WORLD BANK GROUP

COLLECTION OF POLICY NOTES FOR THE NEW SOMALI GOVERNMENT

Unlocking Somalia's Potential to Stabilize, Grow and Prosper

June 2022

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SOMALIA POLICY NOTES FOR THE NEW GOVERNMENT

Unlocking Somalia's Potential to Stabilize, Grow and Prosper

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Macroeconomics, Trade and Investment

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ABBREVIATIONS

AfCFTA	Africa Continental Free Trade Area
AfDB	African Development Bank
AML/CFT	Anti-money laundering / combatting of financing against terrorism
ACH	Automatic clearing house
BRA	Banadir Regional Administration
CO2	Carbon dioxide
CBS	Central Bank of Somalia
CSA	Climate-smart agriculture
COMESA	Common Market for Eastern and Southern Africa
CBR	Correspondent Banking Relationship
DALYs	Daily Adjusted Life Years
DMU	Debt Management Unit
ID	Digital identification
DRM	Disaster risk management
EGMA and EGRA	Early Grade Math and Reading Assessments
EAPP	East Africa Power Pool
ESPs	Energy service providers
ERP	Enterprise Resource Planning System
ESI	Electricity Supply Industry
ESPs	Electricity service providers
EPHS	Essential package of health services
EEZ	Exclusive Economic Zone
EIIT	Extractives Industries Income Tax
FEWS NET	Famine and Early Warning Systems Network
FGS	Federal Government of Somalia
FMS	Federal Member States
FMoH	Federal Ministry of Health
FiT	Feed in Tariffs
FGM/C	Female genital mutilation/circumcision
FHWs	Female Health Workers
FGC	Financial Governance Committee
FMFF	Finance Ministers Fiscal Forum
IGFF-TC	Fiscal Federalism Technical Committee
FSNAU	Food Security and Nutrition Analysis Unit
FCV	Fragility, conflict and violence
GFS	Government Finance Statistics
GER	Gross enrollment rate
GCC	Gulf Cooperation Council
HIPC	Heavily Indebted Poor Countries initiative
HSDGs	High-speed diesel fuel powered generators
HoA	Horn of Africa
HMIS	Human resource management information systems
ECF	Extended Credit Facility
IUU	Illegal, unreported and unregulated fishing
IOTC	Indian Ocean Tuna Commission
ICT	Information and communication technologies
IFT	Instant funds transfer
IMCC	Inter-Ministerial Concessions Committee
IDPs	Internally displaced people
IFRS	International Financial Reporting Standards
IFIs	International financial institutions
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
JET	Jobs and Economic Transformation
KYC/CDD	Know Your Customer / Customer Due Diligence
MPAs	Marine Protected Areas
MW	Megawatts
MOU	Memorandum of Understanding
MFIs	Microfinance institutions
MSMEs	Micro, small and medium enterprises
MENA-FATF	Middle East and North Africa Financial Action Task Force
MoCI	Ministry of Commerce and Industry
MDAs	Ministries, Departments, and Agencies
MoF	Ministry of Finance
MoEWR	Ministry of Energy and Water Resources
MoEM	Ministry of Energy and Minerals
MoLSA	Ministries of Labor and Social Affairs
MPMR	Ministry of Petroleum and Mineral Resources
MNOs	Mobile network operators

ML/FT	Money Laundering and the Financing of Terrorism
MTBs	Money transfer bureaus
MCS	Monitoring Control and Surveillance
M&E	Monitoring and Evaluation
MCS	Monitoring control and surveillance
IORA	Indian Ocean Rim Association
NCA	National Communications Authority
NDC	Nationally determined contribution
NDMP	National Disaster Management Policy
NPS	National Payment System
NRA	National risk assessment
NTFC	National Trade Facilitation Committee
NWRS	National Water Resources Strategy
NDP9	Ninth National Development Plan
NCDs	Non-communicable diseases
OAG	Office of the Auditor General
ODA	Official development assistance
ONA	One Network Area
PSMP	Power Sector Master Plan
PSA	Production-sharing agreements
PFM	Public financial management
PPPs	Public-private partnerships
RTGS	Real-time gross settlement
RE	Renewable energy
RMNCAHN	Reproductive, Maternal, Newborn, Child, and Adolescent Health and Nutrition Services
R&D	Research and development
RMET	Resource mapping and expenditure tracking
SACCOs	Savings and Credit Cooperative Organizations
SRGBV	School-related, gender-based violence
SP / SPSC	Social protection / Social Protection Steering Committee
FSFA	Somalia Federal Fisheries Authority
SFMIS	Somali Financial Management Information System
SHIIP	Somalia-Horn of Africa Infrastructure Integration Project
SoIXP	Somali Internet Exchange Point
SOM-CERT	Somalia national cyber emergency response team
SPA	Somalia Petroleum Authority
SOS	Somali shilling
SWALIM	Somalia Water and Land Information Monitoring
SWIOFC	South West Indian Ocean Fisheries Commission
SDR	Special Drawing Rights
SSA	Sub-Saharan Africa
STRs	Suspicious transaction reports
TPT	Teacher Proficiency Testing
USR	Unified Social Registry
UNICEF	United Nations Children's Fund
VAT	Value-added tax
VSLAs	Village Savings and Lending Associations
WBL	Women, Business and Law
WHO	World Health Organization
WFP	World Food Programme
WTO	World Trade Organization

OVERVIEW

A. INTRODUCTION

1. The arrival of a new government provides an opportunity to reinvigorate the reform agenda to deliver inclusive growth for the Somali people. Since the establishment of the Provisional Constitution in 2012, Somalia has made commendable progress on many fronts. Macroeconomic stability has been maintained, high levels of indebtedness are being addressed through the Heavily Indebted Poor Countries (HIPC) initiative, several sector laws and institutions have been established, and a poverty reduction strategy paper has been developed – the ninth National Development Plan (NDP9). However, much remains to be done and the time has come to mark the next milestone in Somalia's development trajectory through advancing reforms anchored in the HIPC process. The objective of the collection of policy notes is to provide sector-specific policy advice for the leadership of the new government, drawing on the expertise of the World Bank Group. This overview chapter synthesizes the advice across the sector policy notes and is organized in four sections. The first section outlines the current context. The second section presents the framework for organizing the policy notes. The third section summarizes the advice, and the fourth section concludes.

B. CONTEXT – AN URGENT NEED TO CREATE JOBS AND STIMULATE GROWTH

2. Poverty in Somalia is unacceptably high. An estimated 69 percent of the Somali population lives below the poverty line of US$1.90 a day.[1] Almost three-fourths of the population in rural areas, settlements for internally displaced people (IDPs), Mogadishu, and nomads are considered poor. Poverty extends beyond the lack of money. Almost nine out of ten Somali households have insufficient access to electricity, education, or water and sanitation. Nomadic populations suffer the most, while urban dwellers are relatively better off.

3. Accelerating job creation, particularly for women and youth, is an urgent challenge. Just over 50 percent of the Somali working age population are actively participating in the labor market. Women and youth fare worse, with labor force participation rates of 43 percent and 39 percent respectively (Figure 1).[2] Productivity in Somalia is low, as output per worker is less than a quarter of the sub-Saharan African (SSA) average (Figure 2). Therefore, simply having a job is not enough. What matters is having a job that is good enough to escape poverty and provide a meaningful income, which can also help to build cohesion and stability.[3]

4. Somalia's relatively young population could support an acceleration in growth if there are sufficient jobs available and they have the required skills. Just under 30 percent of the Somali population is between 15 and 29 years old. However, two in five young people are not in employment, education, or training, much higher than the SSA average of about 20 percent.[4] An estimated 161,000 workers are expected to seek jobs each year on a net basis through 2025. Developing job opportunities for new labor market entrants and ensuring they have the skills available is critical. Currently, health and education outcomes are low, with substantial gender disparities and regional inequities, which puts Somalia at a disadvantage. Healthier children are more likely to succeed in school, have higher future earnings and be an employed wage earner.[5]

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1 Measured at [2011] prices adjusted for purchasing power parity. Somali High Frequency Survey (SHFS), World Bank, 2017.

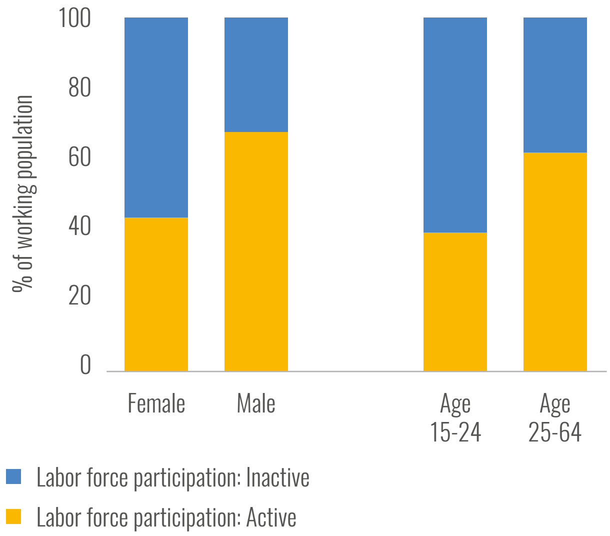
2 Improving Access to Jobs for the Poor and Vulnerable in Somalia. World Bank 2020. Washington, DC.

3 An integrated framework for jobs in fragile and conflict situations. Washington, D.C.: World Bank Group.

4 Improving Access to Jobs for the Poor and Vulnerable in Somalia. World Bank 2020. Washington, DC.

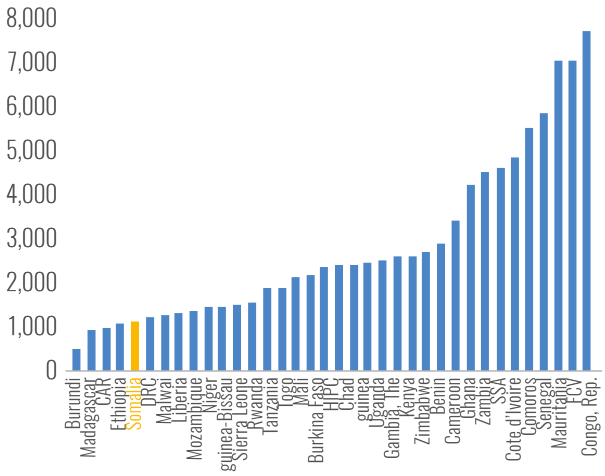
5 In Somalia, having a higher education level is correlated with being an employed wage earner, and is associated with higher productivity in established and micro businesses, Somalia Country Economic Memorandum, World Bank, 2021, Washington DC.

Figure 1: Population Pyramid



Source: World Bank (2017–2018).

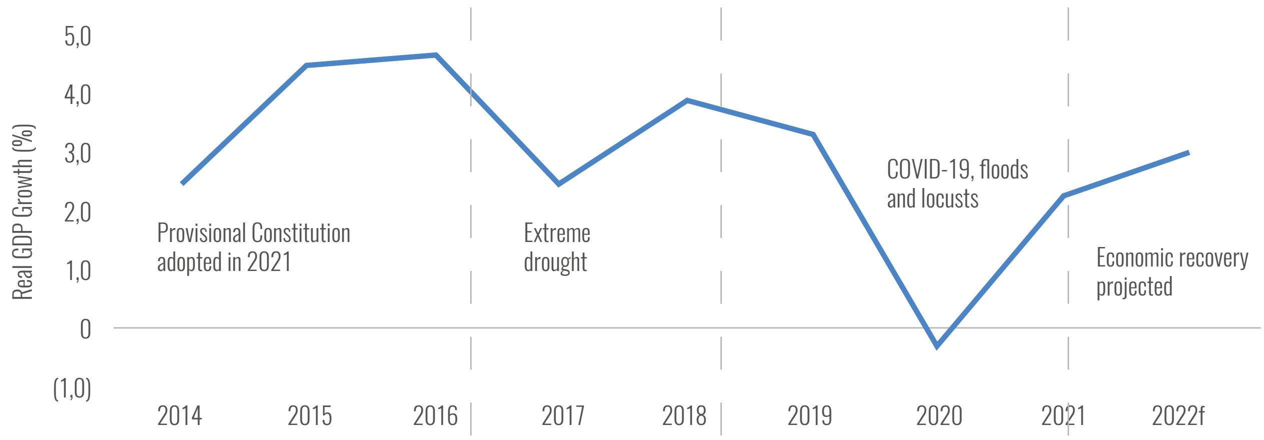
Figure 2: Real GDP per Worker (average for 2012 - 19)



Source: World Bank Development Indicators and World Bank staff estimates.

5. Supporting the growth of the economy is fundamental for creating jobs. Between 2014 and 2021 real per capita growth rates averaged zero percent. Growth has repeatedly been interrupted by climate-related shocks such as floods, droughts, and more recently a locust's infestation, in addition to the COVID-19 pandemic and regular insecurity incidents (Figure 3). Private consumption, which is partly supported by remittances, is the main contributor to economic growth. Jobs are dominated by low-value services in sectors such as retail and commerce. Somalia currently imports basic commodities and runs a trade deficit estimated at around 65 percent of GDP, which may increase if commodity prices such as wheat and fuel continue to rise in the context of the Ukraine-Russia conflict.

Figure 3: Economic Growth Rates – Subject to Frequent Shocks



Source: Federal Government of Somalia, International Monetary Fund (IMF) and World Bank staff analysis.

6. Increasingly challenging global and regional conditions further emphasize the importance of Somalia enhancing economic resilience. The global growth momentum has slowed amid the continuing COVID-19 pandemic, the Russian invasion of Ukraine and climate-related disasters. The global economic outlook is tilted to the downside due to geopolitical tensions, rising prices, growing financial instability, continuing supply strains and worsening food insecurity. These risks underscore the importance of Somalia enhancing economic resilience to bolster food security, particularly in an environment where there are competing demands for official development assistance (ODA), which can limit international support available to Somalia in times of crisis. Strengthening cooperation with regional counterparts, both in the Horn of Africa and the Gulf Cooperation Council countries can help to stabilize security conditions and deepen trading relationships.

7. Climate change may increase the frequency of shocks and introduce a multitude of more gradual changes, affecting growth and livelihoods. Somalia is currently amid a severe drought with famine conditions prevalent in certain regions.[6] Looking ahead, rainfall variation in Somalia is projected to increase, which is expected to lead to more frequent incidences of drought and flooding. As capacity for water resource management is at a nascent stage and institutions for disaster management response need to be developed, these extreme weather events are associated with damaging exports of livestock, diminishing the livelihoods of pastoralists, internal displacement and the deterioration of agricultural value chains, as well as increase flood risk in rapidly expanding cities.[7] Adapting to and mitigating the effects of climate change requires action at multiple levels, from supporting households to cope with shocks and mainstreaming climate-risk analysis in routine investment decisions and sectoral planning, to encouraging long-term growth of less climate-dependent sectors.

8. Advancing the agenda on federalism can help to improve the stability of the state. The Provisional Constitution set the foundation for a federal structure, to address the historical causes of conflict and instability. However, decisions on the federal model were deferred to the Constitutional Review Process, and further pushed to the 11th Parliament. To deliver public goods such as security, health and education services, decisions need to be made on how functions will be allocated at different levels of government (federal, state, and municipal or district), and how resources can support implementation. Strengthening public systems to deliver services can also help to increase citizen's trust in the government. Advancing discussions on federalism can help to improve the stability of the state, which can enhance the overall environment for doing business.

9. With admirable natural wealth assets, a strategic location, a young population and a dynamic private sector, there is tremendous potential for Somalia to stabilize, grow and create jobs. Somalia's natural wealth assets include land, rivers, forests, mineral assets, and marine resources.[8] There is the potential to develop new sectors such as fisheries to diversify exports and sources of nutrition, as well as upgrade climate smart agricultural practices. Connections to numerous submarine cables offers the possibility to expand digital connectivity within Somalia and beyond. In Somalia's rapidly urbanizing context, trade can be enhanced between rural and urban areas, as well as with regional and international trading partners. However, enabling infrastructure needs to be in place, combined with a sound regulatory environment, which is increasingly climate-informed and climate-smart. Improving human capital can help to equip Somalis with the skills needed to improve productivity and respond to the opportunities of an evolving private sector. Implementing policy reforms and investments to improve the stability of the state, as well as strengthening human and physical capital could support growth, job creation and poverty alleviation.

6 Somalia: Drought Response and Famine Prevention Situation Report No. 7, United Nations Office for the Coordination of Humanitarian Affairs, May 2022.

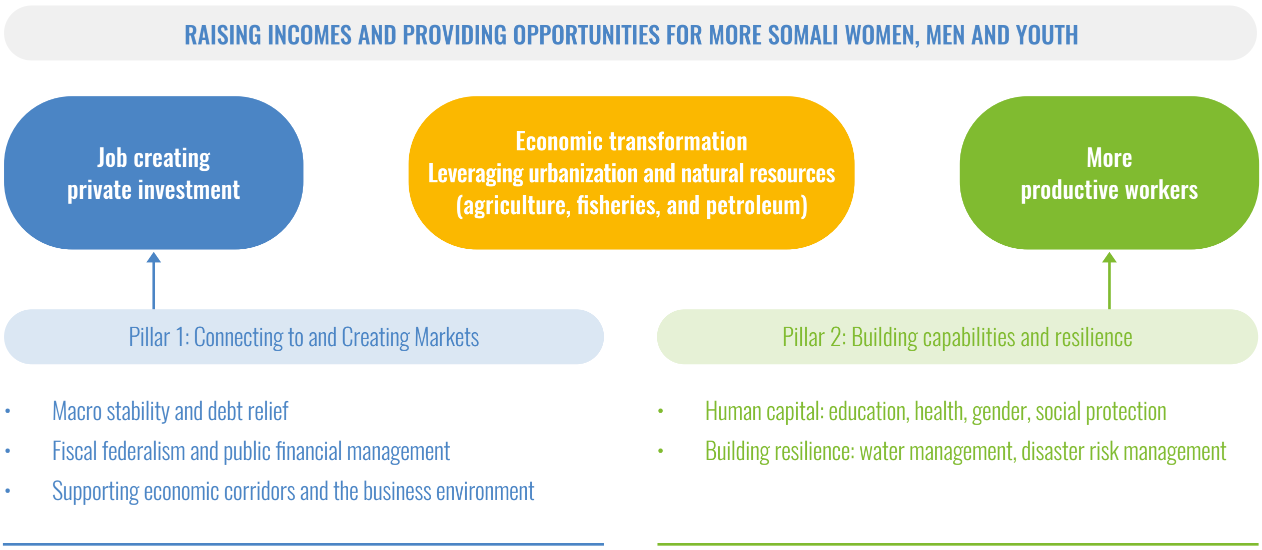
7 Ogallo, L., Omondi, P. O., Ouma, G., and Wayumba, G. (2018). Climate Change Projections and the Associated Potential Impacts for Somalia. January 2018, American Journal of Climate Change 07(02):153-170

8 Somalia Systematic Country Diagnostic, World Bank, 2018, Washington DC.

C. FRAMEWORK FOR ORGANIZING THE POLICY NOTES

10. The policy notes are organized in line with the Jobs and Economic Transformation (JET) framework. The first pillar of the JET framework considers how job-creating private investments can be fostered and includes issues such as macroeconomic stability, fiscal federalism, trade, infrastructure, finance and digital technologies, and the business environment. The second pillar of the JET framework focuses on how workers can improve their productivity through strengthening human capital (health and education), gender and inclusion, as well as building resilience. Given Somalia's potential to develop new sectors to support growth and job creation, a section has been devoted to future growth drivers, which considers urbanization and leveraging natural resources such as agriculture, fisheries, and petroleum.

Figure 4: Framework for Organizing the Collection of Policy Notes



Source: WB staff compilation.

D. PILLAR 1: JOB CREATING PRIVATE INVESTMENTS

Supporting growth through maintaining macroeconomic stability and advancing the debt relief process

11. Growth will need to be supported by maintaining broad based macroeconomic stability, which requires advancing economic reforms anchored in the HIPC process. Despite Somalia's susceptibility to shocks, policy instruments are not available to address crises. The central bank lacks monetary policy instruments, and high levels of dollarization support price stability. The government lacks the fiscal space to use spending to develop economic buffers during shocks. Therefore, in times of crises, there is a reliance on external support. The HIPC process provides a framework for engaging in economic reforms, to strengthen macroeconomic stability, and enhance fiscal and debt management. Somalia reached the HIPC Decision Point milestone in March 2020 and is currently in the HIPC interim period. Upon reaching the HIPC Completion Point milestone, Somalia will qualify for full and irrevocable debt relief, which offers an opportunity to access new resources and provides a signal to the private sector on the country's readiness to do business. To reach the HIPC Completion Point, Somalia must continue to implement the NDP9, stay on track with the IMF's Extended Credit Facility (ECF) program and complete all the remaining HIPC floating completion point triggers.[9]

12. To enhance fiscal space for development priorities, the government needs to raise more revenue and strengthen expenditure controls. The Somali authorities should maintain the commitment to avoid running a budget deficit and to make timely payments supported by the fiscal buffer. The Federal Government of Somalia (FGS) and Federal Member States (FMS) should continue efforts to improve tax policy focusing on the harmonization of fiscal regimes for customs and inland revenues which can also advance the federal agenda. Strengthening controls over the wage bill should be a priority, particularly regarding ad hoc personnel costs and allowances. Since wage bill expenditures account for more than half of public expenditures, improving controls is critical for enhancing fiscal sustainability. Upon reaching the HIPC Completion Point, there may be opportunities to borrow to finance new investments in human capital and physical infrastructure. The FGS can take steps now to develop an adequate legal framework to support borrowing and strengthen capacity to manage fiscal risks, particularly if the federal and state governments enter public-private partnerships and new concessions arrangements.

Moving the federalism agenda forward through smaller agreements that support long-term state-building objectives

FISCAL FEDERALISM

13. Advancing interim federal agreements can support a conducive environment for reaching agreements on power and resource sharing. Somalia's emerging federal system is characterized by inequities in access to resources. States that have a major port (such as Mogadishu, Bosaso or Kismayo) can collect a higher share of revenues, mainly from trade-related taxes. While tariff duty rates have been harmonized and applied, the next stage is to issue common reference value tables. So that citizens in states without a major port are not at a disadvantage, the FGS and FMS need to agree on how resources can be shared following a rules-based approach that considers equity, capacity to spend, and accountability of resources. Initial proposals on how to share revenues from trade-related taxes at a technical level have been discussed. In the fisheries sector, an interim agreement has been reached between the FGS and FMS on how revenues from licenses can be shared, although this has not been fully implemented. Developing and implementing interim agreements can support trust-building between the regions.

14. Going further, the FGS and FMS need to decide how resources will be allocated according to the functions undertaken by different levels of government, utilizing the institutions that have been established to support federalism. As the federal model evolves, functional assignments could consider the role of the FGS, the FMS, and potentially districts and municipalities. The focus should be on establishing functional assignments for big-ticket expenditure items such as security and gradually moving towards service delivery sectors. The Inter-Governmental Fiscal Federalism Technical Committee (IGFF-TC) can be leveraged to support discussions on federalism and inform decisions taken by the Finance Ministers Fiscal Forum.[10] Strengthening dialogue and trust between the regions can pave the way towards reaching agreements on contentious issues that need to be resolved to finalize the constitution.[11]

PUBLIC FINANCIAL MANAGEMENT

15. The FGS and FMS need to improve the coherence of legal frameworks for public financial management, as well as improve the systems for planning, spending, and accounting. Progress has

[9] Remaining HIPC Completion Point triggers include the enactment of the Extractive Industry Income Tax (EIIT) Law, the Data Privacy Law, and the Electricity Act.

[10] The Finance Ministers Fiscal Forum (FMFF) is a platform financed by the Recurrent Cost and Reform Financing (RCRF) program, which brings finance ministers together to discuss and agree inter-governmental priorities.

[11] Examples of contentious issues that need to be resolved include the basis for agreeing citizenship, if a parliamentary or a presidential system should be adopted, the role of the judiciary, the security architecture (including the financing, size, and composition of the Somali National Army and regional police) and the status of the Banadir and Mogadishu Regional Governments.

been made to develop a foundation for PFM. Both the FGS and the FMS have passed modernized PFM Acts. However, legislation needs to be coherent across the regions, particularly concerning intergovernmental fiscal relations, which can be addressed through the regulations to the PFM Acts for the FGS and the FMS. Budget preparation and execution processes at the FGS and FMS need to be strengthened with the aim of enhancing fiscal sustainability. Improving revenue forecasting, commitment and payroll controls for example could help to ensure that expenditures are kept in line with available resources. Enhancing transparency and accountability of public finances for both the FGS and FMS could help to build trust in state institutions. While there have been initial steps to harmonize the chart of accounts across the FGS and the FMS, further efforts are required to establish the amounts and sources of financing for fiscal transfers from the FGS to the FMS. Strengthening governance of high-value contracts is critical and requires gradual institution-building with the support of the Financial Governance Committee.[12] Enacting the Federal Audit Bill would support the independence of the Office of the Auditor General (OAG). Other priorities include strengthening internal audit functions and publishing a citizen's guide to the budget.

Developing economic corridors through improved connectivity and better conditions for private sector growth

TRADE AND INTEGRATION

16. Somalia's location offers substantial advantages, with ports that are close to major international routes, which can support the diversification of export partners beyond the Gulf Cooperation Council (GCC) countries. Regional trade agreements such as the East Africa Community, the Common Market for Eastern and Southern Africa, and the African Continental Free Trade Area offer Somali producers important export opportunities. Advancing a national trade strategy that supports Somalia's trade-related institutions, harmonization of customs and border management processes and the strengthening of producers' capacity to meet importers' sanitary and phytosanitary measures can help develop regional integration. Over time, as Somalia strengthens its processes for implementing a single tariff schedule and building trade institutions, there could be possibilities to further ambitions to join the World Trade Organization.

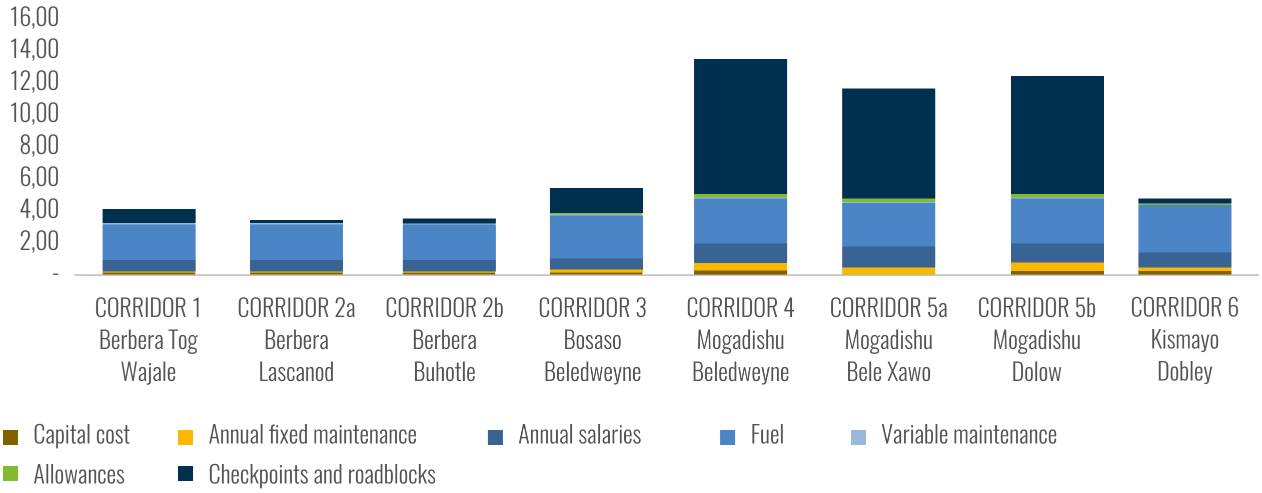
17. Somalia's domestic market is characterized by fragmentation which hampers trade and competitiveness. Somalia's domestic market is economically fragmented, with high price differentials across the regions. Fragmentation of the domestic market raises costs for producers and dampens competitiveness. Addressing the drivers of fragmentation requires tackling illegal checkpoints through improved governance, as well as high transportation costs particularly in the south and central regions (Figure 5). Limited competition in the trucking industry, particularly in the South-West and Central regions, contributes to higher transportation costs which is a barrier to competitiveness. Encouraging competition in the trucking sector could help to ensure that investments in public infrastructure can support a reduction in transportation costs.[13] Strengthening infrastructure in strategic corridors through improved access to a reliable road network and power could support trade within Somalia, the region and beyond.[14]

12 The Financial Governance Committee (FGC) is a high-level advisory committee comprising senior members of the FGS and international representatives. The FGC is a forum for dialogue and confidential advice on strategic and sensitive financial governance issues, covering fiscal issues, contracts and concessions, natural resource management, and central bank governance.

13 Somalia Country Economic Memorandum, World Bank, 2021, Washington DC.

14 Four priority corridors have been identified in the HoA, of which three include connections in Somalia, such as the Kismayo, Lamu and Mogadishu corridor; the Berbera and Djibouti corridor; and the Mogadishu, Berbera and Bossasso corridor. Horn of Africa Regional Economic Memorandum.

Figure 5: Cost Structure for Long-Distance Transport by Expense Category (US cents per Tkm)



Source: World Bank, 2021.

18. Somalia can also work towards upgrading and diversifying its export base. Improving value chains, for example in sectors such as agriculture and fisheries, can help to diversify the types of products that Somalia can trade. Upgrading value chains will require a stable security situation, supporting investments (for example in cold chains and infrastructure), and improved technical skills—including in areas of food safety and animal health. Measures to support the business environment could include public-private dialogue and sharing information with investors, for example by rolling out the trade information portal to support access to trade procedures, documents, and fees requirements.

POWER

19. There is substantial potential for Somalia to increase renewable energy supply which is affordable and efficient. Today's power sector is characterized by oligopolistic mini grids mainly powered by diesel generators, with high technical and commercial losses (approximately 35 percent in total losses on average) and significant transmission losses (between 25 to 40 percent). Consequently, electricity costs around US$0.6–1.0 per kilowatt [kW] compared with an average of US$0.22 in the HoA. Harnessing Somalia's untapped renewable energy potential could reduce generation costs by up to 25 percent. Somalia's average solar radiation (6.4 kilo-watt hours per square meter per day [kWh/m2/day]) is the highest of all HoA countries and one of the highest globally. Offshore wind potential at over eight meters per second (m/s) is among the highest on the African continent.[15]

20. Having an adequate regulatory framework in place can help to reduce fragmentation and support the growth of the power sector. Somalia has already drafted an Electricity Law, which will support renewable energy generation. The priority is to enact the Electricity Law, which is also a HIPC Completion Point trigger. Amending the existing licenses of energy service providers (ESPs) to improve their operational, commercial, and environmental performance standards could help to operate existing units more efficiently. Joining the Eastern Africa Power Pool within the next 100 days could allow for trade with cheaper energy providers in the medium term. Adopting a least-cost national electrification plan and establishing a national electricity regulator could support the implementation of the new institutional framework, which would require public-private dialogue between ESPs, the regulator and government authorities.

ROADS

21. Pipeline work to develop road infrastructure offers the potential to deepen strategic corridors

[15] AfDB, ("Development of Wind Energy in Africa." (AfDB, 2013).

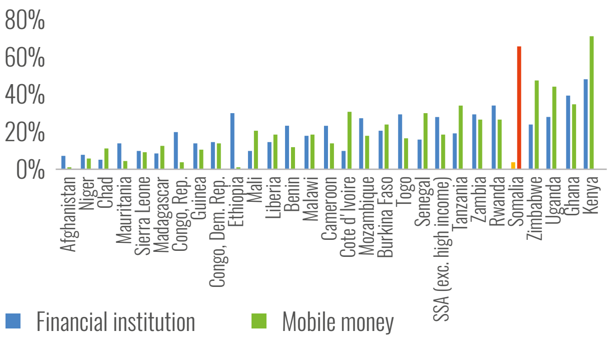
and help traders and producers reach a wider range of markets. It is estimated that only 2,860 kilometers (km) of the 21,830 km of roads in the country are paved (13 percent)—and most are in poor condition. Only 31 percent of the rural population has access to an all-season road. The development of strategic corridors could help to leverage Somalia's proximity to major maritime routes. In the short term, preparatory work is needed to develop a prioritized list of projects which are ready for implementation. Institutions to oversee and develop the roads sector, such as the Somali National Highway Authority, need to be established, and a policy platform to coordinate infrastructure investments can help to maximize synergies among pipeline investments. Any new investments in Somalia will need to be climate resilient considering the country's susceptibility to shocks.

ACCESS TO FINANCE

22. Tangible measures can be taken to deepen financial inclusion and enhance the stability of the financial sector. Money transfer bureaus (MTBs) are the dominant financial institution, but there is a risk of instability as supervision is at a nascent stage. Stepping up supervision of MTBs by the Central Bank of Somalia (CBS) as well as enacting the Financial Institutions Law and National Payment Systems Law can support the stability of the financial sector and bring all payment systems under one regulation. While three quarters of the population are estimated to have access to mobile money, Somali entrepreneurs – including those owned and managed by women – experience substantial challenges in accessing finance (Figure 6).[16] Increasing the capacity of financial institutions to mitigate risk perceptions and developing credit and collateral registries could help to increase access to financial products. Restoring confidence in the national currency and its acceptance by financial institutions can support the expansion of mobile money to underserved populations.[17]

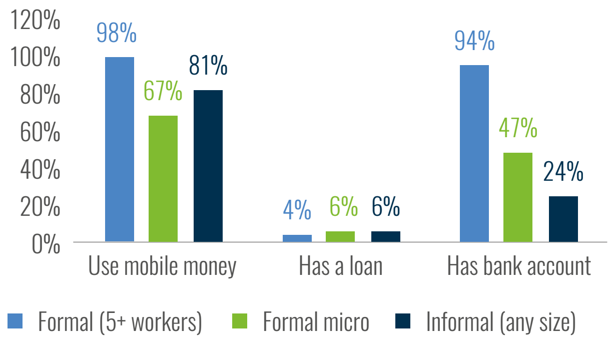
23. For Somalia to integrate with the global financial system, financial integrity will need to be improved. Somalia's isolation from the global financial system puts the private sector at a disadvantage. Finance for investment purposes is very limited, particularly outside of short-term trade finance (Figure 7). Enacting the Digital Identification Bill would provide the first step towards implementing a digital identification (ID) which could help to address know-your-customer and due diligence concerns thereby supporting the establishment of correspondent banking relationships. Somalia's progress in strengthening the anti-money laundering / combatting of financing against terrorism (AML/CFT) agenda will be assessed in 2024. Preparing a national risk assessment will help Somalia get ready for a mutual evaluation, which is led by the Middle East and North Africa Financial Action Task Force (MENA-FATF).[18]

Figure 6: Account Penetration among Women Aged 15+ in 2017 (2019 for Somalia)



Source: Federal Government of Somalia (2020) and Demirguc-Kunt and others (2018).
Note: SSA= Sub-Saharan Africa.

Figure 7: Use of Financial Services Including Mobile Money by Firm Type



Source: World Bank (2019a).

16 World Bank, "Mobile Money Ecosystem and Household Survey (2nd wave)." Financed by the ICT Sector Support Project - Phase 2). However, most SIM cards remain unregistered in the absence of a reliable foundational ID system, thus creating financial integrity issues. (World Bank, 2018).

17 Mobile money is currently only transacted in dollars. Restoring confidence in the national currency can support the availability of mobile money in the Somali shilling which is widely used among the poor.

18 The MENA-FATF mutual evaluation is planned in 2024 and aims to prevent criminal abuse of the financial system.

DIGITAL DEVELOPMENT AND REGIONAL CONNECTIVITY

24. While Somalia's vibrant digital sector can be credited for supporting the expansion of affordable mobile money, the road ahead involves further expanding digital inclusion. Less than five percent of the population are estimated to have access to broadband and coverage of 3G and 4G is mostly limited to urban areas. The telecommunications market is fragmented, characterized by dominant regional players and a lack of competition. Making progress requires licensing all telecommunications operators and finalizing interconnection agreements between operators to allow for traffic to be exchanged at low or zero cost. Somalia is connected to many submarine and cross-border terrestrial cables, which can improve connectivity for domestic consumers and enhance regional connectivity, including for landlocked neighbors such as Ethiopia.[19] The Somali authorities should develop regulatory fundamentals such as enacting a Data Privacy Law to promote trust in digital transactions and develop spectrum regulation. Over the medium-term, the capacity of the National Communications Agency should be strengthened, and national and regional frameworks for telecommunications should be harmonized.

BUSINESS ENVIRONMENT

25. Developing Somalia's vibrant business community could have far-reaching benefits for growth and job creation. Somalia has a proud tradition of entrepreneurship, which forms an important source of employment, especially for women. Entrepreneurship accounts for more than half of all steady jobs and household entrepreneurs provide a quarter of all jobs. However, entrepreneurs and the broader business community experience several challenges which vary by the size of firm. The most common self-reported challenges include access to land and finance, which particularly affect female and youth entrepreneurs. Enacting legislation such as the Investor and Investment Protection law as well as the Investment Promotion Agency could help to support the growth of the formal private sector. Developing a fit-for-purpose public-private-partnership regulatory framework could help to leverage private investments and support risk sharing between the public and private sectors.

26. Several actions can be taken to support the environment for doing business. Enhancing public-private dialogue in the FGS and the FMS can help to support the implementation of the milestone Company Act of 2019, alongside efforts to strengthen online business registration. Enacting the Business Licensing Law could also help to harmonize processes for licensing and clarify mandates between the FGS and the FMS. Supporting access to business data can enhance business-to-business cooperation. Developing a unified national business registration regime could establish a single unique business number nationwide across FGS and FMS. Availing business registry data with financial institutions could support know-your-customer requirements and the AML/CFT agenda. Improving the ease of doing business in Somalia can support increased competition, particularly in sectors such as telecommunications, energy, and transportation.

E. PILLAR 2 – CONNECTING WORKERS TO JOBS AND SUPPORTING RESILIENCE

Investing in human capital to promote productivity and an inclusive growth process

EDUCATION

27. Restoring access to education, improving learning outcomes, and providing a second chance to the population left out of the formal education system are critical for raising productivity. The primary gross enrollment rate (GER) is estimated to be 20 percent, with approximately 3 million primary-aged children (5–14 years) out of school.[20] Somalia's GER is significantly below the averages of SSA countries, low-

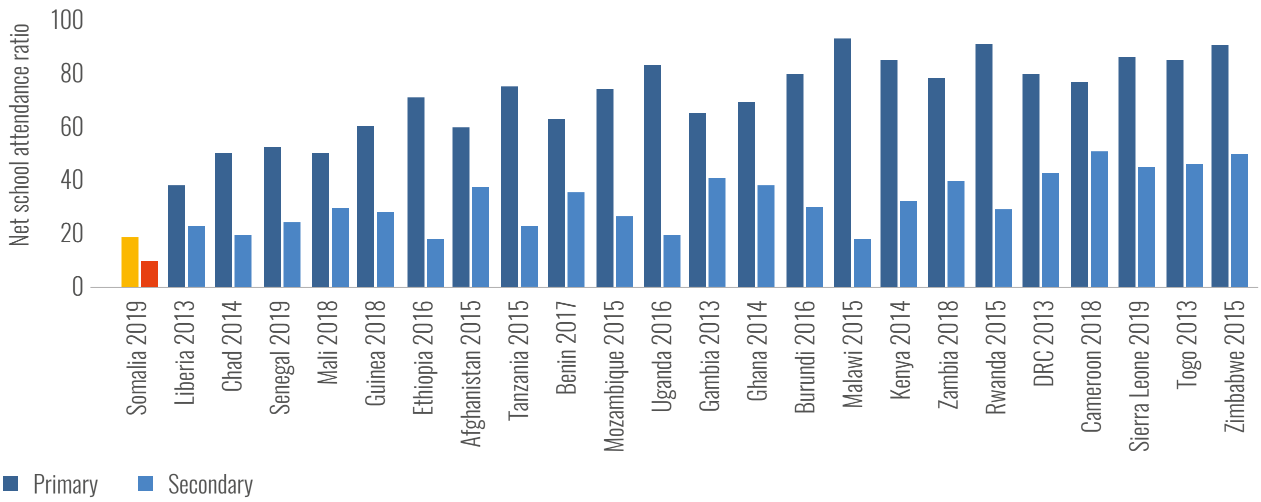
[19] These include: (i) the EASSy submarine cable landing in Mogadishu; (ii) the Gulf to Africa (G2A) submarine cable landing in Bosaso (Puntland); (iii) the Djibouti-Africa Regional Express (DARE) cable that lands in both Mogadishu and Bosaso (and thus helps to connect the EASSy and G2A cables); (iv) the terrestrial Somcable fiberoptic link between Somaliland and Djibouti; and (v) Hormuud's terrestrial microwave links to Kenya's network at Liboi and Mandera. More international submarine cables are on the way, including the Pakistan and East Africa Connecting Europe (PEACE) cable that will be landing in Mogadishu, Bosaso, Kismayo and Hobyo starting in 2022; the 2Africa cable due to land in Mogadishu in 2023; and the Africa-1 cable.

[20] Based on United Nations Population Fund population data and Education Management Information System (EMIS) data (for 2019) from the Ministry of Education, Culture and Higher Education (MoECHE).

income countries, and fragile-and conflict-affected countries by 99, 102, and 94 percent, respectively. At the secondary level, the number of out-of-school children is even greater. Administrative data suggests that about 92 percent of children and adolescents within the official age range are not enrolled in secondary school. More than three-quarters of schools in Somalia were destroyed during the years of conflict. As a result, one-third of the 93 districts in the country have GERs of less than 10 percent, indicating acutely low access to education.[21] Developing education systems that provide the same learning experiences for all citizens is critical and can also present a basis for promoting unity and a national Somali identity.

Figure 8: Access to Education Compared with Peer Countries

Net school attendance ratio



Source: Federal Government of Somalia (2020) and DHS STATcompiler.

28. There are opportunities for making quick progress to enhance access to education and learning outcomes. Forging partnerships with Somalia's active non-state education providers and communities could help to rapidly increase access to education in the short term. Investments in second chance education and skill training could provide access to formal education for Somalis who have previously been excluded, including women, to enhance productivity. Technology can be leveraged to provide learning support to teachers and students across Somalia. To assess the effectiveness of the education system in terms of learning outcomes, the FGS should develop a student learning assessment system. The system should routinely measure what students know and are able to do. The federal government should take a strong stewardship role to set policy direction, monitor sector progress, and align financial support to the sector. Recent progress in intergovernmental coordination provides a strong foundation for addressing the challenges in the education sector.

HEALTH

29. Despite modest improvements over the past 15 years, Somalia's health indicators lag both regional and global averages. Life expectancy is 56 years, maternal mortality is a staggering 692 per 100,000 live births, and fertility remains one of the highest in the world (with about 7.0 births per woman). In addition, stunting among children under the age of five has been rising and is currently estimated at 28 percent. The burden of non-communicable diseases is rising and represents nearly 22 percent of Daily Adjusted Life Years lost. These diseases affect mostly those over the age of 50, who are

[21] Based on United Nations Population Fund population data and the EMIS data (2019) from the MoECHE.

also among the highest at risk for COVID-19. Women face multiple challenges, including gender-based violence, which is estimated at 12 percent, as well as difficulties accessing services as men are responsible for health decisions.[22] Coverage of basic maternal and child health services is low remains extremely low due to both supply and demand side constraints, with only 21 percent of births occurring in health facilities. There are similar gaps in the treatment of childhood illnesses.[23] Only 31 percent of women receive antenatal care and just 11 percent of children are fully immunized.

30. Targeted investments in health service delivery, financing, and stewardship are needed to improve health outcomes. Investing in high-impact, cost-effective services through the prioritized package of essential health and nutrition services, can help to address the leading causes of mortality and disability (communicable diseases, malnutrition, and reproductive, maternal, neonatal and child health disorders) which would improve health outcomes. Given limited government capacity, health services can be delivered through government-led contracting of health service providers, leveraging the extensive private sector. To support delivery, it is important to strengthen the stewardship capacity of federal and state Ministries of Health. Functional assignments should be clarified between the federal and regional ministries of health to enhance efficiency in implementation and financing. While priority is being given to implementing COVID-19 response measures, other essential medical services should be maintained. Over time, it will be critical to address long term human resource gaps, improve health infrastructure capacity (through a combination of public and private sector investments), and strengthen the regulatory environment for the health sector.

GENDER

31. There are stark gender disparities in socioeconomic outcomes with women having lower educational attainment and literacy rates than men. Gender inequalities in enrollment are pronounced, with 72 percent of rural women and 59 percent of urban women having never attended formal schooling. Barriers to education are linked to poverty, distance to schools, and entrenched social norms, including social pressures for early marriage, expectations that girls support households and caregiving, and the greater 'social value' attached to boys' education. The dominance of male teachers may discourage the enrollment and/or retention of girls. Almost 92 percent of primary level teachers are male. Reproductive health outcomes are poor, with an estimated maternal mortality rate of 692 deaths per 100,000 live births.[24] Early marriage and adolescent fertility are significant factors in high maternal mortality rates. More than a third of women aged 20-24 report marriage before the age of 18, leading to early first pregnancies and high fertility rates. The combination of high fertility and extremely poor reproductive health outcomes limit women's ability to contribute to economic growth and prevents Somalia from capturing a demographic dividend.

32. Women and other minority groups also face multiple barriers in engaging decision-making processes. The quota for female parliamentary seats has not been fulfilled, due to challenges ranging from the high costs of registration fees to prohibitive social norms and values including gender-based violence. By strengthening the social contract there can be opportunities to enhance inclusive decision-making processes. The current model of social service provision by non-state actors offers limited opportunities for citizens to engage directly with public officials to influence the quality of services. Going forward, enhancing the state's regulatory and supervisory capacity of non-state actors, strengthening media markets, and passing legislation to support the protection of women can help to strengthen Somalia's social contract and more inclusive political processes.

SOCIAL PROTECTION

33. Somalia's social protection system, the Baxnaano program and the unified social registry, could expand coverage over time and support human capital objectives. The Baxnaano program covers less than 10 percent of the population, which

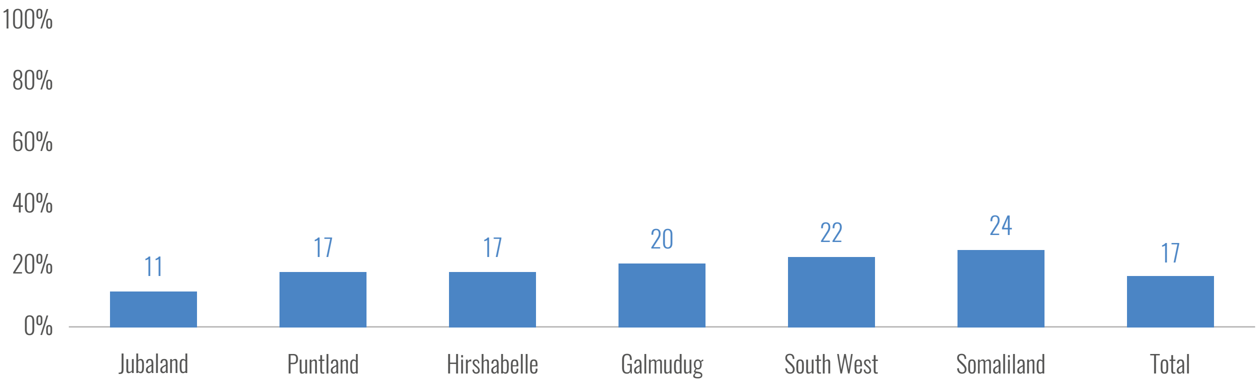
22 Federal Government of Somalia and UNFPA. "The Somalia Health and Demographic Survey 2020." (2020).

