ women to handle outreach to women clients and should assist those institutions to develop products that address women's needs. USAID should also support development of a Women's Chamber of Commerce or Women's Business Network to encourage women in business and facilitate expansion of their operations.

WHAT NOT TO DO

With Somalia's almost infinite needs but with limited resources, deciding what not to do is as important as making positive recommendations for the program. This report recommends against getting involved in the following areas or sectors.

Livestock is a mature industry that has scope for value addition but will not employ large numbers of additional people. Livestock investments provided the lowest return of all

investments under the PEG project. It is also an industry Somalia is dangerously dependent on. Disruptions in foreign markets since 2000 have created major problems because of this dependency. It is better to focus on sectors with greater employment potential and help Somalia diversify its economy and exports.

Public financial management (PFM) is a crowded field with 10 multilateral financial institutions and bilateral donors already lined up to take on parts of a master plan developed with the support of the FGS. While clearly important, PFM will not affect economic growth or job creation in Somalia in the next few years. If growth and jobs are USAID's primary objective, this is not the first place to invest.

A comprehensive standalone energy effort would involve the sensitive problem of cartels and price fixing in urban electricity markets. Since it is unclear whether the FGS has the political will to confront the issue, this should be avoided for now. Renewables are taking off, however, with considerable involvement of other donors. We recommend letting that happen while actively supporting renewable energy installations in the project's sectoral work in agriculture and fisheries. An attractive alternative could be support for a renewable energy center to train and certify Somalis in the sizing of renewable systems and in their installation, maintenance and repair.¹⁰ Industry buy-in, support and assurance of sustainability would be important conditions for making this investment.

A standalone commercial law or regulatory reform project could duplicate work already underway by the World Bank and runs the risk of being rejected or ignored unless integrated into sectoral work, as explained in the discussion above about adopting a transactional approach.

Investment promotion as a general initiative is premature in Somalia. This biggest lesson learned from past work in this area is to make sure you have a good product before you try to sell it. Somalia is not yet a good product and one bad experience reported back to colleagues and peers can sour investors for a generation. At the moment, it is best to concentrate on improving the investment climate.

Industrial zones are a way to establish a new environment for business on a pilot basis. They typically provide physical facilities, security and access to utilities, ports and labor as well as streamlined regulations and approvals. In Somalia, some of that concentrated demand for labor could come from IDP camps. But zones are mostly useful for manufacturers and Somalia – with its high energy and other costs – will not attract significant amounts of manufacturing investment for many years.

CAUTIONS AND ISSUES

Complexity and cost

¹⁰ The Somaliland Business Fund made a grant for just this purpose but project implementers failed to attract the technical leaders they expected and the project failed.

Covering all three parts of Somalia while also dealing with security concerns will make any future economic growth effort expensive to implement and manage. It will require a lot of travel as well as multiple offices and office staff to cover the different parts of Somalia. Managing three times the normal number of counterparts, who are likely to be wary of each other, will demand diplomacy, time and money.

USAID field presence

Future USAID economic growth programs will require a significant presence by USAID staff in the field. The protocol demands of dealing with three governments, including on sensitive policy issues, cannot be left to a third-party implementer.

Resistance

Some of the proposed activities will run counter to the interests of Somalia's business elite. They will resist. USAID will need to be unusually alert, build alliances with government and manage the politics carefully.

Crowding out

Donor activities can inadvertently undermine the long-term objectives of assistance. For example, grants to Somali businesses from the many donor-financed "Funds" in Somalia could crowd out market-based lending by the country's new banks, delaying the development of a healthy financial sector. Similarly, donor-supported services to small businesses could crowd out the provision of such services on commercial terms by private providers, delaying the development of a vibrant business services industry. Neither danger is imminent, but both may arise in the coming years and should be watched.

INTRODUCTION

With a new government in place, Somalia is emerging from the effects of a long civil war, extended drought and a catastrophic famine. Although the Federal Government of Somalia in Mogadishu is still struggling to contain the Al-Shabaab insurgency, Somalia's economy is growing.¹¹ There are few reliable statistics but a glance around the country's cities reveals an extraordinary amount of new construction, rapidly increasing vehicle traffic and an explosion of cellular phone use, among other tangible indicators of economic expansion. Businesses agree that – at least in the cities – demand for goods and services is growing rapidly.

Government, too, has begun the difficult process of rebuilding itself despite many challenges. Through an Economic Recovery Plan (ERP)¹² focused on south-central Somalia, the FGS has set out priorities and an ambitious agenda of legal, infrastructural, and institutional reforms needed to support a growing economy.

Yet the economies of countries emerging from conflict take 10 years, on average, to return to pre-conflict levels.¹³ There is usually an initial period of very rapid growth, through a rebound effect following the end of hostilities, giving the impression that progress will be faster. This appears to be the case in Somalia. For example, the size of the country's livestock herd is reportedly still only half its pre-war level despite abundant evidence of ongoing growth. In addition to conflict, Somalia also suffered three years of drought from 2008 through 2011 as well as a famine in 2012, in which over 250,000 Somalis died and up to a million fled from rural areas to camps in and around the country's cities. Few of these internally displaced persons (IDPs) have returned to their homes, most are unemployed, and the farms they left are mostly abandoned and unproductive. The insurgency continues in some parts of the country, with terror attacks in the country's cities.

With the burden of these additional challenges, Somalia's economy could take much longer than 10 years to return to its pre-conflict level – a wait that its political system could probably not withstand. Research shows that rapid economic growth reduces the probability that a country will revert to conflict from 40 percent to 25 percent,¹⁴ confirming the importance of assisting Somalia to grow quickly and to sustain that growth over time.

¹¹ "Somalia" in this report refers to Somaliland, Puntland, and South-central Somalia together.

¹² Ministry of Finance of Somalia. *Federal Government of Somalia Economic Recovery Plan 2014-2015*. Mogadishu: Federal Republic of Somalia, 2013.

¹³ Collier, Paul and Hoeffler, Anke. *Aid, Policy and Growth in Post-Conflict Societies*. Washington, DC: World Bank, 2002.

¹⁴ Collier, Paul; Hoeffler, Anke; and Söderbom, Måns. *Post-conflict Risks*. London: Oxford U, 2006.

An extraordinarily large proportion of Somalia's people – 70 to 80 percent of the workforce – are not working despite the current signs of recovery. This level of unemployment directly lowers income which, at \$288 per capita, is among the lowest in the world. The impact of getting people working again is easy to imagine if you consider that reducing unemployment to even 25 percent would triple the number of Somalis engaged in productive activity every day.

Getting young people working is particularly important. Some 70 percent of Somalis are less than 30 years old¹⁵ and the youth unemployment rate is the highest of any group in the country. The lack of jobs is widely believed to make young people susceptible to recruitment into the Al-Shabaab (“The Youth”) insurgency. Youth from minorities that live predominantly in the agricultural areas of south-central Somalia face discrimination in Somali society and are thought to be particularly susceptible.

Improved security and the end of drought have allowed economic growth to resume. That has revealed a new set of constraints on the economy. Some are tangible:

- Finance: without banks in Somalia, potential investments languish for lack of funds;
- Business climate and commercial law: the absence of legal protections inhibits business startups and expansion, especially by Somalis who are not already well financed and connected. One of the most discouraging business climates in the world prevents Somalis' extraordinary entrepreneurial drive from turning into productive business;
- The absence of business services: without market research, an unusually high percentage of investments fail;
- Standards and quality control: Somalia's most productive and promising export industries are always at risk of being shut down because there is no national system to assure the safety of food products shipped overseas;
- Technical skills: Somali businesses have to import skilled labor from neighboring countries (when 75 percent of Somalis are unemployed) to staff some of the country's most dynamic industries;
- Infrastructure: poor roads, expensive electricity and inefficient ports, among other infrastructure problems, increase the cost of doing most things in Somalia and reduce the competitiveness of many businesses and industries.

Other constraints are less tangible:

- The missing presence of government – the absence of government in Mogadishu for most of the last 20 years condemned a generation of Somalis to grow up with little education and few skills. Without government, there has also been little to protect the

¹⁵ ERP, p. 107.

rights of business owners who, in many cases, reduced the scope of their businesses to hedge against loss;

- Elite capture – the generation of business owners that provided key services during the civil war, such as electricity and water, have formed cartels, fix prices, and take over promising new businesses or find ways to shut them down. Originally an asset to the Somali economy, they are now a constraint.

USAID's future program in support of growth and jobs in Somalia cannot address all constraints but should strive to reduce those that are within reach and most likely to help achieve program goals.

PURPOSE, METHODOLOGY AND LIMITATIONS

This report reviews Somalia's economy, assesses the constraints to growth and opportunities to accelerate it, and makes recommendations for USAID to consider for its future program. The report emphasizes opportunities to promote economic growth that will significantly increase employment. It takes into account social and political factors that have contributed to conflict in Somalia and the characteristics of the business community that has emerged from it.

The assessment covers the three distinct zones of the country: Somaliland (which withdrew from Somalia in 1991 but is not recognized by most of the world), Puntland (which temporarily separated from the Somali government based in Mogadishu in 1998), and "South-Central" which includes Somalia's capital Mogadishu and which has been at the center of the civil war.

The report was prepared by a two-person team during February, March and April, 2014. It draws on an extensive review of written reports by donors, multilateral financial institutions and academics as well as almost 90 interviews with government and private sector representatives, foreign investors, academics and donor organizations across Somalia and in Nairobi. The assessment was carried out in parallel with an evaluation of the Partnership for Economic Growth (PEG) project, USAID's first economic growth action in Somalia in many years, and benefited from lessons learned under the project and during its evaluation. Time and security constraints limited field visits to Mogadishu, Hargeisa and Garowe.

FINDINGS

The collapse of government in Somalia in 1991 ended the organized collection of economic data, making it impossible to discuss today's economy with precision. An overall analysis of Somalia's economy is further complicated by divergence in the laws, practices and paths of economic development in the three zones of the country. There are economic overviews, sector analyses, and so on for each of the three – and a few that cover two of the three – but almost none for all three together. Making an overall analysis of Somalia's economy would require integrating analyses of three distinct economies, which would be difficult to do and to understand. Instead, this report describes the common features of the three economies and identifies the constraints and opportunities that they share in order to determine options for USAID intervention. It devotes the most attention to aspects of Somalia's economy that this report suggests could feature in USAID's future program.

REMITTANCES

Remittances are not counted in the gross domestic product (GDP) but are a dominant feature of Somalia's economy and a key factor in the welfare of its people. About 1 million Somalis live abroad as part of the "diaspora".¹⁶ Most left to escape war, rather than famine, and were relatively well educated and well off. This, combined with a strong Somali entrepreneurial streak, positioned many to thrive overseas. Strong family and clan ties mean that much of their income – at least \$1.2 billion per year¹⁷, equal to almost half of Somalia's GDP – flows back to Somalia as remittances and keeps many families above water despite high unemployment.

LIVESTOCK

Livestock is Somalia's largest sector, its largest employer, and is often described as the backbone of the economy¹⁸. Pastoralism lies at the heart of the Somali nomadic culture and identity. Livestock in Somalia means goats, sheep, camels and cattle in descending order of headcount. The majority of livestock produced are exported – almost exclusively to the Middle East and mostly as live animals.

The livestock industry is concentrated in the arid and semi-arid north – Somaliland and Puntland. Periodic severe drought is the main problem facing the industry. Other problems reflect the challenges of moving herds, herders with little education and the collapse of government functions during the war, which weakened the supply chain for veterinary medicines, reduced the availability of veterinary services and caused the loss of laboratory

¹⁶ ERP, p. 68.

¹⁷ Hammond, Laura. *Family Ties: Remittances and Livelihoods Support in Puntland and Somaliland*. Food Security and Nutrition Analysis Unit, 2013.

¹⁸ The ERP, for example, says livestock and meat industries account for 60% of jobs.

facilities for livestock testing. Other issues include poor practices and facilities for fattening animals before sale and the failure to establish a fodder industry to stabilize livestock food supply.

As much as 80 percent of Somalia's livestock production is exported, which means that the food safety concerns of importing countries are critically important to the industry's survival. Also, Somalia's livestock exports go to just a handful of countries. The industry paid a large penalty for that dependence when Saudi Arabia banned the import of live animals from Somalia for nine years in 2000 and the United Arab Emirates (UAE) banned the import of frozen meat in 2005.

Despite the central importance of food safety standards and certification, Somalia has not succeeded in establishing its own control systems. Instead, it imports safety controls from importing countries that send their own people to monitor the supply chain in Somalia.

Recent studies suggest that livestock production may not be as important as commonly thought. It may also be declining in relative importance. A calculation of Somaliland's GDP by the World Bank in January 2014, for example, concluded that livestock makes up 29.5 percent of GDP – a large proportion, to be sure, but not the 60 percent that is frequently cited.¹⁹ Other sources suggest that land degradation from overgrazing is putting an upper limit on the industry. The question for USAID is whether the livestock industry has the capacity to create tens of thousands of new jobs. Most observers say it does not – even if herds could grow without stressing the land, more livestock doesn't necessarily require more herders, and even a dramatic increase in meat processing would add a few thousand jobs at most.

AGRICULTURE AND AGRIBUSINESS

Raising crops²⁰ accounts for a smaller share of Somalia's economy than livestock.²¹ It is the third largest sector in Somaliland, for example, where semi-arid conditions favor livestock. It plays an even smaller role in the economy of Puntland, which is even drier. But agriculture plays a central economic role in south-central Somalia, where rainfall is greater and two rivers as well as irrigation systems provide a more consistent supply of water. In south-central Somalia, agriculture may be the largest single industry.

¹⁹ *New World Bank GDP and Poverty Estimates for Somalia*. Washington, DC: World Bank, 2014. Web.

²⁰ The international definition of agriculture includes livestock, fisheries and forestry as well as the raising of crops. In Somalia, however, fisheries and livestock are considered separate. The Somali convention is followed in the rest of this report.

²¹ For example, 8.2 percent of Somaliland's GDP – see the "New World Bank GDP and Poverty Estimates for Somalia" press release.

Horticulture in south-central Somalia

The discussion here focuses on horticulture in south-central Somalia rather than other segments of the agriculture sector. Horticulture has a lot of potential for labor-intensive growth, produces higher income per acre of land than traditional crops, and has drawn considerable Somali investor interest. The agricultural areas of south-central Somalia have been an important recruiting ground for Al-Shabaab, which has been able to capitalize on the relative poverty of the area and the grievances of the minorities who live there. Increasing demand for labor, rising wages and growing incomes would improve the prospects for change in the political dynamic of the region.

Technical challenges

The greatest challenge to agriculture in south-central Somalia is the inconsistent water supply: it suffers from both severe periodic drought and occasional flooding. Catchment structures, levees and irrigation canals help, but they have deteriorated since the beginning of the civil war – falling into disrepair and/or silting up. Donors and the Food and Agriculture Organization (FAO) have provided some assistance to rehabilitate canals and flood control structures through livelihoods programs.

Many problems, however, preceded the conflict and persist today. Crop yields on Somali farms – just 10 percent of those in the U.S. in some cases – were low before the war too. Agricultural techniques remain unsophisticated²² and fuel and water use is often wasteful (little or no use of drip irrigation). There is no extension system or government capacity to monitor or address diseases and pests. Soil must be sent to Kenya or Ethiopia to be tested since Somalia has no labs. Farm equipment is run down: it can be 60 years old and there is a particular shortage of tractors. Roads are largely unpaved and can be impassable during the rainy season and a number of bridges have deteriorated or been damaged by fighting.

There is a particular problem with poor quality inputs sold to farmers by private dealers. Pesticides may be past their shelf life or, worse, mislabeled. Flour may be repackaged and sold as fertilizer. Seeds are only available in limited quantities and are not certified for quality or suitability to the region. Early- and late-germinating varieties that would help prevent oversupply at harvest time are unknown.²³ Finally, land disputes are common due to the outmigration of many rural families during the drought and land grabbing during regime change and the general breakdown of law and order. The virtual absence of post-harvest processing

²² Much of PEG's assistance to farmers in Somaliland consisted of demonstrating relatively simple techniques such as crop spacing, furrow planting and crop rotation. Similarly, the FAO in Lower Shabelle reported rudimentary problems with weeding and disease and pest control.

²³ Somali Technical Group. *Economic Growth Assessment of South-Central Somalia*. Washington, DC: USAID, 2013.

means that produce not sold immediately is often lost, as are opportunities to increase incomes through adding value.

The advanced age of farm equipment in south-central Somalia is a good indicator of the almost complete absence of finance in the sector. Credit of any kind, including supplier credit, is rare or absent. There are no leasing companies supplying tractors, trucks or pumps.

Insurgency and drought have forced an exodus of rural Somalis to cities. Though some IDPs are renting out their unoccupied farm land to others, the departure of so many farming families has left a lot of land fallow in south-central Somalia. Although unused farmland represents an economic loss today, it means that agricultural output could increase rapidly when conditions are right. That, however, will not necessarily cause a proportional increase in the employment of Somalis. Despite the country's 75 percent unemployment rate, the departure of IDPs has created labor shortages in rural areas, including in south-central Somalia, and Ethiopians are working in some agricultural jobs that Somalis could perform. If observers are correct that a large number of IDPs will not return to their farms, consolidation of some farmland into larger operations is likely, which will mean fewer but larger farming operations and a partial shift from smallholder farming to agribusiness in affected areas.

Investor interest

Local and diaspora investors are keenly interested in agriculture in south-central Somalia. Recent initiatives include grape exports to Turkey, the introduction of solar-powered drip irrigation, an increasing number of wind and solar installations to pump water, sesame exports (see below) and the anticipated resumption of banana exports after a lull of many years. Projects financed by the Somaliland Business Fund (SBF), though restricted to Somaliland, demonstrate the potential range of investor interest in agriculture and include drip irrigation for fruits and vegetables, tractor rental services, argan oil production, sunflower, poultry meat and eggs, and processing for tomato paste and ketchup. As security improves, the greater agricultural potential of south-central Somalia should attract a growing number of entrepreneurs seeking agribusiness investments. Although large farms in south-central Somalia cover as much as 800 hectares, some investors will benefit from the example of the sesame seed exporting firm, Al-Mizan, which has developed a successful outgrower relationship with 1,000 farmers while owning little land itself. Al-Mizan offers a form of credit to its farmer suppliers and some extension services. Yet while others can learn from Al-Mizan, they will need to avoid the common phenomenon in Somalia of copying what Al-Mizan does. A willingness to undertake market research and the capacity to implement that research will be important to ensure that other ventures are as successful.

Export standards and outreach

Somalia's agricultural production potential exceeds local demand, which means that export markets will ultimately drive the sector. Successful exports will require, in turn, improved quality control and a sanitary/phytosanitary (SPS) certification system acceptable to foreign buyers. Somalia has exported bananas and pineapples in the past, but food safety standards have tightened considerably since then and there is no system in place today. South-central Somalia does export high-quality sesame seeds overseas, though sometimes relabeled to indicate another country of origin. Exporters from Somalia will also have to overcome buyers' concerns about depending on production from an unstable country.