23 Skilled personnel: nurse, midwife, auxiliary midwife, clinical officer, or doctor. (SHDS, 2020).

24 Federal Government of Somalia and UNFPA. "The Somalia Health and Demographic Survey 2020." (2020).

is low compared to needs (Figure 9). Over time, the coverage of the Baxnaano program could be scaled up if there is sufficient funding to cover at least 30–40 percent of the population and a youth targeted social safety net. The unified social registry could also be coordinated with disaster risk management systems to ensure a rapid response to any potential crisis. Over time, the focus of the social protection system could shift from humanitarian relief to a government-led social safety net system with human capital objectives, with cash transfers supporting the uptake of health and education services. Transferring the Baxnaano system to the government will require the FGS developing appropriate safeguards such as a Data Protection and Data Privacy Law and launching a Digital ID system to enable secure and effective verification of beneficiaries of social protection programs. Further developing the Baxnaano program will require enhancing the institutional capacity of the federal and regional Ministries of Labor and Social Affairs.

Figure 9: Percentage of households living in Baxnaano targeted areas receiving transfers, by state



Source: Targeting Evaluation of Somalia Shock-Responsive Safety Net Program, Development Pathway & Samuel Hall, 2021.

Building resilience through improving water security and disaster risk management

WATER

34. Water insecurity in Somalia is exacerbated by climate change, but progress can be made through strengthening institutions and undertaking investments. Frequent episodes of floods and drought reduce the ability of watersheds to naturally store, treat and slowly release water for productive and human consumption. To make progress in strengthening water management, over the short-term the Ministry of Energy and Water Resources and the National Disaster Risk Management should work together to strengthen flood and drought risk management measures. In urban areas, the federal government and municipalities should establish an urban service delivery model to support the rapid urbanization process and rural-urban linkages. Investments should improve water and land management practices, including through soil conservation and flood management, which can support agricultural development. The use of new technologies such as manual well drilling, as well as the introduction of farmer-led irrigation can also help to secure rural livelihoods. Both the urban and rural economies need to be underpinned by affordable, inclusive, and reliable water services, which is critical for improving human capital development.

DISASTER RISK MANAGEMENT

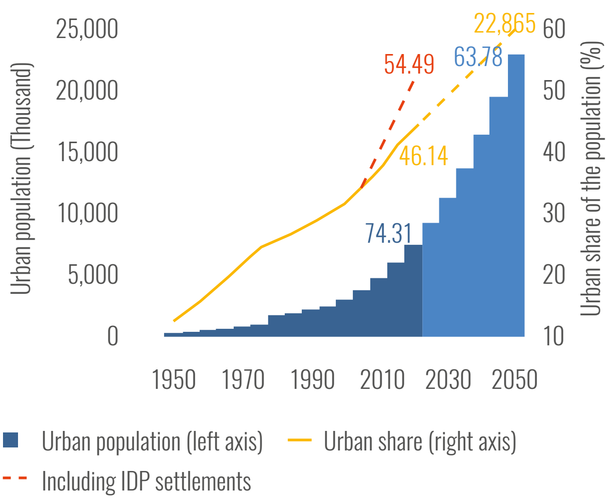
35. Building disaster prevention and preparedness capacities can help to develop a nationally unified and coordinated emergency alert and early warning system. Currently, climate-related crises are addressed on an ad hoc basis. Government coordination between the federal and regional levels is a challenge and there is reliance on humanitarian support. Challenges in coordinating responses to disasters partly stem from the lack of a nationally owned and managed emergency alert and early warning system. In addition, the government's limited capacity to translate and disseminate hydrometeorological information inhibits user access and uptake of early warning information, and thus rarely results in mitigative actions. The establishment of preventive and preparedness systems will lower the loss of human lives and reduce the costs of humanitarian delivery in the long term. Developing an Emergency Alert and Early Warning System involves establishing a government-owned emergency alert system. A fiscal disaster risk assessment can identify steps needed to develop disaster risk financing mechanisms.

F. TOWARDS THE FUTURE DRIVERS OF GROWTH – LEVERAGING URBANIZATION, UPGRADING AND DIVERSIFICATION

URBANIZATION

36. Rapid urbanization presents opportunities to leverage cities as an anchor of development. More than half of the population and close to 75 percent of Somalia's 2.6 million internally displaced persons (IDPs) are estimated to live in cities. Urban growth has largely been fueled by rural-urban migration due to push factors such as drought, poverty, and insecurity, although pull factors such as access to better services and employment matter as well. However, urbanization is also associated with challenges. Governance is challenging due to overlapping mandates between federal and state-level ministries as well as municipalities. Unclear land titles constrain projects on urban upgrading, infrastructure

Figure 10: Urbanization Trends in Somalia



Sources: World Urbanization Prospects (2018) and Somali High Frequency Study (World Bank (2017).

rehabilitation and the construction of new housing. Managing the urbanization process could help to generate agglomeration economies by shortening distance in terms of services, infrastructure, and how far people must travel. Rapid urbanization could support the expansion of domestic markets for Somali goods produced in rural areas provided there are improvements to the enabling sectors and efforts to improve trade integration.

AGRICULTURE, CROP, AND LIVESTOCK SECTORS

37. The development of Somalia's agriculture, crop, and livestock sectors could support enhanced food security for the country and prospects for trade. The livestock and crop sub-sectors in Somalia are important sources of livelihoods, particularly in rural areas. However, the performance of the crop sector in the last decade has been weak, providing only about 40–50 percent of per capita cereal needs—even though the potential to recover to the pre-war level is high. The livestock sector, by contrast, has shown remarkable resilience. Somali exports of goats and sheep—mostly to the GCC countries—typically accounts for 75 percent of total exports. By late 2021, exports of livestock were recovering and were at pre-pandemic levels, although the emerging drought in late 2021/early 2022 may affect the livestock herd population as well as livelihoods of rural communities. Somalia's proximity to GCC countries is advantageous, but if improvements to sanitary and phytosanitary standards are not made, there is a continuing possibility of trading partners imposing import bans.

38. Strengthening the agriculture sector requires adapting to climate change, improving water security, and enhancing value addition. Adopting climate-smart agricultural (CSA) practices such as increasing the uptake of new crop varieties, improving soil and water management practices and diversifying crops can help to adapt to frequent climatic changes. Improving water for rural livelihoods could involve the introduction of farmer-led irrigation in Jubba and Shabelle riverine areas, while in parallel investing in flood control infrastructure which can be developed over the medium-term. Productivity and value addition could be promoted through protection against communicable diseases, facilitating the feed and fodder trade, as well as the adoption of digital agricultural technologies. Further developing value chains in the agro-processing and livestock sectors could support commercial agricultural development. Improving access to finance in the livestock sector could also support the integration of pastoralists. Access to finance could include a menu of products, such as risk transfer instruments like drought insurance, savings, and access to credit.

FISHERIES SECTOR

39. The fisheries sector also holds substantial potential for Somalia, provided governance improves. Somalia has a productive marine ecosystem due to seasonal upwelling along its Indian Ocean coast. However, weak governance is a major constraint, due to the lack of an adequate regulatory environment, insufficient coordination between the federal and regional fisheries ministries, and a lack of monitoring control and surveillance. Improving governance in the fisheries sector requires building institutions. The Federal Fisheries Law should be enacted and the agreement to share revenues from fisheries licenses to strengthen cooperation between the federal and regional ministries should be renewed and implemented. A strengthened legal framework can help to prevent illegal, unreported, and unregulated fishing as well as support engagement with regional inter-governmental forums, such as the Indian Ocean Tuna Commission. Improving fisheries governance could set the foundation for developing a Blue Economy to allow for sustainable ocean use.[25]

PETROLEUM

40. Petroleum exploration potentially offers new opportunities. Based on prospects of substantial offshore oil reserves, the government has been preparing the legal and fiscal framework for petroleum management. However, the experience of oil and gas licensing to date has not been in full compliance with all applicable FGS laws, raising the risk that production-sharing agreements awards may not protect Somalia's interests—or that they could be subject to legal or compensation claims. Not all FMS have accepted the legitimacy of the Petroleum Act and the Somalia Petroleum Authority, thus creating the potential for political dispute in case of any FGS award in their territory. Established revenue-sharing arrangements are likely to lead to highly unequal revenue sharing across the FMS, with limited scope for re-balancing, creating the potential for political tension. The capacity of the FGS to regulate, monitor and audit petroleum sector activities and environmental risks is currently extremely limited.

41. It is essential that the FGS takes early steps to improve the institutional environment for the petroleum sector through developing the legal and fiscal framework, as commercial petroleum production could take a decade or more. The FGS needs to manage Somalia's petroleum resources in a way that protects national interests, ensures political stability, enhances state credibility, minimizes contractual risk, and avoids environmental damage. Enacting the Extractives Industries Income Tax Law is an essential first step, and the procurement of awards should be in full compliance with the FGS's legal framework. Going further, the consensus with all FMS concerning petroleum sector management should be re-established. The regulatory capacity of the FGS should be scaled up particularly in the areas of oversight, monitoring, and audit of petroleum operations as well as environmental management. Over the medium term, environmental oversight should be strengthened by enhancing intergovernmental cooperation, as well as building the capacity of the National Climate Change Committee.

G. CONCLUSION AND SUMMARY ACTIONS

42. Somalia's ambitious reform agenda can be sequenced according to criticality and feasibility. Actions in the first 100 days can be prioritized by likely impact for advancing the reform agenda to deliver tangible benefits for the Somali people and are ready for implementation. The suggested reforms are broadly anchored in the HIPC initiative. For example, the enactment

[25] The Blue Economy is the sustainable and integrated development of oceanic sectors, in healthy oceans (World Bank, https://www.worldbank.org/en/topic/environment/brief/the-world-banks-blue-economy-program-and-problue-frequently-asked-questions)

of the Electricity Bill, the Data Privacy Bill and the issuance of customs reference value tables support the achievement of HIPC Completion Point triggers. Other reforms such as advancing the federal agenda, strengthening institutions, implementing wage bill controls, and improving the environment for doing business can support state stabilization, fiscal sustainability, and the formalization of the private sector. Since several actions involve parliament reviewing and enacting legislation, it will be critical for the lead government agency to engage the political leadership to ensure there is sufficient understanding of the bills under consideration. The suggested reforms to be completed in the first 100 days have benefited from investment projects and policy advice from the World Bank Group and international partners.

43. **Actions to support the medium to long term reform agenda may require new sources of financing, which can be feasible once Somalia reaches the HIPC Completion Point and is eligible for full and irrevocable debt relief.** In the short-term, Somalia's fiscal space is limited and there is a commitment to zero borrowing limits. The immediate priority is to enhance fiscal sustainability (through revenue mobilization and wage bill controls) and focus on obtaining debt relief. Once Somalia reaches the HIPC Completion Point, there may be opportunities to access new sources of financing, where priority should be given to financing on concessional terms, which could support new investments in human and physical capital, as well as institutions to support state-building and growth.

Table 1: Actions to be completed in the first 100 days

PRIORITY AREA	ACTION TO BE TAKEN
Maintain macroeconomic stability and advance the debt relief process	• Complete the IMF Extended Credit Facility reviews in a timely way • Strengthen wage bill controls, including allowances • Finalize remaining HIPC Completion Point triggers • Continue implementation of the ninth National Development Plan • Maintain the Financial Governance Committee
Advance the federal agenda	• Issue regulations to support the harmonization of customs regimes at the ports of Mogadishu, Bosaso and Kismayo • Renew and implement the inter-ministerial agreement to share revenues from fisheries licenses • Adopt a rules-based formula to guide transfers from the FGS to the FMS
Develop economic corridors and support private sector development	• Enact the Electricity Bill • Develop a pipeline of climate-resilient infrastructure projects • Enact a Digital Identification bill • Enact a Data Privacy bill • Enact the Financial Institutions bill • Enact the National Payment Systems bill • Finalize interconnection regulations and the licensing of all operators • Issue regulations to support the Central Bank Act • Develop an AML/CFT Action Plan using the National Risk Assessment • Adopt and implement spectrum regulation
Strengthen productivity through investing in human capital with a gender and inclusion lens	• Roll-out COVID-19 vaccinations
Harness new drivers of growth through improving the business environment, diversification, and upgrading	• Enact the Investor and Investment Protection bill • Enact the Federal Law on Fisheries Bill • Enact the Extractives Industries Income Tax • Resolve any outstanding legal issues surrounding the award of 7 PSAs to Coastline Exploration in February 2022

PILLAR 1
JOB CREATING PRIVATE INVESTMENTS

Supporting growth through maintaining macro stability and advancing the debt relief process

Moving the federalism agenda forward through smaller agreements that support long-term state-building objectives

Investing in economic corridors through improved connectivity and better conditions for private sector growth

MACRO STABILITY AND DEBT RELIEF POLICY NOTE

A. SUMMARY OF KEY MESSAGES

Somalia is steadily building institutions to develop the resilience of its economy. Inflation has remained broadly stable, supported by widespread dollarization. However, the economy faces multiple sources of vulnerability, such as climate-related shocks, persistent insecurity, and, more recently, the COVID-19 pandemic. The policy instruments available to respond to such shocks are limited because the Central Bank of Somalia (CBS) cannot use monetary policy. In addition, the fiscal space to implement development priorities is constrained. Somalia is also in debt distress. To address high levels of indebtedness for loans accumulated prior to the civil war, Somalia engaged in the Heavily Indebted Poor Countries (HIPC) initiative, reaching a Decision Point (DP) in March 2020. Somalia is in the HIPC interim period and will only qualify for full and irrevocable debt relief upon reaching the HIPC Completion Point (CP) milestone.

B. SUMMARY OF KEY ACTIONS

SHORT-TO-MEDIUM TERM:

Strengthen financial integrity and integrate Somalia in the global financial system

- Update the Financial Institutions Law and bolster the CBS's supervision of financial institutions.
- Implement recommendations from the national risk assessment.
- Develop a trusted form of digital identification.

Enhance fiscal sustainability:

- Accelerate progress in reaching the HIPC CP to unlock access to financing.
- Continue the commitment to avoid running a budget deficit and replenish the fiscal buffer.
- Harmonize the customs and inland revenue administrations.
- Enhance wage bill management, including rationalizing the payment of allowances.

Improve debt management:

- Continue the commitment of not borrowing and institutionalize debt management functions.
- Include the purpose of borrowing, the use of guarantees and on-lending in primary legislation.

MEDIUM-TO-LONG-TERM:

Strengthen financial stability and market-based intermediation:

- Enhance prudential regulations for improved supervision of the banking sector and strengthen the reporting and public disclosure of key financial soundness indicators.

Enhance fiscal sustainability:

- Continue enhancing customs administration with a convergence of minimal values across ports.
- Introduce personal income tax requirements, and extend the collection of sales taxes;
- Increase non-tax revenues, particularly for firms providing services, such as the telecommunications sector.
- Gradually increase the fiscal space for the social sectors, as domestic revenue mobilization improves.

Improve debt management:

- Develop regulations to support guarantees and on-lending management.

C. WHERE SOMALIA STANDS NOW

Growth rates are low, but efforts continue to strengthen macroeconomic institutions

Growth rates in Somalia are low because the economy has been shaped by decades of civil war; it also remains vulnerable to shocks. Following repeated shocks, between 2014 and 2021 real per capita growth rates averaged zero percent. Somalia's lack of an enabling infrastructure for domestic production and human capital following decades of prolonged conflict has contributed to a dependence on imports for basic commodities, thus resulting in a high trade deficit. Remittances and official development assistance (ODA) largely finance the trade deficit, averaging 54 percent of gross domestic product (GDP) in 2020 and 2021. Achieving higher growth rates has been limited by the economy's susceptibility to shocks, such as extreme climatic events, the COVID-19 pandemic, and persistent insecurity.

Since the agreement on the Provisional Constitution in 2012, Somalia has been gradually establishing institutions to strengthen macroeconomic stability. Broad price stability has been maintained largely due to widespread dollarization. This is in contrast to the pre-war period, which was characterized by high inflation and an unsustainable exchange rate regime. The enactment of a Public Financial Management Act in 2019 and supporting regulations has led to the establishment of the rules and procedures for managing public resources. The Federal Government of Somalia (FGS) has avoided large fiscal deficits and the accumulation of arrears. Fiscal transparency is being enhanced as the FGS and Federal Member States (FMS) publish quarterly fiscal data in a consolidated format. More broadly, the rules for encouraging private investment are being developed through the enactment of the Company Law in 2019. This law sets the procedures for the registration of new firms and rules for market entry and exit. In addition, there is other pending legislation, such as the Investor Protection Law and the Foreign Investment Law.

The CBS lacks monetary policy instruments and Somalia is isolated from the global financial system

Although the CBS is making efforts to transition to a policy-oriented institution, it lacks monetary policy instruments. With negligible reserves and lacking tools to influence credit markets, the CBS has no capacity to manage shocks through monetary policy. Price stability is ensured through de facto dollarization, accounting for an estimated 75 percent of transactions.[26] Somali shillings are in circulation, but these are virtually all counterfeits. As such, they are used for low value transactions in small denominations. The establishment of the Central Bank Act in 2012 followed by the CBS Strategic Plan for 2020-2024 seeks to support a transition from the CBS being a fiscal agent of the FGS to a policy-oriented institution based on independence, responsibility, accountability, and transparency.

Somalia is largely isolated from the global financial system, with an overreliance on a few transmittal channels for financial flows. Gaps in country systems tackling money laundering and financing of terrorism risks has left Somalia with only a tenuous connection to the global financial system. The lack of a trusted means of identification means that know your customer (KYC) protocols are unreliable. There are few functional correspondent banking relationships, which makes international transactions challenging. It also poses a risk to remittances, ODA, and investment flows. Financial flows are largely channeled through the money transfer business (MTB) industry. However, the processes for regulating and supervising MTBs are at an early stage of development. Market-based financial intermediation is challenging given the nascent development of core financial sector institutions and the widespread informality that persists in the private sector.

The available fiscal space to finance development priorities is constrained

Somalia has limited fiscal space to finance the implementation of its development priorities.

[26] World Bank staff analysis.

Domestic revenue mobilization has improved from a low base, nearly doubling from 2016 to 2021. However, it is still one of the lowest in the world at an estimated 2 percent of GDP in 2021. Households and businesses face multiple points of revenue collection, including informal and illegal checkpoints, which present a burden and reduce the revenue that can be collected by established government authorities.[27] Progress in improving revenue collection is uneven across the Federation. Trade-related taxes dominate revenues for regions with ports (Mogadishu, Jubbaland and Puntland), accounting for over two-thirds of total taxes collected in these regions in 2020. The remaining FMS are dependent on intergovernmental transfers, although these are currently not based on clear and transparent criteria.[28] Upon reaching the HIPC DP, external grants channeled through the budget as a percentage of GDP increased from 1.7 percent in 2019 to an average of 3 percent in 2020 and 2021. Somalia has avoided running a budget deficit after grants are considered. Despite the improvements in revenue mobilization, Somalia's expenditure needs are vast, with ongoing pressures to balance spending between military and administration expenses to secure the country, as well as identifying fiscal space for priorities in the ninth National Development Plan (NDP9).

Although efforts continue to strengthen revenue collection, expenditure pressures are substantial

Progress is gradually being made to improve domestic resource mobilization, but revenue potential is limited by low levels of growth, weak tax legitimacy, and fragmentation. To increase inland revenues, the FGS has been leading reforms, such as the enactment of the Revenue Administration Law 2019, and the establishment of a Tax Policy Unit and Large Taxpayers Office. In addition, the FGS has introduced Taxpayer Identification Numbers generated through the Somali Financial Management Information System and is developing a tax audit strategy. Between 2016 and 2021, income and sales tax increased more than 15-fold at the FGS level. However, it still accounts for less than 17 percent of revenues collected in 2020 and 2021. Raising revenue collection is constrained by the current low levels of growth, which limits the tax base. Tax morale is weak as there is a poor link between taxes and service provision, with services largely delivered by non-state actors. Tax administration is fragmented, with six stand-alone administrations collecting revenues. There are also variations in organizational structures, as well as in the application of tax instruments.

Public expenditures across the Federation are gradually increasing, dominated by personnel costs. Between 2016 and 2021, public expenditures have nearly tripled in nominal terms. The wage bill accounts for half of total expenditures. The inclusion of new foreign-trained recruits in the security sector, which is presently unquantified, will add additional pressure on government expenditures. Expenditures are currently dominated by security and the administration, as basic government functions are established. Efforts to introduce competitive bidding for rations and an audit of security sector personnel have helped to improve the efficiency of security sector expenditures. It has also highlighted the benefits of pursuing challenging reforms.[29] Social sector expenditures are largely financed by grants that use country systems. Over time, it will be important to increase the fiscal space for economic and social priorities so that expenditures support economic growth and poverty reduction.

Somalia is seeking debt relief through the HIPC initiative, with ongoing efforts to strengthen debt management capacity

Somalia is in debt distress and will only receive irrevocable debt relief upon reaching the HIPC Completion Point. Somalia reached the HIPC Decision Point in March 2020, qualifying the country for debt relief and reengagement with the international community. Arrears to international financial institutions (IFIs) were cleared, reducing the stock of debt from 83 percent of GDP in 2019 to 45 percent of GDP in 2020. Somalia has agreed to the terms of debt relief with most Paris Club creditors, and it is seeking comparable terms of agreement with

[27] "Domestic Resource Mobilization in Somalia, Public Expenditure Review." (World Bank 2021).

[28] See "Fiscal Federalism and State Stability Policy Note" (World Bank 2022) for more details.

[29] Financial Governance Report, Finance Governance Committee, (2019).

non-Paris Club creditors. Somalia is still in debt distress and has a zero non-concessional borrowing ceiling, as well as a commitment to not accumulating arrears. Somalia will receive irrevocable debt relief upon reaching the HIPC Completion Point, which requires maintaining a track record of macroeconomic stability, implementing the NDP9 for at least one year, and completing all HIPC Completion Point floating triggers agreed at the Decision Point.[30,31]. Even though it is likely that risks to debt sustainability will persist after reaching the Completion Point, debt relief will provide a fresh start for the country, as well as renewed access to development finance needed for inclusive growth.

Somalia is gradually building debt management functions. The focus has first been on obtaining the data to support the reconciliation of debt, undertaking debt renegotiation discussions with creditors, and improving the transparency of debt data through the publication of quarterly debt bulletins — which is a HIPC Completion Point trigger. The Debt Management Unit (DMU) is financed by the African Development Bank and has only recently been included in the Ministry of Finance's organigram. As such, the institutionalization of the DMU's functions remains a concern. Furthermore, the capacity for managing fiscal risks from direct and contingent liabilities is at a nascent stage of development, including risks that may arise from public-private partnership agreements in sectors, such as energy and ports, among others.

D. WHAT SOMALIA CAN DO TO MAKE PROGRESS

Stabilize the economy and encourage investment

Supporting sustained and long-term growth in Somalia will require building economic resilience through persistent reform efforts. Rebuilding the economy from the effects of Somalia's long civil war will require developing human and physical capital, as well as strengthening institutions through building enabling infrastructure and implementing reforms. Somalia will only be able to finance much-needed investments if resources are available from both private investors and development partners. Accessing resources from development partners will need to go in tandem with making improvements to the governance environment and advancing progress toward reaching the HIPC Completion Point. In addition to political and macroeconomic stability, encouraging private investment will require long-term structural reforms, such as investing in job-creating private investments. This would include improvements to the business environment and unlocking access to finance, as well as connecting workers to jobs through investing in human capital.

Improve financial integrity and Somalia's connections to the global financial system

Strengthening financial integrity will be critical to integrating Somalia in the global financial system. Supervision of the MTB industry should be bolstered by updating the regulatory framework, such as the Financial Institutions Law and guidance concerning financial reporting for supervised financial institutions and suspicious transactions. In parallel, the CBS should strengthen its working knowledge of supervised financial institutions and disclose risks to enhance public confidence. Strengthening the enforcement of anti-money laundering and combatting the financing against terrorism, as well as suspicious transaction reporting, can also help to guard against financial integrity risks. Developing a trusted means of identification will also help to strengthen KYC protocols. Accelerating the completion of the national risk assessment is a priority in preparing for the Middle East and North Africa Financial Action Task Force Mutual Evaluation in 2024.

30 Immediately prior to reaching the HIPC Completion Point, staff of the World Bank and International Monetary Fund (IMF) will work closely with the Somali authorities and creditors to determine the final amount of external debt eligible for debt relief. It will also compute the amount of HIPC assistance that each participating creditor should provide. The World Bank and the African Development Bank (AfDB) will provide full and irrevocable relief of all qualifying debt owed to the International Development Association (IDA) and the AfDF through the Multilateral Debt Relief Initiative. The IMF will provide similar beyond-HIPC relief.

31 The Completion Point triggers and other requirements for reaching the Completion Point are described in IDA and IMF, "Federal Republic of Somalia: Enhanced HIPC Initiative—Decision Point Document," IDA/R2020-0086, March 11, 2020. Regular, successful reviews of the reform program agreed with the IMF under the Extended Credit Facility form a critical part of the macroeconomic track record. Somalia is expected to produce Annual Progress Reports documenting implementation of the NDP9, which staff of the World Bank and the IMF will then review in Joint Staff Advisory Notes. The present status of Completion Point triggers is summarized in Annex 2.

This Evaluation will assess the effectiveness of measures to combat money laundering and terrorist financing. To support market-based financial intermediation, the CBS must work toward enhancing the prudential regulations for the banking sector, the adoption of revised regulations on capital adequacy, and the introduction of reserve requirements for banks over the medium-term.

Continue the commitment to avoid running a budget deficit

Although the fiscal situation may continue to be challenging in the short term, there should be a continued commitment to avoiding a budget deficit. Avoiding a budget deficit should be supported by efforts to increase revenues and improve expenditure efficiency. Replenishing the fiscal buffer will also help to smooth expenditures to provide greater predictability in financing core expenditures. A budget deficit has been avoided after grants are considered. Grants play an important role. However, the type of financing available in 2020 and 2021 — such as grants to support the COVID-19 pandemic and the increased Special Drawing Rights (SDR) allocation (which incur a net liability) — are exceptional. As such, they should not be considered as a stable source of financing budgeted expenditures.

Enhance domestic resource mobilization through the harmonization of the customs and inland revenue administrations

Over the short- to medium-term, Somalia should focus on reducing fragmentation, improving the regulatory framework, and strengthening tax administration. Improving intergovernmental fiscal coordination and dialogue in all the FMS can help to build consensus on transitioning to a national customs administration and a national inland revenue administration. Increasing harmonization should entail support for a common approach to developing an organizational structure and establishing core functions at the FGS and FMS levels.[32] The harmonization of customs regimes should focus on agreeing on the common customs reference value tables and automating the customs administration systems in the ports of Bosaso, Kismayo and Mogadishu. This will help to modernize customs and enhance trade-related tax revenue collection. Regulations to the Revenue Administration Law are expected to enhance taxpayer compliance with tax obligations, as well as help to clarify mandates at the FGS and FMS levels regarding the implementation of the law. Improved tax administration should focus on limiting tax exemptions and monitoring how the behaviors of tax officials change in response to tax automation reforms.[33]

Over the medium- to long-term, revenue mobilization should prioritize customs administration, extending personal income tax, and strengthening human capacity to administer taxes. Efforts should continue to enhance customs administration, with a convergence of minimal values across the major ports. Other opportunities for enhancing tax collection include introducing personal income tax requirements; extending the collection of sales taxes — including through automated payment points; and continuing to increase non-tax revenues, particularly for highly profitable firms that pay relatively low levels of taxes, such as the telecommunications industry and other service sectors. Strengthening human capacity across the FGS and FMS to administer tax collection can also help to raise revenues.

Improve the efficiency of public expenditures with a focus on the wage bill

In the short- to medium-term, curbing the growth of the wage bill will be critical for increasing the fiscal space to implement the NDP9 priorities. Measures that can be taken to support the fiscal sustainability of the wage bill include rationalizing processes for awarding allowances and ensuring that only eligible civil service personnel receive payments. Quantifying the cost of additional recruits in the security sector could help the government to better plan for rising fiscal pressures. Going further, advancing the dialogue as to which level of government will assume key functional assignments, particularly in the security sector, could support an improved allocation of resources in line with responsibilities.

Over the medium- to long-term, reforms to the wage bill should be prioritized. Measures to enhance the fiscal

[32] Core functions include tax policy, revenue management and research, a large taxpayers office, compliance risk management, corporate services, human resource management, training and capacity building, and taxpayer support to promote voluntary compliance.

[33] "Domestic Resource Mobilization in Somalia, Public Expenditure Review." (World Bank 2021).

sustainability of the wage bill could include introducing ceilings on the number of positions in specific grades per year, as well as the retrenchment of staff with no formal education. All post-legal retirement age civil services should also be removed from their positions. The consideration of the pensions bill could also support the retirement of personnel, provided it is well designed with a fiscal sustainability lens. Over time, there should be a greater orientation toward social and economic expenditures, which can help to improve service delivery, perceptions of state legitimacy, and encourage tax morale.

Improve the framework for debt management

In the short- to medium-term, Somalia should continue to avoid borrowing; also, debt management functions need to be institutionalized and the legal framework for debt strengthened. Given Somalia's high level of indebtedness, the commitment to avoid borrowing should continue. The DMU should be institutionalized in the civil service to ensure the sustainability of functions. Primary legislation for debt should be enhanced to include the purpose of borrowing, the use of guarantees and on-lending, and the need for parliamentary approval of all domestic and external borrowing, as well as the issuance of guarantees. These improvements to primary legislation can help to provide the enabling framework for a time when Somalia can borrow. The quality of quarterly debt bulletins published by the Ministry of Finance have improved over time. They could be further enhanced to meet all the requirements of the HIPC CP trigger.

In the medium- to long-term, efforts should focus on further improving regulation, building the capacity of the DMU, and preparing annual debt reports. Regulation is needed to support guarantees and on-lending management regarding limits, processing, and monitoring of risks, as well as following-up on transactions. The capacity of the DMU should continue to be strengthened through securing on-the-job training. The provisions for debt recording should focus on preparing an annual debt report that features information about the context in which debt management operates (macroeconomic and market conditions), debt stock, amortization profile, and cost-risk indicators. Furthermore, as Somalia considers different sources of financing — such as loans that may require a government guarantee, on-lending and public-private partnership arrangements — it is possible that fiscal risks may materialize. Engaging in capacity building for fiscal risk management at an early stage will also be critical in mitigating risks.

Complete the outstanding HIPC CP triggers

Commendable progress has been made in completing a substantive number of HIPC CP triggers. Several HIPC Completion Point triggers have been achieved or are near completion. In the area of public financial management, the Office of the Auditor General has published audited financial accounts and Regulations to the PFM Act of 2019 have been issued. To enhance domestic resource mobilization, the FGS and FMS reached an agreement on the single tariff schedule for major ports. Debt transparency has improved through the publication of quarterly debt bulletins. Following the enactment of the Company Act in 2019, regulations were issued to allow for minority shareholder protection. In the social sectors, new agreements between the FGS and the FMS have been reached in education and health. The United Nations Convention Against Corruption has been ratified and the Somalia Annual Fact Book is being regularly published.

The remainder of the HIPC CP triggers focus on the enactment of critical laws. Laws that require enactment include the Extractive Industry Income Tax (EIIT) Law, the Data Privacy Law (needed to establish a national social registry as a functional platform that supports registration and determination of potential eligibility for social programs), and the Electricity Act. The progress in reaching all HIPC CP triggers is outlined in Annex 2.

ANNEXES

ANNEX 1: SELECTED ECONOMIC AND FINANCIAL INDICATORS TABLE

Table 1. Selected Economic Indicators

(percent of GDP unless otherwise indicated)

	2019	2020	2021e	2022f	2023f	2024f	2025f
GDP, nominal (millions of dollars)	6,477	6,965	7,373	8,202	8,839	9,621	10,49
Real GDP growth	3.3	-0.3	2.0	2.7	3.6	3.7	3.9
Per capita GDP, nominal (dollars)	451	471	485	525	551	583	619
Poverty incidence (US$1.90/day PPP)	69						
Money and prices							
CPI inflation rate (period avg)	4.5	4.3	4.6	8.5	3.6	3.8	3.7
Private credit (growth, e.o.p)	11.8	7.0	46.0	..	..	..	..
Private credit (share of GDP)	3.2	3.4	5.0	..	..	..	..
Fiscal (central government)							
Total revenue and grants	5.2	7.1	5.1	6.7	6.7	4.2	4.6
o/w external grants	1.7	4.1	2.0	3.6	3.3	0.5	0.5
Total expenditure	4.9	6.8	6.2	7.0	6.8	6.1	6.4
o/w Compensation of employees	2.5	3.3	3.4	3.2	3.1	2.9	3.1
o/w Transfers to subnational	0.7	1.3	0.6	1.0	0.8	0.6	0.6
o/w Purchase of non-financial Assets	0.2	0.3	0.2	0.3	0.3	0.5	0.5
Overall balance, net	**0.3**	**0.2**	**-1.1**	**-0.3**	**-0.1**	**-1.9**	**-1.8**
External							
Current account balance	-10.4	-10.8	-15.0	-14.3	-12.4	-12.6	-13.6
Trade balance	-63.7	-63.4	-70.7	-71.0	-69.5	-67.9	-67.8
Exports of goods and services	17.3	13.9	17.4	16.9	16.9	17.2	17.2
Imports of goods and services	81.0	77.3	88.1	87.9	86.5	85.2	85.1
Remittances, private transfers	24.4	23.2	28.2	29.1	28.9	28.9	28.4
Official grants	29.4	29.9	28.0	28.2	28.7	26.9	26.3
FDI	6.9	7.7	7.9	7.8	7.8	7.8	7.8
External debt	82.0	56.5	46.8	42.3	6.5	9.1	10.1
Exchange rate (shilling/dollar) (e.o.p)	25,065	25,761	26,039				

*Assumes application of HIPC debt relief and interim HIPC assistance from the Decision Point, and MDRI and 'beyond-HIPC' relief at Completion Point in 2023
Notes: Central government refers to the Federal Government of Somalia.
Sources: Somali authorities, IMF, and World Bank estimates (May 2022).

ANNEX 2: HIPC CP FLOATING TRIGGER STATUS

HIPC Completion Point Triggers	Progress
Domestic revenue mobilization	
1. Adopt and apply a single import duty tariff schedule at all ports in the Federal Republic of Somalia (to also foster greater trade integration).	The FGS and the FMS reached agreement on the single tariff schedule, which will be submitted to Parliament for approval. Supporting customs regulations are under preparation. The Customs Automated System (CAS) has been piloted first in Mogadishu port and airport before rolling out to Bosaso, Garowe, and Kismayo.
Governance, anticorruption, and natural resource management	
2. Enact the Extractive Industry Income Tax (EIIT) Law.	Cabinet approved the EIIT Bill in December 2020. The Bill has been harmonized with the Production Sharing Agreement (PSA) to ensure consistency. The Bill will be submitted to Parliament for approval.
3. Ratify the 'United Nations Convention Against Corruption' (UNCAC)	The UNCAC was ratified by the Somali Parliament and assented by the President in December 2020.
Debt management	
4. Publish at least four consecutive quarterly reports outlining the outstanding stock of general government debt; monthly debt-service projections for 12 months ahead; annual principal payment projections (for at least the next five years); and key portfolio risk indicators (including proportion of debt falling due in the next 12 months; proportion of variable rate debt; and projected debt service-to-revenues and debt service-to-exports for the next five years).	The Ministry of Finance is making progress to improve debt reporting. Quarterly debt bulletins have been published for 2020Q4, 2021Q1, 2021Q2, 2021Q3, 2021Q4, and 2022Q1 with Information on the outstanding stock and composition of debt liabilities and financial assets, and, where they exist, loan guarantees and other contingent liabilities, including their currency denomination, maturity, and interest rate structure.
Social sectors	
5. Establish a national unified social registry (USR) as a functional platform that supports registration and determination of potential eligibility for social programs	The authorities are establishing a USR with support from the World Bank, the World Food Program (WFP) and UNICEF. The USR design and development of the platform and infrastructure are progressing well. However, progress is needed on the development of the data protection and data privacy Law and operational guidelines.
6. FGS and FMS Ministers of Education (MOE) adopt an agreement defining their respective roles and responsibilities on curriculum and examinations	On July 14, 2021, the FGS and FMS MoEs including Puntland finalized and officially signed the revised draft education cooperation MoU at the intergovernmental meeting held in Garowe. A permanent intergovernmental forum for education has been formalized. Key agreements reached include the formation of national examination, certification, and curriculum boards. An interim committee to develop the criteria for selection of the board members was also established.
7. FGS and FMS Ministers of Health adopt a joint national health sector strategy	The Somalia Health Sector Strategic Plan for 2022-2026 was finalized. FGS and FMS ministers have agreed on a framework for a joint national health strategy.
Debt management	
8. Publish at least four consecutive quarterly reports outlining the outstanding stock of general government debt; monthly debt-service projections for 12 months ahead; annual principal payment projections (for at least the	The Ministry of Finance is making progress to improve debt reporting. Quarterly debt bulletins have been published for 2020Q4, 2021Q1, 2021Q2, 2021Q3, 2021Q4, and 2022Q1 with Information on the outstanding stock and composition of debt liabilities and financial assets, and, where they exist, loan guarantees and other contingent liabilities, including their currency denomination, maturity, and interest rate structure.

HIPC Completion Point Triggers	Progress
next five years); and key portfolio risk indicators (including proportion of debt falling due in the next 12 months; proportion of variable rate debt; and projected debt service-to-revenues and debt service-to-exports for the next five years).	
Social sectors	
9. Establish a national unified social registry (USR) as a functional platform that supports registration and determination of potential eligibility for social programs	The authorities are establishing a USR with support from the World Bank, the World Food Program (WFP) and UNICEF. The USR design and development of the platform and infrastructure are progressing well. However, progress is needed on the development of the data protection and data privacy Law and operational guidelines.
10. FGS and FMS Ministers of Education (MOE) adopt an agreement defining their respective roles and responsibilities on curriculum and examinations	On July 14, 2021, the FGS and FMS MoEs including Puntland finalized and officially signed the revised draft education cooperation MoU at the intergovernmental meeting held in Garowe. A permanent intergovernmental forum for education has been formalized. Key agreements reached include the formation of national examination, certification, and curriculum boards. An interim committee to develop the criteria for selection of the board members was also established.
11. FGS and FMS Ministers of Health adopt a joint national health sector strategy	The Somalia Health Sector Strategic Plan for 2022-2026 was finalized. FGS and FMS ministers have agreed on a framework for a joint national health strategy.
Growth/structural	
12. Enact the Electricity Act and issue supporting regulations to facilitate private sector investment in the energy sector.	The draft Somalia Electricity Bill was subject to consultations and was endorsed by Cabinet and submitted to the Parliament in December 2020. The bill will be prioritized by the 11th Parliament in its first readings.
13. Issue Company Act implementing regulations on minority shareholder protection to encourage private sector investment	Regulations to the Company Act of 2019 were issued in January 2021. A second set of Regulations to the Company Act were issued in May 2022 specifically covering the issue of minority shareholder protection.
Statistical capacity	
14. Publish at least two editions of the Somalia Annual Fact Book.	The Facts and Figures of Somalia has been published for 2018, 2019, and 2020.

FEDERALISM AND STATE STABILITY POLICY NOTE

A. SUMMARY OF KEY MESSAGES

The 2012 Provisional Constitution laid the foundation for establishing a federal system of government in Somalia. However, agreements concerning contentious issues have not been reached, such as how resources should be shared between the regions; the basis for agreeing on citizenship; whether a parliamentary or a presidential system should be adopted; the role of the judiciary; the security architecture (including the financing, size, and composition of the Somali National Army and regional police); the status of the Banadir and Mogadishu Regional Governments; and how to address the (non)-engagement of Somaliland in the Constitutional Review Process. This Note focuses on the fiscal federalism dimension of the ongoing debates.

Some agreements have been reached between the Federal Government of Somalia (FGS) and the Federal Member States (FMS), such as the sharing of revenues from fisheries licenses; an interim agreement concerning the division of functions and assignment of revenues; service delivery agreements in health and education; and defining the functions of the FGS and FMS related to security. These agreements have been supported by the Finance Ministers Fiscal Forum (FMFF),[34] which is aided by the Intergovernmental Fiscal Federalism Technical Committee (IGFF-TC).[35] The FGS routinely makes fiscal transfers to the FMS, and these are increasing year on year. In the years 2018, 2019, to 2020, the FGS transferred US$30 million, US$27.20 million, and US$80.30 million, respectively. Although progress has been made in areas such as the publication of consolidated government accounts, the lack of agreement on expenditure and revenue assignments remains a major source of tension.

B. SUMMARY OF KEY ACTIONS

SHORT-TO-MEDIUM-TERM ACTIONS

a. Adopt a rules-based fiscal transfer formula between the FGS and the FMS to promote predictability and transparency in intergovernmental transfers, including those financed through budget support.

b. Strengthen accountability, reporting, and transparency of fiscal transfers by source of revenue to build confidence between different levels of government.

c. Harmonize FGS and FMS financial management systems (BISAN and Somali Financial Management Information System [SFMIS]) in the areas of budgeting, chart of accounts, and Government Finance Statistics (GFS) integration.

d. Support intergovernmental coordination platforms, such as the FMFF and the IGFF-TC to ensure the timely availability of policy advice and options to the Ministers of Finance.

MEDIUM-TO-LONG-TERM ACTIONS

a. Agree on the management, administration, and redistribution of tax revenues from international trade to allow for the non-port FMS to have access to revenues.

b. Prioritize functional assignments for big-ticket expenditure items, such as security.

34 The Finance Ministers Fiscal Forum (FMFF) is a platform financed under the Recurrent Cost and Reform Financing (RCRF) program. This program brings finance ministers together to discuss and agree on inter-governmental priorities.

35 The Inter-Governmental Fiscal Federalism Technical Committee (IGFF-TC) is a technical committee that discusses intergovernmental policies at a technical level and provide options for adaption by the FMFF.

c. Define revenue assignments, revenue sharing, and assignment of expenditure responsibilities between FGS and FMS as part of a renewed constitutional review process.

C. WHERE SOMALIA STANDS NOW

An incomplete political settlement

The 2012 Provisional Constitution provides the framework for Somalia to establish a federal system of government. Notionally, Somalia is comprised of the Federal Government of Somalia, five established Federal Member States (Galmudug [GSS], Hirshabelle [HSS], Jubbaland [JSS], Puntland [PSS], and Southwest State [SWS]), and the self-declared Republic of Somaliland. However, the Provisional Constitution does not define intergovernmental fiscal relations or authority over fiscal resources. A constitutional review process was held between 2015 and 2021 with the aim of defining key issues of federalism. However, agreements were not reached, and a further review of the Constitution has been deferred to the 11th Parliament. The main areas of contention concern reaching agreements on how resources will be shared between the regions.

Some small steps are being made to reach interim agreements

Despite challenges, the inter-governmental fiscal forum has reached key interim agreements. The Baidoa Agreement of June 2018 stipulates how petroleum resources will be shared among the regions. However, the agreement is biased toward natural resource-producing districts. As such, it could exacerbate current inequities. An agreement was also made to share resources from external sources, such as budgetary support between the FGS and the FMS on a 60:40 basis. However, it was done without providing further details on how such resources would be distributed among the FMS. A preliminary fisheries revenue-sharing agreement was reached in March 2019. It stipulated how revenues from licenses would be shared. However, as of 2022, the agreement has not been fully implemented.

Heterogeneity in tax revenue collection and a lack of agreement about revenue-raising powers

The largest source of domestic resource mobilization in Somalia is trade-related taxes. Currently, the FGS and the FMS collect insufficient revenues to pay for their core expenditures. As such, they are reliant on external financing in the form of grants. The fiscal situation is further constrained for the FMS that lack operational ports, such as Galmudug, Hirshabelle and the South West State. Instead, they are reliant on fiscal transfers from the FGS. Thus, revenue potential is limited. Furthermore, there is competition for taxation between the regions, and the FGS enjoys greater influence in states dependent on transfers.

The Revenue Administration Law does not explicitly specify the separation of powers between the FGS and the FMS. Article 1 refers to Schedule 1 of the Revenue Authority Establishment Act. This Schedule lists the laws (revenue sources) that fall under the jurisdiction of the Administration Law. The concerns raised by the FMS are whether that law is of a general enabling nature, thus requiring adherence to certain principles — or whether is it prescriptive, or proscriptive (prohibiting the FMS from certain actions). Other concerns are related to excise duties, value-added tax (VAT) for goods and services, income tax (including taxes on property and property tax rates), payroll taxes, stamp duties, road taxes, and customs. Most of the articles of the law refer to general provisions appropriate to legislate at the national level. These provide consistency to the administration of revenue across the nation. However, broad consultations and consensus are needed between the FGS, the FMS, and, where possible, the districts. One immediate discussion concerns tax assignment and collection between the revenue teams at the FGS and FMS levels.

Lack of a clear rules-based allocation mechanism

Intergovernmental transfers are currently made on an ad hoc basis, resulting in a lack of predictability and transparency as to how resources are shared. The FGS does have a notional formula in place to support transfers to the Banadir Regional Administration and states without operational ports. However, a formula to guide the sharing of resources from budgetary support has not been operationalized. Furthermore, no agreement has been made regarding how resources from trade-related taxes can be shared. This lack of agreement concerning an intergovernmental transfer mechanism constrains the ability of states without operational ports to provide basic services and security for their citizens. Furthermore, ad hoc transfers lead to uncertainty, as well as the potential for fueling mistrust.

Agreements on big-ticket expenditure items are pending, particularly in the security sector

The largest area of expenditure is the security sector. Despite efforts made during the London Conference in 2017 to integrate regional and federal forces into a coherent national security architecture, decisions about how to assign responsibility for internal security are still pending. Both the FGS and the FMS are involved in the provision of internal security, thereby making it a challenge to adequately assign resources at the different levels of government. Although functional assignments are pending for multiple sectors, the lack of an agreement is particularly problematic for the security sector, since it consumes the largest share of resources. Importantly, the dominance of security sector expenditures means that there is limited fiscal space to fund other sectors such as education and health.

Lack of harmonization of financial management systems at the FGS and FMS levels

The FGS and FMS are using different public financial management systems to support budgeting, the chart of accounts, and GFS integration. The FGS and Puntland are using SFMIS (custom developed), whereas Galmudug, Hirshabelle, Jubbaland, and Southwest are using the Bisan system (a commercial package customized for the financial management system [FMS]). The two systems have been highly customized due to the different needs and preferences of the FGS and the FMS. As a result, the generation of timely and reliable consolidated financial data regarding budget execution results is a challenge for the FGS and the FMS. This is because they lack a unified/standard budget classification and chart of accounts for all SFMIS platforms. Subsequently, it is difficult to produce consolidated budget results directly from the existing SFMIS platform. On November 23, 2019, the FGS and the FMS agreed to harmonize their budget cycle/calendar to ensure that all fiscal allocations (grants) are budgeted by appropriately; however, it has yet to be implemented.

Technical support to guide intergovernmental fiscal relations is available and can be strengthened

Continuous engagement between the FGS and the FMS using existing platforms such as the FMFF and the IGFF-TC will be crucial in making progress concerning the harmonization of legislation and strengthening of revenue collection and budget execution. Currently, there is limited capacity at the FGS and the FMS levels to support the ongoing intergovernmental dialogue. This makes it difficult for the FGS and the FMS to produce very strong policy options that can be discussed, agreed upon, and implemented. The technical deficiency also leads to poor preparations for intergovernmental dialogue. This results in agreements that are not implementable, as well as agreements that can potentially create more inequality.

D. RECOMMENDATIONS FOR HOW SOMALIA CAN MAKE PROGRESS

To make progress on the fiscal federalism agreements, a balance is needed to support the autonomy of the FMS while also promoting state-building and unity. Measures are also needed to strengthen the capacity of revenue collection, intergovernmental dialogue, and service delivery in the health and education sectors. This will help to increase state legitimacy and improve the trust deficit between the state and citizens.

Reach interim agreements concerning the sharing of revenues from international trade taxes

The collection of international trade taxes to the FGS could be centralized and fiscal transfers increased to all FMS (with a large share of revenues remaining in the collecting ports). This could potentially improve the efficiency of revenue collection and allow for a more equitable distribution of revenues to all FMS. This is a challenging task that requires political leaders to reach a consensus, which would require high level engagement e.g., the National Security Council (NSC) after agreement is reached at the Finance Ministers Fiscal Forum (FMFF) supported by the IGFF-TC.

An illustrative example of how resource sharing could support equity and learning

For example, the FGS, Puntland, and Jubbaland could contribute 20 percent of trade-related taxes into an equalization fund. This fund would be redistributed to all the entities (including the Banadir Regional Administration

[BRA]). It would be based on a fixed share to reflect the respective absorption capacity and revenue share contributions. The formula could be regularly adjusted based on revenue evolution and absorption capacity. An increased share for port states could be built in, including a ceiling of minimal revenues collected every year (for instance, with an extra 80-90 percent remaining in the collecting port). The FGS would manage the equalization fund, which would also serve as a trust-building instrument. In a short period, the poorest FMS would increase their revenues. Puntland would continue to be the largest FMS in terms of revenues, and the FGS would continue to collect the largest— and maintain — the largest share of revenues. Even though revenues would not grow much for Puntland/Jubbaland, the FGS would acknowledge the administration of trade taxes in both FMS.

Review and update intergovernmental agreements

The fisheries agreement needs to be revived, as it has not been operationalized in 2021. The current fisheries agreement will be in place until a new agreement is reached and then replaced. The Baidoa agreement could be reviewed to avoid the creation of horizontal inequities between producing FMS/Districts and non-producing ones.

Adopt and implement a rule-based transfer formula that is anchored in strong analytical input

The IGFF-TC is currently discussing options to adapt a fiscal transfer formula to allow for a more predictable grant transferred to the FMS. This would follow the Addis Ababa revenue-sharing agreement ratio of 60:40 between the FGS and FMS, respectively. A rule-based transfer formula will address some of the FMS concerns that fiscal transfers are used for political purposes by punishing perceived enemies of the FGS and rewarding allies. It will also build trust between the FGS and the FMS, leading to future intergovernmental agreements. Currently, the IGFF-TC is looking at four parameters including: equal share, revenue enhancement, expenditure management, and audit and reporting. Ongoing discussions between the FGS and the FMS have yet to come up with a concrete formula. A fiscal transfer formula should be prioritized, and monitoring structures established to ensure compliance and build trust.

Prioritize functional assignment for big-ticket expenditures such as security

Given the dominance of security-related concerns and expenditures, further efforts are needed to advance discussions about functional assignments in the security sector, furthering the decisions reached as part of the London Agreement[36] on the security architecture — with a focus on functional assignments for internal security. For example, the FMS with limited own-source revenues could benefit from a larger FGS-financed Somali National Army (SNA) presence to manage the security within the state. This would allow them to increase spending on social sectors, thus helping to improve state legitimacy.

Harmonize the legislative framework

The FGS and the FMS will need to intensify harmonization discussions of the budget process, expenditure management, and reporting. This will help to deepen accountability and transparency at the FGS and FMS levels. The ongoing harmonization work on the Chart of Accounts, budget process, and reporting will help Somalia to improve service delivery to its citizens. For harmonization to succeed, though, there is a need to ensure stronger coordination and technical input. One key agreement that is needed concerns the revenue collection assignment responsibilities between the FGS and the FMS.

Build the capacities of the Intergovernmental Technical Committees

The FGS and the FMS will need federalism experts in the short term to support ongoing reforms and enhance the effectiveness of intergovernmental bodies, such as the Federalization Negotiation Technical Committee (FNTC), the IGFF-TC, and the FMFF Committees. However, for sustainability purposes, the capacity of the IGFF-TC and the Secretariat should be strengthened to take the lead in intergovernmental work.

[36] The 2017 London Agreement between the FGS and the FMS on Somalia's national security architecture is a first step in trying to define the respective responsibilities of the federal and state governments security structures. The agreement defines the number of federal forces (18,000) and the police forces (32,000) and their composition. The agreement stipulates that the federal government will be responsible for the salaries and support requirement of the Somali National Army while the Federal Member States will be responsible for the salaries and support of the state police forces. The London Agreement has not defined the mechanism for the contribution of forces nor the respective responsibilities.

PUBLIC FINANCIAL MANAGEMENT POLICY NOTE

A. SUMMARY OF KEY MESSAGES

The Federal Government of Somalia (FGS) and the Federal Member States (FMS) have made strong progress in building a solid foundation for public financial management (PFM) in a short time span. Indeed, the foundational elements of PFM have been established. However, the remaining reform challenges involved in strengthening PFM systems are significant. More specifically, there are challenges in three key areas:

- **The legal and regulatory frameworks across the FGS and FMS are fragmented and need to be strengthened.** Both the FGS and FMS have passed modernized PFM Acts; however, these laws lack a coherent set of high-quality financial regulations to support their implementation. Further, the FMS Acts do not recognize intergovernmental fiscal relations, thereby hampering harmonization efforts.

- **The budget preparation and implementation processes of the FGS and FMS are weak, thus creating risks for fiscal sustainability.** This includes inaccurate revenue forecasting, weak commitment and payroll controls, inefficient PFM procedures, and limited staff capacity. These challenges pose risks for fiscal sustainability, especially since Somalia's wage bill as share of total spending is already at record highs.

- **Weak accountability and transparency in public finances diminish public trust in state institutions.** The internal and external control environment in the FGS and FMS remains weak. The FGS has an outdated Audit Bill, undermining the effectiveness of the Office of the Auditor General (OAG). Moreover, large amounts of off-budget operations bypass PFM control systems, thus increasing the risk of misappropriation of funds.

B. SUMMARY OF KEY ACTIONS

RECOMMENDED SHORT-TERM PRIORITY ACTIONS TO ADDRESS PFM CHALLENGES

To improve the preparation and effective implementation of the budget:

- Implement a predictable grant allocation formula for the FGS transfers to the FMS.
- Reduce manual, cumbersome payment processes to decrease delays in payments.

To promote greater transparency and accountability in PFM systems:

- Pass and enact the last FGS Audit Bill for an effective OAG.

- Harmonize accounting and reporting practices between the FGS and FMS. This will serve as a foundation for consolidating fiscal information. Furthermore, enhance the disclosure of financial accounts and ensure timely public access of financial reports.

- Maintain the Financial Governance Committee (FGC) to continue to build trust in the country's financial governance.

RECOMMENDED MEDIUM-TERM PRIORITY ACTIONS TO ADDRESS PFM CHALLENGES

To strengthen and harmonize the legal frameworks:

- Strengthen the legal and regulatory framework in the FGS and FMS and harmonize the PFM Acts to improve intergovernmental fiscal relations and efficiency across Somalia.

To improve the preparation and effective implementation of the budget:

- Strengthen budgeting processes, improve controls for wages and salaries, review grade assignments, and reduce and formalize off-payroll payments.

- Institutionalize capacity building of staff both at the Ministries of Finance (MoF) and line Ministries, Departments, and Agencies (MDAs) in the FGS and FMS.

To promote greater transparency and accountability in PFM systems:

- Prepare and improve citizens' budgets and ensure that these are published in a timely manner. Moreover, engage citizens during the budgeting process of the FGS and FMS.

- Strengthen internal audit functions and improve the use of the financial management information system (FMIS) for all government transactions to increase control and accountability by the FGS and FMS Ministries of Finance.

- Bring donor-financed activities into government plans and budgets.

- The FGS should gradually transition from a monthly to a quarterly budget release process to enhance the predictability of funding to MDAs.

C. WHERE SOMALIA STANDS NOW

The Somali government, both at federal and state level, have made strong progress in building a solid foundation for PFM in a short time span. This is particularly noteworthy, as it generally takes a long time to build fiscal institutions, especially in post-conflict settings.[37] The foundational elements of PFM have been established in the FGS and FMS. Key achievements include (i) the enactment of modernized PFM laws by the FGS and FMS, marking the first legal reforms in this area for more than a half a century; (ii) the establishment of basic fiscal reporting capabilities[38] and operational capabilities to manage inter-governmental fiscal transfers, which contribute substantially to enabling fiscal federalism; and (iii) the deployment of FMISs[39] at the FGS and in all FMS, including the establishment of basic payroll and commitment control processes. The connection of the security sector payroll to the FMIS, coupled with biometric registration of all Somalia security sector forces, allows verification of all payments, including direct payments to individual accounts —a significant change from just a few years ago, when payments were distributed in cash through the command chain providing opportunity for corruption and misappropriation. To complement improved controls, the FGS has created central purchasing contracts for major supplies to the Somalia National Army. The reform has yielded savings by reducing discretionary and unsupervised spending. In addition, the FGC as the key dialogue platform on financial governance has improved the transparency and accountability of Somalia's public finance. However, the remaining reform challenges to strengthen PFM systems are significant. More specifically, these challenges are in three key areas:

Legal and regulatory framework: Significant effort has gone into strengthening the legal and regulatory framework in the FGS and FMS; however, further enhancements of the PFM Acts and harmonization between the FMS and FGS PFM Acts are critical to strengthening PFM.

In December 2019, the FGS passed a modernized PFM Act, with supporting regulations still under development. Recently, all four south-central states did the same. The PFM Act of Puntland has been drafted and is in the process of being adopted. The new legal frameworks provide a strong impetus for improving PFM performance. They improve consistency in the budgeting process, encourage the timely approval of the budget, strengthen transparency in public finances, and require timely reporting. However, there is an urgent need to develop a coherent set of high-quality PFM regulations to support the implementation of the PFM Acts.

[37] Reforms can often span several political cycles. For more information, see: World Bank. 2011. World Development Report: Conflict, Security, and Development. Washington DC: World Bank.

[38] For example, the FGS and the majority of states prepare their annual accounts using International Public Sector Accounting Standards (IPSAS) Financial Reporting under the cash basis of accounting.

[39] These systems support workflow, transparency, and the internal control framework of government finances.

Moreover, whereas the FMS assume increasing responsibility for financial resources, the PFM laws of the FMS are silent on the roles and responsibilities of the FMS in intergovernmental fiscal relations. In view of the increasing fiscal transfers to be expected in the coming years, it will be important that the FMS laws provide a legal basis for coordination processes, starting with budgeting. Whereas the FGS PFM Act includes provisions that apply to the FMS, the FMS laws were passed at a time when discussions concerning intergovernmental fiscal relations were just beginning. Hence, they do not yet recognize intergovernmental fiscal relations. The FGS' PFM Acts provide an overarching framework for coherent and consistent practices. However, each FMS has its own PFM Act to guide detailed arrangements, which results in fragmented practices among the FGS and FMS, thereby weakening the harmonization agenda.

Budget preparation and implementation: Consistent with the prevailing problems of fragile countries, Somalia has weak budget preparation and implementation processes, including commitment and payroll controls, manual, cumbersome PFM procedures, and limited staff capacities.

In line with capacity-building efforts, budget preparation and execution processes at the FGS and FMS levels have improved to some extent in recent years. However, there is a significant variance between the original budget and the actual expenditures in all of Somalia's governments. Since the FGS and all FMS (except Puntland) spend more than half of total expenditures on the public wage bill,[40] low budget outturns in this area require particular attention. The persistent existence of security personnel and civilian administration on non-formal payroll systems[41] calls into question the credibility of the original budgets as a tool for channeling funds to policy priorities.

Moreover, the Federal Government of Somalia's increasing percentage of adjustments to the original budget in the past years further undermines budget credibility. In both the FGS and FMS, insufficient government capacity to develop forecasts results in unrealistic fiscal frameworks. This in turn leads to budget cuts, thereby negatively affecting expenditure plans.

With respect to budget implementation in the FGS, improvements are needed in two main areas where PFM procedures critical to achieving efficiencies in public spending. Firstly, current manual, duplicate and cumbersome payment processes lead to delays in payments and increase the cost of services. Secondly, monthly budget releases for all expenditure categories provide an inadequate time horizon to plan commitments and are likely to cause payment arrears. Addressing such inefficiencies will be important to ensuring the achievement of Somalia's national development objectives.

The FMS PFM systems are at an earlier stage in the PFM building process than the FGS. They are facing even greater challenges in terms of manual, cumbersome budgeting and payment processes. As such, they face additional challenges because of the low predictability of funds they derive from the FGS. There is weak coordination between the FGS and FMS, and transfers of funds (grants) are mostly done on an ad-hoc basis.[42] These are not supported by the budget allocation at the FMS level. The FGS has made progress by integrating the FMS budgets into the national budget for the first time in 2021. However, a predictable grant allocation formula to the FMS has yet to be defined and implemented. This becomes particularly urgent, since the FGS fiscal transfers to sub-national governments are growing annually and faster compared to other revenues.

In addition, public finance capacities are currently limited in the FGS and FMS, especially in the Galmudug, Hirshabelle and South West States, especially in terms of handling an increase in funding. The MDAs are not sufficiently staffed, and many of the personnel are not sufficiently skilled. Hence, there is a high dependency on external consultants to keep day-to-day PFM operations running.

40 Ibrahim El Ghandour and Gaël Raballand. "Public Wage Bill Management: Trends and Way Forward." (Public Expenditure Review, 2020).

41 Abyrint Consulting. *Human Resource economics and management in the Federal Government of Somalia and the Federal Member States.* Quarterly report #16. (World Bank, 2020).

42 World Bank. "Public Expenditure Management Assessment Report of the Federal Member States of Somalia." Unpublished. (Washington, DC: World Bank, 2021).

Accountability and transparency: It is common that formal oversight mechanisms, and transparency and horizontal accountability in fragile states lag behind other PFM dimensions.[43] However, the urgent need to increase trust in the Somali Government's stewardship role requires the prioritization of transparency and accountability in the country's public finances.

Key issues undermining greater transparency and accountability include the following:

- **Pending Audit Bill:** The laws on sovereign audit have been enacted in each of the new FMS. However, the new FGS Audit Bill has been waiting to be passed for nearly 1.5 years. Meanwhile, the Federal Office of the Auditor General relies on the old audit law from 1972, which is outdated. As such, it poses a major constraint to the OAG in effectively performing its function. Enacting and implementing the new Audit Bill will have an important positive impact on the OAG's operations, structure and independence, which are key to holding the executive branch account for the use of public funds. Most[44] FMS Audit Bills are adequate, but are not being implemented. For example, although the FMS laws provide financial and administrative independence, in practice, the offices of the Auditors General are subject to the control of the Ministries of Finance and Public Service Commissions.

- **Internal Control Environment:** Effective internal control enables a government to manage public funds in an efficient and accountable manner.[45] Currently, internal audit functions are weak, and many PFM practices are fragmented, both in the FGS and FMS. For example, although the FGS established payroll systems for the security and social sectors, not all payment transactions are processed through the FMIS. This poses risks of the misuse of funds during the expenditure process. Further reform efforts are required to fully operationalize commitment controls for all expenditure streams. Moreover, the Financial Management Information Systems of the FGS and FMS are a key tool used to implement the internal control framework; however, they have not yet been independently reviewed to ensure their integrity.

- **Harmonizing Accounting and Reporting in the FGS and FMS:** Reliable and timely national fiscal information is fundamental to fiscal transparency, as well as informing governmental decision makers and international partners. Information exchange between the FGS and FMS is especially essential to furthering fiscal federalism, enhancing cohesiveness, and ensuring stability. Efforts are underway to harmonize the frequency and format of reporting and ensure that the budgeting and accounting coding structures are harmonized across the FMS and the FGS in concertation with the International Monetary Fund's Government Finance Statistics Manual (GFSM) 2014.[46] It is also important they continue to be harmonized. Furthermore, it is crucial to capture these developments in the PFM legal and regulatory framework in the FMS.

- **Extra-Budgetary Activities:** A large portion of donor-funded operations implemented by the MDAs of the FGS and FMS are off-plan and off-budget. The MDAs that receive funding from donors incur expenditures that are not known to the MoF (off-budget), thereby bypassing the FMIS and its internal controls when processing payments.

- **Citizen Engagement:** None of the FMS has yet prepared a citizen's budget. Although the FGS prepared a citizen's budget in the last three years, only the 2018 and 2019 citizen budgets were available online. Also, they were only presented in English, which limits their dissemination and comprehension. Moreover, neither the FGS nor the FMS have platforms for citizen engagement in their budget processes.

[43] Porter, Andrews, Turkewitz and Wescotttz. Managing Public Finance and Procurement in Fragile and Conflicted Settings. (Washington, DC: World Bank. / World Bank, 2011). "Public Financial Management Reforms in Post-conflict Countries: Synthesis Report. (Washington, DC: World Bank, 2012).

[44] Puntland is in the process of enacting an updated Audit Bill, which will strengthen the OAG's independence.

[45] Experience from other fragile, conflict- and violence-affected countries, such as Liberia and Kosovo, indicates that robust efforts to strengthen internal controls can also have broader effects in terms of improving the perceived, overall control of corruption in the country. World Bank. "Public Financial Management Reforms in Post-conflict Countries: Synthesis Report." (Washington, DC: World Bank, 2012).

[46] The GFSM (2014) describes the latest macroeconomic statistical framework designed to support fiscal analysis.

D. HOW SOMALIA CAN MAKE PROGRESS IN STRENGTHENING ITS PFM SYSTEMS

As Somalia's government budget increases, a strong PFM system will constitute a core element of state-building and peace-building efforts, thus ensuring the efficiency, effectiveness, and equity of spending. The following recommendations address each of the three priority areas identified in section C.

Strengthening and harmonizing the legal frameworks

Harmonizing the legal frameworks is critical to creating a sound legal platform for inter-governmental fiscal relations, where the PFM-related relationships, roles, and responsibilities between the FMS and FGS are defined. This requires a detailed review of both the FGS and FMS legal frameworks to determine what changes need to be made. Furthermore, it is important for the FGS and FMS to develop a coherent set of high-quality financial regulations to support the implementation of their PFM Acts.

Improving preparation and effective implementation of the budget. There are four recommended key actions for making improvements in this area:

i. Reduce manual, duplicate and cumbersome payment processes to decrease delays in payments and reduce the cost of services.

ii. The FGS should gradually transition from a monthly to a quarterly budget release process to enhance the predictability of funding to the MDAs.

iii. The FGS should implement a predictable grant allocation formula for transfers of funds to the FMS. This formula should initially be introduced through a financial regulation, and at a later stage, based on lessons learned, be incorporated into the legislation to increase its binding nature.

iv. An increase in the fiscal envelope will warrant intensive capacity building of staff at the MoFs and line MDAs in the FGS and FMS. Attracting, institutionalizing training, and retaining skilled staff is critical to reducing a dependency on consultants.

v. Improve budget credibility and reduce wage bill expenditures by: (i) strengthening budgeting processes (for example, bottom-up budgeting and revenue forecasting); and (ii) improving controls for wages and salaries, such as enforcing limits on new hiring, reviewing of grade assignments and administration of promotions, and creating appropriate rules for the use of allowance allocations; and (iii) reducing and formalizing off-payroll payments.

Promoting greater transparency and accountability in PFM Systems. Increasing the legitimacy of the Somali state institutions requires the prioritization of transparency and accountability in the country's public finances. Recommended priority actions include:

i. Pass and enact the FGS Audit Bill for a well-functioning Office of the Auditor General. The FMS should prioritize the implementation of their audit laws.

ii. Strengthen internal audit functions and improve the use of the FMIS by the FGS and FMS for all government transactions, thereby increasing overall control and accountability by the MoFs.

iii. Prepare a road map and implement it on a step-by-step basis to bring donor-financed activities into government plans (and eventually into budgets) and harmonize them around country PFM systems. In this regard, donors also need to do their part. Therefore, it is crucial to put in place a mechanism to coordinate closely with donors to build fiscal capacity.

iv. Conduct an independent quality assurance review of the FMIS in the FGS and FMS, and develop and adopt a comprehensive governance policy and sustainability plan for the FMIS. This is needed to ensure their reliability as a tool to ensure accountability and transparency.

v. Harmonize accounting and reporting practices between the FGS and FMS as a foundation for consolidating fiscal information. Such efforts should be accompanied by enhancing the disclosure of financial accounts[47] and ensuring timely public access of financial reports.

vi. Maintain the FGC to continue to build confidence in Somalia's financial governance.

vii. Establish platforms to facilitate citizen engagement and obtain feedback in the planning and budgeting process of the FGS and FMS. This requires the preparation of citizens' budgets in all FMS. The FGS needs to ensure that its citizens' guide to the budget is published in a timely manner and that it is translated into Somali, thus increasing public dissemination and comprehension.

Given the fragmentation of PFM systems between FGS and FMS as well as within governments, a more holistic approach to PFM reforms will ensure sustainability of current and future reforms. For example, although many reforms have been undertaken in the FMS, they have not been undertaken as part of a broad-based PFM strategy. A strategic view to reforms will be particularly important to supporting an increase in resources to the FMS.

[47] This includes disclosures about financial assets and liabilities, including contingent liabilities.

TRADE AND INTEGRATION POLICY NOTE

A. SUMMARY OF KEY MESSAGES

Somalia's location offers substantial advantages for international trade, being relatively close to the markets of the Gulf Cooperation Council (GCC) countries, COMESA and the large and rapidly growing South Asia region. Somalia has the longest coastline in Africa and ports that are close to major international maritime routes. There is a huge potential to expand economic engagement between Somalia and the rest of the world including through diversification of the trade basket beyond primary goods. However, three decades of conflict, and continued fragility have eroded the country's manufacturing and agricultural production capacity and led to an exodus of the skilled workforce. Somalia's fragmented markets, poor regulatory framework and weak institutional capacity contribute to higher trade costs and hinder efforts to increase private sector development. Multiple checkpoints, infrastructure constraints related to poor energy and roads in strategic trade corridors and limited access to finance are substantial barriers to trade. In addition, the COVID19 pandemic interrupted Somalia's domestic and international trade. As the country emerges from the pandemic, developing international trade can promote efficiency, knowledge diffusion, technological progress and contribute to inclusive growth and poverty reduction. Trade and trade policy can help mitigate the risk of conflict by opening opportunities and creating jobs.

B. SUMMARY KEY ACTIONS

SHORT-TO MEDIUM-TERM PRIORITIES:

- **Address the drivers behind geographic segmentation,** such as illegal checkpoints and high transportation costs within the country.
- **Enhance trade integration within Somalia,** focusing on the most strategic transport corridors linking Somalia's ports to Horn of Africa hinterlands.
- **Harmonize customs regimes across Somalia ports,** which can also support an integrated national data collection system.
- **Tackle supply-side constraints to trade to take advantage of areas where Somalia has comparative and competitive advantages** including livestock, vegetables, and small-scale manufactured products, such as fish oil and processed fish.
- **Establish institutional arrangements to enable trade payments to go through formal banking channels** to facilitate trade and increase the economic benefits of trade.
- **Enhance the quality of existing agricultural and fish exports *and* increase their production by** strengthening trade promotion efforts.
- **Step-up public-private dialogue on trade and trade policy** to enhance both domestic and international trade.
- **Support access to information for investors and traders** through further rolling out the trade information portal to support access to trade procedures, documents, and fees requirements.
- **Invest in cold storage and improve food safety practice**s to enable Somalia to move from livestock to meat and developing new seafood.

LONGER-TERM PRIORITIES

- **Increase and diversify exports towards a more sophisticated range of products,** when the security situation improves and adopt climate-smart agricultural practices.

- **Enhance efforts to support regional integration** through the formalization of cross-border trade to create sustainable employment opportunities and better sources of income.

- **Strengthen the capacity of Somalia Bureau of Standards** to build producers' capacity to improve hygiene and quality to minimize transboundary diseases outbreak and improve animal health and better veterinary controls.

C. WHERE SOMALIA STANDS NOW

Trade in Somalia is currently not serving its full potential as an engine of growth. Trade could be a strong positive force for economic growth, but in the past few decades, Somalia's trade performance has been weak and played a limited role as a source of growth. Challenges include domestic market fragmentation which raises costs for producers, multiple customs regimes, a narrow economic base marked by poor economic diversification and vulnerability to external shocks. Conflict and fragility depreciated the domestic productive capacity by destroying human (education and health) and physical infrastructure (roads, energy, irrigation), severed value chains as links between producers, traders, and consumers frayed and unraveled with violence, eroding trust between social groups.

Economic fragmentation has raised costs for producers, making it harder for them to compete locally with imports, as well as in foreign markets as exporters. The main drivers of this geographic fragmentation are transport costs, which are particularly high in the south and central regions. Elevated costs are mostly due to illegal checkpoints and multiple taxation paid to various state and non-state actors, as well as poor infrastructure. Despite the high domestic trade costs, the fragmented domestic markets have encouraged small-scale, cross-border trade in low-value items in Somalia's border regions, as border markets are often better integrated with markets in neighboring countries than with other domestic markets. Developing an integrated national economy would enable larger-scale, commercial production of higher value exports.

Somalia has multiple customs regimes, where regions with major ports compete against each other, which further limits the potential for implementing an integrated national trade strategy. Regions with major ports such as Mogadishu, Bosaso and Jubaland have separate customs regimes and compete for trade flows and trade-related taxes. The existence of multiple tax regimes limits the ability to develop and implement a national trade strategy. Efforts that are underway to modernize and harmonize customs regimes need to be speeded-up.

Somalia's narrow production base is reflected in its weak export performance and its heavy dependence on imports of final consumption goods. The country continues to run a large structural trade deficit, averaging 65 percent of GDP between 2018 to 2021 (Annex Table 1). A poor investment climate, poor logistics, scattered customs procedures, and inadequate infrastructure (transport and energy) limit the supply of agricultural and manufactured goods.

Somali exports are dominated by very few products directed to too few markets. Dominated by livestock, Somalia's top five export products accounted for an estimated 83 percent of total goods exports at year-end 2018, with three destinations – the United Arab Emirates, Oman and Saudi Arabia – absorbing 82 percent of Somali exports (Annex Table 2). In its quest for export diversification, Somalia's most promising products are new fish and shellfish species and agro-food products such as sesame oil, meat, and processed fruits (see annex 1).

Whereas Somalia has an open trade regime, it is more reflective of the country's lack of a proper trade governance framework than a deliberate policy stance. Somalia lacks a proper trade governance structure which encompasses weak customs and border management processes, import/export licensing, reporting requirements, SPS and technical regulations, and the complex of commercial, investment, and financial regulations that are mainly domestic in objective but which strongly influence trade. In addition, the country faces acute shortage of officials endowed with the technical knowledge and institutional experience required for informed trade policy making. Such shortages have hampered the government's institutions involved in trade policy formulation, inhibited the design of a coherent trade strategy and weakened the quality of the inter-agency coordination and external stakeholder processes required for effective trade governance.

Access to trade-related information was cited as a key constraint by majority of traders in Mogadishu. As per the survey carried out by Ministry of Commerce and Industry (MoCI) with IFC support in 2020 focusing on Mogadishu based importers and exporters, 83 percent reported facing difficulties in accessing information on trade procedures, documents and fees requirements.

D. HOW CAN SOMALIA MAKE PROGRESS?

Strengthening internal economic integration will also increase external competitiveness and help realize the potential for trade to contribute to growth and job creation. By improving domestic integration, producers would face lower costs to allow them to compete with imports and encourage trade with foreign markets as exporters (World Bank 2021). Addressing barriers to trade would involve addressing multiple taxation and checkpoints, upgrading infrastructure (energy and road transportation) in strategic corridors in Somalia and the Horn of Africa (HoA), integrating communities into corridor trade and facilitating trade logistics in the main border markets. Broad reforms are already underway in Somalia's energy, road and financial sectors, which hold significant potential for improving economy-wide performance and trade competitiveness.[48] Current estimates suggest that the annual value of Somalia's merchandise export revenue could increase by as much as one third annually if it more fully exploited the untapped potential to increase the sales of goods it currently exports.[49]

Somalia has already commenced the process of harmonizing multiple customs regimes, which should be further accelerated. Moving forward, applying a single tariff schedule will involve harmonizing duty rates and implementing a common customs reference value table. This involves harmonizing customs administrations through issuing relevant regulation as well as eliminating double taxation between the FGS/FMS. Most of these measures do not generate large revenues, but they can be detrimental to economic activities and should be removed (World Bank 2020). Building effective public-private dialogue mechanisms on trade-related issues linking the FGS to the FMS can support the accelerated progress in harmonizing customs regimes and in turn encourage developments towards a national trade strategy.

A national trade strategy could build on efforts to harmonize multiple customs regimes and provide a basis for engaging the private sector. A national trade strategy can help to provide greater direction to the private sector on potential sectors to invest in alongside efforts to improve supply side constraints to domestic production. There should also be greater emphasis on improving private sector representation in the current coordination structures such as National Trade Facilitation Committee (NTFC).

Somalia can enhance its export earnings and reduce vulnerability to shocks by expanding its exports to traditional markets where potential demand remains untapped as well as to new markets beyond the Gulf region. Beyond livestock, gums and resins (frankincense and myrrh), fruit, and meat show potential for increased sales, with East and South Asian markets offering the greatest opportunities for growth (World Bank 2021a). Production and export dependence on primary commodities, particularly live animals, leaves Somalia exposed to external price shocks, natural disasters, and changes in importing countries' trade policies, such as recent Saudi restrictions on live animal imports. Both animal and crop production are sensitive to rainfall patterns and subject to pests and diseases. The recent past has confronted Somalia with the outbreak of diseases and successive droughts, flooding, and infestations of desert locusts which consume rangelands as well as crops. Each of these episodes has hobbled Somalia's trade performance, highlighting the critical importance of trade diversification (World Bank 2018).

As supply-side constraints are addressed, Somalia can gradually develop capabilities to progressively produce more sophisticated and domestic value-generating products. Prospects for export diversification lie with goods whose production is closely

[48] See the policy notes on the energy sector, the road sector and the financial sectors.

[49] The analysis is based on the Export Potential Map developed by the International Trade Center (ITC) www.trademap.org

related in the product space to items Somalia already exports. Promising products include new fish and shellfish species and agro-food products such as sesame oil, meat, and processed fruits. The potential for export growth varies across sectors. While considerable scope exists to increase exports of oil seeds and fish products (by up to 60 percent), the growth prospects of the livestock sector is significantly smaller (estimated at about 10 percent of current export levels).

Services trade also offers substantial potential, as the value of services exports is estimated to roughly equal that of goods. Services export flows recorded in the balance of payments estimates chiefly relate to travel and hospitality — involving spending by visiting businesspeople, officials, NGOs, and the Somali diaspora rather than tourists. As security conditions in the country and the Horn of Africa improve, it may be feasible for Somalia to consider a strategy that focuses on transport and logistics services related to international transit trade as well as on cultural and ecotourism. While the former can and should be pursued in the short- to medium-term and be tied to priority investments in the country's trade infrastructure, the latter can only be expected to materialize over a longer-term horizon and result from significant improvements in security conditions and the availability of a quality tourism infrastructure.

Somalia can continue to step up efforts to strengthen regional and international trade agreements. Somalia has deployed a more activist trade diplomacy in recent years, reflecting the country's aim to assign to cross-border exchange a prominent role in the country's development trajectory. It has stepped up engagement in trade negotiating processes at both the regional and global levels. On the regional front, Somalia reintegrated the Common Market for Eastern and Southern Africa (COMESA) in 2018 and has applied to join the East Africa Community. In 2020, the Somali cabinet approved the country's membership in the Africa Continental Free Trade Area (AfCFTA) treaty but its ratification awaits parliamentary approval. Enhanced harmonization of multiple customs regimes can support Somalia's long-term ambitions access the World Trade Organization (WTO).

The capacity of Somalia's trade-related institutions should be strengthened. Key institutions include the Ministry of Commerce and Industry (MoCI), the Ministry of Finance, the Office of the Prime Minister housing the Chief Negotiator for WTO accession as well as the National Trade Facilitation Committee, and the Somali Bureau of Standards. Bringing together public and private stakeholders can support a national trade strategy aimed at diversifying the product and geographic range of Somali exports, attract investment and promote the integration of Somali traders to markets in the Horn of Africa, across the African continent (by leveraging membership of COMESA and the ACFTA) and globally, through stepped up efforts at complying with the membership requirements of the WTO. The Somali Bureau of Standards can support the upgrading and diversification of exports, particularly in areas such as agriculture and the fisheries sector, which hold great potential.

To support access to information for investors and Somali traders, the trade portal could be rolled out to the FMS. MoCI had conducted initial engagement with the Federal Member States and received positive requests for collaboration. Implementation and uploading of content from all FMS will require a formal coordination mechanism with FGS-FMS roles clearly defined. In additional, the MoCI may require additional resources for long term sustainability and maintenance of the portal.

ANNEXES

ANNEX 1: TRENDS IN THE BALANCE OF PAYMENTS

Table 1. Balance of payments, 2015¬–21

(share of GDP)

	2015	2016	2017	2018	2019	2020	2021e
Trade balance	55.3	56.5	64.7	68.4	66.3	66.6	69.5
Exports of goods and services	19.5	19.3	17.7	19.1	17.5	16.9	17.9
Imports of goods and services	74.8	75.8	82.4	87.6	83.7	83.5	87.3
Income balance							
o/w remittance inflows	25.0	24.7	25.4	25.3	24.4	23.2	28.7
o/w ODA grants	26.5	25.3	37.1	37.6	31.5	33.6	28.2
Current account balance	4.5	7.1	2.8	6.1	10.9	11.7	13.2
FDI inflows							

Sources: SNBS, CBS, IMF, WB etc.

ANNEX 2: TRENDS IN THE COMPOSITION AND DIRECTION OF MERCHANDISE TRADE

1. COMPOSITION OF TRADE

1.1 Merchandise exports

Somalia's merchandise exports are concentrated in a handful of products. Livestock exports have accounted for about 60 percent of goods exports since 2010. Sesame seeds and gold began to emerge as exported commodities after 2000, albeit from a low base from Somaliland in the case of gold. The top five exported product categories represent 83 percent of Somalia's total exports.

Table 2. Somalia: Composition of commodity exports, 1962–2019

Live animals (00+94)	15	53	65	64	45	61
Bananas and other fruit and vegetables (05)	67	23	16	9	0.5	2
Hides, skins and fur skins, (21)	9	7	4	2	3	1
Fish and fish preparations (03)	1	2	3	9	7	6
Nonmonetary gold (97)	0	0	0.002	0.002	12	18
Charcoal and other wood products (24)	1	0.3	0.1	3	10	3
Crude animal and vegetable material (29)	1	2	5	3	2	2
Meat and meat preparations (01)	3	5	0.2	1	5	1
Sesame and other oil seeds (22)	0	0.1	0.005	1	2	4
Leather and leather manufactures n.e.s. (61)	0.08	0.2	0.39	0.2	1	1
All other exported goods	3	8	7	9	14	1

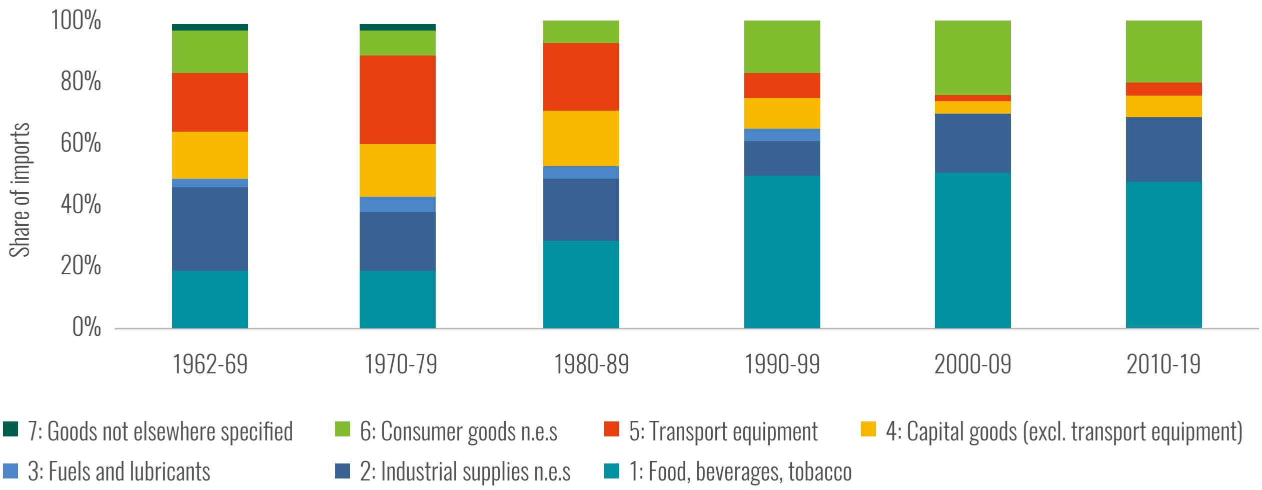
Source: World Bank staff calculations based on data from UN Comtrade.
Note: Figures show the percent of commodity exports for the top Standard International Trade Classification (SITC) divisions, based on data reported by Somalia's trade partners. Figures in parentheses are the two-digit (division) product code, as defined in the SITC. n.e.s. = not elsewhere specified.

1.2 Commodity imports

Somalia's goods imports show greater diversification, although their composition shifted from industrial to consumer imports after 1990, evidencing a marked drop in domestic productive capacity rooted in prolonged conflict. Imports of machinery, transport equipment (mostly non-passenger vehicles and, to a lesser extent, industrial supplies—much of which associated to public sector investments—declined sharply (Figure 2).

Imports of food, beverages, and tobacco accounted for about half of all imports after 1990. Rice, flour, pasta, and tobacco products have consistently been leading imports since independence. A negligible import category prior to 1990, sugar has accounted for about 15 percent of Somalia's imports since then, though such imports fell to less than 6 percent of aggregate imports in 2018. Somalia's top imported products in 2018 included tobacco, sugar, rice, and milk. Twenty products accounted for close to three fifth (58 percent) of total imports.

Figure 2. Somalia: Composition of commodity imports, 1962–2019



Source: World Bank staff calculations based on data from UN Comtrade.
Note: Data are constructed from mirror/partner statistics. Imports are defined according to the Broad Economic Categories classification. n.e.s. = not elsewhere specified.

2. Direction of trade

The past six decades witnessed a marked reorientation in the geographic composition of Somalia's trade, with a trend away from Europe and towards the Middle East on the export side as well as towards regional and Asian sources for imports. Italy was Somalia's largest trading partner in the first decade after independence and remained Somalia's largest supplier and a significant export market through the end of the century. As Somali producers shifted out of fruit production and into livestock, Saudi Arabia, Oman, Yemen, and neighboring countries became Somalia's main export destinations. Meanwhile, Kenya, India, and, more recently, China, progressively displaced Europe and the United States as Somalia's leading import suppliers.

3. Balance of trade

Import spending has exceeded export receipts in Somalia for decades, and the country's chronic trade deficit has increased over time. Somalia's trade deficit (goods and services) roughly quadrupled during the 1970 and 1980s, a period of state intervention in trade and growing macroeconomic instability. The trade gap has widened even more since a national government was reinstated, averaging over 80 percent of GDP in years for which reliable trade and GDP data are available.

4. Informal trade (unrecorded and small-scale cross-border trade)

Unrecorded movements of livestock between Somalia and its neighbors in the Horn of Africa are believed to greatly exceed the amounts reported in official statistics.[50] There is also significant small-scale cross-border trade in agricultural products and foodstuffs in areas bordering Djibouti, Ethiopia, and Kenya that are not registered in official statistics. Such informal trade is vital to livelihoods, especially of women and youth.

50 These estimates are compiled and summarized in World Bank (2020d), an unpublished background paper prepared for the World Bank's *Horn of Africa Regional Economic Memorandum,* 2021

Table 2. Somalia: Destination and origin of merchandise exports and imports, 1962–2019

(share of total)

Destination of exports						
Saudi Arabia	13	54	65	46	13	32
Italy	74	24	20	16	1	0.1
Yemen	n.d.	0.01	n.d.	14	28	5
Oman	n.d.	0.4	0.2	3	12	24
United Arab Emirates	n.d.	1.9	2	7	9	26.8
India	0.1	0.003	0.1	2	7	5
Kuwait	n.d.	5	0.1	2	4	1
Nigeria	0	0.2	0.1	n.d.	6	0.001
All other countries	13	16	12	12	20	6
Origin of imports						
Italy	44	31	37	15	1	2
Kenya	n.d.	1	2	18	21	3
United States	11	6	15	8	4	3
India	3	2	1	7	12	13
United Kingdom	8	9	6	4	2	1
Germany	8	6	7	2	0.4	6
China	n.d.	n.d.	0.3	1	5	22
Brazil	0.03	0.4	0.5	9	9	2
Oman	n.d.	0.0001	0.1	0.1	7	4
United Arab Emirates	n.d.	0	0.03	1	3	16
All other countries	26	45	31	34	35	28

Source: World Bank staff calculations based on data from UN Comtrade.
Note: Statistics are based on data reported by Somalia's trade partners. n.e.s. = not elsewhere specified. n.d. = partner reported no exports to Somalia during the decade.

5. Export specialization and comparative advantage

Of the 173 products Somalia exported at latest count, only 34 have revealed comparative advantage (RCA) values greater than 1 suggestive of export competitiveness.[51] Such products are highly concentrated in livestock and lightly processed animal and vegetable products. Including foodstuffs, such exports account for two thirds (65 percent) of all products with an RCA greater than 1. A major challenge resides in adding value to products endowed with export potential. Somalia exports livestock but not meat; hides and skins but not leather or goods made from leather; and seeds, fresh fruit, gums and resins in raw form rather than processed into other products.

- **6. Impacts of the covid pandemic on merchandise trade, 2020–21** Present table showing composition of imports and exports, using CBS data. Maybe aggregate into quarters to make data less noisy.
- Briefly discuss livestock trade (KSA cancels the annual Haj pilgrimage but relaxes restrictions on imports outside the Haj window; traders adapt by finding new markets; reinforce message from the body of the note about the need to diversity.
- Khat: Airport closure, social distancing, and explicit bans halt (recorded) khat imports.

51 Revealed comparative advantage (RCA) is an index developed by Bela Balassa (1965) that measures the importance of a product in a country's export basket relative to that product's weight in world trade. The value of the index exceeds 1 when a product's share of a country's exports is greater than its share of total world trade in all products.

NATIONAL AND REGIONAL ROADS CONNECTIVITY POLICY NOTE

A. KEY MESSAGES

Somalia's roads are of extremely poor quality, largely unpaved (87%) and unmaintained, and only 31% of the rural population has access to an all season road. Such limited connectivity has a significant impact on a variety of sectors, such as trade, agriculture, fisheries, health, education, etc. Improvements in its road sector, both as connectivity for its residents and to facilitate regional trade, are expected to pay dividends for national development, but will take many years and billions of dollars of investment.

Recent interest from donor countries, both through the HoA Initiative and otherwise, offers an opportunity to begin to address some key road corridors, but will require preparatory work to prepare and implement as well as long term capacity building, institutions, and policies to build on and sustain them.

B. SUMMARY KEY ACTIONS

SHORT TO MEDIUM TERM

- Preparing a prioritized list of projects which are ready for implementation, including identifying potential opportunities for funding civil works, with particular attention on national and regional corridors

- Operationalizing the institutions (especially the Somali National Highway Authority) necessary to oversee and develop the sector

- Develop a policy platform to coordinate and maximize synergies between infrastructure investments

MEDIUM TO LONG TERM

- Continue to develop sectoral institutions, developing capacity to plan for, implement, and maintain the sector

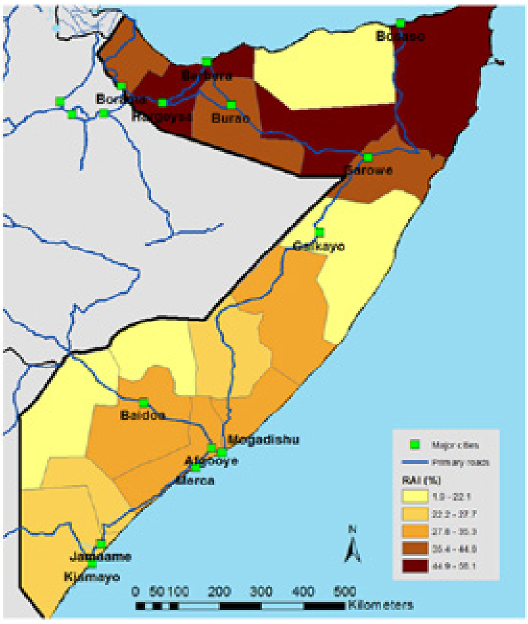
- Establish sustainable funding for maintenance of road assets

C. WHERE SOMALIA STANDS NOW

The poor quality of Somalia's road infrastructure is a major constraint on its population. Somalia's national transport infrastructure has suffered dramatically from a lack of maintenance and investment during the civil war; the current infrastructure gaps in the transport sector are massive. Of the 21,830 km of roads in the country, only 2,860 km are estimated to be paved (13 percent), and most of this paved network is believed to be in poor or very poor condition. Only 31.2 percent of the rural population has access to an all-season road, compared to 56 percent in neighboring Kenya, leaving the vast majority of residents without ready access (see figure 1).[52] In addition, significant regional variations exist, with northern regions better connected than those in the south. The transport sector is vulnerable to the impacts of climate change and natural disasters like flooding, extreme temperatures, and landslides, especially in the semi-desert areas and along riverbeds in the South. A resilient transport sector could, in turn, enhance the resilience of communities by improving food and water security and providing all-season access to services like education and health. Overall, a study by United Nations Office for Project Services, European Union and the African Development Bank (AfDB) (2015) estimates the basic needs for rehabilitating transport infrastructure at US$1.8 billion over the next 10 years.

[52] SDG 9.1.1. Rural Access Index - https://datacatalog.worldbank.org/dataset/rural-access-index-rai

Figure 12: Share of the Rural Population with Access to an All Season Roads



Source: World Bank. Rural Access Index.

This poor connectivity expresses itself economically as well, constraining growth in disconnected regions. Although Somalia is relatively highly urbanized, development of road connectivity to the hinterland and borderlands will be vital, as farmers and pastoralists living in rural areas are not well connected to services, or domestic and international markets. Due to infrastructure and security challenges, economic centers functioning as "islands", weakly connected with their neighbors. The poor quality of the road network drives significant costs for the more disconnected regions within the country, with high transport prices (up to US$ 0.50 per ton kilometer) which are among the highest in Africa. On land, total transport costs to a large city, a proxy for estimating access to domestic markets, are found to be very high in many parts of the country, at US$20 to US$50 per ton, despite relatively short distances due to poor infrastructure, security and associated taxation, checkpoints, etc. Nearly all sectors are constrained by such poor connectivity, both in terms of trade of goods (including livestock) and services. Along the coast, the lack of infrastructure expresses itself as a severe limitation on the fishing industry, with a low intensity of development of coastal infrastructure in some regions (e.g., Galmudug and Hirshabelle).[53]

Despite its strategic location, Somalia has not been able to capitalize on its potential to be an economic integrator within the Horn of Africa (HoA), with trade and infrastructure services facilitating connectivity to global markets for its neighbors. With its long coastline, established seaports, important marine resources, and orientation of its primary roads as beltways into the interior, Somalia has a potential competitive advantage to becoming a gateway to international markets for its landlocked neighbors. The country is unable to play this role currently, however, due to many of the same infrastructure and trade challenges impacting connectivity within the country, such as failing road infrastructure, limited port capacity, undeveloped cold-chain infrastructures and seafood value-chains, poor energy supply, weak institutions, absent or unclear regulations, non-tariff barriers to trade and financial and fiscal challenges both at FGS and FMS levels. In addition, the presence of other ports in the wider region (including Mombasa in Kenya and Djibouti) presents some level of competition, highlighting the importance of addressing wider bottlenecks and identifying specific trade flows for which it has a competitive advantage. The link from Ethiopia through Somaliland is one important exception, with the Jijiga-Hargeisa-Berbera link through the border post at Tog Wajaale showing the potential benefits of relatively good cross-border trade leading to rapid growth.[54]

The governance of the sector is weak, with nascent and/or low capacity institutions. The FGS has limited capacity and resources to provide basic service delivery and bridge the country's vast transport sector challenges. National institutions are either weak or nascent, and the FGS has identified several national sectoral agencies to be created. Within the roads sector, the Ministry of Public Works, Reconstruction and Housing has responsibility for planning and executing road rehabilitation and maintenance. It also serves as nominal home for the

[53] For more information, see the Somalia Country Economic Memorandum: Towards an Inclusive Jobs Agenda, June 2021, World Bank.

[54] For more information on cross border flows and the economic geography of the region, see the Horn of Africa Regional Economic Memorandum, 2021, World Bank.