Developing a quality control and SPS certification system will be necessary for the horticulture industry to grow. The most widely used system today is GlobalGap, which establishes specific practices and standards for food products. Under GlobalGap, firms that seek certification apply to have their processes and facilities approved. They are then audited by an appointed third party and certified if they pass. The government in the producing country – the FGS in the case of Somalia – must appoint a “competent authority” to make sure that certified firms remain in compliance with GlobalGap standards.

The Ministry of Agriculture in Mogadishu is keenly aware of the need for standards and SPS assurance. Its staff remembers setting and enforcing SPS standards before the civil war. They are eager to start again, but they lack laboratories, testing equipment and even desks and chairs. The African Development Bank is expected to support general capacity building at that ministry, but it is not yet known what that will include or when it will happen.

The path forward to resume extension services and tackle the related problem of poor quality inputs is less clear. In much of the world, government extension services (which require a lot of time and investment to develop) are giving way to extension advice provided by the suppliers of inputs. Suppliers in Somalia appear to be traders with a short time horizon incapable of providing on-farm crop advice, instead trading whatever they think can sell regardless of quality or appropriateness to field conditions. Until that changes, and unless the government becomes dramatically more capable and better resourced, extension can only come from agribusiness investors who work with smaller farms or from universities. PEG demonstrated that some universities in Somalia can take on this responsibility.²⁴ Universities, however, sometimes pursue agronomic achievement such as greater yields without focusing on the profitability to the farmer and firm. In the interest of pursuing new discoveries, they may also ignore solutions already developed elsewhere – e.g., at the international agricultural research centers.

²⁴ Working with the Somali Agricultural Technical Group (SATG) based in Amoud University, PEG implemented classic on-farm demonstration trials with contact farmers, farmer field days, farmer and vendor market days, as well as some literacy, numeracy and business training.

Moreover, universities would need to be paid for providing the service and long-term, sustainable funding sources for this are unclear.

Investors in agriculture, on the other hand, can be expected to be acutely sensitive to the return of a crop, technique or technology and to seek eagerly technical solutions that are already available. They will be self-financing. If they face setbacks, however, and shut down an agribusiness, they may leave farmers without support. The best approach to agricultural extension in Somalia is not clear but it appears that agribusiness investors are best positioned to take the lead now. Donors could consider working with a few universities on some of the most common horticultural problems. Research partnerships between agribusiness investors and universities could be especially productive.

Inputs and energy

Two initiatives to improve seed quality in Somalia should be followed up. The FAO has helped to establish two private companies in south-central Somalia that develop and sell certified seed.²⁵ The FAO also expects seed certification to be one of its two areas of focus in agriculture in the years ahead. It would make sense to work with the FAO and those firms to expand their product range and reach, while encouraging other firms to come forward in the interest of establishing a fully formed seed industry. PEG piloted new practices for seed cleaning, packaging and marketing at its seed farm demonstration plot in Somaliland – lessons learned are available from the Somali Agricultural Technical Group that implemented the work. Eventually, Somalia needs a clear seed policy reflecting both global best practice and Somalia's limitations. Donor support in this area could be helpful. As a result of PEG's work, the Ministry of Agriculture in Somaliland decided to establish its own seed certification unit. Work in the area of seed certification will need to take this into account and approach the different plans and interests of governments in Somaliland, Puntland and south-central Somalia diplomatically.

With regard to the poor quality of other inputs, the Ministry of Agriculture in Mogadishu believes there should be a licensing system for distributors. This requires replacing traders with professional suppliers of agricultural inputs and may not happen quickly or easily. Distributors will need significant help to develop expertise and practices – perhaps through partnerships with known international manufacturers and suppliers of inputs. An association of input suppliers could also help to develop and enforce standards in the industry while providing technical support to its members.

Solar and wind energy in Somalia are discussed in detail later. In brief, both are already in use in small ways in agriculture but have tremendous potential to increase productivity and incomes – whether through powering conventional and drip irrigation, running ice-making and

²⁵ Daru-Salaam Seed Enterprise (maize) and SESAME (sesame seed).

refrigeration equipment to remove field heat from harvested crops, or lighting processing sheds when night work is required to prepare produce for markets the next morning. The shortage of technical skills for the installation, maintenance and repair of renewable systems will deepen as the renewable energy industry grows. They are not included in standard vocational training programs. Knowledge and skills in refrigeration technology – critical to the successful application of renewable (and conventional) energy to agriculture – are also lacking and will limit the use of renewables in the industry unless addressed. At the moment, those skills are imported from other countries in the region.

Women, youth and employment

One of the lessons learned through the PEG project was that field-based extension work did not reach women farmers effectively. Future agribusiness initiatives should include women among the staff who interface with farmers and outgrowers. Projects that provide space for women participants – e.g., field days with special sessions for women only – can also be expected to achieve better results. To the extent that USAID considers including the retail end of the horticultural supply chain in its future activities, most retail vendors of fruits and vegetables in markets in Somalia are women. Produce markets in larger cities are often spread far apart, forcing vendors to spend hours in transit, which they cannot do if they have simultaneous responsibilities at home. While experience building produce markets in other projects suggests a cautious approach, well-placed produce markets could significantly improve the demand for horticultural products, the availability of fresh produce, and the incomes of women participating in the supply chain.

Any new investment in rural areas that might be catalyzed by future USAID programs is likely to employ some youth immediately and induce at least some others who have left the area to return for employment. Yet negative attitudes toward manual and/or rural labor among Somali youth may limit the impact on youth employment and leave vacancies unfilled. Adding a veneer of technology to future interventions could increase the uptake of jobs by young people at low cost. The use of text messaging for extension services and market information, the introduction of soil testing, the digitalization of crop information and use of laptops to demonstrate alternative cropping scenarios, as well as exposure to solar and wind power facilities, are among the possible approaches that can be taken.

If unemployment among the IDP population is a concern, there is some potential to expand employment for relatively low-skilled people in and around Somalia's cities by building on the increasing trend for some forms of agriculture to move closer to urban areas. Poultry and egg production, dairying, the cultivation of some vegetables and – potentially – plant nurseries are all migrating to population centers. Support to expand investments in so-called urban agriculture could generate a significant number of sustainable jobs attractive to IDPs.

FISHERIES

The fishing industry has the highest potential for growth and job creation among the industries currently active in Somalia. It is much undeveloped – not among the top three contributors to GDP in Somaliland, perhaps second in Puntland and, probably, third behind agriculture and livestock in south-central Somalia. Yet Somalia has the longest coast of any African country and, off shore, some of the richest fishing grounds in the world.

According to the FAO, the only fish stocks in the world that are actually “underfished” are in deep water off Somalia’s coast. Large schools of, primarily, tuna migrate from north to south and back along the east coast of Africa and concentrate off Somalia, where the upwelling of oxygenated deep water brings nutrients to the surface and, ultimately, smaller fish on which the tuna feed. As Somalis prize meat from livestock and consider fish to be second-class food, the domestic market for fish is very small – a principal reason why the industry has not developed further.

The present industry

There are two distinct fishing industries – low-technology artisanal fishing by Somalis in shallow water using small boats close to shore, and industrial fishing by well-capitalized factory fishing operations in deep water operated primarily by Spanish, French and Taiwanese companies. Artisanal fishing reflects geography and the limited interest and investment from Somalis. Somalia has a very narrow continental shelf and the ocean floor drops off rapidly as you leave the coast. Somalis engage exclusively in close-to-shore fishing along the narrow continental shelf. These fishing grounds in and around coral reefs are fertile, but also environmentally fragile. The catch consists of reef fish – e.g., grouper – quite different from the large migrating schools of pelagic fish caught on an industrial scale farther out.

Artisanal fishing has scope for incremental improvements, but it has no room for dramatic expansion. Because the continental shelf is so narrow, its fish stock is limited and vulnerable to depletion unless placed under careful management, which neither of the two governments concerned – in Mogadishu or Garowe – has the capability to provide. The only successful exports from that area in recent years have proved this point: lobster, which is highly profitable and shipped to the Gulf, is now being depleted. Sea cucumbers are also exported, but they are essential to the long-term survival of coral reefs, which are now threatened. Other challenges include:

- small boats with very fuel-inefficient hulls;
- a lack of ice to carry aboard and/or unwillingness by fishermen to carry ice at sea;
- limited or absent ice-making equipment onshore;
- the lack of a cold chain between the coast and urban markets;
- landing piers to bring fish ashore in insufficient numbers or in disrepair;

- poor roads and long distances to cities, which limit the ability to market any surplus catch other than from the ports of Kismayo, Mogadishu, and Bosaso.

The fact that it is cheaper in Somalia to buy canned tuna from Thailand than to get high quality tuna from a few miles up the coast illustrates the industry's weaknesses.

The situation has been complicated by piracy, mostly off Puntland, which peaked in 2009 and allegedly began to stop overfishing. With neither coast guard nor navy, Somalia is incapable of policing its own waters. Foreign navy vessels implementing the international anti-piracy effort check Somali fishing boats, which has made it difficult for legitimate Somali fishermen to go to sea because their boats are unregistered and crew members may not have clear identification. Two donor efforts are beginning to remedy this. A Tsunami Recovery project implemented by the FAO in Puntland has created a partial database of Puntland boats and fishermen. The World Bank's SOMPREP II fisheries project is doing the same in Somaliland. There has been no similar effort in south-central Somalia.

Deep-water industrial fishing by the Spanish, French and Taiwanese occurs mostly off Puntland. It is considered to be illegal, unreported, and unregulated (or IUU), which in practical terms means Somalia can neither control it nor charge foreign companies for the right to fish in its waters. There appeared to have been a breakthrough as this report was being prepared – regional governments within Somalia have agreed that the FGS will manage access to Somalia's deep-sea fishing waters, while regional governments will manage access to the close-to-shore artisanal fishing grounds. This has allowed the Federal Government in Mogadishu to negotiate with the foreign fishing companies with a view to exchanging fishing permits for support to help grow Somalia's own fishing industry.

The future industry

Despite apparent progress on IUU fishing, the real breakthrough for Somalia will come when it can participate directly in the offshore catch. Somalia lacks the experience, skills and capital to fish on the same scale as the foreign operators. But two recent investor initiatives in fishing and fish processing²⁶ and the views of informed insiders suggest that a third, niche, fishing industry – between artisanal and factory – is beginning to emerge and Somalis can fill it very profitably.

This intermediate fishing industry would be built around fishing vessels 50 to 60 feet in length – potentially several dozen – constructed in the region for a few hundred thousand dollars each, and based in or near Somalia's large ports. They would fish with nets in deep water and bring the catch to port, protecting it with ice until landed. The development of processing facilities on land would need to keep pace as the catch capacity expands. Processing could consist of more canning or the more ambitious but more profitable export of fresh tuna by air freight. Ice-

²⁶ The new HABO fish cannery and its model fishing vessel in Puntland, and a proposed new factory in Somaliland.

making and refrigeration equipment, trucks, refrigerated trucks, forklifts, processing equipment and more would be required. Wind and solar energy are likely to play a role. The repair of some landing piers and, possibly, the construction of a few new ones would be needed to relieve pressure on existing port facilities, whose operators tend to push fishing boats aside in favor of the more profitable cargo trade. Other small infrastructure could also be required, such as loading docks and minor access roads.

The new industry is already trying to emerge on its own. It would mean both an order of magnitude increase in the fish caught by Somalis and a dramatic increase in employment. FAO experts estimate that four jobs would be created on land for every one at sea. Many of the new jobs at the processing end of the production chain will attract women. Success will require:

- initiative from private investors;
- the leadership and support of fisheries ministries, particularly in Garowe and Mogadishu;
- close cooperation with local authorities, fishing cooperatives and associations.²⁷

The interest and engagement of banks that set up in Somalia in the wake of Mogadishu's new Banking Law would be highly desirable.

Importance of standards, support services and technical skills

Because the industry will depend almost exclusively on exports, quality standards and sanitary certifications will be critical to establishing and maintaining the market. For fisheries, this requires the development and implementation of good hygienic practices (GHP) and internationally acceptable application of Hazard Analysis and Critical Control Point (HACCP) analysis.²⁸ Industry players will share an interest in establishing and sustaining the safety reputation of fish exports from Somalia and are likely to find that a professional association will help in this regard.

Finance, especially leasing, would be very helpful for the acquisition of trucks, refrigerated trucks, forklifts and other equipment. Business services – especially market research – would help too, given the large private investments needed for the industry to grow. The universities that are now building maritime departments with FAO support could provide much of the expertise needed for market research in this field.

²⁷ The military government introduced the first fishing co-ops in Somalia in the 1970s as an alternative to pastoralism, following a period of severe drought. They were structured and performed more like state enterprises than true cooperatives, with fishermen as employees. Since the early 1990s, they have evolved into something closer to real cooperatives and are seen by most observers as a fairly effective institution.

²⁸ The director general of the Ministry of Fisheries in Puntland believes safety certification should be outsourced to an international group such as SGS while the government prepares itself to take on the oversight role.

Technical skills to operate and maintain new boats and to catch and process fish using new equipment will be important. Knowledge and skills in refrigeration technology and in the installation, maintenance and repair of renewable energy facilities are in short supply and will be increasingly required. Master electrician training and certification will be important too. A training partnership between employers in the fishing industry, universities and current providers of vocational education could be productive.

SERVICES

Services appear to be the fastest growing sector in Somalia today. In Somaliland, where reliable GDP data is available and services are probably most advanced, they account for over 23 percent of GDP – approaching the size of the livestock industry and growing faster.²⁹ Telecommunications, financial services (money transfer) and construction are among the largest services industries but the category also includes electricity and water supply, wind and solar power, retail trade, trucking, car hire, hotels, television and radio broadcasting, vehicle repair, well drilling, security services and waste disposal, among others.

Services are likely to continue growing rapidly as a sector but consist of such a diverse array of industries that it is difficult to point to specific measures that would directly affect the growth prospects of all. Removing generic constraints to business growth – such as improving access to finance and increasing the availability of market research (both of which are discussed below) – may be the best options.

MANUFACTURING

There is very little manufacturing in Somalia. The traditional pillars of the economy are natural resource-based and value added in those industries has also been limited. With inefficient ports, poor quality roads, some of the world's highest energy prices and a largely unskilled labor pool, Somalia is not going to be a competitive manufacturing center any time soon. Nevertheless, there is potential for some import substitution and for increasing added value in resource industries.

PEG helped several manufacturing businesses that appear to be technically and financially viable: one of the first salt producers, a manufacturer of building products and a fish processing facility, among others. The Somaliland Business Fund has made grants for the manufacture of PVC pipes, custom garments, mineral water, furniture (for export), wheelbarrows, uniforms, windows and doors, laundry soap and leather products.

Energy costs will be a constraint in many manufacturing operations. Renewable energy will help in some cases, as will the gradual restructuring of the urban electricity market. Both are discussed below.

²⁹ *New World Bank GDP and Poverty Estimates for Somalia*. Washington, DC: World Bank, 2014. Web.

ENERGY

The availability, reliability and cost of energy are major constraints on economic growth in Somalia. There are three distinct energy markets:

- 87 percent of the energy used in Somalia is consumed in the form of biomass – largely charcoal and wood for cooking and heating, predominantly in rural areas;³⁰
- 11 percent is consumed as petroleum, apparently for transportation;
- just two percent of the energy used is consumed as electricity, primarily from diesel generators, mostly in urban areas.

In the long term, oil and gas from extensive deposits – mostly offshore – are expected to dominate Somalia's exports, economy and energy system. These are not expected to come on-stream for at least 4-5 years, however – possibly much longer – and are not addressed here.³¹

Biomass

The biomass energy market is heading for a crisis. The uncontrolled harvesting of trees and shrubs for domestic energy use (and for export as charcoal) is causing serious environmental problems that are turning into an economic one too. Erosion from the loss of surface vegetation is silting up rivers, water catchment structures and irrigation systems with significant costs to agriculture.³² Depletion of the biomass supply means that Somalia's rural population will increasingly need an alternative energy source to perform essential functions.

Renewables

Fortunately, the renewable energy industry is on the verge of taking off. Somalia has some of the best conditions in Africa for wind power.³³ Small windmills have been used for years to pump water for irrigation and livestock on some farms. What is new is the emergence of a market for large wind turbines. The first three commercially-run turbines in Somalia were introduced by USAID's PEG project. They attracted the immediate attention of the business community, government and donors, who are now planning and organizing to install turbines elsewhere – mostly for site-specific electricity needs outside urban areas. Conditions are also good for solar power. The small capacity systems best suited to Somalia's dispersed needs outside towns and cities require much less maintenance than wind turbines and may be better adapted for remote areas where the equipment and skills to maintain and repair turbines is lacking. A number of investors are beginning to discuss industrial-scale generation of wind

³⁰ Figures derived from ERP, p. 85.

³¹ The price and availability of carbon fuels may affect the competitiveness of renewables in Somalia in the long-run. There are currently too many unknowns, however, to predict when and how.

³² Overgrazing by livestock also contributes to erosion, though not necessarily in the same geographic areas.

³³ Mukasa, Alli D. ; Mutambatsere, Emelly ; Arvanitis, Yannis ; and Triki, Thouraya. *Development of Wind Energy in Africa*. African Development Bank Group, 2013.

power – specifically 20 MW wind farms in Hargeisa (Transparency Solutions) and Bosaso (Magan Star).

Renewable energy will be instrumental in the growth of the agriculture and fisheries industries. Wind can power gravity-fed and drip irrigation for agriculture, water extraction from boreholes for livestock or human consumption, the ice-making or refrigeration equipment required to remove field heat from crops, and crop processing. In fisheries, FAO is piloting solar in remote villages to power small refrigeration units to keep fish fresh for own consumption. A World Bank project is about to begin to test the viability of small wind turbines for cooling and ice-making in fishing villages. If successful, small-scale wind-powered ice-making in remote locations will extend the market for the artisanal fish catch from home consumption to local markets.³⁴

Several private firms specialize in the sale, installation, maintenance and repair of wind turbines and solar systems, and more are forming. One plans to assemble turbines and solar panels locally to reduce supply disruptions.³⁵ If successful, others will probably follow. The same distributor has introduced portable solar lights for home consumption and expects this application to grow rapidly. Similar to M-KOPA in Kenya, this distributor extends a form of supplier credit. The buyer has 60 days to pay but the light turns off if payment is not made and can only be re-started by the supplier.

Industry practitioners believe that standalone renewable systems can generate power at about 30 cents per kWh. This is much lower than the \$1.00 or more charged by private providers of electricity in Somalia's cities, but still more than twice the price of electricity from national grids in many other countries. Yet for remote areas, where even the most efficient large conventional power generators make no economic sense, renewables appear to be the answer without even taking emissions into account.

The shortage of technical skills for the installation, maintenance and repair of renewable will deepen as the renewable energy industry grows. At the moment, those skills have to be imported from other countries in the region.

Cartels in urban electricity

Urban electricity markets have been shaped by Somalia's turbulent history and by the interests of the private providers who currently run them. Before the civil war, Somalia had a limited conventional electricity supply system with large, government-owned and run power generators in major towns and cities and local – but unified – distribution grids. During the civil

³⁴ This is still experimental. Small solar systems can clearly maintain a cool temperature. The question is whether units that size under those conditions can lower the temperature of a fish catch and/or make ice.