Somali National Highway Authority which is officially established but has not been operationalized. The Ministry of Transport and Civil Aviation has responsibility for higher level planning and standards setting governing the sector. Neither of these ministries have the resources, capacity or analytical underpinnings in place to strategically plan for or implement the sector's development.

Redevelopment of Somalia's road network is being considered in parallel with the redevelopment of the rest of its infrastructure, presenting tradeoffs and coordination challenges. Transport does not exist in a vacuum, and its redevelopment can facilitate that of other linear infrastructure, such as through shared right of way. Its impacts can also be magnified through joint infrastructure development. A recently published study[55] on the potential impact of infrastructure development on the HoA found that a coordinated expansion in access to roads, electricity and internet, as could be envisioned through an economic corridor approach can have an important role in driving a structural change in employment (estimated at a 12 percent increase in the share of services employment). Such coordination is challenging, however, and fragmentation within the infrastructure sector's governance (both between line ministries and authorities, and between FGS and FMS) only compounds this difficultly. Within the FGS, coordination mechanisms have been established (through infrastructure sector working groups, for example) but the overall scope of the infrastructure development needs, lack of coordinated investment planning, largely privately planned and developed power and telecom sectors, fragmented governance across the FMS, and lack of data make effective coordination difficult. In addition, prioritization between sectors, and the best use of scare resources and capacity, introduces the potential for competition between sectors and institutions.

Since 2012, the federal government and the FMS, with the support of development partners have begun to identify and act on initial priorities for critical investment in the road sector. The AfDB supported the FGS to conduct a sector evaluation (Transport Sector Needs Assessment, 2016) to identify priorities in the sector. Building on this assessment, several road reconstruction/rehabilitation projects are under preparation or implementation: the Berbera-Tog Wajaale corridor and the Burco-Berbera road (supported by the UK's Foreign, Commonwealth and Development Office and the Abu Dhabi Fund for Development) and the Berbera-Hargeisa road (also supported by the Abu Dhabi Fund for Development) in Somaliland, the Beledweyne-Galkayo and Garowe-Galkayo roads in Puntland and the Galkayo-Hobyo road in Galmudug (supported by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), AfDB and the EU), the Luuq-Doolow road in Jubbaland, (supported by AfDB and the EU) and the Mogadishu-Afgoye and Mogadishu-Jowhar roads in Banadir/Hirshabelle (supported by the Qatar Fund for Development).[56] However, beyond these interventions, other road works are not ready, because of a lack of requisite technical studies and resources on the part of the FGS. The institutional capacities of the ministries are limited, and the governance challenges are many, especially due to absence of clear demarcation of authorities between the federal government and FMS in the management of the sector.

D. HOW SOMALIA CAN MAKE PROGRESS

Develop a prioritized pipeline of economic corridor projects ready for donor (or other) financing. While the connectivity needs for Somalia are extensive, and nearly the entirety of the road network is in need of rehabilitation, resources are highly constrained. Recognizing the potential for trade, as well as the relatively urbanized population, an economic corridor model presents a clear cost-effective approach to identify priority high impact investments. This recognition is underscored by the selection of corridors in the Horn of Africa Initiative. It has been estimated that development of the HoA Initiative identified corridors, combined with trade facilitation support, could boost real income in Somalia by 6.3 percent.[57] The development of such corridors is expected to support three important objectives: reduction in travel time to port for landlocked regions;

55 Matias Herrera Dappe and Mathilde Lebrand. "Infrastructure and Structural Change in the Horn of Africa". World Bank. 2021.

56 These are estimated to cover about 1900 km of roads, with interventions ranging from periodic maintenance to rehabilitation, and with varying likelihood of eventual delivery.

57 Matias Herrera Dappe and Mathilde Lebrand. "Infrastructure and Structural Change in the Horn of Africa". World Bank. 2021.

generation of domestic and regional economic activity along the corridor (including in marginalized areas); and promotion of intra-regional trade. Such integration will be especially important to take advantage of the recently agreed African Continental Free Trade Area. In order for Somalia to take advantage of the HoA Initiative, as well as other donor interest in supporting road development, a prioritized pipeline of road corridors should be agreed and prepared (including feasibility, designs, environmental and social safeguards instruments, and other aspects). Such a prioritization process will require both technical underpinning and political buy in. It is in recognition of this gap that the FGS is working with the World Bank to prepare the Somalia-Horn of Africa Infrastructure Integration Project (SHIIP) which will help to develop the first of such. This project, however, will only begin to tackle Somalia's extensive backlog of road reconstruction needs, and longer-term attention will be necessary.

Develop the institutional structures to govern the roads sector. Long term and sustainable improvement within the roads sector will require government institutions with the capacity to plan for, manage, and oversee the rehabilitation and maintenance of the primary road network. In addition to technical capacity, such institutions will need to develop their general capacity for project management, including environmental and social considerations, financial management, and procurement. While legally in place, the Somali National Highway Authority needs to be operationalized to take much of this role, and the overseeing ministries (Ministry of Public Works, Reconstruction, and Housing, and Ministry of Transport and Civil Aviation) will require capacity and clarity on their functions. Although some activities are ongoing (funded by the African Development Bank and the EU) and planned (under the World Bank financed SHIIP) to help the FGS lay the groundwork for such development, creating effective institutions will require decades of sustained effort.

Application of the 'dig once' principle, with coordinated deployment of linear infrastructure.[58] Recognizing the high costs for redeveloping the nation's infrastructure, as well as the great needs across all sectors, aligning investments would reduce cost of deployment and hasten the rate at which Somalia is able to bridge its vast infrastructure gaps. Aligning infrastructure investments across sectors allows for shared right of ways, coordinated civil works, and delivery mutually reinforcing benefits. With such coordination, however, comes a need for wider sector-based network planning that requires sectoral institutional capacity building and an improved capacity for integrated infrastructure planning, platforms for inter-sectoral coordination and collaboration, as well as joint efforts to support the development of an enabling regulatory framework that cuts across infrastructure sectors – e.g. in relation to rights of way, private public partnerships, environmental and social safeguards.

Adopt contract structures and institutional arrangements which plan for the medium to long term maintenance of road assets. A frequent challenge faced by roads authorities in many countries is the lack of sufficient funding for road maintenance. Without regular maintenance, roads will degrade long before their design life, leading to poor outcomes for road users and/or high costs for complete rehabilitation to bring them back to working standards. In a country such as Somalia, with an extremely tight national budget and myriad demands across a range of sectors, this is an even more likely eventuality. While there are various institutional and contractual ways to address this challenge (such as dedicated road funds), incorporating a period of maintenance into the initial road construction contract has been shown to be effective in many areas. In the very long term, Somalia may be able to leverage private investment to meet some of its road sector demands, but the needed security, institutional capacity, and willingness to pay among road users for such modalities are likely still decades away.

[58] Such as roads, electricity transmission lines, and fiber optic cables.

ENERGY SECTOR POLICY NOTE

A. SUMMARY OF KEY MESSAGES

Although the country has been on a trajectory toward political stabilization and reconstruction after decades of instability, Somalia's power sector faces multiple challenges. The sector is highly fragmented and inefficient due to the lack of an effective institutional and legal framework for public and private actors, as well as the absence of a national network infrastructure. The existing privately owned generation assets of electricity service providers (ESPs) are mostly isolated, diesel-powered mini-grids. They operate in an inefficient manner, leading to large power sector greenhouse gas emissions and high technical and commercial losses (approximately 35 percent in total losses on average). Operating existing units more efficiently and harnessing Somalia's untapped renewable energy (RE) potential could decrease generation costs by up to 25 percent. Somalia's daily average solar radiation (6.4 kilo-watt hours per square meter per day [kWh/m2/day]) is the largest of all HoA countries. Indeed, it is one of the highest globally. Initial wind measurements revealed annual wind speed over 8 meters per second (m/s) in most regions (especially along the coast). This indicates that Somalia has the highest potential for onshore wind power of any nation on the African continent.[59]

B. SUMMARY KEY ACTIONS

- Establish an Energy Sector Working Group to oversee the re-establishment of the electricity supply industry within one month.
- Enact the Electricity Law as a follow-up to the Cabinet approval of the Electricity Sector Policy and the Electricity Bill (in December 2020). Establish the enabling institutional and legal framework within the next 100 days.
- Join the Eastern Africa Power Pool within the next 100 days to allow for trade with cheaper energy providers in the medium term.
- Amend existing licenses of ESPs to improve their operational, commercial, and environmental performance standards within the next 1 year.
- Establish a national electricity regulator with appropriate staffing within the next 2 years. Draft and enact a grid code within the same timeframe.
- Adopt a least-cost national electrification plan to inform national investments in generation, transmission and distribution within the next 2 years. Conduct an assessment of the potential of renewable resources and a roadmap for their development.
- Establish and operationalize a public utility to operate the future transmission network within the next 3 years.

Medium- to long-term actions. Additional medium- to long-term actions to develop the electricity sector include: (i) analytical work building on existing wind resource studies and implementation of pilot projects; (ii) launching a reconnaissance study of the geothermal perspective; (iii) implementation of a least-cost integrated energy plan; (iv) development of an electrification strategy; (v) the establishment of a national grid; (vi) increasing renewable energy generation; (vii) increasing electricity access; and (viii) reforming private sector participation through instruments, such as a Feed in Tariffs (FiT) policy and competitive bidding process.

[59] AfDB, ("Development of Wind Energy in Africa." (AfDB, 2013).

C. WHERE SOMALIA STANDS NOW

Somalia's electricity sector is one of the most underdeveloped in the region. Only a very small fraction of the Somali population has access to affordable, safe, reliable, and predictable energy services because of: (i) low electrification rates,[60] especially in rural areas; (ii) the high cost of power; (iii) high technical and commercial losses; (iv) dependency on imported petroleum products for electricity generation; and (v) reliance on biomass resources for cooking. Both public and private actors have constrained capacity, operating in the absence of appropriate legal and regulatory frameworks, which continues to hold back sector development. Private sector players (ESPs) supply more than 90 percent of power in urban and peri-urban areas using local, private mini-grids, mainly powered by diesel-based generation. The public electricity infrastructure was destroyed during the conflict, and the associated public institutional frameworks are almost completely defunct at present.

Key sector performance indicators are below those of most other countries in the Horn of Africa (HoA)[61] (table 1). Notably, electricity access is estimated at only 36 percent. The power supply is inadequate to serve a growing demand. The estimated peak demand was 400 megawatts (MW) in 2021, and demand is forecasted to grow at 9 over the next 5 years.[62] However, existing capacity only stands at 138 MW. The average tariff of U$0.60/kilowatt (kWh) (with peaks of US$1.0/kWh) is one of the highest in the world. An inadequate and expensive power supply is a significant barrier to socioeconomic recovery and growth.

Table 1. Key Performance Indicators for Somalia's Energy Sector Compared to HoA countries

Parameter	Value	Average for HoA
Electricity access (%)[1]	36	53
Average electricity tariff (US$/kilowatt [kWh])[63]	0.60 – 1.0	0.22
Average transmission and distribution (T&D) losses (%)[4]	25 - 45	23
Share of private sector generation capacity (%)	95[2]	14
Energy mix (%)[64]	Thermal: 98; Renewable: 2	Thermal: 21; Renewable Energy: 79
Emission intensity for electricity and heat generation (tons of carbon dioxide/gigawatt hours [CO2/GWh])[65]	592	373
Average solar irradiation (kilo-watt hours per square meter per day [kWh/m^2/day])[3,66]	6.4	5.7

Source: WB staff analysis.

60 A reliable baseline for electricity access still needs to be established, planned for FY23 through the ESMAP developed Multi-Tier Framework (MTF). According to the Tracking Sustainable Development Goal (SDG) 7 Energy Progress Report (2020), electricity access stands at 36 percent.

61 For the purpose of this note, the HoA countries include members of the Horn of Africa Initiative, launched in 2019, namely: Somalia, Djibouti, Eritrea, Ethiopia, Kenya, and Sudan.

62 Ministry of Energy and Water Resources, Power Master Plan. (Government of Somalia, 2018).

63 World Bank, "Utility Performance and Behavior in Africa Today.: (World Bank, 2021).

64 IEA. Country Electricity Statistics. (IEA, 2020).

65 IRENA. Country Energy Profiles. (IRENA, 2018).

66 E. Dursun. "Solar Energy Potential in Horn of Africa: A Comparative Study Using Matlab/Simulink." Balkan Journal of Electrical & Computer Engineering, Vol. 9, No. 3, July 2021. DOI: 10.17694/bajece.974404

The electricity sector is highly fragmented and inefficient due to the lack of an effective institutional and legal framework. The electricity sector in Somalia is essentially unregulated by the government, which has so far lacked the technical capacity and resources to regulate the ESPs. The Ministries responsible for energy are mandated to issue operating licenses. However, given the policy vacuum and lack of a legal and regulatory framework, the ESPs operate as commercial enterprises on an ad-hoc basis — without clear licensing guidelines and performance requirements, or common regulations, codes, and standards. The ad hoc nature of private service provision has led to a highly fragmented electricity sector throughout the country. It is also quite expensive, given the lack of economies of scale and the use of outdated and poorly engineered systems. This has resulted in the installed generation capacity not being used efficiently. In addition, the sector faces other changes, such as extremely high electricity losses, unsynchronized generation and distribution assets, high tariffs, and safety risks.

The Somali government sector institutions are in the formative stage and have no effective institutional and legal framework. In the Federal Government of Somalia (FGS), the Ministry of Energy and Water Resources (MoEWR) has the mandate to oversee operations in the electricity sector, whereas in Somaliland, the Ministry of Energy and Minerals (MoEM) has the mandate over the energy sector. At the federal level, there are ministries responsible for electricity, although most of these are not yet fully functional. Key sector decisions are made by the MoEWR in the FGS and MoEM in Somaliland.

The existing generation is operated inefficiently, leading to high fuel and environmental costs of electricity generation. Nearly 100 percent of generation is derived from high-speed diesel fuel powered generators (HSDGs). Most of the existing installed generation capacity is not being used efficiently, and many of the units are operating below expected and designed performance criteria. This is due to the lack of sector regulations and limited capacity of the ESPs to invest in the equipment required to synchronize existing HSDG units. It is also coupled with a shortage of operations and maintenance staff trained in the use of equipment required for synchronous operation. . By addressing the synchronization of generation units and, ideally, supplementing the units with a renewable energy source, gains in effectiveness could contribute to a reduction in generation costs of up to 25 percent. Considering the major load centers alone, there are at least 227 HSDG systems currently operating in Somalia, with a median capacity of 315 kilowatts (kW). These generators are estimated to consume in excess 121,000 liters of diesel per day. Somaliland alone accounts for about 36,000 liters of this daily fuel consumption. With increasing demand for electricity, it is projected that diesel consumption could increase to about 694,000 liters per day in the medium term, that is, if additional capacity to meet this demand comes from HSDG systems alone. Environmental concerns about carbon dioxide (CO_2) emissions are further exacerbated by a high reliance on biomass.

There is significant untapped renewable energy resource potential in Somalia. Somalia's nationally determined contribution (NDC) target under the mitigation component is to reduce greenhouse gas (GHG) emissions by 30 percent below a business as usual (BaU) scenario by 2030. The country has significant potential for using renewable energy for electricity generation, particularly solar and wind energy. The daily solar radiation (horizontal) averages 6 kWh/m²/d. The annual wind speed is over 8 m/s in most regions, especially along the coast. The country's hydropower generation potential of approximately 100 to 150 MW exists in the lower, upper, and middle parts of the Shebelle River and Juba River.

The regulatory vacuum inhibits investment flows to the sector. Given the creation and implementation of appropriate regulation, formalizing the energy sector will be an essential precondition for the mobilization of significant investment. In the absence of such formalization, the investment will remain seriously constrained, and the sectors will continue to underperform. While private sector participation is desirable, the lack of appropriate governing laws and regulations introduces substantial uncertainty and inhibits investment. All stakeholders appreciate that the structure must change significantly for the sector to provide affordable, reliable, and widespread electricity supply.

Operationalization of the Power Sector Master Plan (PSMP). Somalia has prepared a PSMP that was adopted in May 2019. It sets the priorities and sequencing of investments in generation, transmission, and distribution over a period of 20 years, phased into short-, medium-, and long-term plans. The plan includes strategies for expanding rural and urban access to electricity, including enabling activities and infrastructure investment activities covering: (i) the electrification of selected cities; (ii) the expansion of coverage outside of major cities; and (ii) the interconnection of separate urban grids into a future national grid. The increase in rural and urban access to electricity services is forecasted to increase electricity demand to between 1,000 to 4,600 megawatts (MW) by 2037 in the business as usual and transformational scenarios, respectively. Proposed activities are detailed in Annex 1.

Regional integration for power trade. Somalia is an active member of the Horn of Africa Initiative and a prospective member of the East Africa Power Pool (EAPP). Interconnection with other HoA countries (for example, Ethiopia) could allow for a substantive increase in power supply, as well as a decrease in the average generation costs through imports of low-cost, renewable-based electricity. These regional initiatives could also leapfrog the establishment of a national transmission grid through the formation of regional interconnectors for power trade and access expansion. The World Bank is preparing the Horn of Africa Regional Integration for Sustainable Energy Supply Project (HOA-RISES; US$590 million; Board date Q4 of Fiscal Year 2022). The project will support the feasibility studies for the establishment of 2 interconnectors between Ethiopia and Somalia, as well as an increase in energy access (electricity and clean cooking) in the borderlands of the country.

D. HOW SOMALIA CAN MAKE PROGRESS

Harnesses the strengths of the existing private sector. The PSMP has been developed as an initial framework, which includes a set of actions to reestablish and enhance the sector institutions. The proposed sector undertakings, as outlined in the PSMP, are informed by both ongoing initiatives and several sector assessments and pilot investments. The ongoing, increased number of ESP mergers and acquisitions are key, taking place initially at the ownership level and gradually at the operational levels. Such mergers/acquisitions are often premised on the owner of the smaller company becoming a shareholder of the larger one with a certain (negotiated) level of influence within the company. This would depend on the size of the capital and client base. Having started with small, neighborhood-level generators, some of the ESPs have been growing and consolidating their service territories. Though some of the small ESPs are still in place, they now mainly operate as a part of larger entities — especially in the major load centers. The integration and generation synchronization of the proposed network operations offers opportunities for the mergers to invest in new and larger generating units to take advantage of economies of scale, thus permitting the older, smaller, and inefficient units to be decommissioned. The establishment of an integrated sub-transmission and distribution network infrastructure would also enable investments in large-scale, offsite generation. Further, some ESPs have begun hybridization of the existing generation by investing in renewable energy (mainly solar and wind), with the main benefit of fuel savings. In addition to increasing their capacity to invest in the infrastructure under their ownership, the merged and larger ESPs would be able to retain a power sector work force that is more skilled, thereby enabling them to operate more efficiently.

Sector institutional and regulatory framework. After decades of conflict, the institutional, legal and regulatory infrastructure needs to be reestablished to support an Electricity Supply Industry (ESI) with clear roles, responsibilities, as well as the capacity for sector management and operations. An enabling environment also needs to be established to attract private investments in the sector, including for renewable energy and access expansion. This would also include a multi-year, capacity-building effort to enhance the sector skills, and business process reengineering.

The government should enact sector laws, regulations, and standards (such as the grid code) to provide clear mandates, roles, and obligations of the various sector stakeholders. Immediate policy and regulatory actions should be directed to enacting the Electricity Bill. In the interim, licensing arrangements can be developed for existing providers, with the objective of regularizing the status quo. These simplified, fast-track arrangements could also include a first set of obligations regarding the quality of service and customer service. The data will allow the authorities to achieve a better understanding of the providers' operations. It will also prove helpful for the next stages of regulatory development. The ESPs' ability to operate efficiently and to scale up their operations is hampered by several constraints, such as lack of access to funding, limited institutional capacity and technical skills, and the lack of an enabling legal and regulatory environment. By investing in sector capacity enhancement and network infrastructure, Somalia can leverage the private sector to reestablish the ESI. Ongoing initiatives to interconnect the distribution network operations of the ESPs, as well as providing utility business development support, could enable the ESPs to attract increased commercial financing. It would also help to create an enabling environment for private sector-led investments in grid-scale generation, as there would be credible downstream off-takers. Further, the institutional and regulatory enhancement would support the reestablishment of transparency, trust, effectiveness, and legitimacy in the government institutions to provide an enabling operating framework for the private sector.

As part of the Horn of Africa Initiative, Somalia can leverage the opportunities offered by regional integration to leapfrog the establishment of the transmission backbone infrastructure, thereby enabling access to a diverse and low-cost electricity supply from regional neighbors. Somalia is an active member of the Horn of Africa Initiative and a prospective member of the EAPP. These regional initiatives could support Somalia in infrastructure access expansion through regional schemes for affordable connectivity. This would include rebuilding the physical infrastructure and participating in regional power trade initiatives — all which could enable access to an adequate, diverse, and affordable electricity supply.

ANNEXES

ANNEX 1. PRIORITY ACTIONS AND INVESTMENTS TO FOSTER ELECTRICITY AVAILABILITY, RELIABILITY AND INCREASED ACCESS

Action 1. Generation Investments

	Short-term	Medium- to Long-term
Activities	i. Introduce medium-speed, diesel generation and simple cycle gas turbines. ii. Hybridize existing generation with solar and wind, including battery storage. iii. Establish hybrid mini-grids.	i. Develop large-scale grid connectable to renewable energy generation capacity (mainly wind and solar). ii. Expand regional power trade.
Objectives	i. Increase the efficiency of existing facilities. ii. Meet incremental demand. iii. Reduce the reliance on diesel-based generation. iv. Increase access to electricity services. v. Increase the share of renewable energy in the existing generation capacity.	i. Increase generation capacity to meet demand. ii. Reduce the cost of the electricity energy supply. iii. Increase access to electricity services. iv. Increase the share of renewable energy in the country's generation mix.

Action 2. Transmission and Distribution Investments

	Short-term	Medium- to Long-term[67]
Activity	i. Distribution network integration and expansion in the major load centers. ii. Establish sub-transmission network to enable connection of large-scale generation. iii. Distribution network reinforcement and loss reduction.	i. Establish north and south transmission network backbones. ii. Establish regional transmission network interconnectors, especially with Ethiopia. iii. Establish a national transmission backbone.
Objectives	i. Reduce network duplication. ii. Enable generation synchronization. iii. Increase network operations efficiency. iv. Provide infrastructure to enable large-scale generation supply.	i. Increase electricity supply. ii. Reduce the cost of the electricity supply. iii. Increase access to electricity services.

[67] Two options inform the proposed transmission network development: (i) interconnection with neighboring Ethiopia, Djibouti, and Kenya; and (ii) major power plants feeding into the national transmission backbone. About 2,600 kilometers (km) are required to establish the national transmission backbone, with the first option being a split backbone covering the northern and southern sections.

Action 3. Increase Access to Electricity Services

	Short-term	Medium- to Long-term
	i. Construct hybrid mini-grids in green field areas. ii. Develop mini-grid hybridization in brown field areas. iii. Develop stand-alone solar photovoltaics (PV) systems. iv. Make more efficient use of biomass.	i. Expand the transmission and distribution network. ii. Scale-up mini-grids in green field areas/isolated communities. iii. Develop stand-alone solar PV systems.

FINANCIAL SECTOR POLICY NOTE

A. SUMMARY OF KEY MESSAGES

In recent years, the Somali financial sector has been growing steadily and transforming in response to market demand and the leveraging of technological advancements. Widespread use of mobile money is supporting financial inclusion. Bank deposits and credit to the private sector also continue to grow from a low base. However, finance for investment purposes and the range of financial products offered continue to be very limited, Furthermore, the modest financial intermediation that exists is largely concentrated in short-term trade finance and relatively large loans. As a result, access to finance for micro, small and medium enterprises — especially those owned/managed by women — is very constrained. A lack of earning opportunities, particularly one remunerated in US Dollars, further exacerbates financial inclusion challenges for the most vulnerable population groups. Continued issues with financial inclusion and financial deepening are largely attributable to the country's political and security situation. However, a lack of credit and collateral registries also contribute to the challenge. Importantly, Somalia also remains isolated from the global financial system. There are gaps in country systems tackling Money Laundering (ML) and the Financing of Terrorism (FT) risks, as well as unreliable Know Your Customer (KYC) / Customer Due Diligence (CDD) protocols — including those related to the lack of a trusted means of identification (ID). Furthermore, there have been challenges in adopting an adequate legal framework for a Digital ID, which could have numerous benefits. These include supporting the fight against ML/FT risks, access to correspondent banks, financial inclusion, and cash transfer programs for vulnerable segments of the population.

B. SUMMARY KEY ACTIONS

LEGAL AND REGULATORY FRAMEWORK

- **Legislation is pending enactment,** such as the National Payment Systems Law, the Insurance Bill, an updated Financial Institutions Law, and a Digital ID Bill (aligned with the Digital ID policy).

- **Regulations need to be adopted** to support implementation of Insurance/*Takaful*,[68] the National Payment System Oversight Framework, and the Central Bank Act. Further requirements include developing a framework for Islamic banking, and guidance on financial reporting and accounting for supervised financial institutions.

FINANCIAL INTEGRITY AND STABILITY

- **The National Risk Assessment (NRA) should be used** to develop an AML/CFT Action Plan and to prepare for the Middle East and North Africa Financial Action Task Force (MENA-FATF) mutual evaluation in 2024 to prevent criminal abuse of the financial system.

- **Strengthen Central Bank of Somalia (CBS) enforcement of supervisory actions concerning AML/CFT regulations** covering KYC/CDD and suspicious transaction reporting.

- **Accelerate institutional reforms to strengthen the CBS** by extending Use of Country Systems (UCS) to Federal Member States (FMS), and implement priorities in the CBS Strategic Plan (2020–2024).

68 *Takaful* is a type of Islamic insurance wherein members contribute money into a pool system to guarantee each other against loss or damage.

- **Market-based financial intermediation and formalization of the financial services market should be encouraged** by enhancing prudential regulations for the banking sector, revising regulations concerning capital adequacy, and introducing medium-term reserve requirements for banks.

FINANCIAL INCLUSION

- **Strengthen the capacity of financial institutions** (including utilizing the Gargaara facility and other donor-supported programs) to mitigate risk perceptions and increase outreach to underserved segments, including the productive sectors, and women-owned/-led enterprises.

- **Accelerate the work in establishing credit and collateral registries.**

- **Restore confidence in the national currency** and its acceptance by financial institutions.

DIGITAL ECOSYSTEM

- **Strengthen the CBS's mobile money oversight function** and enhance consumer protection.

- **Introduce a harmonized government approach to data protection and cybersecurity.**

C. WHERE SOMALIA STANDS NOW

CBS Institutional Strengthening and Financial Integrity Challenges

The CBS is making progress in strengthening its governance and organization. The revival of the CBS in 2007 contributed significantly to the overall development of the Somali financial sector. In 2012, the Central Bank Act was passed as part of redefining the structure, role and responsibility of the CBS. A CBS Strategic Plan (2020-2024) supports a transition from the CBS as a fiscal agent of the Government to a more policy-oriented institution. The CBS has drafted new standing committees as part of its policy orientation strategy, which will be implemented by early 2022. A new Board of Directors was established in March 2020 to guide future policy priorities. The Licensing and Supervision Department has also made significant progress in strengthening financial supervision and regulation.

The financial regulatory authorities continue to gradually strengthen the legal, regulatory and supervisory frameworks to improve oversight of the financial system. The Financial Institutions Law was passed in 2012. It laid the foundation of the legal framework for the financial sector. In 2019, the CBS approved mobile money regulations, which will improve oversight of the mobile money service providers. Most recently, further progress has been made in drafting three laws (the Revised Financial Institutions Bill, the National Payment System Bill and the Insurance Bill), as well as two regulations (Capital Adequacy Regulation and Liquidity Management Regulation). In addition, several guidance documents were drafted (for example, the AML/CFT Guideline for Financial Institutions, and the AML/CFT Guidance for Commercial Banks). On the supervisory side, the CBS also commenced operationalization of the National Payment System and Mobile Money oversight activities. As such, it strengthened licensing, compliance and supervisory activities of commercial banking and the money transfer business sectors. Finally, the CBS bolstered its internal controls and developed a charter to help audit functions focus on risk-based system audits. It also improved central bank financial reporting by making progress toward the adoption of the International Financial Reporting Standards (IFRS) as its foundational reporting frame.

With the launch of the National Payment System (NPS) in August 2021, the CBS achieved another key milestone. The system is expected to be adopted by all commercial banks. It will integrate automatic clearing house (ACH), real-time gross settlement (RTGS), and instant funds transfer (IFT) functionality within a single platform. It will also contain links between the CBS and the commercial banks to increase the readiness for scaling up Somalia's use of digital payments. The launch of the NPS is expected to boost trade and business, as well as to promote financial inclusion by facilitating efficient, low-cost and fast transactions in a secure and safe manner. It is also expected to strengthen overall financial stability and the integrity of the system, as well as facilitate its integration with the global financial system.

However, several issues need to be resolved, such as the overreliance on a few transmittal channels,

implementation of the legal framework, and the development of key central functions of the CBS. The CBS is over-reliant on a few transmittal channels for Official Development Assistance (ODA). The legal foundations for the CBS needed to underpin secure and stable transmittal channels are broadly in line with best practices. However, key provisions for modern central banking in Somalia remain to be fully operationalized (for example, the CBS's authorized capital share is not specified; the provisions and authority of the CBS's Audit Committee are not clearly delineated; and the provisions on external and internal audit procedures need to be strengthened). Finally, key central functions of the CBS that are critical to boosting financial sector integrity remain underdeveloped. Also, there continues to be only limited managerial and technical skills in policy areas of the CBS. The Somali economy is dollarized, and there is no local currency legal tender. As a result, the CBS currently lacks the capacity to implement monetary and exchange rate policy. Activation of relevant modules of the core banking and Enterprise Resource Planning (ERP) System remain outstanding (for example, the integration of the core banking system with the Federal Government of Somalia [FGS] Somalia Financial Management Information System [FMIS] and the new national payment systems platforms). Furthermore, fiduciary challenges related to central bank financial reporting (for example, financial statements finalized with significant delays, and qualified audit opinions due to unreconciled historical balances) continue to be an issue.

Independent oversight requires further strengthening. Gaps remain in the CBS's supervisory practices and enforcement of supervisory actions concerning AML/CFT regulations. The CBS and the Financial Reporting Center (FRC) should ensure that reporting entities understand their obligations and reporting responsibilities. Specifically, they should provide clarity regarding the relevant authority for purposes of supervision of AML/CFT obligation functions and the reception of suspicious transaction reports (STRs), as there is still confusion about these issues.

Isolation of Somalia from the Global Financial System

The connection of Somalia to the global financial system remains tenuous. Banks have few functional correspondent banking relationships, and only a fraction of international payments are being channeled through the banking sector. Most flows are channeled through the money transfer business (MTB) industry. These arrangements are increasingly becoming regulated, but the channels remain vulnerable as highlighted by the current COVID-19 crisis. The lack of functional correspondent banking relationships constrains global connectivity, and poses risks to remittances, as well as official development assistance and investment flows.

Access to global banking systems remains uncertain due to risks related to ML/FT, as well as legal and regulatory weaknesses — leading to de-risking by foreign financial institutions. This situation is largely due to gaps in country systems tackling ML and FT risks – including persistent risks of ML/FT – and the fact that existing KYC/CDD protocols are based on manual processes. Such processes are time-consuming, operationally demanding, expensive, inefficient, and unreliable. The lack of a robust and verifiable government-recognized identification (ID) represents a bottleneck. The difficulties faced by international investors and banks when undertaking due diligence assessments of financial institutions (FIs) is also a factor. Somalia's security situation and limited freedom of movement in the country hampers basic assessment steps, such as data collection and verification, as well as field visits to FI offices. Such visits are necessary to fully assess the organization's financial, governance, and programmatic capability and facilities to mitigate financial crimes.

Financial Inclusion and Access to Finance: An Ongoing Challenge

Despite the ongoing transformation of the financial system and the success of mobile money, access to a broad range of financial services is still limited for a significant proportion of the population. Financial inclusion in Somalia does not fare badly in comparison to countries in the region. This is due to the considerable proliferation of mobile money accounts in recent years. Currently, 13 commercial banks, 13 registered/licensed MTBs, and 2 mobile network operators (MNOs) are licensed by the CBS to provide mobile banking, money transfer and mobile money services, respectively.[69] Consequently, mobile money has become the dominant retail payment instrument in the country, with an estimated 73 percent among the adult Somali population using mobile money services. This is in line with the proportion of the population that uses mobile money in Kenya.[70] However, the overall penetration rate of banking services is at 15 percent, and most customers are in urban centers and richer socioeconomic sectors (a large portion of the population outside Mogadishu does not use banks, and the poor have no access to financial services except for the receipt of remittances). There is also a significant portion of the population that operates solely in the Somali shilling (SOS) economy.[71] As such, it is excluded from the formal financial system, as FIs and MTBs do not accept or offer financial services in SOS. The lack of a robust and inclusive foundational ID system also limits financial access.

Access to finance in the productive sectors remains a formidable challenge. Bank deposits and credit to the private sector continue to grow, respectively, from 7.0 percent of gross domestic product (GDP) (US$332 million) in 2018 to 13.2 percent of GDP in 2020 (US$659 million). It reached US$715 million in June 2021. Then it went from 3.9 percent of GDP (US$184 million) in 2018 to 4.4 percent of GDP in 2020 (US$219 million), finally reaching US$304 million in June 2021. However, access to finance remains a primary challenge. The 2019 Enterprise Survey for Mogadishu and Bosaso shows that Somali businesses rely on internal sources of funding for 92 percent of their working capital needs (compared to the Sub-Saharan African [SSA] average of 78 percent). Only 2 percent of the needs are met by banks (as compared the SSA average of 8 percent). The survey also finds that although 94 percent of the firms in Somalia have a bank account, only 4 percent have a bank loan or a line of credit. Furthermore, the modest financial intermediation that does exist is largely concentrated in short-term trade finance and relatively large loans, whose weight in the total portfolio of FIs increased in 2020 as compared to 2019.[72] Finally, financial intermediation has diminished further in 2021 from its already modest position. This is because of the retrenching of financial institution outreach efforts due to an increase in default risk perceptions with the COVID-19 pandemic. In effect, by early 2021, about 63 percent of firms found access to credit difficult. This leaves a large unmet market demand for financing in the real economy.[73]

Low access to finance is partially a result of Somalia's weak credit infrastructure. The FIs in Somalia (for example, banks and micro-finance institutions) lack any systematic or comprehensive information-sharing arrangements. Furthermore, the CBS does not operate a credit registry, and it does not provide any information back to lenders about the credit market. This obligates the FIs to evaluate potential clients blindly, and unsurprisingly increases their risk perception of new clients. As such, they continue to rely on alternative risk-mitigating mechanisms (for example, requirements for immovable collateral and personal guarantees) when making decisions to provide credit. Furthermore, as movable assets are perceived by the FIs as inherently risky and insufficient to mitigate credit risks, none offer movable asset-based lending in the country. This curtails their ability to expand market share even further, as most micro, small and medium enterprises (MSMEs) do not possess immovable collateral due to Somalia's history of conflict and insecurity. The country also lacks a functional secured credit and collateral registry regulatory framework.

69 The CBS approved three Mobile Money Service (MMS) licenses. Two of these have already been granted, and one is being processed. Also, two additional mobile money operators approached the Licensing and Supervision Department to submit their MMS license applications.

70 According to a survey completed for the 2019 FinAccess Household Survey in Kenya, 79.4 percent of the adult population in Kenya use mobile money accounts.

71 The World Bank 2017 mobile money survey shows that mobile money usage is highest in urban areas (83 percent), as well as among the 72 percent of people in displaced persons camps in urban areas who depend on remittances. Only 55 percent of rural residents use mobile money, and the gap between income groups is also large (96.9 percent among those earning more than US$500 use mobile money as compared to 59.8 percent of those earning between US$100 and US$150).

72 Somalia Economic Update. (World Bank Group, June 2020).

73 COVID-19 Enterprise Survey conducted by World Bank Group (WBG) and United Nations Industrial Development Organization (UNIDO), 2021.

Digital Ecosystem for Financial Development: Gaps and Remaining Agenda

Although there have been improvements to the legal, institutional, and technical foundations for a digital ID system,[74] important gaps remain in Somalia's digital service capabilities. A bill to establish the ID Authority was passed in Parliament and signed by the President in December 2020. Nevertheless, this only partially addresses the legal requirements of a digital ID system. There have been delays in the rollout of the digital ID system. Several digital systems have been introduced by the Government (for example, a handful of back-end systems have been/are being introduced to support core public sector functions critical to basic service delivery). However, Somalia's digital capabilities remain nascent and vulnerable in the absence of an enabling framework for digital service delivery, data management, and data safeguards. Somalia also lacks a proper foundational digital infrastructure, as well as shared platforms to accelerate readiness, delivery, security, and the resilience of basic digital government services. Specifically, few of the recently introduced digital systems leverage shared infrastructure and platforms. These would allow systems to be readily integrated or scaled to enable more effective delivery of digital services to individuals and businesses. The introduction of foundational infrastructure and platforms enabling the delivery of digital ID services also faces political economy challenges.[75] As such, it will require further strengthening of technical readiness and capabilities, as well as consensus building across the Federal Member States (FMS), to ensure broad-based access to ID services across the country.

D. HOW SOMALIA CAN MAKE PROGRESS

Central Bank of Somalia: Institutional Strengthening and Financial Integrity Challenges

Several issues need to be resolved to improve Somalia's financial sector integrity. First, an overreliance on a few transmittal channels for ODA should be mitigated by extending the UCS to the FMS.[76] Second, as the operationalization of the CBS Act is dependent on the completion of other high-level reforms outlined in the CBS Strategic Plan 2020–2024 (for example, implementation of the CBS re-organization plan in line with International Monetary Fund [IMF] technical assistance [TA] recommendations), such reforms should be prioritized. Finally, the CBS needs to urgently strengthen key central banking functions that are critical to boosting financial sector integrity by developing and maintaining a good working knowledge of the FIs being supervised in selected areas, particularly corporate governance, corporate structure, and risk management. It will also be important to build trust and public confidence in central bank supervisory policies through financial and nonfinancial risk disclosures in supervised FIs. Financial stability and integrity can be improved through the continued upgrading of prudential regulations closer to international standards. This will support the enhancement of bank supervision (including that of the MTBs) and help address institutional/systemic vulnerabilities early on. Regulators should encourage financial institutions to strengthen monitoring and public reporting of key financial soundness indicators, which can enhance confidence in the market, foster competition, and contribute to the efficient financial intermediation and improved access to financial services. The CBS also needs to strengthen the enforcement of supervisory actions concerning AML/CFT regulations covering KYC/CDD[77] and suspicious transaction reporting. This will help to guard against reputational and financial integrity risks in Somalia. In this sense, using the NRA to develop an AML/CFT action plan should be a priority, as it will help prepare for the MENA-FATF mutual evaluation in 2024.The evaluation will entail conducting an in-depth analysis of the implementation and effectiveness of measures to combat money laundering and terrorist financing.

To strengthen supervisory actions concerning AML/CFT, the CBS will also need to work alongside

[74] This was supported by the World Bank SCALED-UP Project (P168115).

[75] Introducing the foundational infrastructure and platforms for the Digital ID System requires countrywide support across federal and regional leadership. In the Somali context, buy-in from different government stakeholders and the FMS will be particularly important in securing acceptance of the new IDs countrywide and in enabling the Digital ID Program to achieve its registration targets.

[76] Channeling of ODA through the CBS as a fiscal agent is expected to further contribute to federal state formation by extending the UCS to the FMS level.

[77] Developing a trusted and secure means of unique identification will strengthen the KYC protocols.

FIs to begin use of a digital Customer Verification System (CVS) to enable the use of electronic (e)-KYC protocols. The CVS will need to be designed to promote visibility and enrich the integrity of customer information across all FIs regulated by the CBS. As such, it will increase the efficiency and robustness of operating KYC/CDD protocols, and establish a level of coherence that meets global standards for preventing and combating ML/FT risks. The CVS would also need to be interoperable with the foundational digital ID system, as the latter is expected to serve as an authoritative source for the verification of customer identities. Therefore, the rollout of Somalia's digital ID needs to be implemented in parallel. When implemented, this initiative would provide a pathway for unbanked Somalis to integrate into the banking system by using the CVS-enabled e-KYC protocols.

Isolation of Somalia from the Global Financial System

A feasible pathway for the Somali financial system to reintegrate into the global banking system needs to be established. The screening of customer KYC/CDD information is an important element for both fostering business development in the Somali financial sector, as well as integrating it into the global financial system. Mitigating the difficulties faced by the international financial community when performing due diligence assessments of FIs in Somalia can also help to strengthen the connectivity of the country's financial sector. To achieve this, local FIs need to increase transparency and improve the integrity of their AML/CFT systems. Efforts are already underway in this regard, including through donor-supported projects. For example, the World Bank and the United Kingdom's Foreign, Commonwealth and Development Office (FCDO) are already supporting the preparation of the Financial System Initiative. This Initiative aims to provide financial institutions willing to invest in that endeavor with the opportunity to be assessed by an independent third-party against criteria informed by international standards (for example, Financial Action Task Force [FATF] recommendations, Wolfsberg principles) and requirements of the international financial community. The initiative will also provide targeted TA to these banks to reach the required benchmarks. Assessment findings would be made available to interested international FIs and prospective investors based on confidentiality. The international FIs and investors could then be informed by the assessments in any decisions concerning the initiation of a Correspondent Banking Relationship (CBR) or in undertaking an investment.

Financial Inclusion and Access to Finance

Access to finance for Somalia's productive sectors can be improved through mitigating FI risk perceptions, increasing liquidity for underfinanced sectors (for example, MSMEs), and developing the business acumen of FIs and MSMEs. Several donor-supported financial intermediation and business development services (BDS) projects are already in place. They should continue to be implemented to make progress in this area (existing programs include those funded by the European Union, Norfund, Swedish International Development Cooperation Agency [SIDA], UNIDO, and the World Bank).[78] For instance, the new apex development finance institution, Gargaara, incorporated in Somalia in 2019 with the support of the World Bank, is aimed at mitigating liquidity shortages in the country. It works closely with Somali FIs and international development financial institutions (DFIs) to expand commercial access to finance by providing public financial institutions (PFIs) with funds to on-lend to vulnerable but viable MSMEs in targeted productive sectors — with a special focus on women-owned and women-managed firms. There are further efficiency gains to be had in leveraging different

[78] UNIDO has established a network of Enterprise Development Units (EDUs) that provide training to MSMEs, business counseling, investment promotion and international business matchmaking, the identification of potential projects for credit, and linkages of MSMEs to FIs. It also created a financing facility operated by the IBS Bank. Norfund started a permanent capital vehicle with US$26 million in assets under management (AUM) structured with blended finance elements (for example, first loss, subordinated first loss) aimed at large small and medium enterprises (SMEs). SIDA is in the process of founding a US$5 million Guarantee Fund operationalized through 4 local FIs. The European Union signed an agreement with the Africa Enterprise Challenge Fund (AECF) for the implementation of a Euro 4.5 million program to provide access to finance for microenterprises owned by women, youth and producers. Finally, the World Bank Group, supported the creation of Gargaara, an apex development finance institution. It will provide liquidity for MSMEs, as well as incentivize lending to that type of firm through credit guarantees and TA to FIs. It will also build MSME capacity through BDS.

development partner initiatives through Gargaara, which will function as a sustainable Somali apex entity run on private sector principles.

Strengthening credit infrastructure will also be essential to improving access to finance in Somalia.[79] The most immediate improvement to credit infrastructure necessary to expand access to finance concerns the availability of a comprehensive information-sharing system that can support lenders in assessing, underwriting, and managing risks associated with providing credit products. To this end, the following actions need to be taken: (i) a bespoke credit information-sharing legislation must be developed to clearly define the roles and responsibilities of different stakeholders, protect consumer rights, and assign penalties for non-compliance; (ii) a privately established and operated off-shore[80] and/or hub and spoke credit bureau[81] needs to be established; and (iii) capacity building should be undertaken to raise awareness and build stakeholder buy-in. Enhancements to the secured transactions framework in Somalia are also necessary to expand access to finance in the country, although it is less of a priority for financial sector stakeholders in the short term. First, a new law to reform the secured transaction landscape in the country needs to be drafted to extend the scope (for example, it should encompass possessory pledges, financial leases, and assignments of receivables, as well as a range of movable assets) and streamline processes (for example, excluding excessive requirements such as notarization, allowing electronic security agreements, and making available expeditious, out-of-court enforcement against collaterals) of such transactions. Second, an electronic and notice-based collateral registry should be instituted and rules setting forth the operational aspects of the registry will need to be drafted. Third, amendments to the insolvency law must be made to ensure coordination with the new secured transactions law.

Financial inclusion can also be increased by restoring confidence in Somalia's national currency and increasing its acceptance by FIs. Replacing counterfeit SOS in circulation with a new legitimate national currency in Somalia would be helpful in making progress in this sense. Therefore, it has been identified as a priority reform area by the CBS and other Somali stakeholders. Discussions with FIs indicate their interest and readiness to offer SOS accounts once the new legal tender is introduced (they already offer shilling-denominated accounts in Somaliland). In this context, the replacement of counterfeit currency in circulation and the reintroduction of Somalia's national currency will improve financial inclusion for all Somalis, but especially for women who currently are more severely impacted by a lack of access to US dollars. Removing counterfeit currency from circulation will reduce the uncertainty of transacting with SOS, which is one of the commonly cited concerns of Somali households, traders, and exchange dealers. It is also a factor preventing poor Somalis from accumulating wealth. A such, the CBS is preparing a Currency Exchange Project with support from the World Bank. Given the latest developments in the political dialogue between the FGS and the FMS, a revision of the Memorandum of Understanding (MOU) would be necessary to secure stronger commitments from the FMS in support of this endeavor.

Digital Ecosystem for Financial Development

Somalia's digital service capability could be bolstered by accelerating the launch of the Digital ID System. Providing a biometrically supported unique ID number to the Somali population will serve as a platform for financial access, digital payments, and the delivery of government, humanitarian, and private sector services. This requires

79 Recommendations to strengthen credit infrastructure in Somalia are based on the "Assessment of the Credit Markets, Credit Information Sharing System and Secured Transactions", carried out by the International Finance Corporation (IFC) in 2021 at the request of the Government of Somalia.

80 It is suggested that the Somali private sector develop and operate the credit bureau because it is unlikely that the FGS will develop one in the short term. This is due to CBS's capacity constraints and competing priorities.

81 Given Somalia's security constraints, the economics of setting up a credit bureau to serve each of the member states is not justified. In this context, using a hub and spoke approach can achieve economies of scale and quicker implementation without compromising on the quality of the Credit Bureau. Specifically, under this approach, the hub could be based in Mogadishu or outside the country. It could host the databases, systems, customer support, and second and third tier help desk and core information technology (IT) services. The spokes would serve the different member states, perform sales and data collection, support data providers/users/customers, and provide first level help desk services.

prioritizing the creation of a robust enabling environment and institutional framework for a digital ID system. It is necessary to establish legislation for many important features of the ID system covered in the Digital ID Policy. This would include: the purpose, technical architecture, and data to be collected by the ID system; criteria and process for enrollment and issuance of ID credentials; the acceptance/use of ID credentials issued; and grievance redress mechanisms. There is also a need for enhanced coordination across different FGS entities concerning matters related to identification. Regular communications between key government entities remains crucial given the cross-cutting nature of identification, as well as the ongoing work to strengthen the broader enabling environment for secure data management with direct implications for the ID system.

A harmonized government approach to data protection and cybersecurity should also be introduced to enable digital services in Somalia. Support to the FGS in developing shared strategic, governance, legal, and institutional frameworks and action plans aimed at safely expanding e-services is a priority (for example, in relation to the National Cybersecurity Strategy, the National Guidelines for the Protection of Critical National Information Infrastructure, and the National Institutional and Governance Structure for Cybersecurity).

INFORMATION AND COMMUNICATIONS TECHNOLOGIES SECTOR POLICY NOTE

A. SUMMARY OF KEY MESSAGES

The information and communication technologies (ICT) sector plays a critical role in the Somali economy, offering mobile communications and mobile money services to an increasing share of the population, thereby boosting economic growth, job creation and service delivery. However, further action is needed to accelerate sector development and promote greater digital inclusion. Somalia is benefiting from growing access to international capacity (first mile). However, the weak backbone network (middle-mile) prevents the effective transmission of capacity to all sub-regions. Further, 3G and 4G mobile access network coverage (last mile) is limited to major urban areas. This impacts network access, the quality of services and affordability for consumers. Broadband adoption is estimated at between 5 and 10 percent. Currently, there are no government policies to support broadband planning and universal access. An initial legal framework has been adopted to establish the regulatory authority, the National Communications Agency (NCA). However, there are gaps in applying the law, and corresponding regulations need to be developed. Other aspects of the digital economy require development, including e-transactions, and data protection and cybersecurity. Furthermore, integrating Somalia with the regional market could boost the domestic market through interconnections and interoperability of national backbone networks across the Horn of Africa region.

B. SUMMARY KEY ACTIONS

SHORT- TO MEDIUM-TERM ACTIONS:

Establish regulatory fundamentals to boost competition, quality of services and investment:

- Conclude licensing of all telecommunications operators [NCA].
- Finalize implementation of the interconnection regulation [NCA].
- Adopt and implement spectrum regulation with a balanced fee structure [NCA; Ministry of Finance [MoF].
- Ensure adequate budget allocations for the NCA to ensure sustainability [MoF].

Create an enabling environment for data-driven e-services and innovation:

- Enact laws to enable and promote trust in digital transactions and services including: e-transactions, data protection and privacy, cybersecurity and cybercrime [Ministry of Communications and Technology [MoCT]; Cabinet/Parliament]

MEDIUM-TERM ACTIONS:

Establish regulatory fundamentals to boost competition, quality of services and investment:

- Enforce operator reporting to the NCA and improve the collection of sectoral data [NCA].
- Introduce regulations to reduce the cost of infrastructure deployment and support infrastructure sharing, roaming, and numbering regulations [NCA].
- Publish guidelines to reduce regulatory fees concerning the use of spectrum. Promote access to digital infrastructure [MoCT; NCA; Ministry of Public Works].
- Introduce universal service policies and work on broadband planning. [MoCT; NCA].

Formulate policies and introduce vehicles for network expansion and universal access:

- Facilitate an internet exchange point in Mogadishu to promote peer linkages between internet service providers (ISPs) in a neutral carrier facility [NCA].
- Extend wholesale roaming services to smaller networks [NCA].
- Consider public-private partnerships to launch the national backbone network [MoCT; NCA].

Create an enabling environment for data-driven e-services and innovation:

- Invest in shared frameworks, platforms and digital public goods that enable government (and the private sector) to scale e-service provision (for example, shared data hosting) [MoCT].
- Support regional integration of digital markets through the harmonizing of national and regional telecommunications and data frameworks [MoCT; NCA].

C. WHERE SOMALIA STANDS NOW

Somalia's vibrant telecommunications sector plays a critical role in the economy, but it has emerged in a regulatory vacuum.

The telecommunications sector plays a critical role in the Somali economy. Following the collapse of the Siad-Barre regime, telecommunications operators seized new market opportunities to leverage the growth potential of the digital economy. Access to mobile communications and mobile money services have rapidly expanded, creating one of the most active mobile money markets in Africa. According to a 2017 survey commissioned by the World Bank, 73 percent of Somalis over the age of 16 use mobile money services.[82] In the Somali context, the main telecommunications and financial service providers are closely linked[83] (see financial sector policy note). The sector is characterized by dominant sub-regional operators. Telecommunications services evolved in a political and regulatory vacuum, making ex-post regulation of large market operators in the current context a challenging exercise. The market is currently comprised of five major operators (Golis, Hormud, NationLink, Somtel, and Telesom), as well as several smaller service providers. However, interconnection between the networks remains based on only a handful of private bilateral agreements.[84]

There are low levels of broadband adoption and gaps in the value chain – particularly in the middle and last mile of the broadband value chain.

Somalia still has a long way to go to ensure universal access to broadband. Somalia boasts some of the highest levels of mobile money and mobile communications adoption in the region. However, it has one of the lowest levels of broadband adoption (approximately 5 to 10 percent), which means that the use of mobile money is likely limited to low value-added services. Mobile access networks currently provide the main means for end-users to connect, and the fixed broadband market[85] is nascent (with less than 1 percent penetration).[86] Although official data is limited, industry consultations suggest that 3G and 4G mobile broadband coverage is limited to urban areas only: for example, 4G coverage is said to exist in Mogadishu and Hargeisa, and may have been extended to other major cities, including Baidoa, Bosaso, Galkayo, Garowe, and Kismayo. As for 3G, it appears to

82 World Bank, "Mobile Money Ecosystem and Household Survey (2nd wave)." Financed by the ICT Sector Support Project - Phase 2). However, most SIM cards remain unregistered in the absence of a reliable foundational ID system, thus creating financial integrity issues. (World Bank, 2018).

83 Examples include Hormuud, founded in 2002, linked to Salaam Bank. It offers Taaj international remittances and EVC mobile money. Golis, also founded in around 2002, offers Sahal mobile money. Telesom, similarly founded in around 2002, offers Zaad mobile money. Somtel, founded in 2009 by international money transfer operator Dahabshiil, offers eDahab mobile money. Amtel, founded by Amal Bank, offers Amal Express remittances and also myCash mobile money. Hormuud, Golis and Telesom are part of the same conglomerate.

84 Hormuud, Telesom and Golis have interconnection agreements and are part of the same conglomerate of network providers.

85 Fixed-line internet service providers include Hormuud, Golis and Telesom, SOON (part of Dalkom), Somalia Wireless, Somcast, and Somcable. Fixed-wireless alternatives are provided by Sahal Telecom.

86 The source is the authors' analysis of: World Bank. International Economics Department, Development Data Group. (2019). World Development Indicators. (World Bank, 2019).

have reached some smaller towns. Somalia performs well in terms of affordability,[87] with some of the lowest retail prices in the region. There is high access to devices (approximately 90 percent of adults own a phone),[88] but weak network coverage. Also, service quality is a binding constraint to expanding access. Expanded access to broadband would present important opportunities for economic growth, innovation, and job creation.

Somalia is benefiting from growing access to international capacity (first mile), which has allowed for generally low prices in the mobile data market. Somalia is currently connected via a large number of submarine and cross-border terrestrial cables.[89] Somalia must now take advantage of this improved connectivity to develop a backbone network that can effectively reach consumers throughout the country. The growing access to international capacity has also helped to bring down prices for wholesale capacity. In addition, it could allow Somalia to play a key role in the regional connectivity market, thereby transmitting capacity to its landlocked neighbours such as Ethiopia.

The lack of a national backbone network (middle-mile) presents the most important bottleneck to the development of a domestic broadband market and integration of regional connectivity markets. The absence of a robust backbone network prevents the distribution of international capacity across Somalia through long distance fibre — subsequently creating a fragmented market, with uneven network coverage and quality, limited redundancy, and market competition (where dominant regional players have emerged in the wholesale market segment).[90] The Somaliland region has a relatively well-developed terrestrial fiber optic backbone network (managed by Somcable), as does the Mogadishu metropolitan area and parts of Puntland (Bosaso, Garowe and Galkayo) managed by Golis.[91] However, other parts of the country continue to rely predominately on microwave radio technology for distribution of capacity and/or satellite links, which reduces capacity provided. This limits service quality availability in sub-regions and also increases costs. Despite the presence of the Somali Internet Exchange Point (SoIXP), there is also limited use of this facility that could help reduce latency and cost for operators.[92]

The foundational legal framework and nascent regulatory function for ICT is in place

The adoption of the Communications Law and the creation of the National Communication Authority (NCA) have paved the way for formalizing and regulating the sector. After years of parliamentary deliberation, a landmark Communications Law was adopted in 2017. It created the legal basis for regulating the telecommunications industry. In 2018, an independent industry regulator was created, the NCA. In its first years of operation, the NCA has focused on licensing operators. A Unified Licensing Framework (ULF) was approved in 2020, and the NCA was due to complete licensing for all categories under this framework by August 31, 2021 — though some still appear to be pending.[93] This has also paved the way for licensing of mobile money by the Central Bank (see Financial Sector Policy Note).

The NCA has sought to introduce frameworks for the foundational regulatory issues, but a majority have yet to be fully implemented. Key areas of focus have included: (i) effective *spectrum management*, which is a scarce public resource that needs to be well-managed to promote fair competition and better service quality (free from frequency

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87 For instance, 2GB of data from Hormuud costs US$ 1 on a Friday , and Golis offers a daily bundle of 2GB for US$ 1. Somtel offers daily and weekly data bundles as well, costing US$ 2 for 1.2GB. These prices are among the lowest in Africa. See: Research ICT Africa, (Q2 2020).

88 World Bank, "Mobile Money Ecosystem and Household Survey." (Financed by the ICT Sector Support Project – Phase 2) (World Bank, 2018).

89 These include: (i) the EASSy submarine cable landing in Mogadishu; (ii) the Gulf to Africa (G2A) submarine cable landing in Bosaso (Puntland); (iii) the Djibouti-Africa Regional Express (DARE) cable that lands in both Mogadishu and Bosaso (and thus helps to connect the EASSy and G2A cables); (iv) the terrestrial Somcable fiberoptic link between Somaliland and Djibouti; and (v) Hormuud's terrestrial microwave links to Kenya's network at Liboi and Mandera. More international submarine cables are on the way, including the Pakistan and East Africa Connecting Europe (PEACE) cable that will be landing in Mogadishu, Bosaso, Kismayo and Hobyo starting in 2022; the 2Africa cable due to land in Mogadishu in 2023; and the Africa-1 cable.

90 There is only one independent, long-distance operator in each region, except Somaliland (where Somcable and Telesom both have networks).

91 "Broadband Backbones in Somalia Needs, Resources, Plans and Options", (Kalba International, Inc., dated December 11, 2019).

92 See: https://wiki.soixp.so/index.php/Main_Page. This may be due to the fact that it is not located in a carrier-neutral facility.

93 https://nca.gov.so/public-notices/; https://nca.gov.so/licensed-operators/

interference), as well as a contribution to public revenues; and (ii) *interconnection*, which would also be instrumental in boosting competition and lowering barriers to market entry. This would be achieved by allowing different operators to exchange traffic at low or zero cost. The NCA has published draft regulations on spectrum management. It has also adopted regulations and guidelines for interconnection. However, full implementation by all licenced operators is still pending, including formalization of the sister-companies already interconnected.

Limited expansion of data-driven services

Meanwhile, other facets of Somalia's digital economy remain nascent. The COVID-19 pandemic has demonstrated the need to extend e-services across the public and private sectors to support business continuity, as well as to expand the government's capacity to deliver efficient and remote services using digital channels. However, in addition to lingering connectivity gaps, many of the foundational frameworks and building blocks are missing.

D. HOW SOMALIA CAN MAKE PROGRESS

Work on regulatory fundamentals that can boost competition, the quality of services, and investment

The NCA needs to swiftly conclude implementation of regulatory frameworks and turn its attention to other key areas to improve competition and universal access. In the short term, this means pushing operators to implement/formalize interconnection agreements based on adopted regulations. It will also be necessary to finalize work on spectrum management and licencing, including setting appropriate fees that balance policy priorities for mobilizing revenues with needs for ensuring low barriers to market entry. In the medium-term, the NCA will also need to increase its capacity to collect market data and enforce reporting requirements that allow for the formulation of universal service plans — and for the NCA to enforce coverage obligations. There is also scope for the NCA to work on frameworks that reduce the cost of network deployment in underserved rural areas (such as infrastructure sharing,[94] national roaming)[95] and support competition (review of wholesale pricing).[96] In the longer term, it will be necessary to work on the further development of the numbering regulation,[97] including number portability.[98] Meanwhile, there is also a need to continue to boost the NCA's regulatory maturity, ensuring its financial sustainability by allocating the agency with an adequate annual budget. While continuing to actively consult industry players, the NCA also needs to be protected from undue industry influence.[99] As the first industry operator in Somalia, the success of the NCA sets an important precedent for regulatory governance.

Formulate policies and introduce vehicles for network expansion and universal access

Somalia needs to develop a broadband plan and enabling frameworks for infrastructure investment. This should build on the existing ICT Policy and Strategy (adopted in 2019), whereby the government articulated a 5-year vision. This vision was grounded in achieving universal, affordable, and quality ICT services, provided through open, competitive, and well-managed markets. The government can also help to reduce deployment costs by promoting the parallel deployment of linear infrastructure. It can also use shared infrastructure as part of public works

94 There is no physical site sharing between operators. Site sharing may not be necessary in densely populated areas where there is substantial demand. For instance, it is estimated that there are 700 high sites used by licensees in Mogadishu alone, where site sharing may not be necessary. At the same time, it is also valuable to have infrastructure duplication for network redundancy purposes, in case one network fails.

95 Roaming services need to be considered for smaller entrants. Hormuud, Golis and Telesom currently offer roaming services with one another's networks. However, Somtel, Amtel, Somlink and Nationlink are currently not able to access roaming services. There is a balance to be struck between encouraging the latter firms to launch their own networks, while also permitting their customers to benefit from full coverage via roaming while networks are being built.

96 For example, in 2015 between US$240 and US$400 per Mb/s per month were paid by different clients for similar volumes.

97 For instance, the numbering regulation rule that prohibits the issuance of numbers to non-CISP licensees may limit the growth of service-based, fixed-line providers. This aspect of the numbering regulation needs to be reconsidered.

98 This is an important intervention to support new entrants in Somalia, since consumers are reluctant to switch networks if this means losing their mobile number.

99 This could be achieved through more robust scrutiny of potential conflict of interest that adversely impacts its independence.

(for example, through 'dig once' policies; by offering space for additional ducts in new pipeline building or during road construction; and better right-of-way legislation).[100] Broadband planning could help to identify where related opportunities could be leveraged. In certain cases, where policy and regulatory reform are insufficient to overcome weak investment incentives, the government could also contemplate the use of public-private partnerships (PPPs) to promote open access infrastructure — provided that the PPP framework is strengthened.

Create an enabling environment for data-driven e-services and innovation

Somalia needs to introduce foundational policy, legal and operational frameworks and public infrastructure that promote the safe scaling of digital services. This includes urgently addressing the existing legal vacuum regarding frameworks for e-transactions, data protection, cybersecurity, and cybercrime. The Federal Government of Somalia (FGS) also needs to develop shared policy and strategic, governance and institutional frameworks to support the operationalization of cybersecurity[101] and data protection. This would include the strengthening of the Somalia national cyber emergency response team (SOM-CERT),[102] as well as the establishment of an independent data protection office. Somalia also needs to invest in the shared building blocks for scaling public e-services, which would be informed by a new e-government strategy. This may provide the necessary incentives to build trust and encourage the adoption of digital services to unlock the potential of the digital economy.

Support regional integration of digital markets

Integrating Somalia with the wider regional connectivity market in the Horn of Africa could also help to accelerate the development of the domestic connectivity market and create significant economic opportunities. At a wholesale level, this could be achieved by ensuring interconnections and interoperability of the national backbone networks across the region (physical and regulatory), thus facilitating the construction of new cross-border networks and the streamlining of licensing requirements or obligations for regional players. At a retail level, this could mean implementing and extending existing regional roaming initiatives, such as the One Network Area (ONA) to Somalia, which also covers data.[103]

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100 For example, national road construction could be used as a means for reducing the costs of installing long-distance fibre networks, but competition would still need to be encouraged along these routes. See the Albany report prepared for the World Bank, cited above.

101 Starting with the formulation of a National Cybersecurity Strategy; National Guidelines for the Protection of Critical National Information Infrastructure; and a National Institutional and Governance Structure for Cybersecurity.

102 This is an initiative launched at the level of the NCA, in close collaboration with the Ministry.

103 A Single Digital Market for East Africa: Presenting Vision, Strategic Framework, Implementation Roadmap, and Impact Assessment (English). (Washington, D.C.: World Bank Group, 2019).

BUSINESS ENVIRONMENT POLICY NOTE

A. SUMMARY OF KEY MESSAGES

Somalia has a vibrant business community, but the growth and development of the private sector is constrained by multiple obstacles. Widespread insecurity, inadequate regulatory frameworks, and a lack of correspondent banking relations are some of the factors that are constraining the growth of the private sector. The types of challenges that firms face varies by the size of firm. The most common self-reported challenges include access to land and to finance. While mobile baking is widespread, Somalia's isolation from the global financial system and the lack of a financial intermediation means that firms find it challenging to access finance for investment purposes. Firms which have established have adapted to a low regulatory environment and with the larger firms emerging with dominant positions. Thus, applying suitable regulatory frameworks ex-post can be challenging. Somalia's diaspora offers an important source of private investment for the country, including in sectors such as construction, hospitality, agriculture, and fisheries. However, the enabling environment for investment needs to be strengthened to provide improved predictability to the domestic private sector and to new entrants seeking to invest.

B. SUMMARY KEY ACTIONS

SHORT-TO-MEDIUM TERM:

- Expanding gains to the FMS:
    - Roll-out the online business registration and licensing system in the Federal Member States (FMS).
    - Support implementation of the Company Act across the FGS and FMS.
    - Adopt the Business Licensing Law following adequate consultation to harmonize processes and clarify mandates between the FGS and the FMS.
    - Develop and implement a unified national business registration regime to enable a single unique business number nationwide across FGS and FMS.
- Implement a business registry data sharing arrangement to enable greater use of business data and interoperability following data security provisions.
- Share business registry data with financial institutions to support know-your-customer requirements, alongside other measures to support the Anti-Money Laundering / Combatting Financing of Terrorism (AML/CFT) agenda.
- Provide access to publicly available business data to enhance business-to-business cooperation.
- Enact the pending Investment Promotion Agency Law and the Investor and Investment Protection laws as well as ratify international conventions that protect investors (New York Convention 1958) to provide a more enabling framework for private investment in Somalia.
- Develop a comprehensive public-private-partnership regulatory framework to leverage private investments and risk sharing.

MEDIUM-TO-LONG TERM:

- Update the Company Act 2019 to support other aspects important for the business community.
- Establish legal framework for registration of other firm categories.
- Undertake further diagnostic to support new private sector development.

C. WHERE SOMALIA STANDS NOW

The Somali private sector encounters many obstacles to doing business. In terms of the broader country context, there are challenges related to insecurity and instability, which includes multiple checkpoints and the presence of spoiler groups. Challenges faced by the private sector vary by type of firm. The three most commonly cited constraints regardless of the size of the firm include access to land, access to finance and corruption.

Somalia suffered from inadequate regulatory frameworks and systems governing the private sector. Businesses have operated in a legal and regulatory vacuum with little or no formal government enforcement, instead relying on traditional or customary mechanisms. Companies were regulated under the Somali Civil Code of 1974, augmented by the Italian Civil Code of 1942 and several decrees and directives. In practice, firms were licensed annually by the Ministry of Commerce and Industry, and as of the start of 2017, only about 5,000 businesses were registered – a small portion of the total number of firms operating informally. The private sector operated with outdated legal and regulatory frameworks and inadequate government capacity. Missing or out-of-date company accounts and ownership meant that suppliers, creditors, and customers had to rely on their own information sources to guide their decisions on doing business in Somalia.

To address some of the gaps in the regulatory environment, important foundational steps are being taken, such as establishing a Company Act, although there are gaps in implementation. The 2019 Company Act provides the regulatory basis for starting a company, shareholder rights, responsibilities of directors, dissolution of firms, as well as the financial and operational reporting requirements by companies, updating the pre- 1991 legislation. In 2021, Regulations to the Company Act were issued. These regulations clarify the operating environment (such as transparent Articles of Associations), the powers of a Company Registrar, company reporting requirements, as well as security requirements of electronic registration, among others. Legislative improvements can help firms to become formal, which can in turn help them to unlock access to finance and investment, thereby expanding output and employment.

The Ministry of Commerce and Industry has also taken steps to launch an online Business Registration and Licensing System. The Business Registration and Licensing System (https://ebusiness.gov.so/) facilitates business incorporation and licensing online. The system has been fully operational since January 2021 and about 764 businesses were incorporated and licensed online until the end of 2021.

However, there are gaps in implementing the Company Act, in a context of an overall weak regulatory environment. In Somalia, the private sector has adapted to a context of a weak regulatory environment, particularly in sectors such as telecommunications, financial services and energy. Therefore, applying regulation in this context ex-post can be challenging given the already dominant position of firms. In an environment with limited regulations there is a risk that a few well-connected firms may become profitable and limit market entry for other firms. Furthermore, it may be challenging for small and medium sized enterprises to grow, particularly if there are informal barriers to entry.

Constraints in accessing finance due to anti-money laundering concerns is a substantial obstacle for the growth of the private sector. Somalia is isolated from the global financial sector primarily due to concerns over financial integrity and not being able to meet the requirements of the (AML/CFT) agenda. These challenges mean that Somalia does not have correspondent banking relationships, which are critical for financial resources to flow to the country. Furthermore, there are challenges for domestic financial institutional to lend to firms over know your customer concerns. High levels of perceived risk and absence of information on firm's creditworthiness are other factors that limit access to finance.

Despite the multiple challenges to doing business in Somalia, there are substantial opportunities for investment, provided enabling conditions are in place. Somalia's diaspora provides a potential source of investment to the country. To help explore and tap into the opportunities for investment, investment policy and promotion reforms have been realized. An Executive Decree from Office of the Prime Minister was issued to implement the Foreign Investment law were adopted in June 2020, expounding the role of Sominvest, the Foreign Investment Promotion Office in the Ministry of Planning, Investment and Economic Development. Sominvest capacity to deliver investor services is also being enhanced with a national investment promotion strategy now in place; a corporate strategy developed together with related implementation tools and partnerships at FGS-FMS as well as with private sector and other investment promotion agencies developed. Additionally, Sominvest is now actively hosting outreach events and working with investors to navigate investment entry and establishment requirements.

However, potential investors face multiple risks when considering investment in Somalia. To address some of these gaps, an Investor and Investment Protection Act has been prepared to provide some safeguards to investors, which is currently awaiting parliamentary approval. The Somalia Investment Promotion and Policy framework should focus on investor protection guarantees. The following areas need to be strengthened in the current regulatory framework to ensure compliance of the Somalia with its International commitment through its BITs.

INVESTMENT APPROVAL PROCESS AND NEGATIVE LISTS:

- It is recommended to replace the systematic screening and approval process for incoming investors by a system of registration or notification to align with international best practice;

- If there is a strong rationale to limit or prohibit domestic or foreign investment in certain sectors, the investment framework should be transparent by announcing these exceptions to the principle of freedom and then listing all these restrictions in a Negative List attached to it.

Expropriation: It is recommended that Somalia should significantly strengthen the standard of protection by including the terms expropriation, direct and indirect in the relevant clause and by including the 4 components of the best practice standard, namely: (1) Public interest; (2) Due process; (3) No discrimination; (4) No expropriation without fair compensation.

Dispute Resolution: It is recommended that Somalia should work on strengthening its dispute resolution framework and should consider the following: Somalia is currently not a contracting state for the New York Convention (NYC), therefore the government should consider acceding to the NYC for the recognition of foreign arbitral awards. Similarly, investors are considering opportunities to partner with government authorities through public private partnership agreements, although again, an adequate legal framework must be in place to safeguard the interests of the public and private sectors.

Facilitating the participation of the private sector is pivotal to addressing Somalia's infrastructure gap but there are challenges related to a weak institutional environment. Past public private partnership (PPP) arrangements have been anchored by bilateral agreements that have facilitated investments. While concessions have been explored outside such arrangements, regulatory gaps have been found. The Public Procurement, Concessions, and Disposal Act in August of 2016 has significant gaps concerning PPPs which limits the effectiveness of the current regulatory framework. The Act does not adequately cater for the procurement of PPPs. For example, it provides no framework for the treatment of unsolicited proposals and limited consideration for the management of PPP/concession projects following their tender. The assessment also cites that the combined legislative structure has proved difficult to implement elsewhere, with various governments electing to clearly delineate between the differing procurement and management demands of (a) simpler, short term supply or service contracts and (b) longer term, more complex concession/PPP arrangements where a higher level of responsibility is delegated to the private sector. Thus, to expand Public Private Participation in infrastructure requires the development of a responsive public-private partnership model which will address the current absence of a fit for purpose PPP regulatory framework.

D. HOW SOMALIA CAN MAKE PROGRESS

To encourage private sector growth in Somalia and realize the country's enormous potential, improvements are needed to the overall security environment. Greater stability in the country will give businesses increased confidence to invest and reduce risks. Improvements to security will also help to reduce the informal taxation which is substantial burden to firms and requires payments to various state and non-state entities.

To improve the overall environment for doing business, it will be important to enforce the provisions in the Companies Act and supporting regulation. Training should be undertaken as well as sensitization activities targeted at both the government and the private sector in the FMS to ensure the Company Act is adequately implemented and enforced. In addition, a business licensing law should be considered by parliament pending private sector consultations. The passage of the law will help clarify on mandates, harmonization of business licensing and revenue sharing arrangement between the FGS and the FMS.

Furthermore, improvements could be made to the Company Act 2019 to enhance certain aspects of the current legislation. The aspects that could be improved include protecting minority shareholder rights, enhancing data security of business information, inter-agency cooperation on information exchange, unified national business registration process, nationwide harmonized licensing and revenue sharing arrangement between the Federal Government of Somalia (FGS) and the Federal Member States (FMS).

The online business registration and licensing system should be rolled out to the FMS. An FMS readiness assessment report has been prepared which documents the requirements for cascading physical support, when required, to firms based outside the capital city to register online. The report covered the business and functional requirements and assessment of current resource capacity for future deployment of the online system. It provides recommendations which when implemented will support the increasing number of firms benefiting from an improved business registration regime, including integrating legacy systems operational at the FMS level. Notable is the need to engage not only FMS but incrementally looping in the related municipalities as they have registered a vast number of (small) businesses.

The business registry can be further developed to support a unified national business registration regime and support to know-your-customer requirements. By developing and implementing a unified national business registration regime, it can be possible to enable a single unique business number. nationwide across FGS and FMS. A business registry data sharing arrangement could be implemented between Ministry of Commerce and Industry, Ministry of Finance, Central Bank of Somalia and other ministries to enable greater use of business data and interoperability following data security provisions. Similarly, encourage business registry data sharing with financial institutions to leverage business data for KYC requirements. Finally, provide access to publicly available business data enhancing business to business cooperation.

Making broader improvements to financial integrity through advancing the AML/CFT agenda could support access to financial flows. A National Risk Assessment (NRA) should be used to develop an AML/CFT Action Plan and to prepare for the Middle East and North Africa Financial Action Task Force (MENA-FATF) mutual evaluation in 2024 to prevent criminal abuse of the financial system.

To improve the environment for foreign investment, steps should be taken to enact the pending Investment Laws and ratification of investment protection conventions and treaties. The laws should be resubmitted to parliament for enactment and the ratification initiated. This body of laws will help to give increased comfort and confidence to investors considering opportunities in Somalia. Similarly, steps should be taken to advance the PPP framework, so that risks are adequately considered.

Other steps could be taken to provide advisory support to the private sector in Somalia. Beyond improved formalization and starting of businesses, explore other possible areas of business environment reforms that are relevant to other stages of life cycle of a business and its participation in the market, i.e. operating, and closing a business. Further investigation and diagnostic may be considered specifically in the areas such as (but not limited to) obtaining business location, getting utility connections, employing labor, accessing financial services, resolving disputes, promoting competition, environmental regulations and insolvency.

PILLAR 2

CONNECTING WORKERS TO JOBS AND SUPPORTING RESILIENCE

Investing in human capital to promote productivity and an inclusive growth process

Building resilience through improving water security and disaster risk management

EDUCATION SECTOR POLICY NOTE

A. SUMMARY OF KEY MESSAGES

Investing in Somalia's human capital will be essential for the country to escape a fragility trap of economic exclusion and vulnerability. Forty percent of Somalia's population is aged 6 to 18. This crucial demographic must have the opportunity to acquire the skills to contribute to the economy and society for the country to return to prosperity. The education system can also be a powerful basis for promoting unity and a Somali identity, which are necessary to break the cycle of violence in the country. As such, the country would need education systems that provide the same learning experiences for all citizens. Somalia faces enormous challenges to restoring access to education, improving learning outcomes, and providing a second chance to the population left out of the formal education system. In this regard, several opportunities exist to enable the country to make quick progress. A strong non-state education provision sector — which has shown resilience in the face of challenges — and affordable mobile connectivity throughout the country offer opportunities for leapfrogging and innovation. Recent progress in intergovernmental efforts to formulate a cohesive response to this challenge have set a strong foundation for addressing the challenges in the education sector.

B. SUMMARY OF KEY ACTIONS

- Forge partnerships with the non-state sector and communities to deliver affordable and quality schooling in localities that are severely underserved, with an emphasis on ensuring safe access for girls. This could help to rapidly increase access to education in the short term.

- Make investments in second chance education and skill training opportunities for those that have missed a chance to participate in formal education so that they can become productive members of society, especially women. This needs to be addressed in the short term.

- Use technology to provide learning support to teachers and students across Somalia in the short to medium term.

- A student learning assessment system should be developed. The system should routinely measure and enable actions to be taken on the basis of what matters most – what students know and are able to do.

- The federal government should take a strong stewardship role to set policy direction, monitor sector progress, and align financial support to the sector.

C. WHERE SOMALIA STANDS NOW

School participation in Somalia is among the lowest in the world. The primary gross enrollment rate (GER) is estimated to be 20 percent, with approximately 3 million primary-aged children (5-14 years) out of school.[104] Somalia's GER is significantly below the averages of sub-Saharan Africa, low-income countries, and fragile-and conflict-affected countries of 99, 102, and 94 percent, respectively. At the secondary level, the number of out-of-school children is even greater. Administrative data suggests that about 92 percent of children and adolescents within the official age range are not enrolled in secondary school.

[104] Based on United Nations Population Fund population data and Education Management Information System (EMIS) data (for 2019) from the Ministry of Education, Culture and Higher Education (MoECHE).

Large parts of the country remain underserved. More than three-quarters of schools in Somalia were destroyed during the years of conflict. As a result, of the 93 districts in the country, one-third have GERs of less than 10 percent,[105] indicating acutely low access to education. In the absence of a strong public system, a variety of non-state actors have filled the gap in education provision. Overall, 55 percent of students in Somalia who are enrolled in school are in non-state schools. These are mostly fee-charging schools, which exclude the poorest households. In Banadir, Galmudug, HirShabelle, Jubbaland and Southwest, over 90 percent of enrollment is in non-state schools. Since non-state schools are mostly in urban and peri-urban areas, there are significantly fewer educational opportunities for rural children. This has led to significant inequities in the distribution of educational resources (for example, schools, teachers, learning materials) between rural and urban areas. For instance, in the central southern states, 86 percent of all primary school teachers are in urban areas, although only half the population resides in these areas.

Girls are at a distinct disadvantage. Indeed, 72 percent of 15-49-year-old women living in rural areas, and 59 percent of women in urban areas have never attended formal schooling.[106] Large distances to school, which leads to increased risks of gender-based violence, create barriers to girls accessing education services. At the same time, over 90 percent of primary school teachers in Somalia are male, which is a barrier to uptake of education services by girls. The lower enrollment rates for girls are attributable to social norms concerning early marriage, expectations that girls support households and the rearing of younger siblings, as well as the greater 'social value' placed on boys accessing education. The COVID-19 pandemic disproportionately impacts girls by increasing the burden and constraints due to social expectations, such as taking on household responsibilities and family care-related tasks.

Increasing access alone is not enough to produce the human capital Somalia requires to progress along the path to prosperity. Students will need a quality education to acquire the skills to become productive members of society. There is no systematic information available concerning learning outcomes in Somalia. Few assessments of student learning at the primary level have been undertaken. These have been carried out by international non-governmental organizations (NGOs), often with limited government involvement and administered using very small samples. As a result, the findings do not provide adequate information about what Somali children are learning in school. Until Somalia can generate systematic information about student learning, parents, teachers, policymakers, and development partners will continue to see education only in terms of inputs and enrollments. Therefore, the country will be less able to improve learning outcomes.

The limited information that is available points to low levels of learning. Early Grade Math and Reading Assessments (EGMA and EGRA) conducted in 2018 identified extremely low learning levels in terms of Somali literacy, English literacy, and, to a lesser extent, mathematics. The results emphasize the need to ensure that learning is occurring in the early grades. By the time students reach the end of primary and early secondary school, they are well below the level of competency expected of children at these levels. This means that students are not equipped with the foundation of skills required to engage with the content presented at higher levels. Therefore, by extension, they will have less capacity to contribute to the country's economic development.

The gaps in learning are reflective of a teaching force ill-qualified to prepare students. Only 37.9 percent of primary teachers across all Somalia are qualified, with the lowest number qualified in Banadir, Galmudug, HirShabelle, Jubaland and Southwest (20.8 percent).[107] A Teacher Proficiency Testing (TPT) exercise in 2019/2020 shows that teacher capacity is low, with teachers lacking pedagogical skills and content knowledge in mathematics, Somali language, Islamic studies, and English language. More than 80 percent of teachers did not understand basic pedagogical approaches. Therefore, they are not able to provide active and engaging learning environments for their students.

A large number of Somali people — especially

105 Based on United Nations Population Fund population data and the EMIS data (2019) from the MoECHE.

106 Somalia Health and Demographic Survey, Federal Government of Somalia (2019).

107 Somalia Education Situation Analysis. (Federal Government of Somalia).

women — missed out on basic education; however, they could still become more productive workers and engaged citizens if given a second chance to learn basic skills. The majority of women over age 20, and the majority of men over age 30, were unable to access formal education. Nationwide, an estimated 56 percent of women aged 15 years or older cannot read, compared to 41 percent of men.[108] These low levels of basic skills affect a range of life outcomes, including lower earnings and weaker labor market attachment; diminished financial independence and bargaining power for women; and less investment in the health and education of children — which in turn contributes to the intergenerational transmission of poverty.

Strategies for and investments in education must include post-secondary (technical and higher) education to ensure the development of highly skilled employees and leaders for both the public and private sectors. Approximately 129 skills training centers have been established around the country. However, a lack of government financing leaves institutions dependent on donor funding and only intermittently open. As a result, fewer than 14,000 people are enrolled in training institutions nationwide. Although data is limited and/or unreliable, a 2020 study by the Overseas Development Institute (ODI) finds that 76 universities were then registered with the Federal Ministry of Education, Culture and Higher Education (MoECHE). The ODI also notes that other sources in the country estimate the figure to be closer to 100, consisting mostly of private higher education institutions. Higher education continues to recover from the erosion of the sector during the Civil War (1991-2004).

Education planning is made difficult by insufficient and unreliable financing. Somalia's ability to expand the provision of schooling and systematically raise educational quality and learning outcomes depends on an adequate, predictable, and growing funding base. This in turn, depends on: (state and federal government domestic revenue mobilization and allocation to education; and development partner financing of education projects and education budget expenditure programs, both on- and off-budget. Domestic allocations to education as a share of the national budget are less than 5 percent. This is insufficient to support the core functions of an effective public education system, including the payment of teachers and school construction. Over the past several years, the federal government has also allocated some of its budget to support education in the central southern states, but the budgeted amount comes to less than US$2 million per year for all four states.[109] For their part, Member States spend little of their own resources on education due to low revenue mobilization and a small allocation of their revenues to education. Almost all funding for education in Somalia today is provided by external partners, including the United Nations, other multilateral organizations, bilateral partners, non-government organizations (NGOs), philanthropies, and the Somalia diaspora. Although the federal government has established mechanisms and processes to liaise with donors and coordinate donor-funded programs, it has not yet managed to ensure that the funding flows reinforce Somalia's evolving federal education system structure. The MoECHE also faces challenges in coordinating and reporting external support from such a diverse group of development partners. This also makes it challenging to quantify the assistance.

D. BUILDING SOMALIA'S HUMAN CAPITAL THROUGH HIGH-QUALITY EDUCATION

As Somalia progresses in rebuilding after decades of conflict and instability, weak education outcomes will need to be addressed to develop the full potential of its human capital. Prioritization of investments will be key to educating the large numbers of out-of-school children, with a focus on ensuring that girls participate in schooling across the country. First, attention will need to be paid to defining a strategic policy framework for rebuilding the education system. As such, both the public and non-state sectors will need to address the challenges of access, equity and quality in a strategic and sustainable manner to make progress in improving education outcomes. Second, to make quick gains, feasible solutions for rapidly expanding access to schooling, providing second chance educational opportunities, and skilling opportunities will need to leverage strengths within the system, such as the active non-state sector and strong community

108 Somalia Poverty and Vulnerability Study (World Bank, 2019).

109 Somalia Education Sector Strategic Program (ESSP), (Ministry of Education and Higher Education), p. 160.

involvement. These solutions will need to ensure that constraints to girls in accessing education are addressed —and that incentives are built into the approaches to attract and retain girls in school. Third, attention to the quality of education will be critical to building human capital. Priorities to improve the quality of education should include measuring student learning and improving the quality of Somalia's teachers through continuous in-service support and professional development using technology. Despite the currently low levels of human capital, Somalia's youthful population indicates a high return on investing not only in the school-age population, but also in girls, women, and disadvantaged men who have been left behind by the formal education system and who could benefit from a second chance.

Strong stewardship of the education sector is necessary to set a strategic direction and put it on a sustainable path to development. For sustainable and coherent development of the sector, the federal government will need to play a key role. Important gains have been made recently, especially with respect to brokering an agreement concerning a national framework for setting education policy. Such a policy will provide for a federal role in establishing system-wide standards and norms. A Memorandum of Understanding between the federal government and member states was signed in July 2021 to agree on the functional responsibilities of the various administrative levels, which is a critical building block.[110] In future, a key role of the federal government would be to ensure alignment and coherence across various legal and policy instruments, including local government laws, decentralization policies, and education sector guidelines that reflect a common understanding of these division of functions and responsibilities across administrative levels. This would help to strengthen the enabling environment for decentralized education services. Given the large role of the non-state sector, there is a need to strengthen oversight of non-state schools and networks. Data management systems need to be bolstered, including the adoption of uniform data protocols and the establishment of a clear flow of data between schools and skills centers, state authorities, and federal authorities in terms of planning, open information exchange, and follow-up, as well as reporting about donor financing and activities in the sector. The federal government should also play a key role in coordinating financing for the sector. To accomplish this, the MoECHE could ensure that every Federal Member State (FMS) budget spends an agreed minimum amount on education. Furthermore, where this is not sufficient, a centrally managed National Education Development Fund should be used to 'top up' state-level spending in a transparent and equitable manner.

Expand access rapidly through partnerships. In the short and medium run, it will be important to address the challenge of a serious lack of school places that offer basic learning opportunities (particularly for girls, internally displaced persons [IDPs], rural/pastoralists and the poorest), as well as the large stock of adults who did not attend formal education. This will entail expanding education places through multiple mechanisms to enhance public provision. These can complement the longer-term efforts by the government to expand access to schooling, second chance education, and skills programs, which should focus on underserved, rural communities. Additional measures the government could employ to open new schools and learning/skills centers include partnerships with communities and public-private partnerships (PPPs).

Mobilize communities. In rural localities and hard-to-reach areas that have low school coverage, member state governments could engage with Community Education Committees, community-based organizations, or other educationally oriented members of the community (such as university graduates or teacher training graduates) to establish primary schools. Experience in Somalia, especially the Girls' Education Challenge supported by United Kingdom's Foreign, Commonwealth and Development Office (FCDO), shows that engaging community heads can be an effective way of encouraging girls to participate in schooling. Globally —and especially in fragile, conflict and violence (FCV) contexts, the involvement of communities has been demonstrated to be an effective mechanism for introducing accountability and improving the quality-of-service delivery. Another important benefit of establishing government-supported community schools is that it could bring the schools

[110] This is also a completion point trigger of the Heavily Indebted Poor Countries (HIPC) Initiative.

into the government database, as well as increase the legitimacy of local governments. Finally, Somalia can leverage the experience of donor-financed and NGO-led second chance and skills development programs to develop these opportunities at scale and as part of an integrated qualifications framework.

Incentivize the non-state sector. Somalia's private sector has shown resourcefulness in helping meet the country's demand for education. Non-state schools serve over half of primary school students and 70 percent of secondary students, especially in the relatively less-stable areas of the country where the public sector has been unable to operate. Leveraging the private sector's ability to operate in unstable environments by mobilizing private sector entrepreneurs to open new schools could be the fastest way to begin closing this massive access gap, while also targeting the most vulnerable communities such as the IDPs. The government could promote this through a PPP to incentivize entrepreneurs to open new schools in low-access localities by paying a per-child-enrolled subsidy. This could also help to ensure the national curriculum is used, and that the public sector is able to regulate the private sector. It would also enable the government to rapidly increase its footprint in education provision. Regarding the skills sector, enhancing collaboration with employers and giving small-scale entrepreneurs access to training and mentors could increase the labor market relevance of skills, earnings, and profits.

Establish a national system for learning assessment. Understanding the performance of the education system in generating learning in students is critical to understanding its current efficacy. It would also inform the policy and implementation improvements needed to ensure student learning. In addition, this knowledge can inform teachers and administrators, providing a basis for interventions to raise learning outcomes. It can also assist education officials in setting standards and benchmarks, as well as in planning curricula and teacher training to best facilitate learning achievements in children. The effectiveness of skills training programs could also be enhanced through tracer studies and other data collection systems that assess the outcomes of graduates in self-employment or the labor market.

Leverage technology to develop teacher capacity. Approximately 30,000 teachers require training and development across the country. Face-to-face training is impractical due to the large numbers to be trained, risks associated with movement, and the need for teachers to be teaching in the schools. These challenges are substantial; however, Somalia is equipped with assets that can be leveraged to improve education outcomes. This includes information and communication technologies (ICT) infrastructure that has been substantially improved over the last ten years. In 2000, Somalia had only 200 internet users. By 2017, however, this had grown to 1.2 million users, or more than 10 percent of the population. Mobile penetration is also high, with approximately 90 percent of Somalis above the age of 16 years old possessing a phone, 30.8 percent of which are smartphones. This provides a unique opportunity to deliver education solutions that incorporate digital approaches for the continuous professional development of teachers.

Build the post-secondary (technical and higher) education system. Somalia finds itself today at a time of real opportunity for creating a modern, relevant technical and higher education sector, building on the advantages afforded by modern learning technologies and the lessons learned during the COVID-19 pandemic. Technical education provides immediately relevant skills for serving the needs of the existing and expanding local labor force. Higher education expands on this skills agenda. Indeed, it is the requisite foundation for the development of the high-level skills needed to engage in complex, knowledge-based work, as well as to contribute to the ongoing development of the Somali economy and society. This is especially important in enabling women to serve at the highest levels of leadership in the country. The most talented women in Somalia must have access to advanced learning and leadership development above and beyond the basic levels provided by primary and secondary education. Advanced technical and higher education sectors—online and on campus, with market-relevant, practical and/or academic programs—will provide these opportunities for social and individual growth needed to build a more modern and competitive Somalia.

HEALTH SECTOR POLICY NOTE

A. SUMMARY OF KEY MESSAGES

Health outcomes in Somalia are adversely impacted by emergencies, including the COVID-19 pandemic, climatic shocks, and the longstanding internal conflict. Gender disparities are among the worst in the world, characterized by limited access to formal education, high rates of gender-based violence (GBV), as well as a nearly universal prevalence of female genital mutilation (99.2 percent prevalence) among women. These factors have resulted in poor health outcomes for the Somali people compared to neighboring countries. Of greatest concern is the very rapid population growth rate of approximately 3 percent per year, which implies that the population will double every 24 years. The population growth rate outpaces the economic growth rate, thus placing pressure on scarce resources in a context of widespread poverty and instability. Targeted investments in health service delivery, financing, and stewardship are needed. Investing in high-impact, cost-effective services that address the leading causes of mortality and disability (communicable diseases, malnutrition, and reproductive, maternal, neonatal and child health disorders) would improve health outcomes. In the context of limited government capacity, health services can be delivered through government-led contracting of health service providers. This would help to rapidly accelerate access to health services and strengthen feedback mechanisms for continuous improvement in health service outcomes.

B. SUMMARY KEY ACTIONS

RECOMMENDED SHORT-TERM PRIORITY HEALTH INTERVENTIONS

- Rapidly scale up access to a prioritized package of essential health services through the contracting of competent organizations under the management and technical oversight of the Government.
- Invest in improving the stewardship capacity of the Ministries of Health at the Federal and Federal Member State (FMS) levels.
- Clarify functional assignments between the Federal Ministry of Health and the FMS Ministry of Health to enhance efficiency in implementation and financing.
- Leverage the capacity of Somalia's extensive private sector to enhance access to improved quality health services.
- Prioritize implementation of COVID-19 response measures, including prevention activities, care for infected patients, and the rollout of the COVID-19 vaccine, while also maintaining essential services.
- Increase resource allocations from domestic and external sources for the health sector to finance priority interventions identified under the Somalia investment case, including the pharmaceutical supply chain, human resources for health, and stronger monitoring and evaluation (M&E) systems.

RECOMMENDED LONG-TERM PRIORITY HEALTH INTERVENTIONS

- Address longer term human resource gaps in the health sector, including skilled health workers and employment opportunities.
- Improve health infrastructure capacity in the country through a combination of public sector infrastructure and private sector investments encouraged by incentives (for example, tax incentives and general investment climate improvements provided by the Government).
- Improve the regulatory environment for the health sector through the implementation of relevant laws and regulations, as well as the establishment of functional regulatory bodies.

- Increase investments in health as the resource base expands.

C. WHERE SOMALIA STANDS NOW

1. **Despite modest improvements over the past 15 years, Somalia's health indicators lag both regional and global averages (Annex, Table 1).** Life expectancy is 56 years, maternal mortality is a staggering 692 per 100,000 live births, and fertility remains one of the highest in the world (with about 7.0 births per woman). In addition, stunting among children under the age of five has been rising and is currently estimated at 28 percent. The burden of non-communicable diseases (NCDs) is rising and represents nearly 22 percent of Daily Adjusted Life Years (DALYs) lost. These diseases affect mostly those over the age of 50 — who are also among the highest at risk for COVID-19. Women face multiple challenges, including gender-based violence (with 12 percent of ever married women having reported physical violence during the World Bank 2020 Demographic and Health Survey, although this figure is likely to underestimate the actual levels), as well as difficulties accessing services because of men being responsible for health decisions. Coverage of basic maternal and child health services remains extremely low due to both supply and demand side constraints, with only 21 percent of births occurring in health facilities. There are similar gaps in the treatment of childhood illnesses.[111] Also, 31 percent of women receive antenatal care; and a meagre 11 percent of children are fully immunized.

2. **Public health facilities are inadequate, inequitably distributed, and poorly equipped to provide quality care.** The availability of human resources (with 0.92 health workers/1,000 people) is below the World Health Organization (WHO) minimum standard of 2.3 health workers per 1,000 people. As a result of both supply- and demand-side impediments, health service utilization is low. This is particularly the case in the public sector, where it is estimated at 0.23 outpatient visits per person per year, and 0.81 hospital discharges per one hundred people per year.[112] The inpatient bed density is 5.34 beds per 10,000 population, substantially below the target density set by the World Health Organization[113] of 25 beds per 10,000 population and the Sub-Saharan Africa regional average of 9 beds per 10,000 population.[114] Regarding barriers to accessing healthcare services, 73 percent of women faced at least one barrier, which included a lack of money (65 percent), distance from health facility (62 percent), not wanting to seek care alone (47 percent), and needing to seek a husband's permission (42 percent).[115] Somalia's public health worker density is 0.43 per 1,000 people and its private health worker density is 0.49 per 1,000 people. Supply chain management for health is further challenged by the volatile security environment; poor infrastructure; human resource shortages and low capacity; limited access to supervision and monitoring; and a lack of functional, integrated, sector-wide information management systems. In 2020, the Ministry of Health revised the essential package of health services (EPHS) to target priority services to address the health needs of Somalis.