³⁵ Tayo Energy Enterprises in Hargeisa.

war, most power generation and electricity distribution infrastructure was destroyed, looted or rendered unusable from lack of maintenance.³⁶ Private suppliers emerged in towns and cities, generating power from small, diesel generators that supply several neighborhoods with electricity – a situation that continues today.

Those private providers performed a vital service by supplying electricity under difficult circumstances during conflict, when there would otherwise have been none. But the system they established is now a problem and a growing constraint on business. Firstly, small diesel generators are an expensive way to generate power. Secondly, the electricity distribution systems the private providers have developed do not meet basic technical or safety standards, which leads to supply disruptions, large transmission losses and an alarming number of deaths and injuries. Finally, and most damagingly to business, the technical inefficiencies of these systems and the barely disguised collusion among the providers to fix prices yields some of the most expensive electricity in the world at \$1.00 and above per kWh. This is almost ten times the price in other countries and imposes a tremendous cost on business and consumers. Businesses that need power to run machines for basic operations – not just for lighting and communications – cannot be competitive under these circumstances.

The private electricity providers in Somalia's urban areas have become wealthy and influence the political system to protect their interests.³⁷ Electricity profits are enabling them to expand into other sectors – often with the same anti-competitive spirit and predatory methods. The unregulated private provision of electricity in Somalia's cities contributes directly to the larger economic and political problem of capture by the country's business elite.

Toward a long-term strategy

There is not yet an overarching strategy or legal framework for power and energy in Somalia. USAID's PEG project assisted government and the private sector in Somaliland to draft an energy law that was ultimately stopped because it threatened vested interests. The ERP describes steps and a path to create a national energy policy and strategy in Somalia. The World Bank and African Development Bank expect to work with the FGS over the next year to inventory energy needs and develop a "light touch" Power Master Plan that lays out short- and medium-term steps to improve technical inefficiencies in order to reduce costs, establishes technical and safety standards, and establishes an industry oversight system. The Plan will probably mention the need to address the sensitive issue of electricity market structure, but will apparently not compel the government to come to terms with this issue until the political situation becomes more stable.

³⁶ The grid in Hargeisa was one of only a few that survived the civil war largely intact.

³⁷ In Somaliland, for example, investors wishing to build a wind farm close to a city were recently forced out by private electricity producers, even though the new investors guaranteed they would not infringe on the distribution territories of existing providers.

The power system that ultimately emerges in Somalia will require a lot of new investment. Since political instability will deter private investors for some time, private capital will probably not provide the funds needed in the short- or medium-term. World Bank and African Development Bank money will not be accessible for infrastructure projects until Somalia's arrears have been resolved, which will take time. The Multi-Partner Fund for Somalia is a potential source, as are the Islamic Development Bank and development funds operated by various Gulf States that appear eager to finance parts of a new power system in Somalia if the World Bank provides technical leadership. This will enable new, more efficient generation capacity as well as the development of distribution grids in selected locations.

Somalia will eventually have to address the question of market structure if it is to have an efficient electricity generation system that helps its businesses compete with those from other countries. The politics of the current system make it difficult to confront the issue head on. Sustained economic growth may help to resolve the problem if it empowers new business groups that benefit from lower energy prices to emerge, in contrast to the current elite that benefits from keeping prices up. Growth in the renewables industry, too, could help disrupt the *status quo*, though there is no assurance that renewables monopolies would not simply replace petroleum-based ones.

Short-term applications for renewable energy

For now, the field is open for USAID to help establish the growing renewable energy industry as an important input for the growth of fisheries and agriculture. Consideration should also be given to addressing the skills shortages that are holding back the growth of renewables and will eventually affect the prospect for fisheries and agriculture. These are knowledge and skills in:

- the assembly, installation, maintenance and repair of simple wind and solar energy installations;
- the design, construction, assembly, and/or installation and repair of refrigeration and ice-making equipment; and
- electrician skills for all related electrical work.

TRADE

Most of the output of Somalia's largest sector – livestock – is exported and almost every manufactured good and petroleum product consumed in Somalia is imported. Trade is clearly important to Somalia's economy, but it is impossible to be much more precise because Somalia has no usable trade data. The importance of trade is usually measured by the ratio of exports and imports to GDP. For imports at least, that value is unknown for Somalia because the Customs Department applies fixed fees (specific tariffs) to the *physical volume* of imported goods (\$0.15/barrel, \$2.20/ton, and so on) rather than rates charged on the goods' value.

Barriers to trade

There does not appear to be major policy barriers to trade. Even though import tariffs are the government's primary source of revenue, tariff rates are fairly low.³⁸ A back-of-the-envelope calculation of the *ad valorem* equivalent for several dozen specific tariffs applied by port authorities in Somaliland, Puntland and south-central Somalia suggests that their rates are in the 2.5-10% range – roughly consistent with levels in the rest of the world. It does not appear that tariff rates will go up dramatically – if at all – in the future, despite plans to increase government revenues. The ERP describes a phased transition to *ad valorem* tariffs and a diversification of the revenue base through a tax on mobile phones and remittance companies, a corporate tax for registered companies and personal income taxes for employees of registered firms.

Administrative barriers to trade are significant, however – particularly the steps, cost and procedures to get goods in and out of the country. Although it is easier to get goods in and out of Somalia than across the borders of many other countries in sub-Saharan Africa, it is harder to get goods across Somalia's borders than almost everywhere else in the world. The World Bank's International Finance Corporation (IFC) calculated the Doing Business "Trading Across Borders" indicator for Somaliland in 2012. Trading Across Borders measures the time and cost to export and import a container to and from Hargeisa through the port of Berbera. The result was discouraging. If Somaliland were recognized as an independent country, it would be ranked 127th out of 183 countries in the world on this indicator – better than Sierra Leone for example at 132, but worse than Yemen (118), Egypt (64), and Djibouti (37). A business must spend \$1,940 and wait 22 days to export a 20-foot container from Berbera port.³⁹ The same task in Singapore, the highest-ranked country, takes just five days and \$456.

The elements of cost and delay reflected in Somaliland's Trading Across Borders score reveal the accretion of constraints that businesses in Somalia face when trading with the rest of the world.⁴⁰ They include:

- costs and delays incurred to finance an export transaction – without a banking industry in Somalia, there are no letters of credit (LOCs). Importers and exporters have to make complex arrangements through remittance companies and banks elsewhere in the region to finance a simple trade transaction. This alone accounts for 14 of the 22 days an exporter must wait to get goods out of the country, which matters a lot when time is money;

³⁸ As of February, 2013, Mogadishu earned about \$6.5 million/month from customs duties at Mogadishu port and airport – see ERP, p. 52.

³⁹ These data are not available for other ports in Somalia but are unlikely to be better.

⁴⁰ Assuming that the results from Somaliland are indicative of the rest of Somalia.

- weaknesses in customs management – particularly the lack of risk-based systems for the inspection of goods (without which every container must be inspected), and the lack of computerized systems – e.g., ASYCUDA – for broader customs management;
- inadequate and deteriorating port infrastructure, especially the lack of a standalone container handling facility;
- narrow and deteriorating roads that cannot accommodate heavy trucks. Containers have to be unpacked in the port and the contents repacked into trucks with smaller capacity.

Somalia’s security challenges add to the difficulties and costs of trade. Political instability and the dangers of piracy make it difficult or impossible to obtain trade insurance. This increases both risks and costs for traders. Regional partners also often impose restrictions on trade with Somalia for security reasons.

Somalis who engage in trade do not benefit from membership in trade pacts or regional groupings because Somalia does not belong to any. It is not a member of the World Trade Organization (WTO) or any regional trade agreement, nor has it entered into bilateral trade agreements.

Export dependence and food safety risks

Somalia is dangerously dependent on a few export products and a small number of overseas markets. Livestock accounts for more than half of Somalia’s export earnings.^{41,42} The UAE takes in more than half of Somalia’s total exports and three countries (UAE, Yemen and Oman) alone account for over 80 percent of all exports from Somalia.⁴³ With such level of dependence, a single disruption in an export market can create havoc, as it did when the Saudis banned animal imports from Somalia. Somalia needs to diversify its exports and seek a more diverse range of countries to which goods can be exported.

The lack of quality and safety controls for food exports is a critical trade issue for Somalia because growth in the industries with the greatest short and medium-term potential – fisheries and agriculture – will depend on growing export markets. This is discussed in more detail elsewhere in this report.

Transit and internal trade

Somalia has an excellent opportunity to develop transport and transit services for goods between the port of Berbera and landlocked Ethiopia, with its market of 90 million people. The road from Berbera is not paved all the way to the border yet, but the EU and Government of

⁴¹ ERP, p. 20.

⁴² Charcoal export is also important, but it represents a major environmental issue.

⁴³ Parrin, Anjli. “Five Challenges of Somalia’s Economic Reconstruction.” *Irin News*. UN, 14 Feb. 2014

Somaliland are exploring the possibility of a build, operate, transfer (BOT) approach to its construction.

Trade within Somalia matters, too. The market for truck transport services is competitive. There are many owners of trucks for hire, including women, in both rural and urban areas. Organizations with large transport requirements – e.g., wholesalers and the UN – hire trucks as needed but usually own at least a few of their own for core business and to cover emergencies. On average, Somalia’s trucks are old, but well maintained. Drivers are generally paid employees rather than owner-operators, though many aspire to ownership and would purchase trucks if finance were available.

Tariffs or charges on trade between the three zones of Somalia are minor and do not significantly impede commerce. The ultimate costs of overland transport between principal cities, however, are fairly high because of the long distances and the deteriorated condition of roads. Transport costs are higher in insecure parts of the country because a premium must be paid to induce drivers to go, the condition of roads is usually poor and military checkpoints have proliferated in many locations and often charge passage fees.⁴⁴

Improvements are expected

Initiatives are planned or underway to address many of Somalia’s trade constraints to some degree:

- the new Banking Law approved in Mogadishu is expected to entice commercial banks to set up operations in Somalia by 2015, which would allow LOCs to be issued;
- the World Customs Organization, UNDP and IMF have committed to supporting customs reform and modernization ;
- the African Development Bank and EU, among others, are helping to structure public-private partnerships (PPPs) for port expansion and port management;
- the EU and Government of Somaliland are exploring a BOT approach to developing the Berbera corridor.

INVESTMENT

Public and private investments are essential for Somalia to move forward. This report addresses private investment and identifies approaches to encourage its expansion to boost growth and employment.

⁴⁴ Shippers say it can be cheaper to transport goods through Al-Shabaab territory than areas controlled by the government – Al-Shabaab charge a single entry fee to their area, whereas checkpoints and payments proliferate unpredictably in government-controlled territory, allegedly because government soldiers have not been paid.

Foreign direct investment

Foreign direct investment (FDI) generates the most interest. In addition to capital, FDI brings new ideas, technologies and skills as well as access to new markets. Global flows of FDI are driven by four factors:

- the search for markets (Procter and Gamble manufacturing household soap and detergent in India);
- the search for a natural resource (Chevron drilling for oil in Nigeria);
- the search for efficient production platforms (Nike establishing footwear production in China);
- the pursuit of a unique asset (Hilton Hotels buying a hotel chain in South Africa).

Somalia is too small and poor to attract much market-seeking investment. The high cost of doing business in Somalia also rules it out as an efficient production platform. Beyond its natural resources, Somalia does not have unique assets that would attract foreign investors. It does have natural resources – primarily fish and petroleum – that are already well known to foreign investors and will attract them for a long time to come. The most useful step Somalia can take to facilitate those investments is to establish a favorable environment, including a clear legal framework, the transparent flow of relevant information and respect for contract and property rights.

Outsiders can assist Somalia to take these steps but Somalia must assert political will and leadership for the effort. Bilateral donors are at a disadvantage working in the FDI arena since their national investors may be competing for access to the resource, which casts suspicion on the donor's motives and ability to provide unbiased advice. Multilaterals may be in a better position.

Local investment and the business elite

Although local investment gets much less attention, it accounts for 90 percent of the capital stock of developing countries taken together. It does not bring as many new ideas, skills, technologies and markets as FDI does, but the sheer volume of local investment means it does much of the heavy lifting.

Observers of Somalia have divided local investors into three types. The “business elite” have operated in Somalia since at least 1991, i.e., through the war years. “They [became] wealthy during the conflict period, largely through uncontrolled and unregulated trade of imported goods and food. Some were engaged in illicit activities such as smuggling, drugs and arms trade, export of scrap metal looted from state factories and utilities, and the diversion of food aid. (...) These business leaders have migrated to legitimate trade and some productive businesses, and are now investing in telecommunications, manufacturing, energy and utilities, remittances, media, agriculture and fisheries and the commodity trade. [They have] significant resources,

(...) tend to dominate the main economic activities, holding effective monopolies over some sectors. (...) Their control of the economy and (...) influence on government raises concern about their impact on market governance, transparency, competition and new market entrants, and attitudes towards reform.”⁴⁵ This group of local investors is said to be investing heavily in Somalia now. They have resources, connections, and the power to negotiate attractive deals for themselves with Somalia’s government.

Small-scale local businesses⁴⁶ are owned by people who also stayed in Somalia during the war but are not particularly well connected. They are present in both rural and urban areas. They primarily operate retail establishments and small-scale service companies e.g., hotels, restaurants, repair shops, but they may also be part of the value chain in agriculture, livestock and fisheries. They lack the access to finance enjoyed by the business elite and the clout to influence government to look out for their interests. They thus face higher risks and are more hesitant to invest as a result.

The third group is the diaspora. It consists of up to one million people, many of whom are eager to return to Somalia to “give something back” now that there is relative peace. They bring various amounts of funding and varying degrees of business skills. There has been a steady flow of diaspora investments over the last two years, but also a relatively high failure rate attributable to their lack of local connections, unfamiliarity with the country, and – in some cases – unwillingness to fill information gaps with market research. Most of those who have done well appear to have researched markets and industries in Somalia carefully to understand what they were getting into. To avoid predatory approaches from the business elite in the event of success, some seek niche markets that are not big enough to attract general interest. Nonetheless, many wonder if or when a hostile takeover attempt will begin.

Investment promotion

Donors, including USAID, have set up an unusually large number of “Funds” making grants to private companies that invest innovatively in Somalia, particularly those with the potential to be replicated or scaled up. Evidence from PEG and the SBF suggests that a number of the grants are bearing fruit, which means that the Funds may produce a perceptible increase in investment and growth.

Government counterparts may request support for investment promotion, including to establish an investment promotion agency for Somalia. The major lesson learned from a flurry of donor projects involving investment promotion campaigns and agencies in the 1980s was to

⁴⁵ Adam Smith International. *Private Sector Investment and Barriers to Growth Analysis in South-Central Somalia and Puntland*. UK Department for International Development, 2013.

⁴⁶ Adam Smith International. *Private Sector Investment and Barriers to Growth Analysis in South-Central Somalia and Puntland*. UK Department for International Development, 2013.

make sure you have a good product before trying to sell it. That is not yet the case in Somalia. One bad investor experience can discourage a dozen others. Investors who come to see and are disappointed are unlikely to come back. Investment facilitation is being done by at least three diaspora firms or organizations already, which should be sufficient for now.

COMMERCIAL LAW AND BUSINESS CLIMATE

Somalia operates under an evolving mix of customary law, sharia law and formal law derived from colonial powers. Customary laws are the unwritten rules and precedents that have developed within and between Somalia's clans to resolve disputes, govern the use of common resources and regulate social and civil matters. Sharia law, of course, is based on the Koran and Hadith. The structure and approach of Somalia's formal law system reflects Italian and British influence. Yet much of the content of that body of law was determined by the military regime that governed Somalia from 1969 to 1991. Its commitment to "scientific socialism" means that virtually none of the standard features of commercial law as practiced in the rest of the world today are included. Fundamental issues such as limited liability, investor protection and creditor rights are not addressed.

The changing relationship between customary and formal law

Without workable commercial laws and in the general absence of law and order in much of Somalia over the past 20 years, customary law has moved to the fore. However, it does not address the core issues of modern commercial law either and has tended, in practice, to protect the interests of the business elite instead of the principles of opportunity and competition.

The FGS recognizes the need for more modern formal commercial laws. The ERP calls for a review of, and changes to, the current Company Law, Commercial and Business Law, Industrial Law, Foreign Investment Law, Joint Venture Act, intellectual property rights and Law on National Standards. World Bank-led teams are now working on these with the Ministry of Commerce and Industry in Mogadishu.

Laws are only as good as the ability to enforce them, however, and Somalia's government and court systems are weak. With or without strong enforcement, Somalia will retain a mixed legal system because, in part, that is what Somalis want. Somalis say they prefer to resolve business disputes through customary law; if that does not work, through sharia law; and to revert to formal law only as a last resort. That could change if formal law proved itself over time. But Somalis will always want to be sure that the laws in place are consistent with the sharia, and will tend to revert to customary law if the parties to an issue agree.

Nevertheless, the development of new commercial laws bodes well for investment in general, for greater competition in Somalia's economy, and for women and marginalized groups in the economy who are likely to find their rights better protected.

A transactional approach to reform

The main lesson learned from USAID's largest programs in commercial law reform – in Eastern Europe and the former Soviet Union – and elsewhere is that opportunistic work is most effective, addressing particular legal reforms when the private and public sectors in the host country perceive the need. This argues against a standalone USAID program for commercial law reform (as well as avoiding duplication with the World Bank) in favor of letting legal reform issues surface in the course of implementing sectoral programs instead, and addressing them when they do.

A very weak overall business climate

Ultimately, law is only one of many factors that make up the business climate. Access to finance, customs efficiency, the availability of skilled labor, among many others, can be just as important. The IFC conducted its Doing Business survey in Somaliland in 2012. Doing Business measures 11 indicators of the quality of a country's business climate and is conducted in 187 countries every year. If Somaliland were recognized as a country, it would rank 183rd on the basis of Doing Business – almost the most difficult place in the world to do business. This can be misleading. Doing Business measures formal processes for companies to get things done, and much is done in informal ways in Somalia. But sustained economic growth in Somalia depends in part on greater formalization of business – to protect property rights, allow bank funding to flow, protect investors, enfranchise startups and SMEs (instead of the business elite), protect women-owned businesses and so on. From this perspective, the Doing Business score indicates there is a lot to be done.

Supporting other donors

Despite the above recommendation to address commercial law issues only if or as they arise, USAID should remain open to opportunities to support other organizations if they have a chance to achieve significant change at a low cost to USAID. The IFC wants to conduct the Doing Business survey in Mogadishu and Puntland. If it appears that could stimulate significant improvements to the business climate, USAID should consider providing support.

FINANCIAL SECTOR

Financial systems perform two functions: they process payments so that people can make transactions despite being physically distant from, or not knowing, each other; and they attract society's savings and channel them into productive investments elsewhere in the economy. The first function multiplies the number of economic transactions that can happen in an economy many times over. The second one is a direct determinant of a country's growth.

A partial payments system but no trade finance

Somalia's financial system does not perform the first function well and does not perform the second one at all. There are no commercial banks and no non-bank financial institutions. Instead, two large and several dozen small money transfer companies (*hawalas*) transfer over \$1.2 billion a year in overseas remittances to Somalia and transfer some funds between parties within Somalia and the region. Hormuud, the largest telecommunications company in Somalia, has introduced a mobile money system called Zaad in Somaliland, Sahal in Puntland, and EVC in south-central Somalia, which is increasingly popular and widely used for small payments.