3. **By contrast, the private sector plays a key role in the delivery of health services in Somalia.** The Government's role in the provision of health services is limited, with most services delivered by non-governmental organizations (NGOs). An estimated 60 percent of services and 70 percent of medicines are delivered by the private sector, primarily in urban areas. Indeed, patients prefer these facilities due to the perceived higher quality and availability of drugs. Pharmacies are one of the most accessible health care delivery platforms for many Somalis. Clan structures play a major role in determining where people access care, highlighting the importance of involving community leaders in the delivery of health services, including the COVID-19 immunization

111 Skilled personnel: nurse, midwife, auxiliary midwife, clinical officer, or doctor. (SHDS, 2020).

112 "Service Availability Readiness Assessment (SARA)." (World Health Organization, 2016).

113 "Service Availability Readiness Assessment (SARA)." (World Health Organization, 2016).

114 "Service Availability Readiness Assessment (SARA)." (World Health Organization, 2016).

115 "Somalia Demographic Health Survey (SDHS)." (World Bank, 2020).

program. Likewise, religious leaders in Somalia are well respected and can also positively influence health-seeking behaviors, including improving the uptake of COVID-19 vaccines.

4. **The COVID-19 pandemic has exacerbated existing health systems gaps and contributed to deteriorating health outcomes, further reinforcing the urgent need to strengthen healthcare systems.** The COVID-19 pandemic continues to worsen, with Somalia experiencing its third wave in February 2021. There is widespread and intense community transmission in all regions, as well as the suspected emergence of new variants. According to WHO situation reports, Somalia has reported a cumulative total of only 21,431 cases and roughly 800 deaths as of September 9, 2021. These figures likely underestimate the actual scope and magnitude of the pandemic. The cumulative positivity rate is 5.5 percent, and the cumulative case fatality rate is estimated at 3.2 percent. The COVID-19 pandemic has diverted already limited resources from the health sector, exacerbating long-standing vulnerabilities and disparities. Only a small fraction (less than 1 percent) of people living in nomadic settlements and camps for Internally Displaced Persons (IDPs) have been reached to date, as mobile clinics and outreach campaigns have only just started. The government has taken steps to tackle the pandemic, such as: (i) strengthening testing capacity at the National Public Health and Reference Laboratory in Mogadishu and established testing capacity in Somaliland and Puntland; (ii) putting in place rapid response teams; and (iii) expanding the country's intensive care unit bed capacity. However, there is an urgent need to make further progress, particularly in supporting prevention and the rollout of vaccines.

5. **There have been some modest improvements in vaccine management (including storage capacity, equipment and transport, and management information); however, the national supply chain faces ongoing challenges.[116]** The National Deployment and Vaccination Plan (NDVP, February 2021) for COVID-19 vaccines and corresponding Vaccine Readiness Assessment (April 2021) highlighted gaps in the following areas: (i) weak domestic resource mobilization capacity and limited fiscal space, resulting in a reliance on external donor financing; (ii) weak capacity of the national regulatory authority; (iii) key gaps in dry storage and cold chain capacity; (iv) the need to support/ strengthen surveillance activities, including adverse events following immunization (AEFI) Committees at the FMS level to monitor and improve AEFI surveillance; (v) training for healthcare and frontline workers engaged in vaccination programs, including staff safety during vaccination campaigns; and (vi) implementation and the rollout of social mobilization and awareness-raising programs to address vaccine hesitancy and uptake. Regarding the COVID-19 vaccine rollout, the uptake has been slow. A total of 594,553 doses of vaccines have been administered to 336,937 people (2.2 percent). Another 257,626 people (1.6 percent) have received the first dose as of the end of November 2021.

6. **Institutional capacity in the health sector is growing, but it remains modest.** The relatively young Federal Ministry of Health (FMoH), established less than a decade ago, aims to play a stewardship role in a challenging context of managing multiple actors with limited human and financial resources. Although the FMoH has leadership structures and some policies and procedures in place, its decision-making processes and management systems are not fully defined. In addition, its capacity to manage programs independently is limited. Reliance on external financial and technical assistance remains high. The capacity to regulate the private sector and to contract NGOs is limited, and governance problems have impeded the transparent management of the operations of the FMoH in the past. The current government has demonstrated its commitment to fight corruption, as evidenced by the passage of anti-corruption legislation in September 2019. The Government of Somalia has leveraged the lessons learned from the implementation of the First and Second National Health Sector Strategic Plans

[116] 'Effective Vaccine Management Assessment", (World Health Organization, 2016).

(HSSP-I, 2013-2016; HSSP-II, 2017-2021), together with multiple system reforms being done in the country. As such, it has examined ways to strengthen essential public health functions of the FMoH. Consultations are currently ongoing concerning the draft Third National Health Sector Strategic Plan (HSSP-III, 2022-2026).

7. **Somalia's Ministry of Health is nascent and health governance and financing capacities are not yet fully developed.** Somalia has limited capacity for health sector regulation, data collection and use, and oversight of health services. The health sector has substantial partner fragmentation, which decreases efficiency. A 2019 resource mapping and expenditure tracking (RMET) exercise conducted by the FMoH found that of the US$208 million in total funding for the health sector, US$191 million (67 percent) came from development and humanitarian partners. Most of this funding is off the Government's budget and goes directly to NGOs, thus limiting coordination and federal oversight. Government health expenditure accounts for 17 percent of per capita health expenditures (2019), relative to 50 percent of per capita expenditures for donor financing (2019). This results in a high risk of duplication among health activities. As such, it has limited the government's involvement in many aspects of health sector programming, constraining its ability to increase efficiency in spending, as well as its overall leadership in the sector. As a result, systems for fund flows through the government have not been fully developed, leaving the government with limited public financial management (PFM) capacity. Out-of-pocket payments (OOP) as a percentage of per capita health expenditures in Somalia are high at 46 percent. Average annual household OOP on health is estimated at US$2 per capita out of a total of US$6 (2019). It varies substantially between the richest quintile and the poorest quintile, indicating that households are accessing healthcare services based on the ability to pay instead of their healthcare needs, thus resulting in health inequities. There are almost no formal risk-protection mechanisms in the country: health insurance is limited to private plans for international companies and NGOs, and are estimated to be 1 percent of total health expenditures.

8. **The capacity of Somalia's Ministries of Health at the Federal Member States(FMS) level is similarly weak.** Somalia's Federal Ministry of Health (FMoH) is nascent. It is critical that its capacity to manage health services be strengthened, including contract management. The Government's role in health service delivery is limited, with most services being delivered by NGOs and financed by development partners. Although the FMoH has leadership structures and some policies and procedures in place, its decision-making process and management systems are not fully defined, and its capacity to manage programs independently of partners is limited. Additionally, there is mixed implementation capacity across the six states. The Somalia health system structure has an overarching FMoH and five FMS MoHs. The capacities of the FMS are variable, with the four recently established states (Galmudug, Hirshabelle, Jubbaland, and South West), having relatively modest capacities and few resources in their treasuries (around US$100,000 a year). In addition, they have low budget execution rates, few to no civil servants, as well as a high dependence on development partners to provide staffing and stewardship for service delivery. By comparison, Puntland and the self-declared independent territory of Somaliland are somewhat better off. Puntland's MoH is more experienced in managing some health programs, but it also remains highly dependent on development partner support, with civil servants representing only 26 percent of MoH staffing. Somaliland has the strongest MoH capacity. Finally, there is a need to further delineate the roles and responsibilities of the FGS and FMS Ministries of Health ('functional assignment') to make optimal use of the limited resources in the country.

D. SHORT- AND MEDIUM-TERM RECOMMENDED ACTIONS FOR STRENGTHENING THE HEALTH SECTOR

Four strategic areas have been identified for strengthening the health sector over the short and medium term:

9. **Health financing:** In the short term, the Government can increase resource mobilization for the health sector, improve resource alignment, and coordinate with partners by aligning the purchasing of health

services. This could be achieved as a steppingstone toward greater partner alignment. The Government can focus on alignment in terms of what to purchase, specifically, by leveraging its oversight and contracting function to coordinate with NGO partners and resources for the government's prioritized package of services. The use of a harmonized, output-based provider payment formula allows for the lumpsum payment of contracted NGOs, with the opportunity to earn a small performance-based bonus based on health service improvements. Such improvements would be demonstrated through health facility assessments, which would also represent a step toward a results-based contracting system to further strengthen accountability. In the long-term, the government can increase investments in health as the overall resource base expands, especially with the pooling of health sector resources by financiers. In addition, it can leverage a similar performance-based payment model when engaging with private sector health service providers. It should also increase donor alignment while strengthening government capacity to manage resources and purchase essential goods and services. This will contribute to sustainably increasing the availability and use of resources for health, including those allocated to the frontlines.

10. **Health service delivery:** Learning from local and global experiences — and based on an analysis of cost-effective interventions and burden of disease, investments in high-impact health and nutrition services have the potential for significant impacts in the short-term. These include: (i) child health services (routine immunizations, micronutrient supplementation, promotion of infant and child feeding and nutrition referrals); (ii) maternal and neonatal health services, including testing and interventions during antenatal care (ANC) visits, basic and comprehensive emergency obstetric and newborn care (BEmONC and CEmONC), and family planning; (iii) GBV services (awareness raising, case identification, counselling, and management); (iv) disease surveillance (strengthening and maintaining integrated disease surveillance and response, as well as preparedness and response to disease outbreaks); (v) communicable and select non-communicable disease prevention, treatment, and detection; (vi) first aid; and (vii) mental health (including basic psycho-social support and follow up). These high-impact health interventions comprise a subset within the Government's broader EPHS.[117] Further short-term recommendations include the expansion of training for healthcare workers, including increasing the availability of medical staff to non-urban areas. It would also include ensuring that adequate accreditation/ regulatory processes are in place to maintain quality care. Finally, it will be important to strengthen human resource management information systems (HMIS) to ensure data feedback mechanisms for data quality and use. In the long-term, the following measures are recommended: the gradual expansion of health service delivery to include the full package of services defined in the EPHS; ensuring deployment and retention strategies are in place to support existing healthcare workers; and utilizing alternative digital means to improve the timeliness and quality of data submissions.

11. **COVID-19 response:** In the short-term, a number of health measures are necessary, including: health measures to enhance prevention (including the use of personal protective equipment (PPE), social distancing, and lockdowns as necessary); procurement and deployment of COVID-19 vaccines to all eligible Somalis; and maintenance of essential health services to protect the recent gains in health outcomes. These measures are needed to urgently control the rate of community transmission and prevent adverse consequences to other essential health services. In the long-term,

[117] The Government's 2020 EPHS package is comprised of six key areas: (i) Access to care (continuity care planning and coordination, emergency care, approach to common signs and symptoms); (ii) Reproductive, maternal and new-born health (maternal and new-born care, sexual and reproductive health); (iii) Life-course, growth and development (childhood and adolescence including nutrition, older age and adults); (iv) Noncommunicable diseases (health promotion and disease prevention, cardiovascular and pulmonary diseases, diabetes, cancer, mental health and substance use disorders, injuries, and other NCDs); (v) Communicable diseases (immunization, management of human immunodeficiency virus [HIV], Tuberculosis [TB], Malaria and Hepatitis, neglected tropical diseases, respiratory infections, gastrointestinal infections, other infections, and outbreak surveillance); and (vi) Rehabilitation.

a number of measures are needed, including: strengthening Somalia's capacity to deal with future pandemics by investing in early warning systems, laboratory capacity, and rapid response plans; and close collaboration with development partners to strengthen national regulatory capacity, the roll-out of the COVID-19 Vaccination Plan, and the strengthening of the institutional framework for the vaccination program.

12. Stewardship: In the short term, there is a need to strengthen the capacity of the FGS and FMS in the identified priority areas, including health management information systems, contract management and public financial management, regulation and private sector engagement, and organizational development. Also, the government needs to develop the foundation for effective public-private partnerships. Additionally, there is a need to further delineate the roles and responsibilities of the FGS and FMS Ministries of Health ('functional assignment') to make optimal use of the limited resources in the country. The new US$100 million World Bank-funded operation, Improving Healthcare Services in Somalia Project (Damal Caafimaad), will support the FMoH in strengthening its managerial, planning, budgeting, contracting and oversight capacities. It will also assist the FMS in bolstering its capacities.[118] In the long-term, there is a need to address policy and regulatory gaps, including strengthening regulatory/accreditation bodies, such as the National Health Professionals Council and the National Medicines Regulatory Authority. Finally, standards for health professionals and health services should be established to ensure quality health services for Somalis.[119]

Table 1: Summary of Short- and Medium-term Recommendations

Area	Short-term Recommendations	Medium-term Recommendations
Health financing	• Use available resources more efficiently through leveraging the Government's oversight and contracting functions to avoid duplication and direct services where needed. • Increase resource mobilization for the health sector. • Use a harmonized, output-based provider payment formula for contracted service delivery organizations. • Contract NGOs to deliver health services and closely monitor the desired results (outputs, outcomes, and costs).	• Increase investments in health as the resource base expands. • Pool health sector resources by financiers. • Contract with for-profit health service providers using the harmonized payment formula.
Health service delivery	• Expand support for training health care workers. • Finance high-impact, cost-effective interventions to rapidly improve health outcomes, for example,	• Develop and implement a strategy for efficiently deploying and retaining health care workers. • Finance additional interventions within the

118 The Damal Caafimaad Project will support the rapid expansion of an essential package of health and nutrition services, as well as intensive government capacity development. The operation will focus on high-impact services that will improve health outcomes and that can be scaled up across the population in target regions within available resources and service delivery capacity. The project aims to develop the capacity of the Federal and State Ministries of Health to act as stewards of the health sector, effectively governing the sector and building core functions that will enable the Government to lead and manage the sector.

119 The Parliament has passed the National Health Professionals Council (NHPC) Act in July 2020. The establishment and operationalization of the agency is the next step. Regarding the National Medicines Regulatory Authority, after the approval of the Somali National Medicines Policy (May 2014), there has been no major progress toward the establishment of a National Medicines Regulatory Authority. A draft Medicines Drug Regulatory Act (2018) was endorsed by the Cabinet and is now passing through the Parliament for readings and approval.

Area	Short-term Recommendations	Medium-term Recommendations
	for family planning, vaccinations, and skilled birth attendance. • Strengthen the HMIS through a focus on improved data quality and use.	Government's essential package of health services as additional resources become available and health outcomes improve. • Introduce digital data options to improve the timeliness of data.
COVID-19 Response	• Enhance prevention measures, including the use of PPE, social distancing, and lockdowns as necessary. • Procure and deploy COVID-19 vaccines to all eligible Somalis. • Ensure maintenance of essential health services to protect the recent gains in health outcomes.	• Build Somalia's capacity to deal with future pandemics by investing in early warning systems, laboratory capacity, and development of ready-to-go rapid response plans. • Work closely with development partners to strengthen national regulatory capacity, roll-out of the COVID-19 Vaccination Plan, and the institutional framework for the vaccination program.
Stewardship	• Develop the capacity of the Federal Government of Somalia (FGS) and the Federal Member States (FMSs) in health management information systems, contract management and public financial management, regulation, private sector engagement, and organizational development. • Delineate service delivery roles and responsibilities between the FGS and FMS, and between the public and private sectors. • The FMS should conduct the day-to-day monitoring of the health service providers contracted by the FGS. • Develop the capacity for effective public-private partnerships.	• Develop and enforce a regulatory framework for the health sector. • Continue to develop the capacity of the FGS and FMS. • Increase the service delivery role of the FMS, based on the outcome of constitutional discussions.

ANNEXES

ANNEX 1

Table 2: Somalia's Key Health Indicators

Indicator	2006	2016	2019[a]	WHO AFRO Regional Average (2016)[b]
Maternal Mortality Ratio (per 100,000 live births)	1040	865	692	536 (2017)
Neonatal Mortality Rate (per 1,000 live births)	45.1	39	Not available (N/A)	26
Infant Mortality Rate (per 1,000 live births)	103.3	80.4	N/A	51
Under-five Mortality Rate (per 1,000 live births)	170.5	128.4	N/A	80.5
Total Fertility Rate (no. of births per woman)	7.2	6.3	6.9	N/A
Adolescent Fertility Rate (births per 1,000 women aged 15-19 years)	127.17	102.14	140	102.1 (2015-2020)
Stunting (age-for-height among children under five years of age)	N/A	25.3% (2009)	28%	29%

Source: The World Bank at: http://data.worldbank.org.
Note: [a] The 2020 Somali Health and Demographic Survey (SHDS) included no child mortality data, such as neonatal, infant, and under five mortality rates. This is a major gap in the results. Discussions are currently under way with partners and the United Nations Population Fund (UNFPA) (which conducted the survey) concerning whether raw data exist to rectify this, as well as other data gaps in the survey — including the absence of geographically disaggregated data.
[b] Although Somalia belongs to the WHO Regional Office for the Eastern Mediterranean (EMRO) region, geographically and culturally, it is part of sub-Saharan Africa. As a result, the AFRO region data are more applicable and are used here.

GENDER POLICY NOTE

A. SUMMARY OF KEY MESSAGES

Somalis have poor socioeconomic outcomes, with stark gender disparities, thereby holding back Somalia's progress to strengthen stability and realize inclusive economic growth. Women and girls, especially those from marginalized groups and internally displaced communities, confront challenges along the dimensions of: (i) human endowments (health and education); (ii) access to economic opportunities and productive assets; and (iii) voice and agency.[120,121] To make progress in strengthening the socioeconomic outcomes of women and men, a multi-faceted and complementary approach is needed.

B. SUMMARY KEY ACTIONS

RECOMMENDED SHORT-TERM INTERVENTIONS TO ADDRESS GENDER GAPS

To strengthen human endowment:

- Expand access to a package of high-impact reproductive, maternal, newborn, child, and adolescent health and nutrition services.
- Support birth spacing / family planning services to help reduce the total fertility rate.
- Increase girls' access to, and completion of, quality education (including tertiary education), as well as the development of market-relevant skills.
- Increase safety for girls and boys in schools, and address school-related, gender-based violence (SRGBV).

To strengthen women's economic empowerment:

- Increase women's access to finance and capital and improve access to better jobs.
- Advocate for enhanced protections of women in the workplace.

To strengthen voice and agency:

- Encourage the inclusion and effectiveness of women and minority groups in political processes.
- Prioritize passage of critical legislation to protect against gender-based violence (GBV) and other harmful practices.
- Expand and strengthen access to and utilization of quality, multi-sectoral GBV response services.

RECOMMENDED PRIORITY INTERVENTIONS TO ADDRESS GENDER GAPS (MEDIUM-TERM)

To strengthen human endowments:

- Support the development of safe spaces for girls.

To strengthen women's economic empowerment:

- Address social norms that affect women's ability to work and engage in higher value-added activities.
- Address land tenure constraints for women entrepreneurs.
- Support access to finance through digital identification and developing a pipeline of bankable micro, medium and small enterprises outside of trade finance with a focus on women.

120 F. Musse and J. Gardner, A Gender Profile of Somalia (2013).

121 These three dimensions reflect the conceptual framework outlined in the 2012 *World Development Report on Gender Equality and Development* (https://openknowledge.worldbank.org/handle/10986/4391). It was reinforced within the 2016-2023 World Bank Gender Strategy. (http://documents1.worldbank.org/curated/en/820851467992505410/pdf/102114-REVISED-PUBLIC-WBG-Gender-Strategy.pdf).

- Support the availability of mobile banking in Somali shillings.

To strengthen voice and agency:

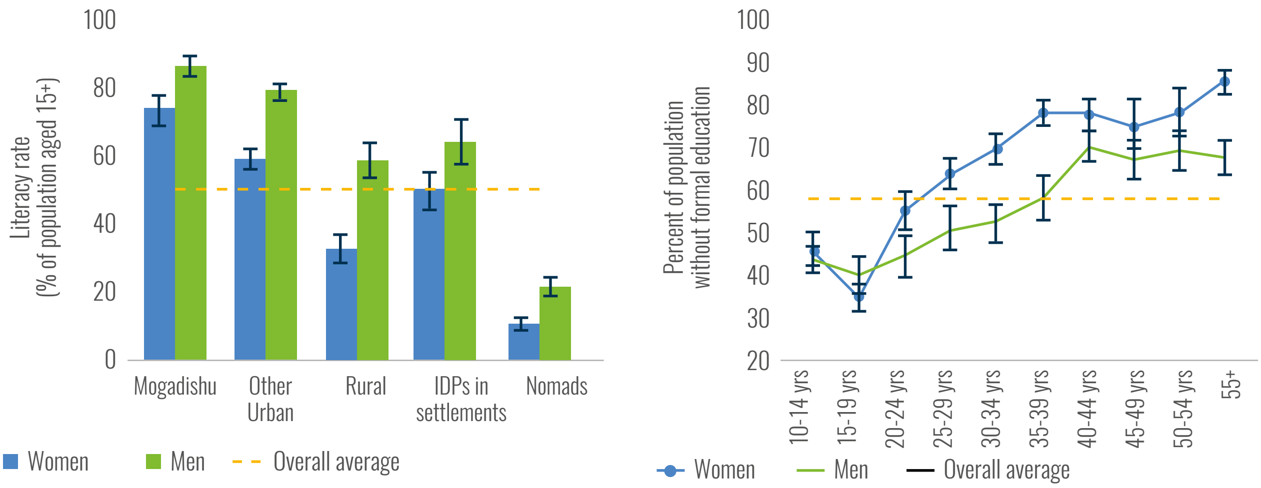
- Expand evidence-based GBV prevention programming, including engagement with men, male youth and boys.
- Improve programming to address female genital mutilation/circumcision (FGM/C).

C. WHERE SOMALIA STANDS NOW

HUMAN ENDOWMENTS

Women have lower educational attainment and literacy rates than men across all population groups (Figure 1).[122] Gender inequalities in enrollment are pronounced across all Federal Member States, with 72 percent of rural women and 59 percent of urban women having never attended formal schooling. Barriers to education are linked to poverty, distance to schools, and entrenched social norms, including social pressures for early marriage, expectations that girls support households and caregiving, and the greater 'social value' attached to boys' education. Also, the predominance of male teachers may discourage the enrollment and/or retention of girls. Almost 92 percent of primary level teachers are male.

Figure 1: Women across all population groups have lower literacy and education attainment



Source: "Somalia Poverty and Vulnerability Study." (World Bank 2019).

Reproductive health outcomes are poor, with an estimated maternal mortality rate of 692 deaths per 100,000 live births.[123] This constitutes an improvement from the earlier reported rate of 732 deaths per 100,000. However, it is still significantly higher than the regional average of 542 deaths per 100,000 live births in Sub-Saharan Africa.[124] Early marriage and adolescent fertility are significant factors in high maternal mortality rates. In this regard, 36 percent of women aged 20-24 reporting having been married before the age of 18, thereby leading to early first pregnancies and high fertility rates. At 6.9 births per woman, Somalia's fertility rate is

122 World Bank and FAO. "Rebuilding Resilient and Sustainable Agriculture in Somalia." Country Economic Memorandum, Volume 1. (World Bank, Washington, DC: 2015). http://documents1.worldbank.org/curated/en/803231522165074948/pdf/124653-Somalia-CEM-Agriculture-Report-Overview-English-Revised-July-2018.pdf

123 Federal Government of Somalia and UNFPA. "The Somalia Health and Demographic Survey 2020." (2020). https://reliefweb.int/sites/reliefweb.int/files/resources/Som%20Gvt%20UNFPA%20Press%20Release_SHDS%20Rpt%20Launch_29-04-20_Final.pdf

124 World Health Organization, UNICEF, United Nations Population Fund and The World Bank. *Trends in Maternal Mortality: 2000 to 2017.* (WHO, Geneva: 2019).

among the highest in the world.[125] Similarly, Somalia's adolescent fertility ratio is 140 births per 1,000 among women between the ages of 15-19. The combination of high fertility and extremely poor reproductive health outcomes limit women's ability to contribute to economic growth and poverty reduction. It also prevents Somalia from capturing a demographic dividend.

ECONOMIC OPPORTUNITIES

Although women play an important role in strengthening resilience, particularly at the household level, rates of formal labor market participation are low (Figure 2). During crises, gender roles in Somalia have shifted as some households adopt coping strategies (such as family splitting). This has expanded women's roles as income earners, as families break up to spread economic risks and increase access to livelihood opportunities. However, women's participation rate in the labor market remains low at 37 percent, as compared to 58 percent of men. Household enterprises are an important source of jobs for women, where women's ownership of such businesses contributes to one in four jobs for women.[126] Women entrepreneurs are more likely than men to hire women, thereby contributing the most to paid employment for women. However, women are more likely to be engaged in lower value-added activities. Women entrepreneurs also earn lower revenues than men, with a differential of 40 percent in household enterprises and one-third in large established businesses.[127]

Figure 2: Labor Force Participation

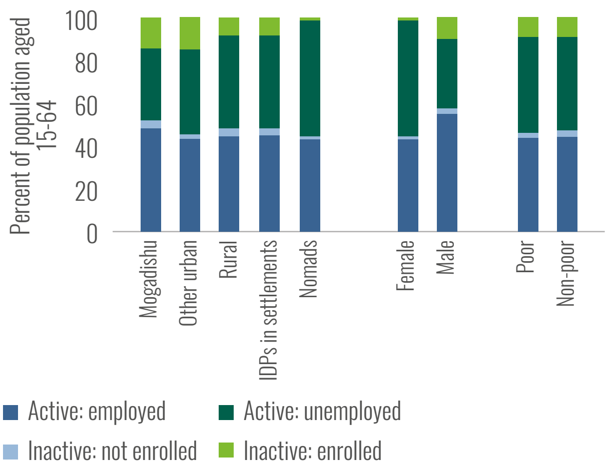
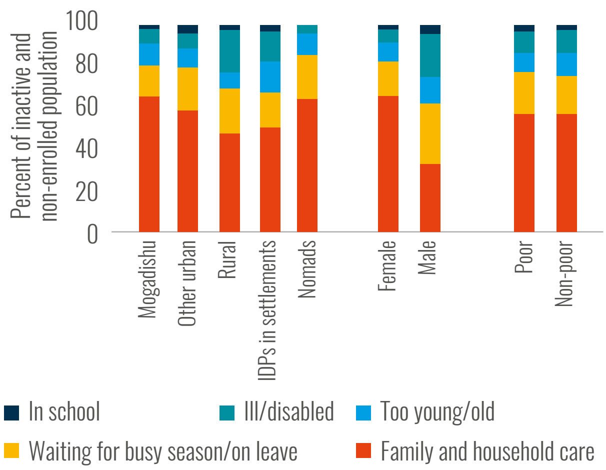


Figure 3: Reasons for Inactivity

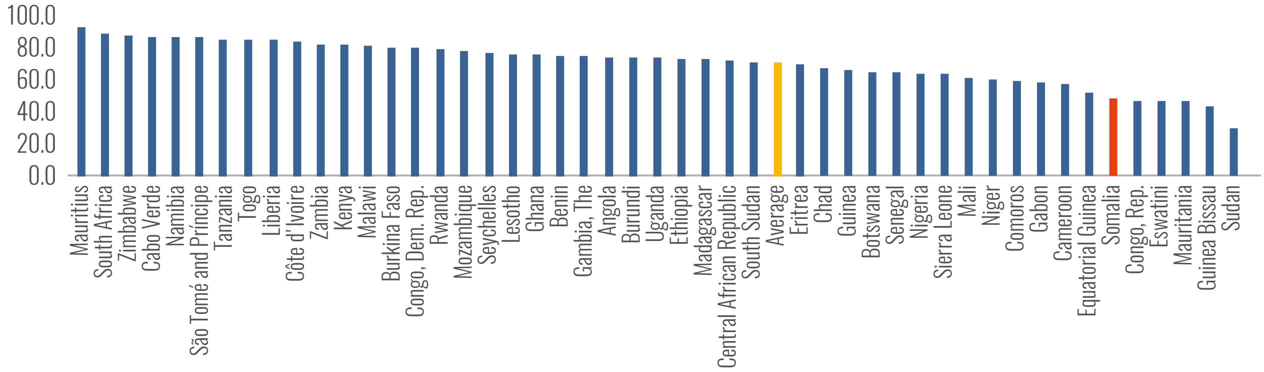


Source: "Somalia Country Economic Memorandum." (World Bank 2021) and "Somalia Poverty and Vulnerability Study." (World Bank 2019).

There are a number of barriers to women's economic engagement in Somalia (Figure 3). The Somalia Poverty and Vulnerability Study identifies expectations for women's domestic and reproductive responsibilities as the primary constraints to women's participation in the formal sectors of the economy.[128] Additional barriers include: (i) low educational attainment, as well as a lack of vocational or business skills development; (ii) social norms and dynamics that limit women's meaningful participation in private enterprises, thus contributing to a hostile work environment; (iii) a lack of control over critical resources including land, financial resources and other inputs; (iv) insufficient market research concerning viable opportunities; and (v) a lack of access to formal networks to provide business guidance.[129] Female youth are often constrained by mobility restrictions, GBV, and early or forced marriage.

[125] FGS and UNFPA (2020).
[126] "Somalia Country Economic Memorandum, Towards an Inclusive Jobs Agenda." (World Bank 2021).
[127] "Somalia Country Economic Memorandum, Towards an Inclusive Jobs Agenda." (World Bank 2021).
[128] "Somalia Poverty and Vulnerability Study." World Bank (2019).
[129] World Bank and FAO (2015) and UNDP (2014).

Figure 3: Women, Business and the Law Index Scores



Source: WBL 2020 database.

A recent review of Somalia's legal framework as part of the International Finance Corporation's Women, Business and Law (WBL) initiative identifies restrictions to women's meaningful economic participation (Figure 3). The WBL index examines eight key indicators that reflect women's decisions and associated implications for their economic engagement throughout their working lives.[130] With a WBL score of 46.9, Somalia ranks significantly lower than other Sub-Saharan African countries (with a regional average score of 69.9) and similar low-income economies (with an average score of 67.2).[131] Somalia's score illustrates an absence of legal gender equality, which affects women's ability and/or willingness to work. For example, Article 4(2) of the Family Law of 1975 in Somalia provides that the husband is by law the head of the family. Furthermore, Somalia's current legal framework does not provide equal inheritance rights for spouses or children, with daughters receiving half of the amounts awarded to sons.

VOICE AND AGENCY

Women have limited roles in public decision-making forums and lower rates of political participation than men. Socio-cultural norms and the clan-based political system continue to limit women's roles outside the domestic sphere, thus hindering women's participation in political and public decision-making forums. Reflecting decades of activism and protest by Somali women, recent election cycles in Somalia have been guided by demands for a quota of at least 30 percent representation for women in elective bodies. The 2016/2017 selection process for Parliament resulted in the selection of 80 women, or 24 percent of the representative body. This represents an improvement from the 14 percent reached in 2012. The importance of quotas has been reiterated in the 2021 election cycle; the elections for the Upper House (held in July) saw 14 of the 54 seats going to women, translating into 26 percent representation. However, this falls short of the minimum 30 percent quota for women.[132] Despite progress, advocacy initiatives for the 30 percent quota have generally lacked legal enforcement mechanisms. As such, they have had limited impact in practice. Somali women who have participated as political actors have done so predominantly as civil society leaders and human rights advocates, and far less frequently as formal political representatives. Of the women who have successfully secured political positions, few have the formal education or technical experience to effectively carry out the mandate and duties of their offices.

Gender-based violence continues to present a significant challenge, especially among internally displaced persons (IDPs); furthermore, it has been

130 WBL indicators examine key considerations related to Mobility, Workplace, Pay, Marriage, Parenthood, Entrepreneurship, Assets and Pensions. For more information, see: https://wbl.worldbank.org/en/data/exploreeconomies/somalia/2020

131 IFC. "Women Business and the Law Reform Memorandum for Somalia." (IFC 2020).

132 https://reliefweb.int/report/somalia/situation-somalia-report-secretary-general-s2021944-enarruzh

exacerbated by the COVID-19 pandemic, ongoing conflict, and recurring climate-related shocks. GBV is widespread across Somalia,[133] with displaced women and girls among the most vulnerable to varying forms of violence. In IDP camps and host communities, inadequate and unsafe physical infrastructure, as well as distance to water points, markets, health facilities and schools, has increased GBV risk exposure. Harmful practices are also prevalent. The 2020 Somalia Demographic and Health Survey (DHS) indicates that 99 percent of women have undergone some form of female-genital mutilation/circumcision, with a large majority of these being Type III FGM/C that leaves women with longer term physical suffering.[134] Early marriage is common, with 36 percent of women having been married by the time they turned 18. Likewise, adolescent childbirth (ages 15-19) is high, at 140 births per 1,000.[135] Recurrent and complex humanitarian crises—including conflict, climate-related shocks and most recently the COVID-19 pandemic—exacerbate already high rates of GBV in Somalia. Mobility restrictions, loss of livelihoods, and a lack of access to GBV service providers as a result of the pandemic have contributed to a dramatic spike in incidence. Indeed, intimate partner violence and sexual violence are among the most common violations.[136] GBV service provision remains low compared to the needs of women and girls. There is a lack of integrated services or specialized services for survivors of violence, as well as a lack of safe shelters for women and girls to escape from violence.

D. SHORT- AND MEDIUM-TERM RECOMMENDED ACTIONS TO NARROW GENDER GAPS

The Somali authorities have recognized the need to address gender disparities in Somalia as a critical pathway for inclusive development and growth. The Somalia National Development Plan 2020-2024 identifies the need to strengthen gender, human rights, and other kinds of social equity as a critical, cross-cutting development imperative. Similarly, the Women's Charter for Somalia, issued in March 2019, calls for the inclusion of women across all political, economic, and social dimensions. However, the government's realization of these ambitions will require targeted investment and support by development and humanitarian partners alike. Recommendations outlined below are intended to be cross-cutting and complementary, such that progress in one area has a positive impact on a wider range of outcomes, for example, advancing girls' human capital can positively reinforce their ability to join the work force, or to have more decision-making power within households and communities.

HUMAN ENDOWMENTS

Expand access to a package of high-impact Reproductive, Maternal, Newborn, Child, and Adolescent Health and Nutrition (RMNCAHN) Services. The expansion of high impact RMNCAHN services aims to reduce maternal, newborn and child mortality through approaches that include: (i) expanding Somalia's Female Health Workers (FHWs), which is a community-based health worker program providing services delivered by women; (ii) increasing facilities' opening hours; and (iii) increasing the number of female clinical staff in health facilities, including at least one female qualified health worker in primary healthcare units, as well as ensuring a more equal gender balance of clinical staff in larger facilities. Expanding the capacity of health providers to provide critical services to women who have experienced GBV and FGM/C should be integrated into primary care services, with a focus on culturally and gender-sensitive services.

Increase access to birth spacing / family planning services to improve women's health and contribute to a reduction in Somalia's total fertility rate (6.9 children per woman). These are integral components of the package of high-impact services.[137] Efforts

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[133] In Puntland alone, an estimated 25 percent of women have experienced GBV. Johns Hopkins University. 2018. "Gender-Based Violence in Somalia: Preliminary Findings in Puntland." Study commissioned by the World Bank, UNICEF, UNFPA and UN Women.

[134] "Somalia Demographic and Health Survey." (World Bank 2020). https://reliefweb.int/sites/reliefweb.int/files/resources/Som%20Gvt%20UNFPA%20Press%20Release_SHDS%20Rpt%20Launch_29-04-20_Final.pdf

[135] SDHS, 2020.

[136] UNFPA, GBV Area of Responsibility Somalia. "Overview of Gender-Based Violence in Somalia." Advocacy Brief. (UNFPA 2021). https://www.globalprotectioncluster.org/wp-content/uploads/somalia_gbv_advocacy_brief_05march21.pdg

[137] "Somalia Demographic and Health Survey.", (World Bank 2020).

to increase the use of birth spacing / family planning commodities will focus on increasing the supply of modern contraceptives and addressing demand-side factors constraining the prevalence of modern contraceptive use, which is currently 1 percent.[138] Delaying marriage and reducing early marriage will also be central to reducing fertility rates. Core methods to be used to improve the uptake of modern contraceptives, space births, and delay marriage include: FHW engagement with women in their communities; work through religious and community leaders; counseling by health workers; engaging women in health decision making; and employing contextually appropriate, innovative approaches.

Increase girls' access to and completion of quality education. Schooling for girls in Somalia (especially in rural and remote areas) should focus on: (i) bringing schools closer to home; (ii) making schools safe and welcoming places for girls; (iii) ensuring that costs are not a barrier; and (iv) improving the quality of teaching and learning outcomes. Programming should prioritize the improvements in the quality of education and learning outcomes, in part through the development of appropriate curricula, incentivizing trained and motivated teachers, improved measurement of learning outcomes, and the promotion of effective school leadership. To address social norms that may impede girls' participation, programming should include community-level engagement and awareness-raising concerning the benefits or girls' education, as well as the eradication of harmful practices, such as FGM and early marriage. In other country contexts, conditional cash transfers, scholarships, or cash vouchers to families to incentive girls' school completion rates have been effective and may be tried in Somalia. Incentivizing, training, and hiring of female teachers should be prioritized. Improving school water and sanitation infrastructure and introducing menstrual hygiene management in schools can further mitigate the dropout risks of adolescent girls from school.

Increase tertiary enrollment and completion rates for women, as well as the development of market-relevant skills. This can be done with a mix of demand and supply interventions. The supply side can focus on the delivery of second-chance services (for girls who have had to drop out of school for social-cultural, economic and/or conflict-related reasons), skills and entrepreneurship training and higher education. On the demand side, attention must be paid to financial constraints, social norm constraints, as well as childcare constraints that impede women from pursuing further education and skills training. More specifically, focusing on women's leadership skills can lead to a pipeline of women pursuing careers in public life, business, education, civil society, and so on. This has the added benefit of increasing the presence of visible female role models, which has been shown to enhance girls' aspirations and commitment to education.

Develop safe spaces for girls through school-based programming. The establishment of safe spaces for girls has been effective across several cultural contexts. It has helped to create an environment for integrated programming by addressing a range of needs for adolescent girls, including girls not enrolled in school.[139] Programming can include the delivery of vocational and life-skills training, the sharing of information related to sexual and reproductive health, learning and discussions about GBV, accessing mentorship and peer support systems, and shifting harmful social and cultural norms to support girls in completing their schooling.

Address school-related gender-based violence (SRGBV). GBV has wide-ranging consequences for boys and girls alike, with severe impacts on physical and emotional well-being, school attendance and performance, and the likelihood of experiencing or perpetrating GBV in the future. The Government of Somalia should invest in programming that promotes schools as safe spaces for children, particularly programming that advances gender-equitable relationships and reduces school-related GBV. This could be achieved through partnerships with students, parents, teachers, administrators, religious leaders and other critical community stakeholders.

[138] "Somalia Demographic and Health Survey.", (World Bank 2020).

[139] See: https://openknowledge.worldbank.org/bitstream/handle/10986/33138/GIL-Top-Policy-Lessons-on-Empowering-Adolescent-Girls.pdf?sequence=1&isAllowed=y

WOMEN'S ECONOMIC EMPOWERMENT

Increase women's access to finance and capital. Although there is broad access to mobile money, women experience challenges in accessing capital to support women-led enterprises. Lack of a trusted means of identification is a serious constraint, underscoring the need to accelerate digital identification reforms. Such reforms can aid in establishing correspondent banking relationships that are essential for unlocking access to financial flows. There is a case for offering female entrepreneurs small grant funding, as well as supporting women entrepreneurs through savings groups. As efforts continue to support the development of Somalia's banking system, consideration could be given to cash flow-based lending to reduce obstacles, such as collateral requirements, that pose constraints to women entrepreneurs seeking financing. Exploring alternatives to collateral requirements, such as the use of psychometric and behavior data to assess creditworthiness as a replacement for asset collateral, should be explored as well. Improved coordination and collaboration across lending facilities and development partners engaged in access to credit and financial services is also needed.

Support access to better jobs for Somali women. Connecting women to more profitable segments of the value chain will help women overcome other constraints — such as lack of access to capital and networks — thus, helping them to obtain better jobs. There are also opportunities across multiple sectors, including catching and exporting fish, dairy and livestock, trekking with animals in search of higher market prices, currency exchange, and the trading of higher value goods.

Address social norms and perceptions that affect women's ability to work, including their ability to engage in more productive work. Women's work opportunities are affected by social norms both within and outside of their households — whether it is an inability to rent a workspace, access financial services, or the strong belief that women should only work if their husbands cannot support their family. Culturally, to the extent possible, men avoid buying from women's businesses, and minimize their interactions with women. Women are absent from networks that are dominated by men, particularly where information is shared about trading practices. Women's child-bearing and household responsibilities are perceived to be of greater importance. Economic empowerment programming should invest in interventions that analyze and address these norms in order to advance opportunities and accelerate growth. Enabling the provision of and access to childcare may also advance women's economic empowerment.

Address land tenure constraints, a key barrier for women entrepreneurs. In addition to the complexities accessing land for entrepreneurs in Somalia, women have additional legal and cultural/custom barriers in owning and renting property. Longer term initiatives, such as policy reforms, could be complemented with shorter-term initiatives that support women entrepreneurs. These could include exploring guarantees and finance for deposits as an alternative to requesting land as collateral. Land security also encourages female farmers to invest in agricultural production. Supporting women entrepreneurs in Somalia fosters additional paid work opportunities for women.

Reform policies to advance women's economic empowerment. There are a number of policy reforms that can support women's economic empowerment. For example, the current provisions in the Labor Code of 1972 under Articles 88 and 91 could be repealed or replaced with a legal amendment allowing men and women to have the same access to jobs. Furthermore, an Article could be added stating that men and women can work in industries and work the same hours without gender discrimination. Alternatively, a general Article could be drafted to prohibit workplace discrimination on the basis of gender. Article 4(2) of the Family Law can be repealed or amended to allow women and men to be heads of households equally. In addition, to support women's entrepreneurship, policymakers should consider introducing legislation or amendments that prohibit gender-based discrimination in access to credit. Such provisions could be included in the Penal Code of 1964 or any laws that deal with equality, equal treatment, or protection of consumer rights. Legislation or amendments to the Family Code of 1975 could also be introduced to establish that both spouses and children have equal rank and rights to inherit assets when there is no will.

Advocate for enhanced protections for women in the workplace. The risk and fear of workplace GBV, such as sexual harassment, exploitation, and other violations outside the household, is a key barrier for women. It keeps them within the household and prevents them from searching for employment. Advancing legal and policy reforms, codes of conduct and workplace standards that address sexual harassment and other forms of GBV is critical to creating a more supportive and enabling environment for women's economic participation.

VOICE AND AGENCY

Advance the inclusion of women and minority groups in political and decision-making processes. Greater political commitment is required to ensure that quotas for women in politics are maintained. In addition, the barriers that female aspirants face in participating in political life should be addressed. Oftentimes, female political leaders who overcome the barriers to become elected officials lack the education, technical expertise, networks and experience to make an impact in their roles. Thus, there is a need to provide hands-on training, and support for the female political leaders. This should include exposure to "soft skills", such as leadership training, mentorship, and peer support systems.

Prioritize the passage of critical legislation to protect against GBV. Advancing legal protections that protect women and girls and enables them to live their lives free from violence remains a legislative priority. The Government of Somalia should advance efforts to ensure the approval and implementation of policies and laws that prevent and mitigate risks of GBV. The passage of key legislation, such as the Sexual Offences Bill (which is pending at Federal Parliament), is critical to establishing accountability systems in the country, as well as to advancing protections and for women and girls.

Expand and strengthen access to and utilization of quality multi-sectoral GBV response services. Available GBV response services are predominantly delivered by local and national Somali non-governmental organizations (NGOs). They are supported by United Nations (UN) agencies and international NGOs within the GBV sub-cluster. Government efforts should focus on expanding access to life-saving GBV services as part of humanitarian assistance. At the same time, the Government should build the national service infrastructure and capacity of state actors and Somali civil society to deliver care, support and protection for GBV survivors. This support should address the full range of needs — including physical and mental health, safety, and psychosocial and economic impacts — of survivors. Support should also enable better access to justice. Fostering a service system that is safe for survivors to seek assistance also requires investment in interventions that promote survivor-centered beliefs, attitudes, and norms among service providers and the wider community. This would encourage survivors to come forward and seek care.

Expand evidence-based prevention programming that addresses harmful and discriminatory social norms and prevents the perpetuation of violence. To date, primary prevention efforts in Somalia have focused on strengthening women's legal rights and protections and promoting gender equality through legislative and policy instruments. Priorities for national and regional governments in Somalia include strengthening and enforcing legal protections, enhancing access to justice, and achieving gender equality objectives. At the same time, at the community level, there have been some promising, small-scale trials of gender transformative social norm interventions to prevent GBV. Indeed, emerging evidence suggests that carefully designed, community and values-based economic strengthening and social norm interventions can have a positive effect on GBV-supportive beliefs and behaviors. Continued testing and evaluation to determine opportunities for replication and expansion of such programs should be prioritized.

Engage men and male youth. Advancing women's socioeconomic empowerment and addressing the protection needs of vulnerable groups involves the engagement of men and male youth, acknowledging the multiple roles they play, not just as barriers, but as partners, family members, service providers, community leaders, policymakers, and as potential change agents. Engaging men also requires further examination and efforts to address the challenges confronting men and male-youth, particularly in terms of access to livelihoods, reducing inequality, and finding alternate means of fulfilling their culturally-ordained roles.

Improve FGM/C policies and programming. Comprehensive, 'zero tolerance' laws are essential to the work to end FGM, as they demonstrate a commitment by governments to ending the practice and show that all forms of the practice are harmful and unacceptable. Governments should also take stock of current FGM/C programming to improve coordination and harmonization of advocacy, prevention and response programming, as well as to identify effective programming for replication and expansion. The Government should foster collaboration with women's initiatives and groups, as well as with critical gender champions, and religious and clan leaders. This would help to advance advocacy efforts, foster learning and knowledge exchange, and address/dispel myths surrounding the practice.

SOCIAL PROTECTION POLICY NOTE[140]

A. SUMMARY OF KEY MESSAGES

Somalia's social protection system is in its early stages. It is anchored in the Baxnaano shock-responsive safety net program and the unified social registry. The Baxnaano program covers less than 10 percent of the population, whereas poverty is estimated at 70 percent. The Baxnaano program and the development of a national social registry are important steps toward an inclusive and shock-responsive social protection system. However, achieving an impact on poverty and food security will require expanding coverage, sustaining funding, and continuing the commitment to develop the government's delivery systems with sufficient institutional capacity. Further, Somalia's growth and stability will in part depend on whether the country's youth have socioeconomic opportunities. Although job creation is a primary function of a healthy and private-sector-led economy, productive safety net interventions can play a role in the provision of temporary employment opportunities, building soft skills to support engagement in productive, income-generating activities, and providing youth with opportunities to become active members of the society. Shifting the focus of Somalia's safety net system from humanitarian relief to a government-led and implemented safety net system with human capital objectives will also require addressing several policy and regulatory gaps. In this regard, multi-sectoral collaboration will be key to operationalizing a human capital approach to the safety net.

B. SUMMARY KEY ACTIONS

SHORT-TO-MEDIUM TERM:

- Secure sustained funding for the Baxnaano cash transfer program.
- Adopt a poverty-based, targeted approach to the Baxnaano program to ensure an impact on poverty.
- Introduce a youth-targeted safety net program under the umbrella of the Baxnaano platform to ensure consolidation and coordination across interventions.
- Adopt a data protection and data privacy law to enable the government's direct management of beneficiary data in accordance with internationally acceptable standards.
- Launch the foundational identification (ID) system to enable secure and effective verification of beneficiaries of social protection programs.

MEDIUM-TO-LONG TERM:

- Scale up the Baxnaano program coverage to at least 30-40 percent of the population to ensure a significant impact on poverty reduction and food security.

[140] This Policy Note limits the discussion to the social safety net and associated delivery systems, rather than the broader social protection sector. This includes: the social safety net, pensions, and jobs and labor market and delivery systems. Pensions and jobs are discussed under separate Policy Notes.

- Expand the intake registration in the social registry to at least 40 percent of the population, and coordinate the registry with the disaster risk management (DRM) system to ensure an effective and rapid response to any potential crisis.
- Build a consensus for a governance model of the Baxnaano program within the federal system, specifically, for when the government takes direct implementation responsibility from the World Food Programme (WFP).
- Protect and enhance the integrity and effectiveness of the Baxnaano system through committing to the implementation of technically sound and transparent delivery systems and enhanced institutional capacity of the federal and FMS Ministries of Labor and Social Affairs (MoLSA).