While Somalia's financial system does process payments between people, it does so awkwardly because the *hawalas* do not carry out transactions with each other. It is quick and reliable for small transactions. But it is an expensive way to transfer large amounts – fees are charged as a percentage of the value transferred rather than a fixed fee regardless of amount as in banking. *Hawala* transfers are also constrained because the *hawalas* do not track users in a way that complies with international anti-money laundering/counter-terrorist financing (AML/CTF) rules.

Hawalas cannot issue letters of credit, the standard trade financing instrument in the rest of the world, which is a major constraint to Somalis wishing to trade with other countries. Exporters and importers must work through banks in third countries to process an LOC, which adds costs and two weeks to the time a Somali exporter has to wait before shipping goods out.

No intermediation of savings into investment

The real shortcoming of Somalia's financial system, however, is that it does not take in society's savings to intermediate them into investments elsewhere in the economy. This has repercussions at different levels. Economy-wide, it dramatically reduces the productivity of investment and the amount of investment into new economic activity. From an individual's perspective, it means that finance is only available to those who already have resources or the influence to tap family and clan relations for more. From a social and economic perspective, the system further entrenches Somalia's business elite and discourages the innovation and competition that come from an active number of startup companies and small- and medium-sized businesses.

To be fair, the larger remittance companies do provide a few services in addition to money transfers. They accept a very limited number of deposits from established clients (for safekeeping only – not for on-lending). They have begun to make a very limited number of loans, though only to leading businesses and, at least in one case, taking possession of collateral six times the value of the loan.⁴⁷ They also make car loans with a 12-24 month repayment

⁴⁷ Dahabshil reportedly makes these loans in cash, while Salaama follows the more sharia-compliant approach of paying for and providing equipment or materials.

period and charges equivalent to a 10% interest rate. This, however, falls short of a growing economy's needs and means that finance remains a critical constraint on growth and employment.

Major changes in the offing

Somalia's financial sector is on the verge of major change that will accelerate growth and, potentially, open up economic opportunities for a wider share of the population. There are now central bank laws and central banks in both Hargeisa and Mogadishu. A good Banking Law has been approved by the government in Mogadishu. By the end of this year, implementing regulations, an automated clearing house and trained bank supervisors should be in place, which will allow commercial banking to begin. A number of foreign banks are reportedly waiting in the wings to register – one from Yemen and two or more from Kenya. At least one diaspora-owned private bank (First Somali Bank) is also expected to start operating. The IFC has offered to co-invest with one or more banks to help the industry get started.

Commercial banks will compete directly with the *hawalas*, offering a much wider range of services. The prospect of competition appears to have encouraged the *hawalas* to expand the services they offer (i.e., the few deposits and loans mentioned above and micro-lending discussed below). But it has also led the largest remittance company, Dahabshil, and perhaps others to oppose a World Bank-supported Banking Law in Somaliland, with the result that banking may develop much later there than in the rest of Somalia.

Even under the most optimistic scenarios, however, bank finance in Somalia is unlikely to flow beyond the business elite to startups and smaller businesses for many years, unless further steps are taken. Without legal systems to enforce creditor rights, the risk to banks of looking beyond their largest customers will simply be too great. They will accept deposits and they will do trade credit – both of which are undeniably important – but they will not lend to the middle and lower end of the market.

Extending finance to the middle market

Several measures can help extend bank lending to middle-market and smaller borrowers. Credit information bureaus inform lenders about the payment history of potential borrowers. For lenders, this reduces the cost of researching the borrower and the cost and risk of making a loan. It encourages lenders to extend credit to a much wider pool of borrowers. Credit information has traditionally consisted of negative repayment records – loans that have not been repaid. There has recently been a concerted move, especially in developing countries, to include also positive payment information including individuals' history of paying telephone and utility bills. This increases the chance that banks will lend, even to people who have not borrowed before. The desirability of setting up a credit information system has been raised in Somalia and opposed by Dahabshil, the largest *hawala*. Dahabshil would be among the useful

sources of initial payment data for any credit information system starting up but may not want to lose its information advantage. That resistance is likely to weaken as banking gets started in Somalia and recognition grows that credit information is both essential to growth and more or less universal in the rest of the world. Credit information systems are best owned and run by the private sector, but the initial volume of lending is always too low for this to pay for itself, so they are often first established in the Central Bank.

Secured lending is a second measure that can dramatically expand access to finance. It requires a fairly sophisticated legal framework, the ability of a lender to seize property in the event of non-payment and a large enough market for the lender to resell seized assets without a major loss. Secured lending would be an ambitious goal for Somalia under the most optimistic scenarios, but is ultimately so essential to making finance accessible to a large part of the population that it may be worth a modest investment to build an understanding and eventual consensus among Somalis on a way forward. The large number of land disputes in Somalia suggests that collateralizing moveable assets instead would be the best entry point. That can also be advantageous to women who are more likely to own moveable assets than real estate.

A third step to expand access to finance as banking develops is to encourage the development of non-bank financial institutions (NBFIs). NBFIs are specialized financial organizations that extend credit for specific types of assets but do not accept deposits. The best known ones are leasing companies, which have the most potential to make an early impact in Somalia. They finance the types of assets in great demand in an economy like Somalia's (trucks, tractors and other farm equipment). By competing with banks, they also force them to reach out to smaller and less established businesses. Several forms of leasing are sharia-compliant and have worked well in Islamic countries.⁴⁸ The Financial Institutions Act approved by the government in Mogadishu does not specifically mention NBFIs. The Central Bank Act, however, gives the Central Bank oversight responsibility for all financial institutions (not just banks), which opens the door for leasing to be considered.

One of the least discussed but potentially most practical ways of extending credit is supplier credit. Unlike a financial institution, a supplier – whether of seeds, nets, or cooking oil – knows the buyer and his/her business, which gives it good insight into the safety of lending. Supplier credit is used in Somalia already, but could be used developed significantly if, primarily, medium-sized businesses were given a minimal amount of training, including in record-keeping systems.

⁴⁸ In global practice, leases are either “operating” leases in which it is expected that the asset will be returned to the lessor and “capital” leases in which the lessee agrees to take possession of the asset at the end of the lease term. Local sources indicate that cultural attitudes in Somalia (which could relate to sharia compliance) will favor the latter i.e., leasing should be to own.

Microfinance

Microfinance has not penetrated far in Somalia, although that is now changing. Past efforts by NGOs failed, either because microloans were bundled with humanitarian assistance and perceived as grants, or because the interest charge was viewed as un-Islamic. Sharia-compliant forms of microlending are now opening up the market and a number of organizations, including *hawalas*, are entering the microlending field.

In Somaliland, Kabaa has been the only lasting dedicated microlending organization. It is relatively small and focuses on lending to women. It has retooled its products to be sharia-compliant and rebranded itself as an Islamic lender. Its loans range from \$300 to \$700. Kabaa hopes to go upmarket (see below) and eventually accept deposits as a full-fledged bank. Like some of the *hawalas*, Kabaa also offers a savings service but only for safekeeping, not to on-lend.

Silatech – the charity and development arm of the royal family of Qatar – is assisting several *hawalas* in Somalia to develop sharia-compliant microfinance programs. The first participant is Kaah Express, which, together with the American Refugee Committee, has developed “Kaah Islamic Financial Services (KIMS)”. KIMS will start with five branches, eventually growing to nine. As of March, 2014, two branches were operating in Somaliland, offering two sharia-compliant loan products – *muraba* loans between \$250 and \$5,000 and *ijara* loans between \$500 and \$5,000). KIMS primary targets poor, unemployed youth and women across Somalia who wish to start or expand enterprises. KIMS will also provide business management training and technical assistance to clients. It will accept a form of savings that it requires of all borrowers. Its initial results have been encouraging, with 650 applicants and 32 approved loans in the first six weeks. Most loans have been for retail operations, though some have involved productive activities – e.g., wheelbarrow manufacturing. Kaah, which also received a grant from the African Enterprise Challenge Fund, expects KIMS to disburse 23,000 loans over the next five years and carry a loan portfolio of \$4.2 million. A similar program with Dahabshil is pending.

Salaam Somali Bank has just launched *Kaalkaal* – Somali for “help” – a microfinance product aimed at small businesses, primarily those owned or run by women and youth. Like the other programs coming on line, it includes mandatory savings. Salaam has invited NGOs to partner with it to provide business advisory services to borrowers.

The Somalia Bank for Reconstruction and Development – Somalia’s national development bank – is about to commence lending on a smaller scale to low income borrowers, especially women, who own or plan to start small businesses. It has a starting capital of \$100,000 and loan size will be between \$200 and \$1,000. At least initially, loans will be made to individuals rather than firms and guarantees by sub-clan elders will be required. The bank expects to explore group lending and increase loan size later.

Microfinance lenders in many developing countries have graduated from lending out donor funds to operating more like banks, accepting deposits and increasing their loan size in order to reach larger clients. This has been an important step to reach middle-sized borrowers and would be a useful development in Somalia. Since it looks like most microlenders in Somalia will be *hawalas*, the prospects for microfinance to move upmarket will depend on their ability to function and be recognized as legitimate banks, perhaps in parallel with continuing *hawala* operations. Accepting and lending deposits will require that they fall under the oversight of the Central Bank.

Empowering the private side of the market to grow

The multilateral financial institutions have taken the lead in helping government(s) in Somalia build the regulatory and oversight side of Somalia's financial market. No donor is assisting its private side to develop. This is a niche USAID has filled successfully in a number of countries, with an important role to play in helping Somalia's financial system develop to facilitate growth and jobs.

An issue for the long-term development of Somalia's financial sector is the risk that the many Funds donors have set up to give grants to private companies may slow down the financial sector's development by crowding out market-rate lending. Everyone is understandably eager to get productive activity moving in Somalia. Sustaining that movement will require balancing attention between short-term needs and long term ones, including the crowding-out problem.

BUSINESS SERVICES

Business services are functions that large companies often perform in-house, but which startups or small- and medium-sized companies with fewer resources typically acquire from contractors. They include accounting and audit, legal advice, business strategy and/or advisory support, market research, marketing, HR functions such as recruiting and payroll, advertising, training and IT support. The unavailability, poor quality or high prices of business services impede the growth of startups and SMEs.

Business services providers

There are very few business services providers in Somalia but a handful are trying to get started. One group consists of the private firms that developed to serve humanitarian NGOs and donors – managing funds and logistics, conducting surveys, advising on social marketing, etc. With Somalia's economic rebound, some are repurposing themselves to serve business clients. None have made the transition yet but at least some will succeed. For example, Hargeisa-based IRADA hopes to turn its survey expertise into a market research business. Shaqadoon, also in Hargeisa, was originally started to conduct training in livelihoods programs that include job placement assistance for graduates. It is trying to build on its job placement expertise to become an employment broker through "InfoMatch," a mobile phone-based matching service

for employers and job seekers. A side benefit of this approach is that it provides a safe and culturally appropriate environment for women to look for jobs instead of pounding the pavement.

Other business services providers, mostly diaspora-led ones, are coming to Somalia from the outside. A Somali-owned business advisory firm in Nairobi specializing in IT solutions for small business in accounting, inventory management and so on is setting up in Bosaso and plans to expand to Mogadishu, Hargeisa and Garowe. Data Research Solutions reportedly does commercial market research in Mogadishu and Puntland. PEG and the Somaliland Business Fund have provided grants to other new business services providers including a certified Cisco (training) Academy in Hargeisa, an accounting and auditing firm and a company that organizes events and fairs. Discussions with international accounting firms indicate that their concern for reputational risk will keep them out of the commercial market in Somalia for years. However, smaller, regional accounting firms may move in more quickly.

University faculties are trying to enter the consulting business too. For example the economics faculty at Hargeisa University has statistics and econometrics capability, has just established a marketing department, and intends to set up a research center – all of which will be available for consulting purposes soon.

The most damaging gap in the market for business services is the absence of market information. Most members of the Somali business community dismiss formal market information; instead, they use – and are proud of – family and clan networks to get information. But the relatively high rate of business failures in Somalia is evidence that this is no longer sufficient. The collapse of markets for bottled water and printing services in Puntland are just two of many examples where a \$5,000 market survey would have prevented hundreds of thousands of dollars in losses. In both cases, when a few pioneer businesses succeeded, many copycat businesses were set up, most of which failed when they glutted the market.

A small number of diaspora investors have conducted careful market research on their own, which appears to explain their relative success, but most do not. Anecdotal information suggests that their failure rate is unusually high because they often also lack local connections to anchor investment ideas in ground truth. Interestingly, several firms are emerging to fill the market information gap for diaspora investors.⁴⁹ They gather market information, research investment ideas and present investment options to potential diaspora investors overseas. All three appear professional and promise to make diaspora investments significantly sounder.

Ultimately, Somalia needs market research that serves local and foreign investors alike. The political situation in Somalia permitting, this will eventually happen naturally. But the country

⁴⁹ Transparency Solutions, Guul Group, and Sharaako. It is rumored there may be one or two more.

needs growth and jobs sooner than that and the development of a vibrant market research industry would help. Though this looks like a classic chicken-and-egg dilemma of what to do first, providers of market research are beginning to emerge and the greater challenge lies in encouraging local and diaspora investors to take advantage of them.

Several measures could help. Subsidizing market research by distributing vouchers to potential clients has been tried in other countries with mixed results. Other options include:

- subsidizing outreach by the market research providers themselves;
- helping them develop headline products to draw the attention of the business community – such as a semi-annual business confidence survey;
- facilitating contact between clients and providers through events and the media;
- helping to build the expertise of market research firms in key sectors and providing early support to make sure their work is of high quality.

Having women in professional outreach roles would significantly increase the ability of research firms to connect successfully with women-owned businesses.

Chambers and associations

Business chambers and associations are not business service providers *per se*. Their main distinction is that they have an explicit representation or lobbying role on behalf of industry with government. But they do provide some services to members and their health ultimately matters to the progress of the private sector.

Chambers in each of the three political units of Somalia publish a directory of members, issue certificates of origin and sponsor national product fairs. Beyond that, they diverge and have quite different personalities. The Somali Chamber of Commerce and Industry (SCCI) in Mogadishu appears to focus on the interests of Somalia's business elite. The Somaliland Chamber of Commerce, Industry and Agriculture in Hargeisa represents a broader range of businesses but was reportedly dominated by one individual for many years, which may explain why it does not seem dynamic today. That could change – the Chamber has ambitious plans for a new building and a dramatic expansion of the services it provides to its members, including the capacity for policy research, legal advice to members, etc. The Puntland Chamber of Commerce is clearly the most dynamic and forward-looking of the three. It has strong, well-informed and energetic leadership. It represents firms of different sizes, including a good number of smaller ones – all of whom appear to be active members. The Puntland Chamber offers members some training in marketing, business planning, accounting for small business, including training targeted specifically at women. It would like to add office automation to this list and is frustrated that it cannot afford to hire professional trainers. It received a PEG grant to develop an investment guide for Puntland. The Chamber has held job fairs and provides

software specifically to facilitate job searches for women. It would like to start a business development center providing a full range of business services.

A major issue for the development of business chambers around the world is whether to have a single chamber – perhaps with chapters for different industries – or to encourage the proliferation of chambers specific to different interests and needs. The single chamber model is potentially dangerous in Somalia. The SCCI could very well demand a consolidation of chambers under its leadership in the name of efficiency, national unity, and national integration while the real agenda would more likely be a desire to control competition. It is important, therefore, to support a diversity of representative bodies for business and to protect the independence of the main chambers in Puntland and Somaliland in particular. A Small Business Chamber could make a useful contribution and a Women’s Chamber or Women’s Business Network could go a long way towards making women feel more welcome in Somalia’s business community. Last but not least, industry-specific associations are usually more effective in addressing industry-specific challenges and constraints than general chambers are, and should be encouraged.

Support from donors

Donors have not paid much attention to business services and business chambers and associations in Somalia. That will change as two new initiatives start up. DFID plans to establish a Micro, Small and Medium Enterprise (MSME) service center in Mogadishu that will offer training and small loans (\$1,000 and less). The target, despite the MSME title, appears to be quite small companies – probably smaller than those this report suggests could generate maximum job growth. The International Finance Corporation is eager to facilitate policy dialog between private sector groups and government, starting in Somaliland but expanding to the rest of Somalia, and will put resources and weight behind that effort. USAID should be open to opportunities to leverage the policy agenda in its next economic growth program by collaborating with the IFC.

SPECIAL CONSIDERATIONS

POVERTY AND UNEMPLOYMENT

It is important to understand who and where the marginalized and unemployed are in Somalia, particularly unemployed youth, so as to engage them in project activities effectively.

Poverty in Somalia is concentrated in the rural, agricultural south, where 80% of the population is “poor” compared to 61% in urban areas⁵⁰. Of the 70% of Somalis under 30 years old, most “haven’t received proper education, skills training or employment in their lifetimes, leaving them poorly equipped to engage in social and economic activities and extremely vulnerable to economic shocks.”⁵¹ Youth are everywhere in Somalia, of course, but they seem to face the toughest odds in rural areas where, if employed at all, they tend to be consigned to jobs with little opportunity for growth or advancement and little hope for the future. Youth from minority ethnic groups – especially Bantus and members of weak clans – are concentrated in the agricultural zone of south-central Somalia and face the additional burden of discrimination in Somali society. Not surprisingly, they are a major source of recruits for the insurgency.

Despite the extraordinarily high rate of unemployment among Somalis, there are multiple reports of a labor shortage in rural areas and the presence of Ethiopians working on farms in jobs Somalis could have had.⁵² This is consistent with observations from many youth workers that young Somalis, particularly men, have a strong attitude about work – rejecting menial labor, holding out for the perfect job, refusing to start near the bottom of the ladder to work up, and so on. This poses the problem that youth may remain unemployed even if and as job opportunities increase.

Somalia appears to suffer from the reserve wage problem that has afflicted other countries with large remittance flows. Members of families that receive remittances can afford to stay out of the labor market or hold out for a higher wage because remittances will see them through. This complicates any effort to get unemployed youth (who may already have an attitude issue concerning work) into jobs and suggests that other inducements may be needed. Professionals who work with Somali youth agree that technology is a universal attraction, which suggests that playing up the technology end of employment-related activities might increase the willingness of young Somalis to participate in them.

⁵⁰ ERP, p. 21.

⁵¹ ERP, p. 21.

⁵² Employers sometimes prefer Ethiopians who, unlike Somalis, have a lower rate of addiction to khat and are seen as harder workers.

The second geographic concentration of poor and unemployed Somalis is in IDP camps in and around Somalia's cities. The support packages they receive, freedom from the risk of another drought and reduced risk from the insurgency mean that most will not return to their farms. Some are also renting out their farmland, which brings in a bit more income. Yet with poor or no education, they do not qualify for many jobs in their new locations.

Sustained peace and a renaissance in agriculture in Somalia's south could eventually encourage more IDPs to go home – but until or unless that happens, they present a concentrated employment problem. Part of the solution may lie in the new trend of migrating some kinds of agriculture, such as egg and poultry farming, to peri-urban areas. This is discussed further in the agriculture recommendations section of this report.