C. WHERE SOMALIA STANDS NOW

Somalia is challenged with widespread and deepening poverty, chronic vulnerability to shocks, and extremely low human capital. Nearly 7 out of 10 Somalis live in poverty with an average poverty gap of 29 percent, with significant regional variations.[141] Poverty is more acute among children and youth, as well as in rural areas and among settlements of internally displaced persons (IDPs). Moreover, various shocks are common, such that nearly 66 percent of households reported experiencing at least one type of shock in the past 12 months. Recurrent shocks threaten the livelihood of millions and deepen Somalia's chronic food insecurity. These were exacerbated recently by droughts, a locust infestation and the COVID-19 pandemic. Currently, nearly 3.5 million people across Somalia are expected to face high levels of acute food insecurity through the end of 2021, with approximately 1.2 million children under the age of five likely to be acutely malnourished.[142] Vulnerable groups, including the poorest, informal sector workers, women and youth, are disproportionately impacted by shocks and resultant reduced socioeconomic opportunities. Furthermore, Somalia's human development indicators are among the lowest in the world, likely resulting in commensurate human capital deficit. However, there is insufficient data to determine Somalia's Human Capital Index ranking.

Social protection (SP) can play a critical role in addressing chronic poverty, protecting household food security and livelihoods, and promoting human capital. Predictable and reliable safety net interventions can support families in accessing food; investing in human capital; increasing precautionary savings; improving access to credit; enhancing livelihood strategies; and avoiding negative coping mechanisms during crises. Efficient, inclusive, and transparent SP delivery systems support countries in identifying the poor and most vulnerable. With this information, countries can provide socioeconomic benefits and services, promote social cohesion, and facilitate a rapid response during a crisis.

Social protection can also contribute to broader peacebuilding and stabilization in countries experiencing fragility, conflict, and violence (FCV). Specifically, a nationally owned safety net can support citizens' confidence in institutions by signaling the government's continued commitment to improving people's lives, thereby upholding its social contract with its citizens — especially the most vulnerable and marginalized communities.

Consequently, SP is an important part of the strategy of the Federal Government of Somalia (FGS) to fight poverty, enhance resilience, support shared prosperity, and promote human capital. The Ninth National Development Plan (2020-2024) focuses on building human capital and increasing resilience to shocks. At the same time, the Social Protection Policy (2019) and the Implementation Framework (2020) prioritize and operationalize a vision and strategies for a gradual transition from dependency on humanitarian aid to a government-led SP system in Somalia. Consequently, Somalia is gradually establishing the building blocks of a national social protection system, starting with: (a) a shock responsive safety net program, known as *Baxnaano*; and

[141] World Bank Group. "Somali Poverty and Vulnerability Assessment: Findings from Wave 2 of the Somali High Frequency Survey." (World Bank, Washington, DC., 2019).

[142] https://reliefweb.int/sites/reliefweb.int/files/resources/FSNAU-FEWS-NET-2021-Post-Gu-Technical-Release-9-Sep-2021-%28English%29.pdf.

(b) a unified social registry, which consists of a database of the poor and vulnerable. Both are supported by the World Bank. Although these are steps in the right direction, the Somalia SP system is still in its early stage. As such, it will require the Federal Government of Somalia's sustained commitment and particular attention to the following challenges:

i. **Low coverage of the national safety net program.** The Baxnaano program provides regular cash transfers to 200,000 rural poor and vulnerable households (approximately 1.2 million people), including children under five years of age across Somalia. This constitutes around 9 percent of the population[143] in comparison to a poverty rate of about 70 percent. Currently, the Baxnaano program is the only national safety net program. Although it is an important step in the right direction, such low coverage implies limited ability to effectively contribute to poverty reduction and human capital growth. Further, the Baxnaano program's current focus on targeting families with young children means that other vulnerable groups are excluded from safety net assistance. The Baxnaano program targets women as direct recipients of the cash assistance, which increases the potential of the program's impact on women's empowerment and financial inclusion. There is a wealth of international evidence on the impact of cash transfers on poverty reduction and the empowerment of the poor and women. For example, a 2016 study by the Overseas Development Institute (ODI)[144] found that cash transfers reduce monetary poverty, raise school attendance, stimulate the use of health services, and improve dietary diversity. As such, they can help foster economic autonomy among beneficiaries. Furthermore, they are associated with a reduction in child labor, and an increase women's decision-making power and choices.

ii. **Limited socioeconomic opportunities for the youth.** People under the age of 30 represent more than two-thirds of Somalia's population. Indeed, Somalia has one of the largest youth bulges globally. However, as a result of protracted conflict, two generations of youth have been denied education, livelihoods, and a chance at a normal and peaceful life. In short, they have lacked socioeconomic opportunities. Consequently, young Somalis are increasingly turning to crime and radicalization and are at risk of being recruited by armed groups. However, they also represent a critical national resource in driving peace, stability, economic growth, and national transformation. In this context, SP can play a key role in addressing the youth issue by supporting their socioeconomic welfare and human capital through investments in their productivity and growth.

iii. **Social protection spending is very limited.** The FGS's limited fiscal space limits its investment in social services and human capital accumulation. Therefore, it is largely reliant on external assistance, which limits its ownership and engagement. Although government expenditure has expanded significantly over the past five years, spending remains concentrated on security and public administration, reflecting the immediate priorities of peacekeeping and peacebuilding. Given the development challenges, particularly among the youth, putting investments in human capital and building citizen resilience to recurrent shocks should be at the center of the peacebuilding and development agenda. Indeed, it can be instrumental in enabling a medium-term recovery and longer-term sustainable development outcomes.

iv. **Weak, but growing, institutional capacity.** The establishment of the Baxnaano program is facilitating efforts to build institutional capacity and develop the national delivery systems, including the Unified Social Registry (USR). However, these are still at a nascent stage. There is a way to go before the government can fully take over direct implementation of the Baxnaano program and the

143 This is based on a population estimate of 15 million and a household size of 6 persons.

144 The study is a rigorous review of the literature of 15 years. It covers the impact of cash transfer programs from 2000 to 2015. https://cdn.odi.org/media/documents/11316.pdf

USR.[145] International experiences (including during the COVID-19 crisis) demonstrate the critical enabling role of an existing database of the poor (USR), as well as well-established cash transfer delivery systems for rapid responses to crisis. Relatedly, Somalia is taking steps to develop a Disaster Risk Management (DRM) framework to anticipate, manage, and respond to shocks. However, this has not yet been closely linked with the development of the Baxnaano program and the USR, which is key to enabling it to be truly responsive to crises.

v. **There has been slow or stalled progress in key, pending policy and regulatory actions, affecting the government's ability to directly implement the Baxnaano program.** The partnership between the FGS and the WFP regarding the delivery of the Baxnaano program has been instrumental to the success of the program. By leveraging the WFP's experience and well-established delivery platform, rapid results have been achieved on the ground. However, it is of a strategic importance for building citizen's trust in the government that direct implementation of Baxnaano program be carried out by government institutions. This requires developing the government's own delivery systems and addressing existing policy and regulatory gaps, including: (a) a functioning national ID system; (b) a data privacy and data protection law; and (c) reaching a consensus about the governance structure for Somalia's safety net system within the federal system.

D. HOW SOMALIA CAN MAKE PROGRESS

Need for sustained investment in the Baxnaano program. With the current coverage level of the Baxnaano program (9 percent of the population), the annual budget needed is US$55 million.[146] Funding of the first three years of the Baxnaano program has been exclusively provided by the World Bank, specifically through a total of US$175[147] million in International Development Association (IDA) grants covering the program through August 2023. Going beyond this period, it is recommended that the FGS commit adequate financing to the Baxnaano program, either through its national budget or from external sources. This will help to ensure the program's sustainability over a longer period of time. Sustained multi-year financing to the Baxnaano program will also be critical in preserving and expanding human capital gains. It will enable Baxnaano households to move out of poverty over time. Additionally, further enhancement of cross-sectoral coordination (for example, the Baxnaano program, education, and DRM) would strengthen the impact of these programs.

Expand Baxnaano program coverage and the adoption of poverty-based targeting. Despite the important role that humanitarian support plays in mitigating severe food insecurity, it is mainly concentrated in urban IDP camps and provides only short-term relief. Expanded, inclusive and sustained coverage of the Baxnaano program is needed to ensure its impact on poverty and human capital accumulation. It is recommended that the FGS explore possibilities for expanding the Baxnaano program coverage to 20 percent of the population in the short-to-medium term and 30-40 percent in the medium-to-long term. At the same time, it should adopt a poverty-based targeting approach that ensures outreach to the extreme poor and those at the bottom 40 percent in the poverty ranking.

Adopt an integrated human development approach to social protection. The Baxnaano program links its households to nutrition support and works to enhance demand for these services. However, these linkages have been modest due to capacity and supply side limitations. As such, it is recommended that the government make more of a concerted effort in coming years to expand cash transfer linkages with broader health and education sectors. This will enhance human development and human capital outcomes, while also recognizing on-going efforts to address supply constraints. Activating the role of the high-level Social Protection Steering Committee

145 In the absence of these policy and regulatory actions, the Baxnaano program and the USR are implemented through a partnership with the WFP and the United Nations Children's Fund (UNICEF). This is a temporary arrangement for risk mitigation until the government's systems are in place and functional.

146 This is inclusive of the management and delivery costs.

147 The funding also includes financing for the development of the national delivery systems.

(SPSC)[148] would be instrumental in advancing this agenda by ensuring more coordinated policies and programming.

Introduce a youth-targeted productive safety net. An effective response to the demographic youth bulge challenge will require a longer term, multi-sectoral approach centering on the development of a private sector-led formal economy. Nonetheless, SP has a role in targeting vulnerable, poor youth lacking socioeconomic opportunities. It can provide them with temporary employment opportunities and help in building their skills to support their engagement in productive, income-generating and/or entrepreneurship activities. As such, it is recommended that the government develop a productive safety net for poor and vulnerable youth, building on on-going efforts by the MoLSA under the Baxnaano program. The goal would be to develop design options for such a productive safety net and, to the extent feasible, by building on the Baxnaano program delivery systems.

Integrate the Baxnaano program shock-responsive delivery models within the DRM system. In order for the Baxnaano program to effectively respond to shocks, its shock-responsive delivery systems need to be well integrated within the DRM system and its development early on. Therefore, it is recommended that the FGS identify and support governance and operational linkages between the Baxnaano program and DRM development processes to ensure integrated and effective DRM and a shock-responsive safety net.

Address the policy and regulatory gaps for the government's direct implementation of the Baxnaano program and the USR. The Federal Ministry of Labor and Social Affairs (supported by the World Bank) is making good progress in developing the Baxnaano delivery systems.[149] However, the functionality of these systems and the government's ability to take over direct implementation will depend on: progress in establishing and rolling out the foundational ID system to support verification for safety net benefits; adopting a national framework/law for data protection and data privacy; and reaching consensus about the governance model for the national safety net program(s) within the federal system. Without these actions, the security, fiduciary and political risks remain high for the FGS to assume direct responsibility for implementation.

Expand coverage of the USR. A central aspect of a shock-responsive safety net system is a readily available database of poor and vulnerable individuals, which can be supported by the USR in Somalia. The USR is a platform for collecting socioeconomic data about households. It supports the rapid and cost-efficient identification of and eligibility for safety nets during emergencies, as well as other social services and benefits for longer term development. Thus, it could be used to enhance coordination, as well as support for the uptake of potential beneficiaries by various programs, including for crisis response. Such programs would be implemented by different partners and ministries. As such, a functional USR with expanded coverage is a key aspect of the government's preparedness for responding to shocks. To that end, it is important to expand intake and registration in the USR beyond the already planned and funded registration of 250,000 households (that is, less than 10 percent of the population)[150] to at least one million households (40 percent of the population) in the medium-to-long term.

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148 The SPSC was established in 2020 with the objective of providing inter-ministerial policy guidance and ensuring coordination. It is chaired by the Deputy Prime Minister and includes sectoral ministers, with the MoLSA acting as the Secretariat. The Committee has met only once since its establishment.

149 Delivery systems include: targeting, beneficiary registration and enrollment, identity verification, payment delivery, beneficiary data management and updates, grievance redress, and monitoring and evaluation.

150 Based on estimated population size of 15.9 million persons and a average family size of 6 individuals per family.

WATER RESOURCE MANAGEMENT POLICY NOTE[151]

A. SUMMARY OF KEY MESSAGES

Water insecurity creates economic and human development challenges in a multitude of complex ways. Water insecurity in Somalia — including exposure to increasingly frequent floods and droughts — is exacerbated by environmental degradation and climate change, both of which can make rainfall more erratic. At the same time, they reduce the ability of watersheds to naturally store, treat and slowly release water for productive and human consumption. The challenges of achieving Water for All have been further exacerbated by the global economic fall-out from the COVID-19 pandemic, resulting in poor macroeconomic performance. This has also led to a decline in available resources for the water sector. Sector financing constraints and the rapidly growing needs fueled by forced displacement and urbanization have further strained the State's ability to maintain inclusive and sustainable water services, thus amplifying social and gender inequalities. Breaking this cycle means building resilience to economic and climatic shocks through a more diverse and dynamic urban economy, as well as a more secure rural economy. Both the urban and rural economies need to be underpinned by affordable, inclusive, and reliable water services, which represents a key pillar for improving human capital development.

B. SUMMARY KEY ACTIONS

SHORT-TERM ACTIONS:

- Establish the institutional framework for water sector governance in line with the National Water Resources Strategy.
- Strengthen flood and drought risk management measures, including through improved coordination with the Ministry of Energy and Water Resources (MoEWR) and the National Disaster Risk Management actors.

SHORT- TO MEDIUM-TERM ACTIONS:

- In urban areas, the government should establish an urban service delivery model to support rapid urbanization, as well as rural-urban linkages.
- Ensure that further investments prioritize inclusion and growth, such as the need to reduce disparities between internally displaced persons (IDP) and non-IDP communities, the rural-urban gap, and food-insecure households with low levels of water consumption.
- Improve water and land management practices, including through soil conservation and flood management for new projects.
- Explore the use of new technologies, such as manual well drilling, as well as the introduction of farmer-led irrigation.

C. WHERE SOMALIA STANDS NOW

1. There are sufficient water resources, provided they are well-allocated.

Somalia's largest natural water supply source is groundwater, and it provides the main storage

[151] This Policy Note draws on "Digging for Data: Towards Understanding Water as a Limiting or Enabling Factor for Socio Economic Growth in Somalia." *The Economics of Water Report,* published by the World Bank in December 2021, was authored by Chantal Richey, Philip Schuler and K.C. Shyam.

medium. Springs are also found in many places, but discharges are small and disappear downstream because of water withdrawals, infiltration, and evaporation. There are two perennial rivers in the country, the Shabelle and the Jubba. The Jubba flow is more than twice that of the Shabelle, and the Shabelle flow almost halves before recharging groundwater within the basin. For most years, the Shabelle river is a closed basin, with all water consumed within the basin. However, occasionally, very wet conditions cause the river to overflow and discharge in the Jubba River and the ocean.

Somalia should have sufficient, long-term renewable groundwater and surface runoff resources to meet water demands — provided water is efficiently managed and allocated to the most productive needs. With the exception of Banadir, water availability in all regions should be sufficient to meet the needs of the population, livestock and agriculture — without significantly affecting environmental flows. Therefore, it is possible to overcome localized, acute water scarcity at the district level. At the same time, it is also possible to overcome vulnerability to variable rainfall at the community and household levels, which negatively affects people's health, education and long-term human development outcomes — particularly for women and vulnerable groups.

2. Water is critical for economic growth. It is also necessary to support the rural livestock sector, to diversify the urban economy, and to develop human capital.

Water is critical for economic growth in both rural and urban areas. Water is essential for livestock, agriculture, and forestry, which provides an important source of livelihoods, particularly for rural and nomadic populations. In rural areas, water sources tend to be used for multiple purposes, including drinking water for domestic use, as well as to water livestock. Agriculture and livestock also dominate Somalia's exports. More than half of Somalia's population are estimated to live in urban areas, leading to increased demand for water by households and businesses (World Bank 2021a). Large cities close to drought-prone areas have received influxes of IDPs, thereby putting pressure on scarce land and water resources. In cities, piped networks, point source vendors at boreholes and dug wells, as well as truckers and animal and human-drawn carters deliver water supply services. Much-needed economic diversification in urban areas could be supported by water availability, potentially generating substantial returns due to economies of scale and scope.

Low levels of access to safe, reliable, and readily accessible improved water sources compromises labor productivity and human capital development. The World Health Organization (WHO) and the United Nations Children's Fund (UNICEF) estimate access to be 52 percent nationally (82 percent urban; 28 percent rural). Access to basic sanitation is lower at 38 percent nationally (61 percent urban; 20 percent rural).[152] Inequalities between rural and urban areas are extensive, as are inequalities between urban IDPs and other households. The rural-urban gap in Somalia is estimated at more than 50 percentage points in terms of access to basic water supplies, which is the highest in the world (WHO and UNICEF 2019). In both rural and urban areas of Somalia, diseases associated with poor water lead to reduced labor productivity. However, the economic impacts are particularly acute in rural areas, where communities are constantly battling environmental and macroeconomic shocks instead of building more productive and resilient economies. In the rural water sector, one or two positions may be reserved for women in village water committees. However, customary law and cultural norms undermine women's input into management and decision making. Women may be consulted about the community management of water resources, but they are traditionally excluded from the final decision-making process. This weakens effective water governance and underscores the need to reform rural, participatory decision-making processes.

3. Short-term weather shocks and long-term climate change are affecting the economy and contributing to humanitarian crises, underscoring the need for targeted investments.

In the absence of investments in the water sector,

[152] WHO and UNICEF. "Progress on Drinking Water, Sanitation and Hygiene: 2017 Update and SDG Baseline. (WHO & UNICEF, Joint Monitoring Programme, Geneva and New York, 2019).

particularly water storage facilities, the population and the economy will continue to be affected by short-term weather shocks and long-term climate change. Seasonal rains and periodic droughts and flooding determine short-term water availability, especially in areas distant from the perennial rivers. Meanwhile, climate change is changing long-term trends in rainfall, temperature, and evaporation. These factors create the need to store water over time and provide a bridge during dry periods. Although total rainfall volumes may remain the same, or even slightly increase (World Bank and FAO 2018), the variability is expected to increase. Heavier rainfall is predicted to lead to increased flooding, particularly in the Jubba and Shabelle basins (Peterson and Gadain 2012; Tierney and others 2015). In addition, droughts are also likely to become more frequent due to higher rainfall variability (World Bank and FAO 2018).

Water-related shocks resulting from droughts and floods have had severe humanitarian consequences. In rural areas, weather-related shocks can damage livestock and crop production. For example, the 2016/17 drought had severe consequences for the Somali population, contributing to economic hardship and worsening poverty. Variability and environmental shocks in Somalia manifest themselves through the movement, migration, and displacement of people, both as nomadic pastoralists and as IDPs. Shocks to the rural economy push people into peri-urban pockets of poverty, as well as IDP settlements. This leaves the potential of rural agricultural areas unrealized. It also removes critical opportunities for rural economic development and job creation emanating from the agriculture and livestock sectors. Health impacts for rural households are also significant due to the number of people with unimproved services. Indeed, an estimated 2 million people, or 22 percent of the rural population, currently rely on water from unimproved sources.

4. Despite the critical importance of water, the sector is characterized by low levels of investment and poor governance arrangements, thus compromising the efficiency of available resources.

The water sector receives limited financial support, which is also fragmented and uncoordinated. The COVID-19 pandemic led to lower revenue collection, a fall in capital expenditures, and competing sector priorities. Planned investments in the water sector did not materialize. As there is limited state engagement in the water sector, other actors —including international partners (often for humanitarian reasons), the private sector, and households themselves — are directly engaged in service provision. However, in a context of poor regulatory capacity at the federal and state levels, a plethora of actors compromises the efficient use of available resources and financing. Private operators play a critical role in providing services, including through loosely defined public-private partnerships (PPPs) between the Federal Member State (FMS) ministries and private providers. However, the limited oversight and monitoring capacity of the Ministries of Energy and Water Resources (MoEWR) of the FMS often preclude the public dimension of such partnerships. These constraints of fragmentation and limited regulation in turn contribute to high water prices across Somalia.

There have been advancements in the water sector strategy. However, governance arrangements are currently poor, and there are widespread gender disparities. In July 2021, the Federal Government of Somalia (FGS) published the National Water Resources Strategy (NWRS), which identifies opportunities to use water for socioeconomic development, as well as an entry point to peace building. Managing Somalia's water resources requires a strategic national approach that involves the engagement of key government actors, the private sector, civil society, as well as the support of a range of international development partners. Although the NWRS sets laudable goals, a priority is to address the lack of regulation and management of water service provision in municipalities because there is no demarcation of responsibilities between national, state, district, and/or municipal authorities. Currently, there are no standardized processes for approving the construction and operation of water resources across the FMS. Furthermore, women and minority social groups have low levels of participation in leadership and decision-making processes, thus rarely playing a role in in defining water policies, programs, and laws.

D. HOW SOMALIA CAN MAKE PROGRESS

1. Allocate water resources productively in rural and urban areas.

Water resources are sufficient, provided they are allocated productively; in the rural areas, the focus should be on reinventing the riverine breadbasket through farmer-led irrigation. Much of the recent discussions has revolved around the demise of the Jubba and Shabelle Riverine areas irrigation infrastructure, which in years gone by provided the water for Somalia's agricultural hub. Multiple reports and strategies discuss the need to rehabilitate the aged and dilapidated infrastructure. Although the rehabilitation of existing infrastructure is viable in the long term, this Note proposes that the quicker and cheaper method of farmer-led irrigation development should be embraced in the short- to medium-term. Where water sources are available nearby, farmer-led irrigation costs one-fourth as much, on average, as traditional irrigation. Furthermore, it is far easier to implement.

In urban areas, there is a need to address water scarcity, which is expected in the Banadir region and in about 30 to 40 towns. Plans should also be made for more strategic investments that consider appropriate governance arrangements. By 2030, the Banadir region around Mogadishu is projected to experience water scarcity due to high urban demand and low production. Water shortages are also expected in certain districts or in places with highly concentrated demand, such as towns, especially during droughts. Boreholes are important for Somalia's drinking water supplies. However, high-yielding boreholes are not abundant. This should be considered in relation to urban development. It calls for diversification of water supply sources in some localities, including mixed source supplies, such as combinations of groundwater and desalinated water.

2. Realizing the water sector's potential for growth will require investing in data collection and attaining a deeper understanding of how governance arrangements can be improved in urban areas.

The NWRS provides a suite of strategies, objectives, and actions for the water sector for 2021–2025, although some of the expected outcomes will only be realized in the longer term. One of the key provisions of the NWRS is an excellent roadmap for collecting data, which are currently unavailable in Somalia. However, such data would be critical to inform investments and policies. The NWRS extends to 2025, and the next three years can be used to deepen data collection and analysis to inform the next NWRS for 2026 -2030. There is an urgent need to establish an institutional framework for water sector governance in line with the National Water Resources Strategy. It would set out the roles, responsibilities, and mandates of public sector actors. Furthermore, coordination between the MoEWR and the National Disaster Risk Management actors needs to be strengthened to improve flood and drought risk management measures.

A clear urban service delivery model needs to be defined. Before any sustainable, large investment infrastructure is undertaken, a policy intervention is needed to define a clear urban service delivery model by the government. In this regard, the financing of large-scale urban water supply and sanitation infrastructure is contingent on the development of a service delivery model for urban water and sanitation supply. Further analysis is needed to determine the current roles of emerging water utilities in providing services for the rapidly growing urban population. More information also needs to be gathered about water service delivery for human consumption in cities and towns, as well as for commercial and industrial users. Critical to this effort will be developing a deeper understanding of the challenges involved in large-scale extraction and storage to facilitate the preparation of urban investment in water supply.

3. Commit to targeted, well-integrated investments that generate high returns.

Investments in the water sector have high returns. An analysis of recent rural water sector projects in Somalia indicates that an investment of US$ 1 million in rural water infrastructure and livelihood development activities can generate an estimated discounted return of US$5.85 million under baseline assumptions.[153] This note concludes with a broad suite of potential investments for the short- and medium-terms for rural, peri-urban, and urban areas. Such an investment would strengthen resilience at the local levels and transform livelihoods and the economy. It would also enhance the availability of data, information, and knowledge about water, including its links to the socioeconomic development of Somalia.

The advantages and disadvantages of the main technologies used for water supply should be used to inform future investment choices. A cost-effectiveness analysis, available in the Economics of Water (full synthesis report), shows the relative contribution of each water supply option to bridge the water gap. As such, it suggests some criteria for the prioritization of investments.

Reliance on external sources of funding will continue to be important. Although domestic revenue mobilization and poor macroeconomic challenges persist, the reduced national water sector spending will continue to be a barrier to better service delivery. Thus, the need for external funding remains essential. It is recommended that all investments into infrastructure fully integrate components related to building institutional and technical capacity in the water sector.

This Note outlines a broad suite of potential investments for the short- and medium-terms for rural, peri-urban, and urban areas. Such investments would strengthen resilience at the local levels and transform livelihoods and the economy. In addition, they would enhance the availability of data, information, and knowledge about water, as well as its links to the socioeconomic development for Somalia.

SHORT-AND MEDIUM-TERM WATER SECTOR PROJECTS

Tables 2 and 3 provide a list of investment priorities based on the analysis undertaken by the Economics of Water study. The priorities correspond to the short term (0–2 years) and medium term (0–5 years). The priorities are disaggregated by rural, peri-urban, and urban areas. In addition, the alignment with the particular NWRS flagship projects are noted.

Table 2. List of Investment Priorities: Short Term (0–2 Years)

Suggested Formulation	Timeframe	Focus	Alignment with NWRS Flagship Project #
Strengthen resilience at the local level Investment in new, small water systems/expansion, including innovations (for example, sand dams) coupled with appropriate governance and management arrangements.	Short	Rural	3, 7, 8, 10, 12
Build a network of emergency wells in vulnerable localities.	Short	Rural	8
Provide technical assistance/co-funding for soil and water conservation techniques in selected areas.	Short	Rural	8, 7, 10
Provide technical assistance/co-funding for private and community investments in water.	Short	Rural	4,
Strengthen local community capacity through the rehabilitation of watering facilities, with support for the reestablishment and strengthening of nomadic communities' organizations, including conflict adjudication.	Short	Rural	3, 7, 12

[153] "Somalia Water for Agro-Pastoral Productivity and Resilience Project. Economic Analysis."

Suggested Formulation	Timeframe	Focus	Alignment with NWRS Flagship Project #
Improve data, information, and knowledge Conduct river flow assessments, based on a combination of past data and hydrological modeling utilizing remote sensing data (including upstream basin sections in Ethiopia).	Short	All	6, 7, 9, 11
Conduct research studies/further diagnostics on: • Delivery models, sources, and access for select urban areas as the basis of taking decisions about future service delivery. • Boost year-round, affordable good quality livestock feed. • Determine how to best support the promotion of water and soil conservation, as well as water harvesting methods in drylands. • Determine how to support integrated land and water management practices, including soil conservation and flood management. • Adopt viable flood mitigation and drought resilience measures, including forest stewardship. • Adopt climate-resilient water and sanitation technologies, as well as management techniques. These studies should be embedded in, and undertaken as part of, investment operations.	Short	All	5, 7, 8, 9, 10, 12
Conduct economic studies concerning water sector uses (mostly for water supply and sanitation [WSS], livestock, and agriculture). Also, undertake studies concerning new trends in energy conversion and incipient industrial development.	Short	All	7, 9, 10, 12
Assess the potential use of economic incentives for sustainable water management (mainly pricing mechanisms, risk management schemes, and cooperation-based instruments).	Short	All	5, 9
Undertake an in-depth diagnostic of the existing water supply and sanitation facilities in capital and secondary cities. The focus should be on clearly defined sources of water, including how to collect, store, and deliver water.	Short	Urban	7, 9
Urban Investment plans (1): Deepen the analysis of the 23 most distressed towns in terms of water resources to determine growth potential of, and inequalities in, such towns. Also, define key urban water infrastructure investment priorities.	Short	Urban	3, 7, 9
Urban Investment plans (2): Prepare secondary city summary investment plans for Galmudug, South West State, Hirshabelle, and Jubbaland.	Short	Urban	3, 7, 9

Table 3. List of Potential Investments for the Medium Term (2–5 Years)

Suggested Formulation	Timeframe	Focus	Alignment with NWRS Flagship Project #
Strengthen resilience at the local level			
Develop perennial livestock feed crops that utilize 'green water'. However, at certain times, have blue river water added (supplemental irrigation). This would form the basis for high-quality livestock exports (that is, well-fed, healthy livestock, selling at good prices).	Medium	Rural	7, 12
Introduce consultative, participatory approaches whereby water access helps livestock stakeholders through participatory rangeland management. It would also improve environmental stewardship of rangelands, including their adaptation to the impacts of increasingly threatening climate change.	Medium	Rural	7, 12
Transforming livelihoods and the economy			
Introduce large-scale manual well drilling (training, local equipment production, and private sector development).	Medium	All	5, 9
Promote farmer-led irrigation development.	Medium	Rural	10
Provide large volumes of water to enable the gradual commercialization of Jubba and Shabelle (river flow dependent) agriculture, specifically from low-value crops and to higher-value crops.	Medium	Rural, Peri-urban	7, 10
Pilot locally based natural resource management and water resources management, including soil rehabilitation.	Medium	Rural	8, 10, 11
Connect the urban and rural provision of water for households. This may entail interventions and deeper assessments according to the optimal scale for the provision of these services by specialized water utilities or other operators (in cooperation with community-based systems).	Medium	Rural	7, 9
Connect water supply and wastewater treatment, thus maximizing the potential for reclaiming and reusing water.	Medium	Rural	9
In coastal towns, pilot the mixed-source water provision through complementing fresh groundwater with desalination, such as reverse osmosis options.	Medium	Urban	9
Improve data, information and knowledge			
Deepen transboundary basin knowledge and understanding: • Establish a basis for transboundary basin management. • Undertake a situation assessment and basin development scenario studies in the Jubba and Shabelle basins. • Undertake a situation assessment and study of basin development scenarios in transboundary aquifers.	Medium	Rural	2, 3, 5, 6

Suggested Formulation	Timeframe	Focus	Alignment with NWRS Flagship Project #
• Develop principles and a policy for transboundary cooperation and basin management. • Promote trust-building activities in transboundary basin management across the region.			
A policy intervention is needed to define a clear government urban service delivery model.	Medium	Urban	9
Urban Investment Plans (3): Develop an overarching Urban Water Sector Investment Plan.	Medium	Urban	4, 9

DISASTER RISK MANAGEMENT AND RESILIENCE POLICY NOTE

A. SUMMARY OF KEY MESSAGES

Somalia is in the grip of a climate - and now public health - emergency, compounded by prolonged armed conflict and economic and institutional weaknesses that exacerbate the country's vulnerability. This Note considers the context and recent developments and sets out key issues for the future. In addition, it offers some ways forward for consideration by the new authorities. While security, humanitarian and development challenges are interlinked — and the responses to them must be integrated — this Note focuses mainly on readiness aspects.

B. SUMMARY KEY ACTIONS

Key issues and priority options are centered around three broad themes: (i) Policy frameworks and institutional structures for disaster preparedness and response (Table 1), (ii) Emergency alert and early warning systems, and (iii) Disaster risk financing mechanisms. Specific priority options include the following: (i) establishing a joint DRM legal and institutional framework to enhance coordination and service delivery; (ii) developing a national emergency operations and preparedness center to support integrated crisis management; (iii) enhancing government capacity and coordination for hydrometeorological and early warning services; and (iv) promoting new financing facilities for crisis response.

C. WHERE SOMALIA STANDS NOW

Somalia's disaster management and coordination capability are limited and reactive in nature. The government typically deals with crises on an ad hoc and singular basis, rather than a comprehensive and long-term approach. The current machinery of government in the DRM space is underdeveloped, incapacitated, under-resourced, overly projectized — and far too heavily dependent on external support. Inter-governmental and intra-governmental coordination is also a challenge. Although the Federal Government of Somalia (FGS) policy framework has been developed, many Federal Member States (FMS) have no policy framework or investment plan. Furthermore, they lack structures charged with policy execution. Finally, several key government bodies envisioned to provide policy oversight within the 2017 National Disaster Management Policy (NDMP) have yet to be formally established.

Somalia lacks a nationally owned and managed emergency alert and early warning system (Table 2). Currently, early warnings are produced by the Food and Agriculture Organization (FAO) Somalia Water and Land Information Monitoring (SWALIM), the Food Security and Nutrition Analysis Unit (FSNAU), and the Famine and Early Warning Systems Network (FEWS NET). The seasonal climate outlook information is provided by the Inter-Governmental Authority on Development Climate Prediction and Application Center. Although progress has been made to strengthen hydromet and early warning services over the past decade, these services are still fragmented and not integrated into government institutions. Thus, Somalia still lacks a nationally unified and coordinated hydromet service. In addition, the limited capacity of the government in translating and disseminating hydromet information is inhibiting user access and uptake of early warning information, and thus rarely results in mitigative actions. Also, there is no coherent policy encompassing hydromet and early warning services, which hampers the streamlining of efforts to strengthen these services.

Disaster risk financing mechanisms: As Somalia normalizes relations with the international community after reaching the Heavily Indebted Poor Countries (HIPC) Initiative Decision Point in March 2020, the country will now have greater access to development financing. The desire to focus on preventive investments has been outlined in the NDMP. However, there has been no exploration of the potential for introducing new modalities of ex-ante financing, including risk management or transfer. Therefore, overall risk financing mechanisms in the country are largely ex-post in nature. In fact, there has been a mostly reactive approach in dealing with any emergency and/or disaster situation. There is also an absence of an apex resourcing facility, and both the ex-ante and ex-post DRM financing instruments lack development.

D. HOW SOMALIA CAN ACHIEVE PROGRESS

Building disaster prevention and preparedness capacities will greatly help to reduce future humanitarian spending. Somalia's history has been one of cyclical, short-term humanitarian responses, as well as a failure to invest in more durable solutions and essential infrastructure. Supporting the establishment of preventive and preparedness systems will lower the loss of human lives, and reduce the costs of humanitarian delivery in the long term. In addition, it will strengthen the impact of the development nexus.

Table 1: Policy Frameworks and Institutional Structures for Disaster Preparedness and Response

Key Issue	Recommendations		Responsibility
Fragmented and overlapping roles and mandates in DRM, as well as a lack of operationalization of legislated institutional structures.	Immediate steps	• Assess the DRM legal and institutional framework for Somalia, including the clarification of mandates across stakeholders. • Develop a DRM framework covering the delivery supply chain across government. • Develop a joint DRM Investment Plan and/or Resource Mobilization Strategy, with particular attention paid to the National Emergency Operations Center (NEOC) as the coordinator of emergency preparedness and response	**Lead:** Prime Minister and National Disaster Management Council (NDMC) are at the center of the DRM system, supported by the Somalia Disaster Management Coordination Group (SDMCG), and the Ministry of Humanitarian Affairs and Disaster Management (MoHADM). **With:** FMS.
	Short-term	• Help to develop the existing NEOC through a joint investment plan based on an emergency preparedness and response assessment.	**Lead:** Prime Minister and National Disaster Management Council (NDMC) are at the center of the DRM system, supported by the Somalia Disaster Management Coordination Group (SDMCG), and the MoHADM. **With:** FMS.

Table 2: Emergency Alert and Early Warning Systems

Key Issue		Recommendations	Responsibility
The country lacks a nationally owned and managed emergency alert and early warning system	Immediate steps	• Assess, formulate, and implement a capacity development program to support the provision of hydromet services. including flood hazard mapping, hydrological forecasting, and flood warning. Also, support training on the use of regional / international meteorological products (in partnerships with the Intergovernmental Authority on Development (IGAD) Climate Prediction and Application Centre (ICPAC) and other regional and global partners, such as the Somalia Water and Land Information Management [SWALIM]). • Agreement concerning an institutional assessment and investment plan to facilitate the transition from donor-led data/analysis structures to a government-owned model, as well as a commitment to provide adequate capacity and resources.	**Lead:** The Ministry of Energy and Water Resources (MEWR) and Ministry of Agriculture. **With:** User Departments and donors such as the FAO, World Food Programme (WFP), and so on.
	Short-term	• Implement steps to establish the National Meteorological and Hydrological Services initially through a department / unit at MEWR.	**Lead:** The Ministry of Energy and Water Resources. **With:** Ministry of Agriculture and user departments.

Disaster Risk Financing Mechanisms

Key Issue		Recommendations	Responsibility
Disaster risk financing is ex-post in nature, leading to a reactive approach in dealing with any emergency and disaster situations, as well as negative coping strategies.	Immediate steps	• Undertake a Fiscal Disaster Risk Assessment[154] to determine the fiscal impacts of disasters on an annual basis and project maximum probable losses. • Establish a Maximizing Finance for Development Working Group with key representatives from the private sector, the Somali diaspora, the Gulf States, China, and Turkey, among other key regional partners. Begin a dialogue with the objective of conducting an assessment and design for the possible development of a Contingency DRM fund.	**Lead:** NDMC/Office of the Prime Minister (OPM), MoHADM and Ministry of Finance (MoF). **With:** FMS.
	Short-term	• Formulate a Disaster Risk Financing Strategy for the country (specifically, what to protect and how to protect it using a combination of government allocations and risk transfer mechanisms/private sector, insurance, Catastrophe Bonds [Catbonds], and so on).	**Lead:** NDMC/OPM, MoHADM and MoF. **With:** FMS.

154 An assessment of the economic and fiscal risks related to natural disasters, including contingent liabilities and government expenditure, to inform disaster risk financing strategies.

TOWARDS THE FUTURE DRIVERS OF GROWTH

- LEVERAGING URBANIZATION, UPGRADING AND DIVERSIFICATION

URBANIZATION POLICY NOTE

A. SUMMARY OF KEY MESSAGES

Somalia is rapidly urbanizing, with an estimated 54 percent of the population currently living in cities. Close to 75 percent of Somalia's 2.6 million internally displaced persons (IDPs) are estimated to be living in cities. If managed well, urbanization can help Somalia to develop more quickly and fully. Global evidence shows that, on average, for every 1 percent increase in urbanization, gross domestic product (GDP) per capita grows by 4 percent. However, if Somalia fails to meet the needs of its growing urban population, its modest successes and wider stability could be undermined.

KEY ISSUES PERTAINING TO RAPID URBANIZATION INCLUDE THE FOLLOWING:

- **Contested, fragmented and ineffective urban governance.** Federal and State-level ministries often have mandates that overlap with those of the districts, particularly in insecure areas where government control is limited to cities and their peripheries. This poses a significant challenge because the overlapping remits of the three tiers of government result in contestation over political and economic authority. District governments also face severe resource and capacity constraints.

- **Poor and unequal service delivery outcomes and lack of regulation.** In the absence of public service delivery, non-state actors have come to exert considerable influence over the provision and regulation of public services. Donors also fill gaps in major cities. However, the lack of regulations has resulted in high variations in price and quality, thereby blocking the poor from affordable quality services.

- **Unclear land titles exacerbate poverty.** A lack of clarity over land rights can prevent governments from initiating urban upgrading programs, such as enhancing public utilities, rehabilitating infrastructure, as well as the construction of new housing. Rapidly rising urban property values have exacerbated land grabbing and speculation, increased forced evictions, and forcing poor migrants and the displaced to move to poorly serviced city peripheries. This has in turn led to uncontrolled urban sprawl and increased poverty.

- **High joblessness, especially among youth.** Job creation in cities depends on nurturing private sector growth. However, the growth is hampered by a number of factors, including insecurity; an infrastructure gap; a lack of skilled labor; the lack of a regulatory framework; rampant corruption; a lack of access to land and finance; and a clan-based network that limits access to broad, merit-based skilled labor. As a result, only 40 percent of youth participate in the labor force.

B. SUMMARY OF KEY ACTIONS

1. **Governance:** Clearly demarcate the responsibilities between the national, state, district and municipal authorities, including financing arrangements.

2. **Service delivery:** Establish a sound regulatory environment for third-party service delivery by taking stock of current rules governing the private sector. Also, consider ways in which they can be incrementally improved. Consult with providers to ensure their buy-in. Also, train communities in learning about their rights as consumers.

3. **Land:** Strengthen the tenure security of IDPs/informal settlers by (semi) formalizing currently informal settlements. Curb illegal land grabbing by non-state actors. This could be done by establishing

a mechanism to legally expropriate land in the public interest and provide fair compensation to the affected persons.

4. **Jobs:** Nurture the informal economy by articulating the minimum regulatory standards for informal businesses. Invest in human capital through improved education and vocational training. Invest in the major corridors, ports, and improve access to electricity to foster private sector growth.

C. SOMALIA'S URBANIZATION

Somalia is rapidly urbanizing. Most of urban growth to date has been fueled by rural-urban migration. Drought, poverty, and insecurity have driven this migration. However, pull factors matter as well. Indeed, many rural migrants are attracted by the prospect of better access to services and employment. Somalia is currently more urbanized than its neighbors. Although reliable population figures are lacking, Somalia is home to an estimated 15.9 million people, of whom 7.4 million, or 46 percent, are urban dwellers. This compares to an estimated 28 percent in neighboring Kenya. Predictions show that by 2030, Somalia will add another 3.8 million residents to its urban areas, and another 11.6 million by 2050, thus tripling its urban population over 30 years.[155] The dramatic increase in the populations of Somali cities in the next thirty years holds the promise of generating agglomeration economies by shortening the distance in terms of services, infrastructure, and how far people must travel.

Somali cities today are the anchors of development. In the absence of the State, Somalis have constructed ad hoc hybrid governance systems, involving a complex mix of traditional leaders, religious authorities, civic groups, militia commanders, businesses, and local government authorities. These individuals and groups provide variable levels of security, justice, conflict management, regulation, and norms – despite the fact that the potential volatility of such ad hoc arrangements caused Somalia's instability in the first place.

As formal government capacity at the local, regional, and national levels has been weak and poorly funded, the private sector has stepped in to provide services, as well as other public goods, such as security, that are normally viewed as the responsibility of the State. However, the *de facto* privatization of security, utilities, education, health care, and other public goods and services carries real costs, including inequitable access for the poor, as well as uneven coverage, and a lack of regulation.

In the short term, Somalia's third-party service delivery model is and will remain the most active and responsive source of basic services and public goods in urban centers. However, effective and appropriate levels of government regulation are the key to ensuring that this outsourcing of service delivery to the private sector is responsible and fair. The Somali diaspora — which now features a large cohort of Somalis with impressive levels of education, professional training, and experience across a range of disciplines and sectors — could be an ongoing source of both financing and expertise. Despite being scattered all over the world, more than 1.5 million Somalis living in the diaspora remain tightly woven into the fabric of Somali urban life, both directly, as investors in business and real estate, and indirectly, as the source of the estimated US$2 billion a year in remittances that help fuel urban demand for services and consumer goods.

For all their potential, Somali cities and their residents and businesses are already coping with daunting impediments and face mounting challenges in the future. A number of these challenges involve fractured, formal governmental institutions. Unresolved differences over the delegation of authority between the federal government, regional states, and district or municipal authorities, as well as the contested status of the Banadir Region, have led to chronic clashes between competing government offices and ministries. Even when the delegation of authority is resolved, the capacity to execute the basic work of government — to enforce laws, regulate, and deliver basic public goods and services

155 World Bank staff calculations are based on the UN-Habitat and CIA World Factbook. "Somali Poverty and Vulnerability Assessment." (Washington, D.C.: World Bank Group, 2019).

— is extremely limited. District authorities[156] tasked with at least some authority to manage cities have only modest means to raise tax revenues, and face resistance to payment of taxes because they are seen as providing little or no service to the public. Low legitimacy, revenues, capacity, and output all reinforces one another and trap many district authorities in a cycle of poor governance.

One of the biggest challenges facing Somali cities is the large IDP populations they host. The IDPs pose two challenges. The first is the expansion of the size and number of IDP "camps" where the displaced settle. These are sometimes located near the center of towns. However, with rapidly rising real estate values, many of the IDPs in these camps have been forcibly displaced to new IDP camps at the edge of cities, far from basic services and adequate public transport. The second is the question of identity and citizenship rights of the IDPs in these cities. Somali urban migrants are typically designated as IDPs when they are poor and from another region. The term carries additional weight as a result: It implies that IDPs are guests, with limited rights, and are presumably in the camps temporarily until they can return to their "home" region. The reality is that most internal displacement is permanent, and IDPs require full citizenship rights regardless of their clan or region or origin. Thus, the presence of IDPs raises a fundamental question about who is entitled to live in Somali cities.

As migrants continue to flock to Somali cities, the challenge of generating new jobs will remain a top priority. Unemployment in Somali cities is already high and will likely get worse unless the right combination of public policies and investments are pursued. Given the Somali State's modest budgets, the private sector will continue to be the main source of job creation in the near- to medium-term. The private sector will need more than just an enabling environment to expand; indeed, it will also need a better trained skilled labor force to fill new jobs. The formal employment sector must also expand opportunities for women, who are currently under-represented in the formal economy and who instead dominate the informal economy.

Finally, Somali cities face major challenges of sustainability — both environmentally and economically. The very weak regulation of the private sector's role in providing private security, education, health care, power, water, and other services has created significant risks to urban customers. The first sustainability crisis is environmental, and it is already being felt from Kismayo to Hargeisa. The rapid increase in urban demand for water is straining some potable water sources and delivery systems, and the dual increases in urban population and growing wealth will place added demands on water supplies. The second sustainability challenge is economic. Somali cities consume far more than they produce. In this context, the economy is fueled by the sizable flow of remittances from abroad each year. The long-term forecast for remittances from the diaspora is unknown. However, concerns have been raised that as the first-generation of the Somali diaspora ages, their children will be less enthused about remitting money to distant relatives. If that were to occur, Somali urbanites would gradually see their purchasing power decline.

D. SUMMARY OF KEY RECOMMENDATIONS

Urban centers are Somalia's most powerful and promising anchors of future socioeconomic development. National development strategies and international development assistance must focus on creating enabling environments for Somali cities to reach their maximum potential as drivers of sustainable and inclusive growth, providing citizens with diverse

[156] The Provisional Constitution of the Federal Republic of Somalia (2012) stipulates that Somalia adopt a federal system where power is shared between the Federal Government of Somalia (FGS), the Federal Member States (FMS), and the local governments. The provisional Constitution provides tacit recognition of local governments (districts) in Article 48, bolstered by the subsequent 2015 Wadajir Framework, as well as a 2018 FGS law that provides guidance for the FMS concerning the creation of local governments. The Constitution leaves it up to the FMS to provide for local government in their own Constitutions (or Charters). As such, they can enact their own specific legislation on local government. The Wadajir framework further commits the FMS to establish district governments. The Framework makes it clear that district governments are expected to be representative bodies, enabling local communities to self-govern to a degree, and to hold their local governments to account. However, except for Somaliland and Puntland, which have elected district commissioners and district councils, no other southern states have managed to hold local elections. The District Commissioners, who head the district government, are therefore interim district commissioners who are appointed by the FMS Presidents.

economic opportunities, boosting innovation, and enhancing access to quality public services — all with the support of stable and accountable governance. Some high priority recommendations are listed in Tables 1-4.

Table 1: Urban Governance Recommendations

Key Issue		Recommendations	Responsibility
Contested, fragmented, and ineffective municipal governance	Immediate steps	• Clearly demarcate responsibilities between the national, state, and district or municipal authorities, including financing arrangements.	**Lead:** FGS Ministry of Finance (MoF) and Ministry of Interior and Federal Affairs (MoIFA) **With:** District governments and the international community.
	Short-term	• Develop strategies to set the ground rules for partnering with hybrid political systems. • Strengthen the credibility of district governments by outsourcing limited key services that are strictly public in nature (for example, road construction, flood management) using inter-governmental fiscal transfers rather than raising taxes — provided a predictable source of financing can be identified. • Boost the basic administrative skills of district governments in budget management, planning, monitoring, and supervision.	**Lead:** FGS MoF and MoIFA **With:** District governments and the international community.