PRACTICES OF THE PRIVATE SECTOR

Somalis are highly entrepreneurial. Returning diaspora members talk excitedly about the “unlimited opportunities” in Somalia today, when others would just bemoan poverty. The African Enterprise Challenge Fund, which covers 21 countries, receives the most applications from Somali companies. PEG could only approve 13 grants to firms in its first round of awards, but it classified 45 out of the 50 applications it received as potentially fundable.⁵³

When Somalis in business see an opportunity, they tend to move quickly to take advantage of it. On the positive side, this means that good ideas spread quickly and demonstration projects work well. For example, less than a month after the PEG-supported wind farm in Hargeisa came into service, entrepreneurs all over Somaliland and Puntland were talking about establishing their own. On the downside, because there is little appreciation for formal market research, the same spontaneity can produce the kind of copycat investments described earlier in this report that glut the market and fail.

ELITE CAPTURE

Without institutions to promote competition and protect the interests of small businesses and consumers, the entrepreneurial drive that serves Somalia well in many respects also contributes to the problem of elite capture. This report has explained the origins of the current business elite in licit and illicit business operations during the civil war. It has described how cartels drawn from this group fix electricity prices at some of the highest levels in the world, manipulate legislative processes to keep commercial banks out (of Somaliland), block legislation that would ensure interoperability between the country's telecommunications networks and force successful new businesses to relinquish control or hand ownership over to them. Eight to 10 industries or sectors are currently controlled by members of the business elite, who seek to control still more.

⁵³ Zaki Raheem, DAI, personal conversation.

Although a country with Somalia's 70-80 percent unemployment rate cannot afford to stifle innovation and investment, this is increasingly the result of the business elite's actions. For example, smart diaspora investors target quiet niches in the economy to remain inconspicuous. The lack of market information and the biases of traditional finance and Somalia's customary laws have reinforced the business elite's dominance. While its political influence makes it difficult or impossible to confront the business elite directly, the financial innovations and the wider availability of market information recommended in this report combined with the current development of new formal laws covering business and commerce should increase – or democratize – opportunities in business, which will ultimately intensify competition, investment, economic growth and job creation.

LESSONS FROM PEG

USAID/Somalia's first economic growth project in many years, the Partnership for Economic Growth began in 2011 in Somaliland and expanded into Puntland a year later. The project has essentially encouraged private sector initiative by making cost-shared grants to firms with innovative and scalable investment ideas, while working at the same time with government and the private sector to enact specific economic reforms or strengthen institutions or value chains in key industries. Decisions about future support for economic growth in Somalia should consider whether a continuation of the PEG approach would make sense. The answer is both yes and no.

Three aspects of PEG are important to retain in future work. The first is the use of cost-shared grants to support new private investments. The limited capabilities of government in Somalia mean that investor-led efforts are the only way to implement undertakings with sustained, widespread impact on the economy. The absence of financial intermediaries in Somalia makes grants the preferred way to do that. The second PEG feature to maintain is the extensive due diligence project implementers applied to the allocation of grants. This assured a high success rate of individual investments and helped Somali investors appreciate the value of careful market research. Finally, PEG's focus on several specific industries – separately from the grants program – paid off, for example by building policies and institutions with potential industry-wide impact.

Two aspects should be approached differently than under PEG. First, there should be a narrower sector focus to make sure that individual assistance activities add up to an economy-wide impact. For example, grants should be restricted to investments in, perhaps, two industries. The second divergence from PEG's approach reflects the more complex political landscape in Somalia today than when PEG began in 2011. In addition to multiple investors, future economic growth assistance will need to work with three governments representing the different zones of the country on problems that may affect their interests in different ways. This argues for the competitiveness approach described elsewhere in this report, which was not adopted under PEG but will help bring the different actors together around shared interests.

RELATIONSHIP WITH OTHER USAID PROGRAMS

The recommended activities would reinforce work by USAID and other donors in other areas, particularly efforts to train and employ youth and empower women. A particularly productive and mutually beneficial relationship could emerge between some of the recommended new activities and USAID's Transition Initiatives for Stabilization (TIS). TIS facilitate participatory decision-making processes in local communities that promote good governance and social cohesion. Decisions frequently relate to small-scale infrastructure. Meanwhile, assistance activities resulting in private investments such as horticulture in south-central Somalia are likely to raise both hopes and anxieties in local communities. TIS participation or a TIS-like approach could strengthen those communities' ability to respond to change. They could also help in identifying and implementing infrastructure improvements that would complement the private investments and increase the benefits to all concerned. Future economic growth programs should look for opportunities to build a mutually beneficial relationship with TIS.

GENDER

Women from varied backgrounds and circumstances face common constraints to their participation in the economy in Somalia. With 75 per cent unemployment, the slow pace of the economy itself is the biggest barrier of all. No one has a greater stake than women in accelerating economic growth in Somalia. Beyond that, women have almost the same rights as men on paper⁵⁴, but they do not get equal opportunity in practice. Such equal rights with unequal outcomes appear to owe more to clan culture and attitudes than to law or religion. Customary finance and business dispute settlement mechanisms also tend to favor men and those already well established in business.

Less educated and unskilled women have only a small chance of getting a job at an established business and frequently work on their own as so-called necessity entrepreneurs. Without an employer's protection, they are vulnerable to harassment and sometimes violence. With dual responsibilities at home and at work, poor Somali women face a time poverty problem, which completely rules out some vocations and almost always prevents them from realizing their potential income. Women do, however, dominate certain professions, including dairy and gold sales, and are employed in large numbers in others, such as horticulture.

The constraints at the other end of the spectrum – for university graduates for example – are different. The number of women graduates who lead businesses is small but growing. Social attitudes reinforced by clan traditions are a major impediment to women in such positions. Ironically, some of the attitude problem comes from within – many women approach entrepreneurship with little confidence and low expectations of themselves and their businesses. Those who conquer the confidence challenge must then fight societal bias and

⁵⁴ The Constitution of the FGS allows women to occupy any public position except President or judge and women have the right to inherit most forms of property, though daughters receive only half the share that sons do.

pressures, while navigating a male-dominated world that actively discourages their endeavors. Those who make it through are unusual, extraordinarily persistent individuals. The absence of support systems or women's networks leaves women entrepreneurs feeling alone and isolates them from ideas that could benefit their businesses.

RECOMMENDATIONS FOR FUTURE PROGRAMS

STRATEGIC APPROACH

Future programs to support economic growth and employment in Somalia should combine systemic (or horizontal) and sectoral (vertical) interventions. The objective of the systemic activities should be to open up opportunities for new, small and medium businesses and investment from new sources by expanding access to the financial system and increasing the availability of key business services. Such an effort would expand and democratize opportunity in business. The goal of the sectoral interventions should be to increase private investment in industries with large employment potential, including in regions susceptible to insurgency recruiting. The industries that best fit these criteria are fisheries and horticulture. Sector-level support should include help to develop food safety standards, repair or rehabilitation of small-scale infrastructure and technical training. Both systemic and sectoral activities should include focused outreach to women.

SYSTEMIC INTERVENTIONS

USAID's future assistance to Somalia should include several horizontal or systemic activities that help remove critical bottlenecks to growth in all sectors of the economy. In addition to encouraging growth and jobs across the board, this will disproportionately benefit startup firms, SMEs and women-owned businesses, which may lack the resources to get around barriers in other ways. It will also promote competition and thereby help reduce the dominance of the current business elite. The list of systemic interventions that could benefit Somalia is long. The ones suggested here address barriers that are particularly constraining, important in the industry sectors proposed for focus below and not currently being addressed by donors or government. They are important in all three parts of the country and should, to the extent possible, be implemented Somalia-wide.

Financial sector

Other donors are working closely with government to establish a legal and regulatory framework for Somalia's financial sector and to build the central government's capacity to provide sector oversight. That will not be sufficient, however, to ensure that Somalia's new private financial institutions extend services beyond large clients. Accomplishing that will

require additional institutions and practices to reach startups and small- and medium-sized businesses – democratizing access to financial services.⁵⁵

Future programs should undertake three activities and leave the door open to taking on one or two more if and as circumstances permit. The definite activities should include assistance to:

- launch and develop a leasing industry to get needed equipment into the hands of investors and businesses that cannot finance their needs through banks;
- establish a credit information system to reduce the cost and risks of bank lending and extend credit to a broader client base;
- encourage suppliers of all kinds to develop credit arrangements for creditworthy clients.

These activities would require technical assistance for consensus building, legal and regulatory drafting, and direct assistance to private firms and government departments. They would require training and some travel to see these activities in action in nearby countries. Startup grants would be helpful in some cases. Given the novelty of the first two activities and concerns about sharia-compliance in Somalia, it would be important to take the time Somalis need to get behind the concepts before implementing them. Leasing and supplier credit would be particularly relevant to the activities this report recommends in fisheries and agriculture. USAID's Development Credit Authority mechanism has assisted leasing industries to develop in a number of countries and should be considered here.

The optional activities include assistance to:

- establish a foundation for secured lending in Somalia;
- assist selected micro-finance institutions move upmarket.

These would also consist primarily of technical assistance activities with opportunities for sub-grants. The first would require an extended effort to identify the issues as Somalis see them, establish how secured lending has worked in both Islamic and non-Islamic countries, develop a consensus among the players on a way forward and implement at least the initial steps to establish the systems needed for secured lending (on moveable assets) to begin. The viability of the second activity would depend on the extent to which *hawala* microfinance institutions conform to banking rules in Somalia and are able to address AML/CFT concerns.

Business services

A future economic growth program should consider two initiatives to expand access to business services in Somalia:

⁵⁵ Democratizing finance will need to take into account the special circumstances of women and youth, who could have difficulty, for example, providing the unique identification needed to participate in a system of credit information.

- help develop a market for market research;
- assist to develop business associations to support the horticulture and fisheries industries and women working in business.

There are enough potential providers in Somalia to make a market research initiative feasible. The goal should be an active market with local and diaspora businesses applying market information to investment and management decisions. Possible activities include the following:

- help market research providers connect with potential clients and encourage investors and businesses, in turn, to buy market research services;
- assist market research firms to develop and promote headline products that inform Somali businesses about the value of market information;
- strengthen providers of market research with technical assistance and/or training to build a reputation for quality and value;
- involve research firms in sector-specific competitiveness events (see below) so that they can build expertise and be more helpful to those industries.

The first three activities would be economy-wide while the fourth would be targeted to fisheries and agriculture only.

Business associations have a potentially vital role in the horticulture and fisheries industries. They can serve as a self-regulatory mechanism on the critical issue of product safety in exports, assist members to work on common challenges as the industries grow and represent the industry interests on issues of government policy. They can also give a voice to small business as a counterweight to Somalia's business elite and provide women with the information, contacts and moral support to operate successfully in Somalia's business community. Donors should encourage these associations to develop but should not push them to emerge until or unless the potential membership is ready. Support to other business associations, including chambers of commerce, should be considered on a case by case basis.

As with finance, there is a democratizing element to the proposed work with market research and business associations. Market information increases the opportunity for more to succeed – it benefits all, but means the most to startups and smaller firms that can least afford to make mistakes. Broad-based and representative associations, as discussed above, give voice to smaller companies and help to counter the influence of the established business elite.

SECTORAL INTERVENTIONS

It would be helpful to complement these horizontal activities with sectoral or vertical ones to accelerate growth in industries that have the greatest potential to create jobs, including where youth are particularly susceptible to Al-Shabaab recruiting. The industries that best meet these criteria are fisheries on all coasts (but particularly in Puntland and south-central Somalia) and agriculture with a particular focus on horticulture in south-central Somalia.

The best methodology for working in these industries will be one that can both:

- bring together the different governments in Somalia, the private sector, financial institutions and donors;
- facilitate coordinated efforts between them to address industry-specific challenges and opportunities.

Competitiveness

“Competitiveness” projects were very common a decade ago. Though other approaches to enterprise development are used more frequently now, the competitiveness approach includes elements that make it particularly suitable for Somalia. A competitiveness project would typically:

- benchmark a Somali industry (fisheries, for example) against competing fishing industries in other countries to see how Somalia stacks up *vis-à-vis* production trends, production costs, ability to serve key markets, technological advantages, adoption of new technologies, sustainability of fish stocks, labor skills appropriate to changing requirements and so on;
- identify trends in current and future markets for Somalia’s fish, such as anticipated market growth, changing tastes, competing suppliers, changes in the value chain – e.g., the rise of supermarkets;
- bring together all parties with an interest in the future of the industry – in this case, fishing companies, providers of energy for remote locations, refrigerated trucking firms, air freight firms, universities with related departments, Ministry of Fisheries, banks, donors; present them with the benchmarking information, information about global trends, SWOT analysis and more;
- assist all involved to understand that they must “cooperate to compete”, act upon their common interest and needs, and identify and implement specific follow-on measures.

The outcome of a successful competitiveness exercise is an agenda for action forged by the Somali players themselves – typically including some steps to be taken by government, others by the market players and yet others by financial intermediaries and donors. PEG’s experience providing an “end market analysis” to participants in the livestock industry in Somaliland illustrates the potential impact. According to participants, it was the first time they had ever understood how their target market worked and it came as an epiphany. All participants stayed late planning follow-up actions together.

A competitiveness assistance program should make PEG-like grants to facilitate follow-on investments by private groups when doing so would be in the interest of the larger industry – e.g., providing a demonstration effect, pioneering a technology with broad potential

applications, employing a large number of people, engaging multiple small farms, etc. The program should be positioned to support follow-up actions to be taken by government as well.

As it supports initiatives that emerge from the competitiveness process, this type of project should also help address previously identified constraints, for example by:

- introducing new financial instruments to the industry;
- facilitating access to improved business services;
- working with government and the private sector to develop quality control and food safety protections;
- rehabilitating or rebuilding small-scale infrastructure to facilitate sector expansion (and also to provide tangible signs of progress to the public);
- partnering with industry on technical training;
- applying a technology veneer if appropriate;⁵⁶
- addressing with government policy issues and constraints that were identified in the competitiveness exercise.

Agriculture

The agriculture component of future efforts should focus on horticulture, primarily in south-central Somalia, and seek to accelerate growth and increase sustainable employment in the industry. The best approach for Somalia will be a competitiveness one as described above. Key participants would include investors in agriculture, selected farmers, energy providers, input suppliers, exporters, freight and transport companies, airlines and shipping lines, financial institutions, government officials from related departments, university faculty, donors and the media.

Programs should support initiatives proposed by participants that reflect priorities for the industry's future. The primary form of support should be partnership grants like those used in the PEG project. Most grant recipients would be private firms making agribusiness-related investments in the horticultural industry, but some NGOs, farmers' associations and counterpart government ministries could qualify as well. Criteria for grant approval should make sure that grant activities will provide a broad benefit to the horticulture industry rather than serving only the grantee's interests. The benefit could be a demonstration effect, the potential to create a large number of new jobs, the development of an input such as drip irrigation that will benefit large numbers of farms and farmers, the application of renewable energy to the industry in a new and innovative way, etc. Initiatives that take advantage of renewable energy, that have good potential to create a large number of new jobs and/or jobs attractive to youth or that provide opportunities for women should be encouraged.

⁵⁶ See examples in the discussion of agriculture and fisheries activities below.

In parallel with the award and monitoring of grants, future programs should work with counterparts to develop responses to known opportunities and constraints in the horticulture industry, including:

- in collaboration with the FAO, a system to improve the quality and appropriateness of fertilizer, pesticides, and herbicides supplied to the horticulture industry;
- in collaboration with the FAO, a sustainable seed certification program and a growing seed production industry;
- development of a capacity by government and/or universities – sustainable within the limited resources available in Somalia – to monitor and control horticultural diseases and pests;
- an SPS certification and quality control system such as GlobalGap – sustainable within the resources available in Somalia – to give confidence to overseas buyers that Somalia’s horticulture exports are safe;
- seed policy and agricultural input policy more broadly.

Implementers should work with participants in the horticulture industry and Somalia’s emerging financial sector to develop and apply financial instruments suited to the needs of the horticulture industry, including:

- providing trade credit to importers of inputs for the horticulture industry and exporters of horticultural products;
- developing a leasing industry to meet the equipment needs of horticultural production. This could include leasing of tractors, trucks, and pumps among other equipment needs;
- supplier credit;
- outgrower arrangements with individual farmers and small- and medium-sized farms.

Implementers should identify potential providers of market research and other business development services to the horticultural industry, facilitate the provision of those services to project participants and encourage, in turn, the application of information revealed by those services to investment decisions by project participants.

Implementers, together with counterparts in government and the private sector, should also identify small-scale infrastructure repairs and improvements that will protect the operations of farmers and farms working on project-supported activities and improve the chances of project success. These are likely to include water control structures such as culverts, catchment basins and irrigation canals, as well as bridges and minor roads. A secondary objective of this activity, beyond directly supporting project activities, would be to demonstrate visible economic progress to residents of project areas. Whenever possible, project implementers should explore parallel implementation of activities with USAID’s Transition Initiatives for Stabilization

to encourage community involvement, support for project work and a positive vision of the future in the assisted area.

It would be helpful to engage a small number of local universities in a modest program of adaptive trials of horticultural crops to benefit initiatives launched with project support. Those should use the outreach mechanisms – demonstration plots, field days, market days – that were successful in the PEG project. Emphasis should be placed on trials that will produce results that can benefit farmers on the ground quickly – i.e., over 12 to 18 months. Participating universities should be encouraged to develop collaborative research relationships with investors supported by the project. SMS-based outreach methods could be used to disseminate key research results to farmers.

To attract youth to participate in these activities and take up the jobs created by project investments, implementers should look for ways to incorporate technology into project activities likely to attract interest and attention. These might include SMS-based education and extension services, the introduction of soil testing and drip irrigation, computerized cropping models, and engagement with the solar and wind power innovations supported by the project, among others.

Project implementers should explore the potential for technical training in renewable energy installation, maintenance and repair, refrigeration and the advanced electrician's skills required to apply renewable energy successfully in the horticulture industry. Financial support and curriculum guidance from renewable energy firms, refrigeration suppliers and electricity services providers in urban areas will be important.

If USAID or others wish to tap agriculture to increase employment opportunities for IDPs in and around Somalia's cities, there may be opportunities to assist the growth of dairy farming, poultry rearing, the production of eggs and some vegetables, and – possibly – the operation of plant nurseries in and around urban areas. All have moved closer to cities during the last few years, are labor-intensive and can take on labor with relatively low starting skills.

Horticulture traditionally employs a large number of women in farm production, post-harvest processing, and as vendors at the retail end of the supply chain. Horticultural development itself should open up a significant number of new employment opportunities for women. Three additional steps could help increase women's participation and the chances of program success:

- involving women in the competitiveness exercise would help identify productive opportunities to include them in the industry and make sure that any negative impacts on women are known and taken into account;
- encouraging – even incentivizing – financial institutions, business service providers, universities conducting field trials and investors in the program to employ women in outreach roles to engage women effectively in project activities;

- setting aside time for women-only sessions during the review of field results and during farmer days and market days in the adaptive trials activities of the project.

Finally, consideration should be given to addressing the problem of time poverty that affects many women vendors at the retail end of the horticulture supply chain. Long distances between produce markets make it difficult for women with home obligations to conduct business at the market too. Travel can add hours of time to a working day and increase the vulnerability of women to harassment and theft. If consumer demand can justify adding one or more produce markets in towns affected by assistance activities, the benefits to women who make a living selling produce could be substantial.

Fisheries

The objective of assistance to fisheries should be to accelerate economic growth and increase sustainable employment in Somalia's fisheries sector. That goal should be pursued by facilitating the development of an intermediate fishing industry – between artisanal fishing and offshore industrial fishing – through technological sophistication and capital investment. Most activity would take place on the Indian Ocean coasts of Puntland and south-central Somalia, where the pelagic fish stock is concentrated, but Somaliland should also be included. Given the magnitude of the task and the multiple players involved, the assistance program should use a competitiveness approach that brings together the disparate and fragmented players in the industry, helps them see their shared interest in moving the industry forward and assists them to implement follow-up actions. Key participants would include:

- investors in boatbuilding, fishing, fish processing, ice-making, refrigeration and transport;
- selected fisheries cooperatives and/or associations;
- energy providers;
- marine engine parts suppliers and repair professionals;
- freight and transport companies;
- airlines and shipping lines;
- financial institutions;
- foreign buyers;
- government officials from related departments;
- university faculties;
- donors;
- the media.

A fisheries program should use partnership grants to support participant initiatives emerging from the competitiveness exercise. Most grant recipients would be private firms investing in the fisheries industry, but some NGOs, fishing associations and counterpart government ministries could qualify as well. Criteria for grant approval should make sure that grant activities will

benefit the fishing industry broadly and not just the grantee's interests. The benefit could be a demonstration effect, the potential to create a large number of new jobs, development of a new technology with wide applications, the application of renewable energy to the industry in a new and innovative way, etc. Initiatives that take advantage of renewable energy, have good potential to create a large number of new jobs and/or jobs attractive to youth, or provide opportunities for women should be encouraged.

In parallel with the award and monitoring of grants, it would also be important to work with counterparts in government, the private sector and the donor community to address known constraints to the fishing industry. These include:

- development and implementation of GHP and HACCP systems to give buyers overseas confidence that fish from Somalia is safe to eat;
- development of a capacity by government and/or universities – sustainable within the limited resources available in Somalia – to monitor and sustainably manage fish stocks;

It would also help to work with participants in the fishing industry and Somalia's emerging financial sector to develop and apply financial instruments suited to the needs of fisheries, including:

- provision of trade credit to importers of inputs for fishing and exporters of fish;
- development of a leasing industry to meet the equipment needs of fishing, fish processing, fish storage and fish marketing. This could include leasing of trucks, refrigerated trucks, portable cold rooms, forklifts and pumps, among other needs;
- supplier credit;
- credit arrangements between fish processing companies and the owners of large and small fishing boats.

Similarly, fisheries assistance should identify potential providers of market research and other business development services to the fisheries industry, facilitate the provision of those services (at a high standard) to project participants and encourage, in turn, the application of information revealed by those services to investment decisions by project participants.

Implementers should identify, together with counterparts in the private sector and government, small-scale infrastructure construction projects, improvements and repairs to facilitate growth of the fishing industry. These may include fish landing piers, fish holding and transfer equipment, ice-making and cold storage facilities and minor access roads, among others. A secondary objective of this activity, beyond direct support to project activities, would be to demonstrate visible economic progress to the residents of project areas. Whenever possible, project implementers should explore parallel implementation of activities with USAID's Transition Initiatives for Stabilization to encourage community involvement, support for project work, and a positive vision of the future in the affected communities.

It would also help to encourage local universities with maritime expertise to participate in project-related activities. Project implementers should investigate the viability of introducing technical training in skills needed by the fisheries industry, which the industry will support through curriculum guidance and financial or in-kind assistance. SMS-based methods should be considered where appropriate.

To attract youth to participate in project activities and take up the jobs created by project investments, implementers should look for ways to incorporate technology into project activities likely to attract youth interest and attention. These might include SMS-based education and skills development, exposure to navigation, fish finding and refrigeration technologies, and exposure to solar and wind power innovations supported by the project, among others.

Fishing industries tend to employ a large number of women at the processing end of the production chain. Project success would open up a large number of employment opportunities for women. Additional measures could help maximize women's participation in the industry and the benefits women derive from their participation:

- involving women in the competitiveness exercise would help assure that they participate in the industry in productive ways and that any negative impacts on women are known and taken into account;
- investors, financial institutions, business service providers and universities participating in the project should be encouraged – perhaps incentivized – to employ women in outreach roles to increase the chances of engaging women effectively;
- processing facilities that receive project support should be encouraged to address the needs of women in the workplace with amenities such as transportation, separate prayer rooms and bathrooms and, possibly, day care support for children.

WHAT NOT TO DO

Deciding what not to do is at least as important as developing recommendations for future programs. The more important alternative ideas considered for USAID support are listed below, with a brief explanation why they should not be pursued.

Public financial management (PFM)

This field is crowded with 10 different multilateral and bilateral donor organizations pledged to playing a role. While obviously important in the long run, PFM will not directly affect economic growth in Somalia in the next few years. If job creation is USAID's principal concern, this is not the first place to invest.

Livestock

This is a mature industry that will not employ large numbers of additional people. It gave the lowest rate of return of all PEG investments. It is also the export that Somalia is already too dependent on. Somalia needs to diversify its production base and export more than just livestock to reduce its vulnerability to interruptions in demand in other countries. Support for wider economic growth in Somalia should help achieve that.

A standalone energy effort

Electricity generation and distribution in urban areas is run by predatory cartels that have a great deal of political influence and play by their own rules. Reform, if it happens, will be protracted, messy and possibly dangerous. Renewable energy offers a much more hopeful picture and is already taking off as an industry. The World Bank and African Development Bank are leading the overall reform effort for the energy sector and appear to have Gulf development funds prepared to invest in new infrastructure. There doesn't seem to be a major gap to fill beyond building renewable energy into the work this report proposes in fisheries and agriculture. The exception would be support for a Renewable Energy Development Center that would, among other things, train and certify technicians in the design, installation, maintenance and repair of renewable energy systems and in skills that are central to the main applications of renewable energy – e.g., refrigeration technology. These skills are largely missing in Somalia and very badly needed. The Somaliland Business Fund gave a grant for such a center but the grantee failed to get qualified technical people to lead the effort, which was abandoned.

A general commercial law or regulatory reform program

The reasons against this are laid out in the report. Essentially, much is already being done by the World Bank, and this report argues for a transactional approach instead.

Investment promotion

This is also discussed in the report. It is premature and more likely to backfire than succeed at this time.

Industrial estates or zones

This is an intuitively appealing idea, especially since a successful estate or zone near IDP camps could provide many jobs in close proximity. But zones work best for manufacturing operations and Somalia will not have a large manufacturing sector for many years. A zone would remain mostly empty and is premature.

CAUTIONS/ISSUES

Implementing any large program in Somalia in the next 3-5 years will be a complex task. Key issues that will need to be managed are described here.

Complexity and cost of working with three governments

Any project that tries to cover all three parts of Somalia will be complex to manage and expensive to implement. Travel requirements will be expensive and time-consuming. Getting Somalis together from different parts of the country will also be expensive and time-consuming. The diplomatic demands of working with three Ministers of Fisheries, three rival chambers of commerce, and so on, will be very high.

Demand for USAID to be in the field

Future programs will need to address sensitive policy issues and will require delicate diplomacy to accommodate the interests of the three governments in Somalia. USAID cannot leave this to a contractor and will need to be in the field frequently to avoid losing control.

Resistance

Some of the proposed activities will run counter to the interests of Somalia's business elite. They will resist. Project implementers will need to be unusually alert, build alliances with government and manage the politics carefully.

Crowding out

The economic growth activities of donors could undermine long-term assistance objectives in two ways. Grants to Somali businesses from the many "Funds" established by donors could crowd out market-based lending by Somalia's new banks, delaying the development of a healthy financial sector. Similarly, donor-supported services to small businesses could crowd out the provision of such services on commercial terms by private providers, delaying the development of a vibrant business services industry. Neither danger is imminent, but both may arise during the next few years and will need to be watched.

ANNEXES

ANNEX I: ECONOMIC GROWTH STRATEGIC ASSESSMENT STATEMENT OF WORK

USAID/SOMALIA ECONOMIC GROWTH STRATEGIC ASSESSMENT

I. Purpose

USAID/Somalia is seeking the services of a well-qualified and experienced team of experts to conduct an economic growth opportunity assessment throughout Somalia, which will collaborate with a concurrent performance evaluation for the Partnership for Economic Growth (PEG) program (SoW for the PEG evaluation is below Annex).

The desk and field study of the assessment will provide an independent, objective review of the current state of the economy in Somalia; review key components of USAID and other donor's current economic growth portfolios and draw from lessons learned; and recommend prioritized opportunities for USAID to support economic growth in Somalia in the future. This assessment will assist USAID/Somalia in its 2014-2016 new strategy design, and will run concurrently with PEG evaluation. While the assessment and evaluation will yield distinct findings, the overlap in subject matter expertise and timing determined that using one team with a combined approach to fieldwork represented the most efficient means of accomplishing both objectives. It is also anticipated that the assessment will inform the PEG evaluation methodology and analysis frame, and that the PEG evaluation will inform the assessment as a key case study of a USAID-funded economic growth program in Somalia.

II. Background

In the context of the current conflict in Somalia, the Somali private sector can be an agent of change, or a spoiler of peace. Given the absence of a central government for the last two decades, businesses have come to wield significant power in Somalia. They have been the primary agents in the delivery of services that would normally be provided by government including education, power, water, and telecommunications. The power of the private sector has been used in opposing ways: either to support and build peace for the greater good, or to collude with spoilers and profit from war. In the early 90s, many entrepreneurs chose to financially support warlords or to become warlords themselves, taking advantage of clan rivalries, particularly in Mogadishu. In the latter half of the 90s as clan rivalry decreased, intra-clan businesses developed and spread across geographical lines.

Businesses have continued to thrive despite on-going conflict, and today they bring together entrepreneurs across clan, regional, and ideological differences, and many operate in all parts of Somalia as well as in Kenya, Djibouti and Ethiopia. The private sector has also demonstrated its ability to contribute to stability. Certain sectors, such as livestock, seem to be immune to interference by extremist organizations. The business community in Mogadishu brokered an agreement between the Transitional Federal Government (TFG) and insurgents in early 2008 to demilitarize Bakara Market, long considered to be the Wall Street of Somalia, and established a 450-person community police force for the market which enabled it to remain open. The

business community has also united to prevent al Shabab from destabilizing Somaliland. Furthermore, the business community, including the diaspora, has substantial resources for investment and has contributed to economic recovery – building schools, medical facilities, and establishing one of the most sophisticated telecommunication networks in Africa – which has benefited Somalia and its neighbors.

In March 2009 in Djibouti, the UN helped bring together Somali private sector leaders in various industries from the sub-region as well as South Africa, UAE, and the U.S. as part of the peace process. These actors, many of whom are fierce competitors in their sectors, all agreed that they want and need a government and would benefit from stronger central, regional, and local administrations. The private sector has also played a significant role in promoting local reconciliation among clans and in fostering credibility for the TFG among the Somali population. Therefore, engaging with the private sector and encouraging greater investment in Somalia, especially in traditional sectors which provide significant employment opportunities such as livestock and fishing, will contribute to stability and building up a revenue base for longer-term development.

Historically, Somali women have been the most negatively affected by war given the high levels of sexual and gender-based violence, displacement, and lack of economic opportunities, particularly for female-headed households and in areas under the control of extremist groups. Nonetheless, women play an important role in building peace in Somalia. They are also increasingly the primary breadwinners. Women’s multiple clan affiliations enable them to bridge conflicting clan and sub-clan lines. Women can play an even greater role in influencing local peace processes when they have wealth. Supporting women to become economically self-reliant as well as to become agents of change in their community through micro-finance, commercial credit and business association activities will have a direct impact on stability in Somalia, especially at the community level.

Pastoral livestock production and marketing in greater Somalia contribute to 80% of the economy. It brings together the intertwined issues of livestock trade and marketing, delivery of animal health, sustainable natural resource management, and capacity building and conflict management in pastoral livestock systems in the Horn of Africa. Interventions in this area clearly can foster broad-based economic growth and stability.

The current USAID/Somalia Economic Growth program, the Partnership for Economic Growth (referred to as the “*Partnership*”), works together with the local governments and the private sector to promote economic growth and stabilization in Somaliland and Puntland. USAID’s *Partnership* works with government and the private sector to improve an enabling environment for investment and generate more productive employment. The program began in April 2011 in Somaliland and then expanded to Puntland in mid-2012. In June 2013, it assessed economic growth opportunities in south and central Somalia for future programming. USAID’s *Partnership* supports stabilization through economic growth by investing in the local economy, and by strengthening livestock, agriculture, and energy production. Activities of the *Partnership* include:

- Partnership Fund: Launched an innovative business grant fund to co-fund 13 Somali businesses, nonprofit organizations, and institutions with awards ranging from \$25,000 to \$100,000.
 - This promotes risk-sharing and new partnerships that have created 1,000 new jobs in livestock, fisheries, energy, financial services, and general trade.
- Livestock: Support has been provided for the Ministry of Livestock to improve community-based animal health services and strengthen veterinary drug supplies. The program also works with local institutions and agribusinesses to strengthen the production and marketing of livestock feed.
 - These activities improve animal health, productivity, quality, and price, while decreasing the cost of inputs (such as feed).
- Agriculture: Partnership has been forged with Amoud University, local agribusinesses, and farmers to increase production and incomes by testing and increasing the supply of the best performing vegetable crops and provide training in marketing and business skills.
 - This will improve profits and quality of production as well as sales.
- Energy: The program works with the Ministry of Mining, Energy, and Water Resources to help create Somaliland's first legal and regulatory framework, while also investing in pilot wind energy activities, such as demonstration farms and data collection.
 - This will help govern energy/electricity production, supply, distribution, and reduce costs for consumers and businesses.
- Business Environment: Support has been provided to the Somaliland Ministry of Commerce's nascent Investment Climate Unit and the Somaliland and Puntland Chambers of Commerce.
 - This will help to increase private sector's confidence in the local economy and provide information on the business climate, and livestock, agriculture, energy, and other investment opportunities.

III. Scope of Work

The main activities of the assessment team will be as follows:

1. Review the state of Somalia's economy and recent initiatives by Government of Somalia authorities and donors to rebuild the economy after years of war. Drawing on the evaluator's experience in the fields of trade and investment, legal and institutional reform, business development, agriculture/agribusiness, and financial sector development, review past and ongoing donor programs in Somalia for overall effectiveness and lessons learned. For USAID programs, this will draw on the concurrent evaluation of the Partnership for Economic Growth program.
2. Recommend prioritized opportunities for USAID to support economic growth in Somalia in the future, including the pros and cons of different approaches. Identify those approaches that will best catalyze and leverage Government of Somalia (GOS), donor, private sector and other resources to create jobs, generate income, alleviate poverty, and spur overall economic growth. In formulating its recommendations, the team shall take into account U.S. foreign policy concerns, USAID policy, the F framework, and/or USAID's comparative advantage vis-à-vis other donors. In addition to making

recommendations for future interventions in the illustrative areas of a) trade and investment, b) macroeconomic foundations c) private sector competitiveness, d) agriculture (includes livestock and other value chains), e) infrastructure and f) financial sector development, and g) environment the team shall also make recommendations, if necessary, for USAID interventions in other areas not covered by these broad themes. Opportunities to strengthen integration of women and youth into future programming will be critical. Possibilities to foster greater linkages between other program areas, namely stabilization/quick impact, democratic governance, and education/youth should be explored.

IV. Questions to be Answered

(a) The assessment team should use the following guideline questions below and supplement them with its own more specific questions, comments, and observations. In consultation with the USAID/Somalia team, the assessment team will develop a more comprehensive list of questions, including a list of individuals and organizations to be contacted, prior to conducting interviews. The assessment purpose, per Section I above, is to identify potential approaches for intervening in the economic growth area, and recommend the approach or approaches, focused on productive and major urban areas (non-AI Shabab occupied areas) that would best advance key areas of Somalia's economic growth. Note that PEG evaluation findings will feed into the assessment findings and recommendations.

Guideline Questions for the Assessment:

1. Does the focus of the current USAID economic growth portfolio make strategic sense as an enabler to short and long-term economic development in Somalia? Consider this over-arching question, given the Mission's EG Strategic Objective(s), limited funding size of the portfolio, and the identified priority constraints to sustainable economic growth- in terms of increased jobs and creating of jobs that exist in the Somalia economy.
2. Are there any cross-sectoral opportunities within other USAID programs (i.e. Health, humanitarian, governance etc.)? If so, outline what they are and how such opportunities could be realized programmatically.
3. Regarding specific economic sectors, for the 2014-2018 period, what are the projected main constraints/obstacles to:
 - i. trade and investment,
 - ii. legal and institutional reform,
 - iii. non-agriculture business development,
 - iv. agriculture/agribusiness, and
 - v. financial sector development?
4. Are there other areas of potential USAID/Somalia intervention in the economic growth arena outside of the sectors identified in question 4?
5. What opportunities exist for USAID to maximize its future investments in this sector? Please include how these opportunities relate to current efforts by the GOS and other donors

V. Methodology, Tasks, & Deliverables

1. Prior to their arrival in Somalia, the team will review relevant documents on USAID, GOS, and other donor activities in the areas of a) trade and investment, b) legal and institutional reform, c) business development, d) agriculture/agribusiness, and e) financial sector development, including but not limited to the following:
 - USAID/Somalia draft Strategy
 - Scopes of Work for Partnership for Economic Growth
 - Quarterly and annual reports for Partnership for Economic Growth
2. The team will develop a work-plan, including additional or modified questions to be addressed during the assessment in Somalia. The work-plan should be completed prior to arriving in Somalia (see schedule), in consultation with USAID/Somalia. It is anticipated that the team will spend three weeks in Somalia conducting field work for the assessment, and preparing the report.
3. The team will conduct interviews in Somalia (the list of people to be interviewed will be developed in consultation with USAID/Somalia) with appropriate staff from USAID, U.S. Embassy, USAID/Somalia implementing partners, and the GOS:
A detailed list of supplemental people to interview should be provided to USAID/Somalia for review. As stated above, the team shall consult with and seek guidance from USAID staff regarding which people to be interviewed.
4. The team will agree, with USAID/Somalia staff, on the outline for the draft report prior to the draft report preparation.
5. It is expected that the team will prepare an in-depth report that focuses upon their major findings and recommendations for future strategic interventions based upon their interviews with implementing partners, GOS, private sector, and other stakeholders. The themes covered in the report should include, as mentioned earlier, the following: a) trade and investment, b) legal and institutional reform, c) business development, d) agriculture/agribusiness, and e) financial sector development. The report will also include short one-page concepts for proposed interventions, including anticipated outcomes of such activities, and a short scenario of the implementation and anticipated value of each intervention (considering quick impact, medium to long term interventions a cross Somalia). The team is also free to propose additional areas of future strategic intervention beyond these themes.

DELIVERABLES (see Schedule for due dates)
Del 1 – Kick off meeting with USAID
Del 2 – Workplan submitted to USAID/Somalia (including report outline and list of key interviewees)
Del 3 – (Remote) Presentation of Preliminary Findings & submission of a short written report listing key findings, lessons-learned and early recommendations on future strategic interventions, and responses to the questions in section IV (remote conference call to present these findings to USAID)

Del 4 – Nairobi-based meeting to discuss preliminary findings
Del 5 – Submission of Draft Report to USAID
Del 6 – USAID feedback on Draft report (one week later)
Del 6 – Final Assessment report incorporating USAID/Somalia comments from the draft report and presentation.
Del 8 – Report submission on the DEC

In addition to the above, team leaders should send a weekly status report on progress with USAID/Somalia

VI. Technical Guidance

The USAID technical point of contact for the team will be Marybeth McKeever, USAID/Somalia Social Service Delivery Advisor, or her designate.

VII. Team Composition & Qualifications

In order to carry out the assessment, the team will be made up one team leader and a Somali specialist who will also be supporting the PEG evaluation (Note: an additional team member may be required on a short term if the team needs travel separately within Somalia). The Team Leader should have both relevant and substantial evaluation/ assessment experience as well as expertise in several if not all of the following areas:

1. Trade and investment
2. Agriculture/Livestock
3. Legal and institutional reform
4. Economic growth & private sector development

An Economic Growth Officer from USAID/Washington may also participate in the assessment as the USAID representative. The team will be notified in advance as to who will represent USAID on the assessment team.

VIII. Period of Performance

On or about early February to April (no later than early May), 2014 for up to 66 workdays including desk and field work and report preparation

IX. Workweek

Team members are authorized a six-day workweek with no premium pay.

X. Logistics

The Monitoring and Evaluation Program for Somalia team shall be responsible for all logistical support needed to complete the assessment successfully.

ANNEX II: KEY INTERVIEWS

Nairobi

Name	Organisation	Job Title
Andrew Read	FAO	Fisheries Coordinator
Aruna F. Gujral	FAO	Head, Planning and Coordination Unit
Cyprien Biaou	FAO	Livestock Coordinator
Ernest Njoroge	EU	Programme Officer
Paul Smith	EU	Programme Manager, Infrastructure
Nicolas Tremblay	FAO	Programme Coordinator
Paolo Toselli	EU	Programme Manager, Food Security
Paul Macharia	DFID	Senior Programme Officer
Richard Walker	AFDB	Principal Economist
Rowan Yamanaka	DFID	Economic Adviser
Daniel Molla	FSNAU	Chief Technical Advisor
Danny Adams	DAI	Africa Manager
Suleiman Mohamed	DAI	PEG CoP
Hussein Haji	SATG	Managing Director
Hugh Riddel	World Bank	Senior Operation Officer
Jose Lopez	FAO	Head, Agriculture sector
Winston Cole	World Bank	Senior PFM Specialist
Adhan Haji	DFID	PSD Adviser
Julie Limoges	USG	Economic & Commercial Officer
Hodan Hassan	USAID	Somalia Office Director (Acting)
Marybeth McKeever	USAID	Program Advisor
Alicia Carra	USAID	Stabilization Advisor

Hargeisa

First Name	Organisation	Job Title
Saad Ali Shire	Ministry of Planning	Minister of Planning
Abdi Aw-Dahir Ali	Ministry of Livestock	Minister of Livestock
Abdirahman Jama Abdalla	Republic of Somaliland	State Minister of Livestock
Mohamed Suleiman	Ministry of Commerce and Investment	Director General, Investment
Ibrahim Ismail Elmi	Somaliland Chamber Of Commerce Industry & Agriculture	Secretary General
Mohamed Yusuf Iman	Somaliland Chamber of Commerce, Industry & Agriculture	Chairman, Agricultural Committee
Mohamed Hassan Nur	Shaqodoon	Executive Director
Mustafa Othman	Shaqodoon	Technology Manager
Ahmed Ali Jama	Shaqodoon	Programs Officer
Abdirisak Abadir Ibrahim	Initiative for Research and Development Action	Executive Director
Ahmedyassin Mohamed Hassan	Initiative for Research and Development Action	Research Director
Dhamud Osman Mohamud	Somali Chamber of Commerce & Industry	Chairman of Industry Sector
Fadumo Alin	Kaaba Micro Finance	Chairperson
Ibrahim Abdi Yacquub	Tayo Energy Enterprises Company	Managing Director / Owner
Ismail S. Botan	Tayo Energy Enterprises Company	Finance Director
Ali Ahmed Jama	Solar, Wind & Free Energy Solutions	Executive Director
Sayid-Ali Ahmed Abdi	Solar, Wind & Free Energy Solutions	General Manager
Abdi Ali Maal	Solar, Wind & Free Energy Solutions	Technical Officer
Mohamed Y. Elmi	Somaliland Business Fund	Fund Analyst
Nafisa Yusuf Mohamed	Nagaad Network	Executive Director
Qani Abdi Alin	Dheeman Fashion and Tailor	General Manager
Saeed Mohamed Ahmed	SONYO Youth Umbrella	Executive Director
Sharmarke Jama	Transparency Solutions	Managing Director (HOA)
Zaki Raheem	DAI	Development Specialist
Mubarak Ismail Tani	DAI	Senior M&E Officer

Mohamed Bashir	Dauus	VP Marketing and Communications
Wasame Mohamoud	University of Hargeisa	Associate Dean, Economic Faculty
Guled A. Yusuf	Diaspora Business Centre	Managing Director (Somalia)
Amaal Abukar	Silatech	Program Officer

Mogadishu

First Name	Organisation	Job Title
Ahmed Mohamed Iman	Ministry of Fisheries and Marine Resources	Director General
Abdirahman Ibrahim Sheick	Ministry of Fisheries and Marine Resources	Director of Planning
Said Jama Mohamed	Ministry of Fisheries and Marine Resources	Technical Advisor
Ali Salad Sabriye	Ministry of Fisheries and Marine Resources	Fisheries Scientist
Mohamud Mohamed Mohamud	Ministry of Agriculture	Director General
Hussein Muse Malishe	Ministry of Agriculture	Director, Plant Protection
Abdiasziz Shiekhdon Farah	Ministry of Agriculture	Regional Coordinator, Lower Shabelle
Mohamed Hussein Isse	Mogadishu University	Director, International Corporation & Graduate Affairs
Abdulqadir Abubakar Sh. Hassan	Mogadishu University	Dean, Faculty of Economist & Mgt Science
Abdirashid Ali Adle	Mogadishu University	International cooperation
Liban Egal	First Somali Bank	Chairman
Mohamud Farah Ali	Somali Energy Company	Chief Technical Officer (CTO)
Mahamud Abdi Ali Gabeire	Somali Chamber Of Cormnerce & Industry	President
Abdi Dorre	Somali Chamber Of Commerce, Mogadishu	General Manager
Osman Heile Arush	Fruitsome	Founder & CEO
Osman Mohiadin Moallim	Somali Youth Development Network (SOYDEN)	Executive Director
Abdirisak M. Aden	Aden Associates International	Chief Executive Officer
Habiba Hagi Jimale	Association of Somali Women Lawyers	Chairlady
Mohamed Mohamud Arale	Association of Somali Women Lawyers	Director
Abdullahi Haider	Petroleum & Mineral Resources	Senior Adviser
Hodan Osman	Somali Central Bank	Consultant

Ismail Mohamed	Somali Central Bank	Economic Officer, Research and Statistics
Naema Adam	(Brick making company)	Managing Director
David Snelson	Polaris	CEO

Garowe

First Name	Organisation	Job Title
Abdinur Bindhe	Ministry of Fisheries and Marine Resources	Minister of Fisheries and Marine Resources
Said Hussein lid	Puntland Chamber of Commerce	Chairman
Abdirahman J Kulmiye	Puntland State of Somalia	State Minister for Fisheries & Marine Resources
Abdiwahid M. Hersi	Ministry of Fisheries and Marine Resources	Director General
Abdullahi Duale	Ministry of Livestock	Minister of Livestock
Mohamed Abdulkadir	Ministry of Livestock	Director of Planning and Programmes
Abdirashid Said	Ministry of Livestock	Advisor
Hirsi Dheere	Puntland State Bank	Governor
Mohamed Abdulkadir	Puntland State Bank	Administrator
Sadik Ahmed Bihi	Smart Vision for Consultancy	Executive Director
Ahmed Husein Mohamoud	Solar Energy Consulting and Construction Company	Operations Manager
Omar Mohamoud Irbad	Solar Energy Consulting and Construction Company	Executive Director

ANNEX III: ECONOMIC GROWTH INITIATIVES IN SOMALIA

Sectors	Somaliland	Puntland	South Central	Countrywide
Agriculture	<p>EU/FAO project: Irrigation consolidation & development of better farming systems (ICDBFS) in the Dur-Dur watershed. (€2m, ending Jun. 2014)</p> <p>WB/SBF supported with large grants (\$50-150k) for the following businesses: growing and harvesting sugar, cultivating sesame & producing organic edible oils. Also supported with small grants (<\$50k): Drip irrigation for fresh fruits & veg, Tractor rental, Argan oil, Sunflower oil and Tomato paste & ketchup.</p> <p>USAID/PEG supported:</p> <p>Agricultural extension services, farmer field days, business extension training, and market</p>		<p>EU/FAO agriculture related projects that are underway and likely to continue in some form include:</p> <ul style="list-style-type: none"> - Support to Agricultural Markets in Somalia by: (i) strengthening Farmer Organisations and groups to better market Somali agricultural products; (ii) establishing and operationalise a Market Information System (MIS) (€2 m, ends Jun. 2014) - Support to sustainable management of rehabilitated irrigation schemes in lower Shabelle (SSMRISLS I, €2 m, ended Jan. 2014) - Support to agricultural productivity and grain storage in irrigated areas of South Somalia (€4 m, ended Dec. 2013) <p>FAO's agriculture activities are focused mainly in South Central and include mechanising Somalia's agriculture, rehabilitation of irrigation schemes, water</p>	<p>BiD Network is executing a project funded by the International Fund for Agricultural Development (IFAD) to stimulate investment from diaspora and (to a lesser extent) other informal investors in SMEs in the agricultural and food-processing sector in Somalia (Somaliland, Puntland and south-central Somalia). Within this project, a grant matching fund is available to stimulate and incentivize investors starting and established SMEs. The total size of the fund is USD 900,000 and it caters for co-investments of an average of USD 20,000 – 100,000 per SME, for a total number of 15-20 investments.</p>

Sectors	Somaliland	Puntland	South Central	Countrywide
	days with famers and vendors in Awdal region.		catchments, feeder roads, promote seed production systems through enabling access to improved germplasm of commercial oriented crops to private seeds producers and through operationalisation of a private sector owned and managed system of seed multiplication, processing and marketing, farmer training in good agronomic practices among several other activities. Improved agricultural inputs including seeds, fertilizers and farm tools and metal silos are also distributed to Somali farmers.	
Fisheries	<p>WB - Fisheries Value Chains - SOFRECO is supporting fish inspection & quality control, establishing database of boats & fishermen. The project is under SOMPREP II and ends August 2014.</p> <p>FAO providing legislative support on the Fisheries Act in Somaliland and in Puntland and</p>	<p>EC funded project managed by Oxfam-Novib will support artisanal fisheries and coastal management in Somaliland and Puntland. The project will strengthen the capacity of public and private sector institutions involved in fish production and marketing</p>	<p>FAO is providing fishing gear to fishermen and providing 30 fridges in Mogadishu through the Federal Ministry of Fisheries and Marine resources.</p> <p>Somali Bank For Reconstruction and Development (SBRD) is preparing fishing project appraisal is being for its first Loan to two</p>	<p>Somalia has re-established its EEZ and all authorities in Somalia, led by the FGS, have agreed with international trawlers (Spain, France and Taiwan) to fish beyond 40 miles off the coast in return for infrastructure and capacity development.</p> <p>FAO: - Developing new vessel</p>

Sectors	Somaliland	Puntland	South Central	Countrywide
	<p>FAO is developing a registration system for fisherman.</p> <p>EU via Oxfam and Dutch NGO is training fishermen, ministry staff, fish associations (\$7 million between Somaliland and Puntland)</p> <p>USAID/PEG provided grants to</p> <p>GETCO provided with the fishing boats and fish processing machinery including ice maker (\$100,000)</p> <p>Red Sea Fishing and shrimp provided with walk-in freezer, smaller cold storage transport equipment, and cold storage for retail/storage facility in Hargeisa and support for additional boat and nets (\$70,000)</p> <p>WB/SBF supported with large grants (\$50-150k) for the following businesses:</p>	<p>(\$7 m).</p> <p>FAO is planning to provide a package consisting of solar fridges, cold boxes, knives, chopping board and a big umbrella to remote fishing stations.</p> <p>WB/FAO project is supporting fishing communities in Eyl, Hurdiya and Tohin by providing a) seawater flake ice production and storage equipment; b) containerized chilled room ; c) diesel electric generators.</p> <p>With AECF grant, Habo Tuna Factory is adding a canning line for small pelagic fish to the current canning line for tuna, the company hopes to extend Puntland's commercial</p>	<p>existing fishing cooperatives in Mogadishu: Namely, Alla'amin and Dan-kulmis, respectively, in Hamerwein and Abdul-aziz districts.</p> <p>FAO is planning to provide a package consisting of solar fridges, cold boxes, knives, chopping board and a big umbrella to remote fishing stations.</p>	<p>designs (14 meters) appropriate to the needs and activities of the artisanal fishing sector in Somalia, concentrating on use of selective gears, catch quality and reduced fuel consumption.</p> <ul style="list-style-type: none"> - Implement short term infrastructure plans within the four main ports of Somalia. - Working closely with the appropriate Ministries, Administrations and stakeholders to develop long term infrastructure plans for the 4 main ports in Somalia, safeguarding access to these ports for a vibrant and expanding fish industry. - Working with academic institutions in South/Central Somalia, Puntland and Somaliland, to create new maritime Faculties in partnership with International Research Institutions to develop taught and research based academic courses on fisheries and related maritime science.

Sectors	Somaliland	Puntland	South Central	Countrywide
	<p>renovating a processing factory, cold storage, and fish preserving/processing. Also supported with small grants (<\$50k): mud crab, cold storage, fish preserving/processing, and aquaculture.</p>	<p>fishing season from the current four to five months of the year to about nine months. (\$1 m).</p> <p>FAO providing legislative support on the Fisheries Act in Somaliland and in Puntland and FAO is developing a registration system for fisherman.</p> <p>FAO have launched in Puntland the first database for Somali fishermen in decades aimed at improving management of fisheries in the Indian Ocean and the Gulf of Aden. Over 3100 fishermen, nearly 50 percent of Puntland's estimated 6,500 fishermen have been registered using a biometrics system</p>		

Sectors	Somaliland	Puntland	South Central	Countrywide
		<p>that uniquely identifies individuals by their fingerprints background and physical features.</p> <p>In supporting Baargaal Municipality fulfill its responsibilities, TIS-DAI will partner with them to cover the cost of rehabilitating fishing associations, building and procurement of 2.5 tonnes Scotsman ice machine with a cold compressor, Light Duty Lathe machine and a carpenter Scheppach machine (\$120,000).</p> <p>FAO is working on a construction of jetty in Bosaso, fish market, training of IDPs, building boat prototype.</p>		
Livestock	FAO assisting the development of livestock, meat, and other	FAO supports continuous early warning system that		EU/FAO supporting

Sectors	Somaliland	Puntland	South Central	Countrywide
	<p>livestock products, and marketing via SOMDA. SOMDA developed bone-crafted jewelry and soap factory.</p> <p>EU is supporting Sustainable Peri-Urban Milk Value Chain Development in Somaliland via the private sector and initiating a clearly defined PPP for the economic development of the dairy sector.</p> <p>EU is supporting the dairy sector development through Somali Pastoral Dairy Development Project (SPDDP) to improve livestock incomes. (€2 m)</p> <p>Under the SEED programme FAO will focus on livestock sector including the construction of modern slaughterhouse in the region as</p>	<p>includes surveillance and response to priority diseases; animal vaccination against PPR and CCP; and treatment for bacterial infections and parasites.</p>		<p>Somali Livestock Professional Associations.</p> <p>Strengthening capability of IGAD headquarters, to coordinate livestock activities in Somalia, and beyond.</p> <p>Project to encourage community-based value-adding livestock production</p>

Sectors	Somaliland	Puntland	South Central	Countrywide
	<p>well as improve livestock conditions in the region.</p> <p>DFID's SEEDS (ILO) supporting employment creation through development and upgrading of the livestock fodder and honey value chains in Togdheer and Sanaag regions of Somaliland.</p> <p>AECF award a large grant to Tawakal Livestock Company, to boost its trading of camels and goats.</p> <p>USAID/PEG provided grants to:</p> <ul style="list-style-type: none"> - Al Hussein granted initial livestock purchases and upgraded farm livestock holding areas and fodder storage facilities (\$45,000) - International Livestock Raising Company was supported with supplies to install drip irrigation, new 			

Sectors	Somaliland	Puntland	South Central	Countrywide
	<p>fodder seeds varieties and hay conditioner other farm equipment for fodder production and technical assistance from identified Kenyan and Ethiopian experts (\$100,000)</p> <ul style="list-style-type: none"> - Togdheer Women Livestock Traders Association was supported to expand livestock purchases financial and organizational capacity building (\$50,000) - Horumar Camel Dairy Milk Farm grant to purchase freights, farm improvement and increase camel herd to expand production (\$100,000) <p>WVB/SBF supported with large grants (\$50-150k) for the following businesses: animal fattening, titanium tanning & leather production, cow milk production, poultry (chicken and eggs), managing/developing a livestock market. Also supported with small grants (<\$50k): animal fattening,</p>			

Sectors	Somaliland	Puntland	South Central	Countrywide
	<p>poultry (meat & eggs), skins processing, camel milk.</p> <p>FAO supports continuous early warning system that includes surveillance and response to priority diseases; animal vaccination against PPR and CCP; and treatment for bacterial infections and parasites.</p>			
Gums and Resin	<p>WB - Gums and Resin Value Chains - SOFRECO enhancing myrrh and gum exports, filling the gap where local companies lack capacity. The project is under SOMPREP II and ends August, 2014.</p> <p>With AECF grant, Neo Trading is investing in a factory to facilitate local distillation of the low quality portion of the raw resin, thereby increasing the product's profit margin by 50</p>			

Sectors	Somaliland	Puntland	South Central	Countrywide
	<p>times. (\$0.3 m)</p> <p>WB/SBF supported with large grants (\$50-150k) for the following business: upgrading for exports. Also supported with small grants (<\$50k frankincense distillery and upgrading for exports.</p>			
Banking and finance	<p>WB and DfID through SOMPREP II developed Banking Law that was not approved.</p> <p>Silatech and the microfinance arm of Doses of Hope (DOS), Kabaa MFI, and AFIF are seeking to establish a revolving Youth Enterprise Fund to create sustainable and resilient self-employment opportunities directly targeting young entrepreneurs in Somaliland. Total number of youth clients provided with loans through the revolving fund is estimated</p>	<p>Silatech is supporting Help Leads to Hope (HLH), an NGO based in Puntland, with design and launch of a youth focused microfinance institution, Kaamil MFI, which will facilitate access of young entrepreneurs, in Puntland and beyond, to loan capital and micro savings facilities. Total number of youth jobs created and maintained through Kaamil's lending activities is conservatively estimated at 16,000 in the first 2 years of operation. Two</p>	<p>WB is planning provide comprehensive FSD program based central bank (18-month workplan). The Bank will strengthen policy dialogue with the authorities in developing sound regulatory frameworks in these sectors. The transition to a regulated financial sector will require policy and regulatory technical support, including Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT), as well as a public-private dialogue.</p>	<p>Kaah Express, with the support of Silatech, has launched Kaah Islamic Microfinance Service (KIMS), with the objective of providing financial access and stimulating economic development within Somalia. Silatech will open a total of 9 branches across Somalia by year 2018 and disburse 22,824 loans with a loan portfolio of \$4.2 M. A pilot lending operations was launched February 2014 in Hargeisa via two KIMS branches, where 650 clients have applied for loans and 20 have been approved for financing in the first month. This project has been</p>

Sectors	Somaliland	Puntland	South Central	Countrywide
	<p>at 3,000 youths per year and 100 university graduates over three years. Two sharia-compliant loan products (muraba loans \$250 -\$5,000 and Ijara loans \$500 - \$5,000).</p> <p>Dahabshiil with support from Silatech is developing a comprehensive youth microfinance support strategy for micro-Dahab, Dahabshiil's planned microfinance service and / or Dahabshiil Bank, a retail Islamic bank operated by Dahabshiil. This project has also been given a recent boost by Dahabshiil also being selected as the winner of a development grant by the African Enterprise Challenge Fund (AECF). Total number of youth provided with access to services through this partnership is estimated at 15,000 in the first 2 years. Two sharia-compliant loan products (muraba loans \$250 -\$5,000</p>	<p>sharia-compliant loan products (muraba loans \$250 -\$5,000 and Ijara loans \$500 - \$5,000).</p> <p>Sahal mobile money (Golis).</p>	<p>Somali Development Banks delivering microfinance service to any eligible low-income people, especially women, who own small-scale businesses in Banadir region with \$100,000 from the government with loan size of \$200 - \$1000.</p> <p>EVC mobile money (Hormuud).</p>	<p>given a recent boost by Kaah Express being selected as the winner of a development grant by the African Enterprise Challenge Fund (AECF) and also benefit from an \$800,000 grant from FAO Somalia. Total number of youth clients provided with financial services through Kaah Express is conservatively estimated at 20,000 in the first 2 years. Two sharia-compliant loan products (muraba loans \$250 - \$5,000 and Ijara loans \$500 - \$5,000).</p> <p>UNDP is providing start-up grants and microcredit to create sustainable job opportunities, improving the economic situation of beneficiaries.</p>

Sectors	Somaliland	Puntland	South Central	Countrywide
	<p>and Ijara loans \$500 - \$5,000).</p> <p>The American Refugee Committee (ARC) in partnership with FAO, DFID/SEED, existing financial institutions and microfinance providers, supported micro-credit of up to \$1,000. The TVET program objectives include 400 graduates from institutional and entrepreneurial vocational training, capacity building for 30 Business Development Service (BDS) providers, and provision of tools and techniques for enhanced life skills and conflict resolution.</p> <p>USAID/PEG grant provided to Kaaba MFI for technical support in microfinance organization sustainability and products (\$50,000).</p>			

Sectors	Somaliland	Puntland	South Central	Countrywide
	Zaad mobile money (Telesom).			
Commercial law and investment issues	<p>SOMPREP II conducted Doing Business Survey Hargeisa.</p> <p>UNDP is supporting review and update of the legal framework for property, duty free, local investment and taxation laws in Somaliland.</p> <p>UNICEF, ILO, UNDP, CARE International are all involved with PPP policy development.</p>	<p>UNDP – Supporting the review of relevant laws, such as legal frameworks for trade and industry and investment laws in Puntland.</p> <p>UNICEF, ILO, UNDP, CARE International are all involved with PPP policy development.</p>	<p>WB: drafting government’s of commercial laws under new Ministry of Trade and Commerce, including Company Law.</p>	<p>The Multi- Partner Fund for Somalia (MPF), led by the World Bank and funded mainly by DFID, will support business enabling environment laws and policies.</p> <p>LO is providing support to the investment climate in Somalia, focusing on sub- national/national piloting of business licensing reform. ILO is currently coordinating with the International Finance Corporation (IFC) on these issues.</p>
Business services	<p>WB/SBF supported with large grants (\$50-150k) for the following businesses: mobile event organizer e.g. Expos, Fairs. Also supported with small grants (<\$50k): accounting and auditing.</p> <p>Gul Group, a private firm, is</p>	<p>USAID/PEG provided financial and technical support to Puntland Chamber of Commerce for its first Business Directory and Investment Guide.</p>	<p>WB is providing ICT Sector Support to enhance competitiveness and employment by encouraging efficiency and equity in access to connectivity while promoting further investment in the sector. The project will leverage increased connectivity provided by the Eastern Africa Submarine Cable</p>	<p>The Multi- Partner Fund for Somalia (MPF), led by the World Bank and funded mainly by DFID, will support MSME centres providing entrepreneurial skills and access to micro-credit (50% women/youth) in the three main political regions of Somalia.</p>

Sectors	Somaliland	Puntland	South Central	Countrywide
	<p>offering services in business planning, development & strategy, project management, event management, marketing, branding and training, currently based in Somaliland but planning to move to rest of Somalia and with partners across the Horn of Africa. It's biggest project is raising \$5million for subsidiary, Pontus Marine LTD, a fisheries project which has so far raised over 60% of the required investment.</p> <p>Transparency Solutions, a private firm, is providing research, evaluation, project management and training to investors. TS received grant from USAID/PEG to mobilize investment from Somali diaspora (\$100,000).</p> <p>USAID/PEG supported the</p>		<p>System (EASS) undersea fiber optic cable.</p>	<p>DFID/PIMS, will start a private sector led PSD and inclusive markets development (M4P) with emphasis on livestock, crops, fisheries, dairy, construction and poultry sectors. PIMS will support research and provide matching grants within the focus area. The project is expected to start late 2014 (£13 m).</p> <p>The UNDP is supporting long term youth employment with the aim of providing viable employment alternatives to piracy for Somalia's youth in the agriculture, livestock and fishing industries. For example, this funding is supporting the creation of a business development centre for local entrepreneurs.</p> <p>Shuraako is facilitating diaspora loans to MSME's after conducting thorough due diligence. It is relatively new and attempts</p>

Sectors	Somaliland	Puntland	South Central	Countrywide
	<p>Somaliland Business Confidence Survey and Investment Guide.</p> <p>USAID/PEG provided grant to Shaqadoon to launch first major Job Fair, one-on-one interactions for job-seekers, launched a business plan competition, show-cased successful young local entrepreneurs, facilitated debates on entrepreneurship and fair hiring standards, and had a mentoring/counseling table for youth to review CVs (\$38,000).</p>			<p>addresses that space above microcredit and below the full-fledged banks.</p>
Energy	<p>With financial and technical support from USAID/PEG:</p> <ul style="list-style-type: none"> - Drafted Somaliland Electricity law presently in parliament and stakeholders consultation and training workshops - The first wind data monitoring stations, that are especially designed to generate data relevant for wind energy investments, 	<p>W/B – Pilot renewable energy (wind/solar) project for fishing communities in Puntland.</p> <p>2) EU (CARE/ADESO) pilot alternative energy systems (mainly gas) that have the potential and the viability to reduce the current rising urban demand for charcoal as</p>		<p>UNDP – Reduce the production, use and trade of charcoal by providing alternative livelihoods and alternative sources of energy.</p>

Sectors	Somaliland	Puntland	South Central	Countrywide
	<p>have been erected in Somaliland in four major cities.</p> <ul style="list-style-type: none"> - Hargeisa airport 5 wind turbines windfarm - Afjire, a private company in Hargeisa was supported with purchase of 800 propane cooking stoves and tanks (\$50,000) - Tayo Enegy company received a grant for 3 wind turbines and technical assistance for installation, training, and capacity building (\$100,000) <p>WB/SBF supported with large grants (\$50-150k) for the following business: a renewable energy center for training, certification & repair work, wind turbines, solar electricity.</p>	<p>the only source of energy.</p>		
Skills	<p>The American Refugee Committee (ARC) in partnership with FAO, DFID/SEED, permanent job placements, through TVET program, for 400 graduates</p>		<p>EU/UN-Habitat supporting economic activities and sustainable employment increased in the private sector livelihoods through business, technical, and vocational skills training in Mogadishu. (€3.5</p>	<p>UNDP is working to enhance the vocational and business skills of target group beneficiaries, especially the disadvantaged categories. They are also developing the skills of the</p>

Sectors	Somaliland	Puntland	South Central	Countrywide
	<p>from institutional and entrepreneurial vocational training, capacity building for 30 Business Development Service (BDS) providers, and provision of tools and techniques for enhanced life skills and conflict resolution.</p>		<p>m, ends in Sept. 2014).</p>	<p>workforce by providing them with diverse vocational training, and rehabilitating existing vocational training centres.</p>
<p>Infrastructure Development</p>	<p>EU to assist through a pilot approach, a Build Operate and Transfer (BOT) method for the construction of Berbera Corridor due to its regional economic significance to Ethiopia.</p> <p>GIZ International Services is implementing the EU funded “Sustainable Road Maintenance and Management” Project in Somaliland.</p> <p>Somaliland Development Fund (SDF), a joint initiative of</p>	<p>GIZ International Services is implementing the EU funded “Sustainable Road Maintenance and Management” Project in Puntland.</p> <p>EU is supporting public and private sectors to improve urban water service delivery in Puntland by developing suitable framework, infrastructures and pro-poor water approach and policies</p>		<p>UN Joint Program on Local Governance and Decentralised Service Delivery is providing small scale local public infrastructure development (roads, bridges, schools, health centres, stadiums) through its Local Development Fund (LDF).</p> <p>The WB is planning to develop the urban sector in Somalia, focusing particularly on municipal services and infrastructure and urban management, governance, and financing.</p>

Sectors	Somaliland	Puntland	South Central	Countrywide
	<p>DANIDA and DfID, will support the Somaliland government to meet its development priorities as expressed in the Somaliland National Development Plan, including efforts to have an advanced infrastructure network that facilitates economic and social development (£44.5m).</p> <p>EU is Improving Urban Water Service Delivery in Somaliland. The project will facilitate investment in more efficient water systems in selected towns is underpinned by a common, Somaliland-wide approach to service delivery with better public-private arrangements, a more capable public oversight, and a stronger focus on delivery to the most vulnerable (€15 m, ends jun. 2016).</p>			

Sectors	Somaliland	Puntland	South Central	Countrywide
Trade			WB to begin Customs reform in Mogadishu port. Parallel activities are expected in other parts of Somalia.	
Other	<p>USAID/PEG grant to Dheeman Business Enterprises for locally procured sewing machines, clothing material for initial products, technical assistance in tailoring from Ethiopian expert and business management and administration support from Partnership staff (\$30,000).</p> <p>PEG supported a grant to Muliyo Salt Trading Company for salt processing equipment and technical assistance in salt production and processing experts (\$80,000).</p> <p>WB/SBF supported with large grants (\$50-150k) for the following business: designing garments & custom clothing. Several small grants (<\$50k) were provided to businesses in</p>		WB SOE reform per gov't request.	

Sectors	Somaliland	Puntland	South Central	Countrywide
	<p>different sectors:</p> <ul style="list-style-type: none"> - solid waste management; garbage collection and landfill management, reconditioning of batteries and shock absorbers, tire retreads - mining; iodized salt, gemstones, luxury mineral water, water drilling - manufacturing; PVC pipes, custom garments, furniture, wheel barrows, home decoration, uniforms, windows & doors, laundry soap, leather products - education; IT Academy, civil engineering laboratory, primary school - tourism; pastry shop, bakery - services - laundry & dry cleaning, indoor sports center - health; pathology laboratory, medical diagnostics 			

ANNEX IV: ACTIVITY DESCRIPTIONS AND INDICATIVE BUDGETS

Financial Sector⁵⁷

A financial sector program should include three activities and leave the door open to taking on two more if and as circumstances permit. The definite activities include assistance to:

- Launch and develop a leasing industry;
- Establish a credit information system; and
- Encourage supplier credit.

The optional activities include assistance to:

- Establish a foundation for secured lending; and
- Assist selected micro-finance institutions to move “up market”.

These activities will require TA for consensus building, legal and regulatory drafting, and direct assistance to private financial firms and government departments. They will require training and travel to see these activities in action in nearby countries. Cost-shared grants will be important to kick-start new institutions and practices. Given the novelty of the first two activities and concerns in Somalia about sharia-compliance, it will be important to take the time Somalis need to get behind the concepts before implementing them.

A very rough budget based on a four-year project would include:

	\$000
Technical assistance incl. local office staff	2,750
Housing	350
Office expense	300
Travel	500
Promotional events	300
Study tours	500
Training	400
Credit bureau hardware/software	250
Grants	500 – 2,000
Total (rounded off)	5,750 – 7,250

⁵⁷ Cost estimates in this Annex do not reflect post differentials or costs of security

Business Services

A business services program should have two primary goals:

- Help develop a market for market research; and
- Assist to develop business associations to support the horticulture and fisheries industries and women working in business.

There are enough potential providers in Somalia to make a market research initiative feasible. Potential activities include the following:

- Help providers of market research reach out to potential clients and encourage investors and businesses, in turn, to buy market research services;
- Assist market research firms to develop and promote headline products;
- Strengthen providers of market research to build a reputation for quality and value;
- Involve research firms in sector-specific competitiveness events.

The first three activities would be economy-wide while the fourth would be targeted to fisheries and agriculture only.

Business associations have a potentially vital role to play in the horticulture and fisheries industries. An assistance effort should actively encourage these associations to develop but should not push them until or unless the potential membership is ready. Once they are ready, however, support should be rapid and substantial, particularly to develop the associations' role in maintaining safety standards to satisfy export markets.

Finally, it will be important to establish a Women's Business Network, Women's Business Association, or Women's Chamber of Commerce and assist it to establish quality services and outreach to members and the public.

A very rough budget based on a four-year project would include:

	\$000
Technical assistance incl. local office staff	2,400
Housing	350
Office expense	300
Travel	400
Promotional events	300
Study tours	400
Training	350
Grants	500 – 2,000
Total (rounded off)	5,000 – 6,500

Agriculture (horticulture)

This horticulture development program would be launched with a “competitiveness” benchmarking exercise followed by cost-shared grants to support follow-on initiatives by participants prepared to invest in the sector. It should also assist counterparts to address known opportunities and constraints to the horticulture industry, including:

- With the FAO, a system to improve the quality and appropriateness of inputs;
- With the FAO, a sustainable seed certification program and a growing seed production industry;
- Development of a basic capacity to monitor and control horticultural diseases and pests;
- An SPS certification and quality control system such as GlobalGap – sustainable within the resources available in Somalia;
- Seed policy and agricultural input policy more broadly.

Implementers should work with emerging financial sector to develop financial instruments suited to the needs of the horticulture industry. They should also identify potential providers of market research, facilitate the provision of that service to project participants and encourage, in turn, the application of information revealed by those services to investment decisions by project participants.

A horticultural program should help identify and implement small scale infrastructure repairs and improvements that will protect the operations of farmers and farms working on project-supported activities. These are likely to include water control structures such as culverts, catchment basins and irrigation canals, as well as bridges and minor roads. It would be helpful to engage a small number of local universities in a modest program of adaptive trials of horticultural crops that support initiatives launched with project support.

In order to attract youth to participate in project activities and to take jobs created by project-supported investments, implementers should look for ways to incorporate technology in the project in ways likely to attract interest and attention. These might include, for example, SMS-based extension and education, soil testing and drip irrigation, computerized cropping models, and involvement with solar and wind power investments supported by the project.

A very rough budget based on a four-year project would include:

	\$000
Technical assistance incl. local office staff	2,800
Housing	350
Office expense	300
Travel	500
Promotional events	400
Study tours	400

Training	500
Small-scale infrastructure repair, rehabilitation	2,500
Grants	3,000 – 8,000
Total (rounded off)	11,000 – 16,000

Project implementers should also explore the potential for technical training in renewable energy installation, maintenance and repair, refrigeration, and the advanced electrician’s skills required to successfully apply renewable energy in the horticulture industry. Financial support and curriculum guidance from renewable energy industry firms, suppliers of refrigeration supplies, and the providers of electricity services in urban areas would be important. This is not included in the budget above.

Fisheries

The objective of this activity would be to facilitate the development of an “intermediate” fishing industry that falls between artisanal fishing and offshore industrial fishing in technological sophistication and capital investment. Given the complexity of the task and the multiple players involved, the assistance program should use a “competitiveness” approach that brings together the many players in the industry.

Following the benchmarking and competitiveness exercise, the fisheries program should use cost-shared grants to support investments in all stages of the fisheries production chain. Most recipients are likely to be private firms, but some NGOs, fishing associations and counterpart government ministries could qualify.

It would be important to also work with counterparts to address known constraints to the fishing industry, including:

- Development and implementation of Good Hygienic Practices (GHP) and Hazard Analysis Critical Control Point (HACCP) systems;
- Development of a capacity by government and/or universities – sustainable within the limited resources available in Somalia - to monitor and sustainably manage fish stocks;

It would also help to work with participants in the fishing industry and Somalia’s emerging financial sector to develop and apply financial instruments suited to the needs of fishing, including:

- Trade credit to importers of inputs for fishing and exporters of fish;
- Development of a leasing industry
- Supplier credit;
- Credit between fish processing companies and the owners of large and small fishing boats.

Implementers should identify, together with counterparts in the private sector and government, small scale infrastructure construction projects, improvements and repairs to facilitate growth of the fishing industry. These may include fish landing piers, fish holding and transfer equipment, ice-making and cold storage facilities, and minor access roads, among others.

Project implementers should investigate the viability of introducing technical training in skills needed by the fisheries industry that the industry will support through curriculum guidance and financial or in-kind assistance. SMS-based methods should be considered as appropriate.

In order to attract youth to participate in project activities and take jobs that are created by project investments, implementers should look for ways to incorporate technology into project activities in ways likely to attract youth interest and attention. These might include SMS-based

education and skills development, exposure to navigation, fish finding, and refrigeration technologies, and exposure to solar and wind power innovations supported by the project, among others.

A very rough budget based on a four-year project would include:

	\$000
Technical assistance incl. local office staff	3,000
Housing	350
Office expense	300
Travel	500
Promotional events	400
Study tours	500
Training	500
Small-scale infrastructure repair, rehabilitation	2,500
Grants	5,000 – 10,000
Total (rounded off)	14,000 – 18,500

ANNEX V: REFERENCES AND OTHER USEFUL DOCUMENTS

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