Table 2: Service Delivery Recommendations

Key Issue		Recommendations	Responsibility
Poor and unequal service delivery outcomes and a lack of regulations. Lack of effective arrangements between public and private actors.	Immediate steps	• Focus on third-party service delivery as an opportunity for Somali cities to leapfrog over a state-led service delivery system that require expensive infrastructure and significant capacity building. This can be done by taking stock of existing practices, learning what works and building on this incrementally. Establish a sound regulatory environment for third-party service delivery based on current rules governing the private sector. Focus on incremental improvement to better manage prices and quality.	**Lead:** District governments **With:** Communities, service providers, and the international community.
	Short-term	• Focus on delivering the public services that the private sector will not spontaneously invest in. These services include solid waste management, road construction/ maintenance, flood management, and vital record registration (for example, birth certificates).	

Table 3: Land Management Recommendations

Key Issue	Recommendations		Responsibility
Unclear land titles lead to land grabbing, urban land speculation, and unplanned and poorly served peri-urban areas, thereby exacerbating? poverty.	Immediate steps	• Secure the status of IDPs by (semi-) formalizing currently informal settlements. Solutions will be case-dependent, but could include formalization of occupancy, rental assistance, home improvement grants, communal leases, and private-sector-led social housing development.	**Lead:** FMS Land Commission, Ministry of Public Works (MoPW), Ministry of Planning, Investment, and Economic Development (MoPIED) Durable Solutions Unit, and district government durable solutions units. **With:** Non-state actors and the international community.
	Short-term	• Curb illegal land grabbing by non-state actors. This can do done by establishing a mechanism to legally expropriate land in the public interest and provide fair compensation to affected persons. • Introduce protections against speculative practices, for example, by reclaiming allocated land if it not developed within a certain timeframe, or by heavily taxing speculation.	**Lead:** FMS Land Commission, MoPW, MoPIED, Durable solutions units. **With:** Non-state actors and the international community.

Table 4: Economic Development

Key Issue	Recommendations		Responsibility
High joblessness, especially among youth	Immediate steps	• Avoid over-regulating the informal economy, which could undermine critical sources of income for the poor. • Articulate the minimum regulatory standards for informal businesses, such as ensuring that pharmacies only sell authorized drugs, while investing in infrastructure that protects their access to customers, such as installing hygienic vending stations in public bus terminals. • Generate jobs to address the post-COVID-19 economic downturn by leveraging construction projects, which employ individuals with limited skills and simultaneously improve the business environment.	**Lead:** FMS MoPIED, Ministry of Commerce and Industries (MoCI), and the Ministry of Labor and Social Affairs (MoLSA). **With:** District governments, the private sector, civil society organizations (CSOs), and the international community
	Short-term	• Work with the private sector to design policies to generate more employment opportunities in the areas of hospitality, construction, and agricultural value chains. Make significant investments in vocational training and education, which would be developed in collaboration with the private sector. This would help to ensure that Somali jobseekers have the requisite skills to fill them.	**Lead:** FMS MoPIED, MoCI, and MoLSA **With:** District governments, private sector, CSOs, and the international community

Key Issue	Recommendations	Responsibility
	• Improve the business environment through incremental reforms, specifically those pertaining to security, access to finance, sector regulation, and financial intermediation. • Rehabilitate and expand core infrastructure, such as key trade corridors, ports, and energy, to improve access to markets.	

CROP, AGRICULTURE AND LIVESTOCK POLICY NOTE

A. SUMMARY OF KEY MESSAGES

The agriculture sector is critical for livelihoods and export earnings. Indeed, it is central to the country's food security, especially for the rural population. However, the sector is highly vulnerable to climate change and natural disasters, as demonstrated by frequent cycles of floods and droughts, which affect crop production and the livestock herd population. As more erratic and extreme rainfall patterns can be expected in Somalia and the wider region, investing in the long-term resilience of production systems will be critical. Other challenges limiting the growth of the sector include: the gradual degradation of irrigation infrastructure over the prolonged civil war period; weak institutions for agricultural service delivery; and persistent insecurity. Nevertheless, there are numerous opportunities for raising agricultural productivity. Cultivation and livestock rearing can be expanded. Areas with fertile alluvial soils, especially in the southern regions, are suitable for staple cereals, oil seeds, legumes, and horticulture crops. Large rangeland areas across the country are suitable for grazing and fodder production for livestock. Realizing opportunities for agricultural expansion would require the adoption of climate-smart practices; improving water for rural livelihoods; enhancing productivity; addressing gaps in infrastructure and services; and improving access to markets and finance.

B. SUMMARY KEY ACTIONS

SHORT- TO MEDIUM-TERM ACTIONS:

- **Address vulnerabilities to climate change** through the adoption of climate-smart agricultural (CSA) practices, including increasing the uptake of new crop varieties, improving soil and water management practices and diversifying crops.
- **Improve water for rural livelihoods** through the introduction of farmer-led irrigation in Jubba and Shabelle riverine areas, while investing in conjunction towards improving flood control infrastructure.
- **Enhance productivity and value addition** through protection against communicable diseases, facilitating the feed and fodder trade, as well as the adoption of digital agricultural technologies.
- **Improve access to markets** by improving quality infrastructure, participating in trade agreements and promoting commercial food production, including the development of value chains in the agro-processing and livestock sectors.
- **Improve access to finance in the livestock sector** with a menu of products, including risk transfer instruments such as drought insurance, savings, credit, and so on.

Medium- to long-term actions focused on institution building and attracting investment:

- **Comprehensive water management** that combines improvements in irrigation and flood control infrastructure, with enhanced soil and water conservation in rainfed areas.
- **Build stronger institutions** for collective access to inputs and services, community-based extension systems, and digital agriculture services to support climate-smart practices and improved market linkages.
- **Unlock investments** for input provisioning, animal health services and breed improvement, and post-harvest handling including value addition, storage, and marketing.

- **Improve the overall enabling environment** through increased security, improvements in roads and market infrastructure, and policy incentives for agri-business.

- **Encourage trade of agricultural products** with urban centers in Somalia, as well as with new trading partners through enhanced trade facilitation and market linkages.

C. WHERE SOMALIA STANDS NOW: KEY CHALLENGES FOR AGRICULTURE AND LIVESTOCK

The livestock and crop sub-sectors in Somalia are important sources of livelihoods, particularly in rural areas. However, the performance of the crop sector in the last decade has been weak, providing only about 40–50 percent of per capita cereal needs — even though the potential to recover to the pre-war level is high. Although the crop sector is important for food security, its contribution to the economy has fallen because production is vulnerable to climatic shocks, pervasive insecurity, weak institutions, and negligible infrastructure. Thus, Somalia remains dependent on imports for basic food commodities.

The livestock sector, by contrast, has shown remarkable resilience. Somali exports of goats and sheep — mostly to the Gulf Cooperation Council (GCC) countries — typically accounts for 75 percent of total exports. Exports were previously largely destined to the Kingdom of Saudi Arabia, but they are now expanding to other trading partners within the GCC. There also seems to be a growing trend for Somalia to export outside of the religious festivals of Ramadhan and the Hajj. By late 2021, exports of livestock were recovering and were at pre-pandemic levels, although the emerging drought in late 2021 / early 2022 may affect the livestock herd population. Somalia's proximity to GCC countries is advantageous, but if improvements to sanitary and phytosanitary standards are not made, there is a continuing possibility of trading partners imposing import bans.

A shared vision of the Federal Government and Federal Member States of enhancing the crop and livestock subsectors remains unfulfilled due to climatic shocks, inadequate water for rural livelihoods, weak agricultural innovation systems, gaps in infrastructure and services, and poor access to markets and finance. These challenges are elaborated below.

Vulnerability to climate change. The country's agriculture and rural livelihoods depend on an increasingly narrow and fragile resource base (that is, water, pasture, soils) and an arid and semi-arid climate that has become drier, more extreme, and more variable in recent decades. Cyclical climate shocks are predicted to be frequent for the Horn of Africa region over the next few decades, leading to higher temperatures, soil degradation, reduced groundwater recharge, and less water availability in the surface layers, which is necessary for plant growth. Other likely impacts include a reduction of vegetation for grazing and more variable water availability, with grave impacts on livestock herding and related livelihoods. These climatic shocks pose a real risk to the crop and livestock sub-sectors. For example, following the severe drought of 2016/17, there were estimated losses of US$2 billion and a drastic drop in live animal exports in 2017 and 2018 after the Kingdom of Saudi Arabia and the United Arab Emirates imposed an import ban on health grounds.

Deterioration of water infrastructure for rural livelihoods. Irrigated farming systems that grow maize, sesame, other food crops, fruits, and vegetables, mostly along the Shabelle and Juba rivers, face many constraints. These include diminished surface water availability, poor irrigation and flood control infrastructure, inefficient water use, increased salinization, and water logging. Water also continues to be a major source of conflict between nomadic pastoralists and agro-pastoralists. However, water infrastructure to harness river water, extract groundwater, and harvest rainwater has severely deteriorated due to a lack of regular maintenance and repairs, prolonged insecurity, weak institutions, and the absence of effective community organizations. The already insufficient prewar road network is in extremely poor condition. As a result, livestock survival during severe droughts has become dependent on very costly and often unaffordable, privately-owned water trucking services.

Weak agriculture innovation system. Annual staple crop yields for maize and sorghum in Somalia are low, with a long-term average of 0.5 tons and 0.3 tons per hectare, respectively. These low yields reflect poor access to good-quality inputs, inappropriate farming techniques, and widespread use of low-yielding varieties, which generally result from the absence of a strong Agriculture Innovation System capable of providing the required research and extension services. Although average yields for both irrigated and rainfed crops are currently very low, if the constraints were fully addressed, expert consensus is that average yields could increase by a factor of four to six for maize and three for sorghum. The widespread adoption of climate-smart agricultural practices, including the use of better-quality seeds, would increase both the resilience and growth for key rainfed crops. In this context, the yields and total area under cultivation could be doubled or even tripled (World Bank-FAO 2018). Regarding livestock, fodder quality and availability continue to be a challenge, thus limiting the yield potential. During droughts and long dry seasons, pastoralists tend to sell livestock when prices are lowest and when feed is short and demand for cash to buy food is higher. This results in herders receiving lower prices than if they had sold after the rains when prices would have been better. Predominant feed production systems still rely mostly on fresh grasses and shrubs in the country's vast rangelands, and on their straw, which is of low nutritional value. Additionally, there are critical service gaps in addressing the risk of animal diseases and consequent import bans.

Gaps in enabling ecosystem and services. Infrastructure and security continue to be major concerns in unlocking the potential of the crop and livestock sub-sectors. Continuing insecurity and weak institutions are key contributing factors to the consequent sharp deterioration of flood control, irrigation, and transport infrastructure in the south-central regions. These factors have also limited private investment in key value chains where new actors can potentially emerge to provide productivity-enhancing inputs, equipment, and support services. There is also a significant institutional gap at the community level with a dearth of strong farmer institutions that could otherwise enable efficiencies in input sourcing and collective access to enabling services. Digital agriculture technologies are also in the nascent stages in Somalia, thereby presenting a major opportunity for harnessing technologies to build more remunerative and resilient value chains.

Pastoral producers poorly integrated in markets. Due to uncertainties in the business environment (including the lack of strong institutional or judicial intermediation and formal systems for credit enforcement; weak infrastructure; limited market support services; and widespread insecurity in pastoral areas), trade in livestock is based on networks such as clans and family ties. Pastoral producers are not well integrated as they operate in remote regions and are often on the move. Beyond the number of intermediaries, many reasons explain the limited value derived by producers selling live animals, including: (i) a lack of quality infrastructure to trace livestock and ensure standards; (ii) limited resources for disease control; (iii) transport systems (trucking or trekking) that stress animals and lower their weights, and thus the price fetched at livestock markets; and (iv) a lack of access to market information.

Lack of access to finance. An inadequate formal banking system and limited access to credit are challenges in the Somalian crop and livestock sub-sectors. Farmers and pastoralists have limited access to formal credit due to the lack of collateral, a lack of identification, and difficulty in following loan defaulters. Some farmers and small traders rely on a range of different informal financial institutions to support their businesses. Financial institutions are located far from rural farming communities and livestock markets. Microfinance institutions (MFIs), Savings and Credit Cooperative Organizations (SACCOs), and mobile and agent banking operate in the pastoral areas of Somalia. Pastoralists participate in Village Savings and Lending Associations (VSLAs) to mobilize their savings. The irregular sale patterns — due to cultural issues and exposure to drought — are a limit to creditworthiness. Pastoral land is communal and cannot be charged as collateral.

D. HOW SOMALIA CAN MAKE PROGRESS

Improving agricultural transformation can support enhanced livelihoods and food security. As Somalia is rapidly urbanizing, improved agricultural production could also help to serve urban markets. Regarding the crops subsector, the main, medium-term objectives should be recovery of production to recent pre-flood and pre-drought levels, as well as resilience building to such future climate shocks. In the long-term, the development objective would revolve around ensuring a return to production to pre-war levels, especially the main staple foods (sorghum, maize, sesame and cowpeas). At the same time, it will be necessary to re-orient the sector to emerging trends in urbanization, technological advancements, and demands for food quality and safety standards in the domestic and export markets. This would require a rapid and tangible start toward the widespread adoption of climate-smart agricultural (CSA) practices, better flood-control, irrigation, improved storage of farmer produce, and access to markets and finance — including risk transfer instruments, such as drought insurance, savings, and credit.

KEY RECOMMENDATIONS AIMED AT ADDRESSING CHALLENGES TO THE CROP AND LIVESTOCK SECTOR INCLUDE:

Addressing vulnerabilities related to climate change:

- **Improve access to and adoption of climate-smart agricultural practices** to enhance productivity and resilience. A functioning and effective agriculture research and extension system is needed to promote sustainable CSA farming methods.

- **Transition to modern and commercial management of smaller and more drought-tolerant herds.**

- **Increase diversification and processing opportunities,** and reduce environmental pressure on the rangelands.

Improving water for rural livelihoods:

- **Improve infrastructure** for irrigation, flood-control, and rainwater catchment, while also catalyzing community-level and private investment in the form of farmer-led irrigation development and community-level natural resource management interventions.

- **Improve rangelands management:** This would include investments in livestock water infrastructure, and sustainable rangeland management, such as the use of hay banks and drought refuges, conservation easements, and reciprocal grazing arrangements; support for rangeland rehabilitation through intensified soil and water conservation, afforestation and reforestation, the planting of indigenous trees, reseeding of pastures, soil bunding, and the planting of drought-resistant and fast-growing grasses and legumes; and the use of micro catchments to enhance water filtration, and various other flood control mechanisms.

Strengthening the Agriculture Innovation System for enhanced productivity and value addition

- **Revive agriculture research and development (R&D), seed systems and extension services:** Significant investments are required to establish a modern agriculture research and development system (including the reestablishment of all pre-civil war crop and livestock research centers) and the establishment of an extension eco-system with strong linkages to the agriculture research system. This needs to be complemented with investments to develop a robust, commercially oriented seed system capable of supplying the required high yielding, drought-tolerant seed varieties and animal breeds.

- **Adopt better post-harvest and dry storage facilities and techniques,** including linkages with farmer institutions to support sale choices, ensuring better grain and oil seeds quality, and minimizing exposure to dangerous aflatoxins and resulting postharvest losses.

- **Promote the widespread adoption of digital agriculture technologies** in various aspects of value chains, and support farmer capacity building and linkages to service providers.

- **Facilitate the feed and fodder trade and transport businesses, as well as insurance payouts.** This will be important in assisting herders with better-timed sales, as well as holding on to valuable livestock assets.

- **Animal health and disease control:** Improve the delivery of animal health and extension services, including strengthening the capacity for mass vaccinations and disease surveillance, and strengthening private veterinary services to boost service delivery.

- **Improve breeds:** Investments in breeding programs are necessary to enhance the productivity and adaptability of the traditional livestock breeds. To this effect, the focus should be on selective breeding within the existing stock to take advantage of its time-tested capacity for adaptation, resistance, and rebound to local conditions—including the harsh climate, severe droughts, poor feed quality, and endemic diseases.

- **Support integrated production systems,** leveraging the interlinkages between crop agriculture and peri-urban livestock rearing systems, as an expanded and more efficient feed supply chain would facilitate more value addition, among other things.

Improving infrastructure and services

- **Strengthen capacity building of institutions** for improved service delivery, including public extension services. Partnerships with farmers, professional associations, and private investors in such schemes can improve service delivery, input supply, and marketing.

Access to markets

- **Improve quality infrastructure.** Regional cooperation concerning quality infrastructure will increase with the meeting of internationally recognized certification. It will also reduce the time lag for entry in the global markets.

- **Participate in trade agreements and facilitate market access,** locally, regionally and internationally. Flows in both directions (exports and imports) contribute to food security, employment in the border region, as well as small trade among women and youth.

- **Promote commercial food production to cater to growing urbanization,** and limit the over reliance on food imports.

Access to finance

- **Promote and facilitate access to financial services,** including insurance and credit for de-risking pastoralists, as well as investments in new technologies.

- **Incentivize the private sector to invest in the agriculture sector,** including cold chain infrastructure, innovative technologies, and improved production methods. Support the move up the livestock value chain through increased investments in value addition to create much-needed jobs for youth, ensuring their futures—and staving off criminal gangs of ready recruits.

FISHERIES POLICY NOTE

A. SUMMARY OF KEY MESSAGES

Somalia has the longest coastline in continental Africa, as well as a very productive marine ecosystem due to seasonal upwelling along its Indian Ocean coast. However, weak governance and management prevent Somali fisheries from realizing their potential as a sector that can contribute to economic development, food security, job creation and revenue generation for the country. Efforts are ongoing to strengthen fisheries governance, but there are several challenges related to the weak policy and institutional environment; limited coordination and cooperation between the Federal Government of Somalia (FGS) and the Federal Member States (FMS); a lack of Monitoring Control and Surveillance (MCS); a lack of guiding policies, laws and regulations to empower fishing communities; and limited data and research to guide policymakers. Improving fisheries governance could support higher economic growth, diversified exports, improved food security, the provision of jobs, and the generation of revenues for both the FGS and the FMS. Investing in the fisheries sector could also set the foundation for developing a Blue Economy[157] to allow for sustainable ocean use.

B. SUMMARY KEY ACTIONS

SHORT- TO MEDIUM-TERM ACTIONS

- **Policy, legal and regulatory framework:** prioritize the adoption of the draft Federal Fisheries Law, ensure consistency of fisheries legislation among the FMS, with supporting regulations in place. Also, develop a fisheries policy to provide a clear vision for the sustainable development of the sector at the FGS and FMS levels.

- **Institutionalize coordination and cooperation between the FGS and the FMS:** This would be achieved through an established coordination platform for enhanced fisheries sector governance.

- **Strengthen capacity for MCS:** Develop the necessary legal and regulatory frameworks to establish and manage a decentralized MCS system to fight Illegal Unreported and Unregulated (IUU) fishing.

- **Develop and implement fisheries management plans** to promote sustainability and guide private sector investment, such that management responsibilities would be shared with fishing communities.

- **Rehabilitate and reconstruct priority fisheries infrastructure** supported by feasibility studies and assessments to support fishing communities, as well as incentivize private sector investment.

- **Increase knowledge of domestic fisheries:** Develop research programs and promote the participation of universities, establish national data collection systems, including vessel and fisheries registry, and determine the status of fisheries stocks.

MEDIUM- TO LONG-TERM ACTIONS

- **Institutionalize intergovernmental decision-making** to include inputs from the private sector and civil society, underpinned by policies that support information sharing among the various authorities.

- **Strengthen MCS capacity** by developing legal procedures, as well as building the capacity to transparently license offshore foreign fishing vessels,

[157] The Blue Economy is the sustainable and integrated development of oceanic sectors, in healthy oceans (World Bank, https://www.worldbank.org/en/topic/environment/brief/the-world-banks-blue-economy-program-and-problue-frequently-asked-questions)

document and fine illegal fishing, and engage with regional inter-governmental forums, such as the Indian Ocean Tuna Commission.

- **Develop the legal and institutional capacity to manage emerging fisheries** through feasibility studies (for example, a study concerning the domestic, semi-industrial fleet that could encourage private investment), as well as preparing plans that support the co-management of Somali fisheries.

- **Adopt policies to empower coastal communities to secure economic benefits from fisheries,** drawing on historic and cultural traditions. Establish communal tenure over near-shore fishery resources/areas.

- **Formulate a Blue Economy Strategy as a framework at the FGS level, enabling the development of consistent and harmonious FMS marine spatial planning.** The planning would take into consideration projected climate change impacts, community-based fishing zones. As such, it would guide the development of emerging sectors, and includes marine conservation planning for the eventual establishment of Marine Protected Areas (MPAs).

C. WHERE SOMALIA STANDS

Because of the governance vacuum, illegal fishing — done by mainly foreign-owned vessels — has been rampant in Somalia for several decades. It is threatening the sustainability of marine resources, degrading habitats, and creating conflicts with local communities. Illegal fishing vessels are often engaged in other crimes at sea, including trafficking, smuggling and labor abuse. Several industrial vessels are also operating in both coastal and offshore areas, with limited benefits flowing back to Somali.

Somalia is very likely losing millions of dollars in economic benefits, with its natural capital being depleted. It is also missing the opportunity to create much-needed jobs and improve nutritional outcomes for coastal communities. Its status as a fragile, conflict and violence (FCV)-affected country notwithstanding, a major impediment to turning around this situation is the lack of consensus between the FGS and FMS regarding a shared governance framework.

Progress has been made since 2018, with several agreements signed by the FGS and several/all/most FMS, thereby laying the foundation for sustainable management, and revenue generation and sharing. The National Security Council Agreement (2018)[158] gave the FMS the authority to issue fishing licenses to vessels operating within 24 nautical miles (nm) from the coast, with licenses in the rest of the Exclusive Economic Zone (EEZ) to be managed by the FGS. The Agreement states that revenues generated by foreign fishing licenses issued by the FGS shall be deposited in an escrow account at the Central Bank of Somalia. In 2019, the Addis Ababa Agreement[159] set forth the proportion of revenues generated by the FGS that will be shared with the FMS.[160] From 2019, official licenses were issued to tuna vessels, generating over US$3 million in revenue, which was partly shared between the FGS and FMS. This agreement expired in September 2020, and it has not yet been renewed. Thus, revenue-sharing has subsequently ceased.

A new federal fisheries law has been drafted, building on previous agreements between the FGS and the FMS, as well as international agreements to which Somalia is a party.[161] The law makes provisions for management responsibilities by the FGS and FMS. However, the apparent removal of a provision from the final version of the draft law establishing a formal structure for FGS-FMS coordination could constrain the consistent implementation of the new fisheries law once it is formally adopted. This would include broad participation and coordination on policy decisions among the FMS, as well as cooperation between the FGS and FMS. In recent years, Somali stakeholders have proposed

158 *Interim Agreement between the Federal Government of Somalia (fgs), Federal Member States (fms) and Banadir Regional Administration on Revenue Sharing from the Issuance of Fishing Licenses.* (Mogadishu: National Security Council, February 2018).

159 *Agreement on the Management of Fisheries and Revenue-sharing.* (Addis Ababa, March 2019).

160 FGS: 29 percent; Puntland: 18 percent; Jubbaland, SouthWest, and Galmudug: 13 percent; and Hirshabelle: 14 percent.

161 Somalia is a party to the Indian Ocean Tuna Commission (IOTC), the South West Indian Ocean Fisheries Commission (SWIOFC), the United Nations Convention of the Law of the Sea (UNCLOS), and the Food and Agriculture Organization (FAO) Port State Measure Agreement (PSMA).

to create a Somalia Federal Fisheries Authority (FSFA), which would be governed by a Board comprised of Federal and State Ministers for Fisheries. The creation of an authority needs to be carefully planned as it would have financial implications. However, it would provide the means for a full implementation of the fisheries policies in Somalia. The new law has been pending cabinet approval since December 2020.

The FGS lacks the capacity for MCS to effectively deter illegal fishing in its EEZ. It is likely that pelagic fishing vessels from neighboring countries continue to fish in Somalia's EEZ, either illegally or by having signed non-transparent agreements with various authorities. Somalia is also not fully engaged in the regional management of important tuna stocks under the Indian Ocean Tuna Commission (IOTC), even though it is an important coastal state with significant tuna resource in its EEZ. In addition, there are critical issues related to the overfishing of key tuna species being discussed that could have consequences for Somalia. Its IOTC membership fees are also in arrears.

Similarly, the FMS also have limited legal and institutional capacity to control fishing within the 24-mile zone proposed to remain under state jurisdiction, or to participate in coordinated data-gathering, stock assessments or management of shared resources with other FMS or the FGS. As a result, other large foreign vessels, in particular trawlers and gillnetters, are often operating under non-transparent agreements or licenses. These are issued by the FMS against the provision of the Somali fisheries law and are sometimes illegally flagged in Somalia. The lack of collection, analysis, and the transparent sharing of data makes it difficult to build what should, by all accounts, be a strong economic case for coordination of shared resources among the FMS, as well as between the FMS and FGS. It also hides the ecological and economic consequences of predatory fishing practices by foreign-owned vessels that extract Somalia's natural capital, leaving little or no local benefits.

The Somali private sector is very active in fisheries, but its growth is hampered by poor infrastructure, as well as limited access to domestic and international markets. Post-harvest losses are high, and the lack of jetties, landing sites, cold-chain and processing infrastructure hamper the development of the sector.

The domestic fishing sector is largely small-scale in nature. As such, it is characterized by small-scale vessels primarily using gillnets, handlines, and traps. Due to decades of conflict and insecurity, communities have been unable to establish some form of community-based management system. Currently, no policy exists to establish some form co-management or community-based tenure that would distribute economic benefits to communities that participate in ensuring long-term resource abundance. This represents a barrier to the sustainable growth and expanded economic opportunity for coastal communities.

Realizing lasting and equitable economic benefits, food security and livelihoods from Somalia's fishing resources will require a long-term commitment. It will entail building a policy framework for effective governance based on the nascent federal system, the empowerment of local communities, and expansion of management capacity in the FGS and FMS. Critical to achieving this will be establishing a political framework for sharing control and benefits among Federal and State authorities, as well as local fishing communities.

D. HOW SOMALIA CAN MAKE PROGRESS

Policy recommendations fall into three main categories: governance, management, and improved economic benefits. A fourth cross-cutting area concerns capacity building for administration, as well as for fishing communities.

SECTOR GOVERNANCE

The adoption of the new Federal Fisheries Law should be a priority action for the Federal Government and Parliament. This law provides the foundation and framework for all subsequent governance actions at the federal and state levels. Indeed, it is key to improving fisheries management, including revenue generation for the federal and state governments, as well as economic benefits for coastal communities. Once this law is passed, it can be further strengthened through the establishment of operational policies, especially for the management of fisheries at both the federal and state levels. The legal and regulatory frameworks and the renewal of the FMS/FGS revenue-sharing agreement will also strengthen and facilitate the implementation of the new law. Adherence to the provisions in the revenue-sharing agreement would help to build trust between the FGS and FMS, as well as to support further sector coordination and dialogue.

Operationalizing the new Federal Fisheries Law should be complemented by a comprehensive federal fisheries policy. Such a policy would provide for the setting of clear objectives for fisheries management and development in waters under the FGS management mandate, that is, 24 to 200 nm. The policy would also include guidance and core principles for fisheries management and development in waters under FMS management mandate, that is, the 0-24 nm, to ensure coherence and harmonization. The policy should establish an FGS/FMS coordination platform for (i) policy dialogue and transparent decision making for all relevant fisheries, (ii) decision-making as to how to operationalize the collecting, sharing and reporting of fishery information, as well as coordination of decentralized MCS operations; (iii) fishery policy reforms at the state and federal levels; and (iv) agreeing on policies that enable communities to co-manage resources consistently across State jurisdictions.

Although the proposed new Federal Fisheries Law provides for co-management, regulations for operationalizing this provision are needed to guide the development and implementation of co-management arrangements for coastal fishery resources. This includes the possibility of tenure rights over selected marine resources and areas. Regulations may cover guiding principles, responsibilities of the co-management committees, participatory surveillance, stakeholder engagement, decision-making frameworks, and funding and financing for co-management.

SUSTAINABLY MANAGING THE SECTOR

One or more strategies and/or regulations are needed for establishing and managing a decentralized MCS system to fight IUU fishing. In addition, a regulatory framework for issuing Somali fishing licenses for foreign[162] and domestic vessels is also needed. The policy may address the issues of transparency, observers, vessel monitoring, and information sharing. The licensing regulations should provide for the management of foreign fishing vessels and their compliance with fishing agreements, licenses, and other authorizations.

A policy is needed to guide a long-term strategy for the development of a domestic semi-industrial fishing sector. It should include the legal reforms and foundation of public infrastructure necessary for private sector investment along the value chain, that is, fishing vessels, processing plants, fleet services, and so on.

Requirements for the scope, preparation, and implementation of management plans for selected fisheries are needed, including through co-management arrangements. Guidance may specify the scope and nature of management committees, access or license arrangements (including fees), monitoring and evaluation, reporting requirements, stakeholder consultations, and decision making and penalties for non-compliance.

It will be important to strengthen regional cooperation through the improved participation of Somalia in regional fisheries bodies or regional environment bodies of which it is a party, that is, the IOTC, the South West Indian Ocean Fisheries Commission (SWIOFC), the Regional Organization for the Conservation of the Environment of the Red Sea and Gulf of Aden (PERSGA), the Nairobi Convention, and the Indian Ocean Rim Association (IORA).

SUSTAINABLE SECTOR GROWTH

There is a need for rehabilitation and construction of public and private fishery infrastructure in coastal communities to support development of the sector. Criteria should be established for prioritizing the development of fishing ports and fisheries centers, including, for example, the redevelopment of the old port of Mogadishu. Guidance should also include the scale of the infrastructure; the role of the private sector; stakeholder engagement and governance; construction financing; facility operations (including private sector management); and environment, social and economic performance and reporting. Similar guidance would be needed for small-scale fishing infrastructure, for

162 The terms and conditions for the issuance of licenses to foreign vessels in Somalia should follow the Minimum Terms and Conditions (MTC) for foreign fisheries access in the SWIOFC region.

example, jetties, landing sites, cold-chain, and so on, for coastal communities — but specific to the needs of these fishing communities and fishery potential to avoid overexploitation of the resources. To help advance fisheries management, it may be prudent to link public investments such as these to measurable progress on the part of the FMS and local communities regarding data-sharing, progress on management planning, and transparency, among others.

Fish value-chain improvements have the potential to improve the livelihoods and food safety of coastal communities, as well as opening opportunities for export markets. The policy could establish a foundation for effective private sector engagement in developing and improving value chains. This would require reforms, and better access to finance, as well training for those involved in the value chain. Here again, policies to promote the expansion of seafood value chains could incorporate incentives that help ensure transparency, traceability to deter IUU, as well as data sharing for improved fisheries management. This should be based on value chain improvement plans for the domestic and export markets. Strengthening of food hygiene regulations and certification standards would also be needed, as well as support to ensure adoption and implementation by the private sector. This would be done in concertation with the Somalia Bureau of Standards, and the Ministries of Health and Education.

Fisheries policies and regulations should be considered within a broader Blue Economy Policy. Such a policy would provide an integrated approach to managing marine resources. It would also create opportunities for new sectors, such as aquaculture, as well as potential synergies between the marine sectors, including fisheries. A Blue Economy policy could be operationalized through marine spatial planning, which incorporates marine-protected areas and other conservation measures. In addition, it explores the trade-offs needed between various sectors for the effective sustainable use of marine resources.

An aquaculture development policy should guide the private sector in capitalizing on the potential for different forms of sustainable aquaculture development along the coast of Somalia. The policy should include broad guidance concerning sustainable aquaculture planning for the FGS, as well as public investment, access to finance and other measures (for example, aqua-business platforms) needed to support private sector investments.

CAPACITY BUILDING

Capacity building, training, and mentoring are integral to the development and implementation of fisheries governance, including management and development at the federal, state and local levels. Across the spectrum of capacity-building and training investments, there is a need for guidance about the scope, nature, delivery and performance assessment of such investments. Programs should establish priorities concerning delivery modalities of capacity building activities including the use of training of trainers, mentoring, collaborative exchanges in other countries, including South-South cooperation in order to establish and maintain expertise in the agencies and to provide cost effective training. Other training guidance may include determining priority modalities (virtual or in-person, or learning by doing), the scope and nature of scholarships, and internships or work/exchange placements, among others.

PETROLEUM SECTOR GOVERNANCE POLICY NOTE

A. SUMMARY OF KEY MESSAGES

Somalia has potentially sizeable offshore petroleum deposits, although the scale of reserves remains unproven. Progress has been made in establishing the legal and fiscal framework for petroleum management and the award of oil and gas Production Sharing Agreements (PSAs). However, implementation of the framework faces a number of challenges, including the following:

- Steps taken toward oil and gas licensing have not been in full compliance with all applicable Federal Government of Somalia (FGS) laws, raising the risk that PSA awards may not protect Somalia's interests — or that they could be subject to legal or compensation claims. Most recently, in February 2022 the Minister of Petroleum awarded 7 PSAs to Coastline Exploration without following all applicable legal requirements. FGS has since formally informed Coastline that it considers the agreements to be null and void.

- Not all Federal Member States (FMS) have accepted the legitimacy of the Petroleum Act and the Somalia Petroleum Authority, thus creating the potential for political dispute in case of any FGS award in their territory. Puntland considers the Petroleum Act in breach of the 2012 Interim Constitution.

- Established revenue-sharing arrangements are likely to lead to highly unequal revenue sharing across the FMS, with limited scope for re-balancing, thereby creating the potential for political tension.

- The capacity of the FGS to regulate, monitor and audit petroleum sector activities and environmental risks is currently extremely limited.

The realization of commercial petroleum production in Somalia could take a decade or more. Therefore, it is essential that the FGS take early steps to resolve these challenges so that potential political disputes are resolved, and a solid foundation is established for petroleum exploration and development in Somalia. The FGS needs to manage Somalia's petroleum resources in a manner that protects national interests, ensures political stability, enhances state credibility, minimizes contractual risk, and avoids damaging the environment.

B. SUMMARY KEY ACTIONS

SHORT- TO MEDIUM-TERM:

1. Resolve any outstanding legal issues surrounding the award of 7 PSAs to Coastline Exploration in February 2022.

2. Submit the Extractives Industries Income Tax (EIIT) Bill to Parliament.

3. Ensure that all future petroleum awards are made in full compliance with the FGS's legal framework so that FGS interests are protected, and the risk of contractual dispute is minimized.

4. Ensure that all direct negotiations are fully justified, based on proven legal rights.

5. Ensure that awards are appropriately sequenced. In particular: PSAs should only be entered into once the EIIT Bill has been enacted. Direct awards should only be negotiated once bids for the licensing round have been received and evaluated. This would enable the establishment of commercial price benchmarks.

6. Re-establish a consensus with all FMS concerning

petroleum sector management and revenue sharing, modelling the revenue implications of different revenue-sharing scenarios as necessary and ensuring that revenue-sharing arrangements are equitable.

7. Scale-up efforts to develop FGS regulatory capacity, particularly in the areas of oversight, monitoring, and audit of petroleum operations and environmental management.

MEDIUM- TO LONG-TERM:

8. Strengthen environmental oversight by enhancing intergovernmental cooperation, as well as building the capacity of the National Climate Change Committee.

C. WHERE SOMALIA STANDS NOW

Somalia has potentially sizeable offshore petroleum deposits, although the scale of reserves remains unproven. The ownership and management of these deposits has historically been an issue of contention between the FGS and a number of the FMS, particularly Puntland. In the decade prior to 2016, there were several overlapping attempts by different entities to conduct seismic surveys and award exploration contracts. This occurred in the absence of an agreed regulatory framework or any sector capacity.

Since 2016, the FGS has made progress in establishing the legal and fiscal framework for petroleum management and the award of oil and gas PSAs. Key elements of the framework include:

- *The Procurement, Concessions and Disposals Act (2016):* It outlines the detailed procedural requirements for the negotiation and award of PSAs, whether through open international competitive tendering or direct negotiation. It requires that all PSA award processes be subject to oversight by the Inter-Ministerial Concessions Committee (IMCC), a body established under the Act's concessions section.

- *The Baidoa Agreement (2018):* It contains an agreement between FGS, all five FMS and the Banadir Regional Administration (BRA) concerning the ownership, management, and sharing of petroleum and mineral resources. The agreement establishes the principle of joint management of petroleum resources and provides a detailed breakdown of how different types of petroleum revenues will be shared between the FGS, the producing FMS and the non-producing FMS, including the BRA.

- *The Petroleum Act (2020):* It provides a framework for the management of the petroleum sector in Somalia. It contains some basic provisions applicable to PSA awards and signatures. It assigns the FGS the exclusive right to enter into PSAs with oil companies. It establishes the Somalia Petroleum Authority (SPA) as the entity responsible for negotiating PSAs on behalf of the FGS and regulating petroleum operations. The SPA Board is comprised of representatives from the FGS and the FMS. The Act enables the FGS to take a 20 percent stake in petroleum production through a National Oil Company. The producing FMS have the right to take a 10 percent stake through a State Oil Company. It also requires all petroleum revenues to be shared in accordance with the Baidoa Agreement.

- *The Extractives Industries Income Tax (EIIT) Bill:* It contains key PSA fiscal terms, including royalty rates and the applicable taxation regime. Development of the EIIT Bill is consistent with the Petroleum Act's requirement that the tax provisions of PSAs are governed by a 'special law,' in conformity with Somalia's financial system. Enactment is a Heavily Indebted Poor Countries (HIPC) Completion Point (CP) Benchmark. The Bill awaits Cabinet approval and submission to Parliament at the start of the new administration.

However, implementation of this framework continues to face a number of challenges. Although realization of commercial petroleum production in Somalia could take a decade or more, it is essential that the FGS take early steps to resolve these challenges. In doing so, it can ensure that potential political disputes are mitigated, and a solid foundation is established for petroleum exploration and development in Somalia.

MAIN CHALLENGES

1. Steps taken toward oil and gas licensing have disregarded a number of applicable legal requirements, raising the risk that PSA awards may not protect Somalia's interests — or that they could be subject to legal or compensation claims.

The SPA Board was appointed in July 2020, and the MPMR launched a licensing round for 7 offshore blocks in August 2020, with an initial deadline of March 2021. In November 2020, the SPA posted a licensing round tender protocol and a Model PSA on the licensing round website.[163] In parallel to launching the licensing round, the MPMR and the SPA carried out negotiations for the direct award of a further 10 offshore blocks to two oil exploration firms, Coastline Exploration and Liberty Petroleum, with the intention of signing PSAs in Mogadishu in January 2021.

Throughout this process, the MPMR and the SPA disregarded the applicability of the Procurement Act to the petroleum sector, and made no effort to harmonize the PSA fiscal terms with the requirements of the EIIT Bill. Notably:

- The Model PSA and tender protocol issued on the licensing round website in November 2020 had not been approved by the IMCC as required the Procurement Act.
- The fiscal terms of the Model PSA differed significantly to the terms contained in the EIIT Bill.
- The tender protocol contained provisions inconsistent with the requirements of the Procurement Act.
- The MPMR did not justify the basis for negotiating direct awards with two firms by seeking IMCC approval, nor did it seek IMCC approval of the PSA that was under negotiation with these firms.
- No stakeholder consultations were conducted prior to launching the license round or conducting direct negotiations, as required by the Procurement Act.

In addition, the planned signing of 10 PSAs in January 2021 was inconsistent with the commitment the FGS had made to the International Monetary Fund (IMF) in 2020 that it would not issue any oil exploration licenses until the EIIT Bill was enacted, and the Model PSA was finalized.[164] Ultimately, the MPMR did not sign any awards in January 2021. The SPA extended the licensing round bid submission deadline to the end of June 2021, and then announced a further postponement in June.[165]

The MPMR and the Ministry of Finance subsequently resolved the main outstanding differences between the fiscal terms of the 2020 Model PSA and those of the EIIT Bill. On November 5, 2021, the IMCC approved a revised version of the Model PSA (2021 Approved PSA) for use in the licensing round. The SPA has not yet updated the tender protocol or submitted it to the IMCC for approval,[166] and no new timetable has been issued for the licensing round.

Separately, in February 2022, the Minister of Petroleum signed 7 PSAs with Coastline Exploration. The Minister did not seek IMCC approval to enter into direct negotiations as required by the Procurement Act, and did not submit the PSA terms to the IMCC for endorsement. Given that the awards were directly negotiated without the benefit of commercial price benchmarks, the basis for the agreed profit-sharing ratio between FGS and Coastline is not known. Both the President and the Prime Minister issued statements rejecting the awards, and the Auditor General declared them null and void on the basis that they were negotiated and signed in contravention of the laws of Somalia.[167]

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163 www.somalialicensinground.com

164 *Second Review of the Staff Monitored Programme*. IMF Country Report 20/85 (March). (Washington, DC: IMF, 2020).

165 www.somalialicensinground.com

166 There are a number of provisions in the Tender Protocol that need to be adjusted to ensure that they are aligned with the legal framework, thus protecting FGS interests. These include, among others, the scope for post-bid negotiations and the potential to make awards even when there is inadequate competition.

167 In particular, Prime Minister's decree no. 047 of 06/12/2018; Prime Minister's Circular XRW/0481/11/2020, dated 26/11/2020; Articles 126, 116, 117 and 139 of the Procurement Act; Article 26 (1) (b & c) of the Somalia Petroleum Law; and, Articles 44 and 53 (1) of the Provisional Constitution.

The Ministry of Foreign Affairs subsequently sent a letter to Coastline, formally conveying FGS's position that the agreements are null and void.

2. The risks associated with awarding PSAs without following due process have been a subject of continuous dialogue between the FGS, the Financial Governance Committee (FGC),[168] the World Bank, and the International Monetary Fund (IMF). These risks have now emerged in full, as FGS's nullification of the awards to Coastline may be disputed by Coastline. Not all FMS have accepted the legitimacy of the Petroleum Act and the Somalia Petroleum Authority, creating the potential for political dispute in case of any FGS awards.

Puntland raised objections to the Petroleum Act when it was under discussion in the Upper House of the FGS Parliament. After it was signed into law in February 2020, the President of Puntland issued a statement rejecting it on the basis that it violated a number of provisions of the 2012 Provisional Constitution. He stated that Puntland would not be involved in the implementation of the Act until "all clauses that violate the Federal Constitution and the federalization system are removed".

Puntland did not nominate a representative to the SPA Board, and its Minister of Energy, Minerals and Water has stated that Puntland will not recognize any agreement entered into by the SPA. It expects the incoming FGS administration to develop a consensual agreement concerning national resource management, development and sharing procedures, to be ratified by all FMS. This suggests that it may be advisable to amend the revenue-sharing provisions in the Baidoa Agreement in pursuit of more equitable outcomes. Relatedly, this could also help to reduce political tensions.

3. The Baidoa Agreement raises the prospect of highly unequal revenue sharing across the FMS, with limited scope for re-balancing.

Global experience suggests that rigid sharing formulas that are codified in law can be problematic, as there is limited scope to adjust them subsequently in light of experience and evolving needs.[169] Article 44 of the Provisional Constitution calls for the allocation of natural resources to be negotiated and agreed upon by the FGS and the FMS. However, the provisions of the Baidoa Agreement have been written into law through their inclusion in the Petroleum Act. This means that revenue-sharing provision in the Baidoa Agreement can only be adjusted through an amendment to the Petroleum Act.

The 2018 Baidoa Agreement says that revenues will be shared in a "balanced and fair manner". However, under the terms agreed, the FMS that have exploitable petroleum resources have a significant revenue advantage over those that do not. A substantial share of revenues is earmarked for the oil-producing FMS, and a further share is earmarked to the specific district within the oil-producing FMS where the oil is located.[170] (See Annex 1 for details).

A World Bank analysis has shown that, in total, across all revenue streams, an oil-producing FMS, including its oil-producing district, is likely to receive between 10 and 17 times more revenue than each non-producing FMS. This is an extremely large disparity by international standards. Indeed, it raises the prospect of highly uneven development across the FMS in the event of a sizeable oil discovery, as well as subsequent increased political tensions. The FGS could try to offset the disparity by allocating most of its revenue shares to the non-producing FMS. However, its own share will not be large enough to completely enable it to offset the disparities between the producing- and non-producing FMS.

The sizeable shares to the oil-producing FMS also raise the risk of inefficient spending/wastage, and even corruption in the event that the FMS (and its producing District) are not effectively able to absorb large revenue flows.

4. The FGS capacity to regulate petroleum sector activities is currently extremely limited.

168 The FGC is a high-level advisory committee comprised of senior members of the FGS and international representatives. The FGC advice covers fiscal issues, contracts and concessions, natural resource management, and central bank governance. See the website for further information: https://mof.gov.so/fgc

169 Natural Resource Revenue Sharing, Natural Resource Governance Initiative (NRGI) and UNDP, (September 2016).

170 If oil is found off-shore, a specific share is earmarked to the district shore where the oil is located.

Although the FGS has passed the Petroleum Act and appointed the SPA Board, its regulatory framework for petroleum is far from complete. The Petroleum Act requires the MPMR to issue regulations concerning a number of issues to guide implementation of the Act, including management of petroleum operations, decommissioning, environmental management, and the management of grants awarded to prior to 1990. Although the MPMR issued a set of petroleum regulations in 2017, they need updating and expanding to meet the requirements of the Act. This will help to ensure that the SPA can effectively regulate petroleum operations in line with the provisions of the 2021 Approved PSA.

Critical regulations required for the effective management of the 2021 Approved PSA include regulations on flaring; decommissioning funds; repair and remedial requirements; procedures for the transmission of data and reporting requirements; and standard operating procedures for petroleum operations and facilities.

In addition, the SPA needs to rapidly expand its capacity to effectively fulfill its oversight and management functions. An entire operational structure needs to be established below the Board. A World Bank funded study[171] concerning the institutional development of the SPA identified the following short and medium-term needs:

- **Short-term:** The immediate SPA focus should be on building capabilities in data management, licensing and promotion operations, strategic health, safety and environment (HSE) oversight, and effective coordination between the FGS and the FMS.

- **Medium-term:** Following petroleum discoveries, the focus should shift to building SPA capacity in the spheres of audit and monitoring of petroleum operations, as well as ensuring compliance with applicable HSE requirements.

D. HOW SOMALIA CAN MAKE PROGRESS

The FGS should aim to manage Somalia's petroleum resources in a manner that protects national interests, ensures political stability, enhances state credibility, minimizes contractual risk, and avoids damaging the environment. To meet these objectives and address current challenges, the following recommendations are offered:

1. Any outstanding legal issues surrounding the award of 7 PSAs to Coastline Exploration in February 2022 are resolved

Conclusive resolution of any outstanding legal issues regarding the nullified awards to Coastline is essential to safeguard FGS's reputation for good financial governance and petroleum sector management.

2. All future petroleum licensing is in full compliance with FGS's legal framework.

Compliance with the legal framework is essential to protect the interests of the FGS and minimize the risk of contractual dispute. It encompasses two main dimensions:

i. Consistency of the PSA terms with the requirements of both the Petroleum Act and the EIIT Bill.

ii. Consistency of the tender, negotiation and award processes with the requirements of both the Petroleum Act and the Procurement Act.

3. All direct negotiations are fully justified, based on proven legal rights.

Direct negotiations should only be conducted with firms that have proven legal rights to acquire petroleum contracts. The commencement of direct negotiations should be approved by the IMCC, as required by the Petroleum Act. Negotiations should be conducted on the basis of the same PSA that is used in the licensing round.

4. Awards are appropriately sequenced.

The recommended sequencing has two main dimensions, as follows:

i. PSAs are only signed after the EIIT Bill has been enacted. This is consistent with FGS's undertaking vis-à-vis the international community and supports the intent of the

[171] Institutional Development of the Petroleum Regulatory Authority in the Federal Government of Somalia, (HIS Markit and Hensley Partners, 2020).

HIPC Completion Point benchmark. It also means that the FGS will not be liable under the PSA stabilization clause to compensate the contractor for increased costs arising from the application of the EIIT law.

ii. *Direct awards are only negotiated after bids have been received and evaluated under the licensing round.* This will enable price benchmarks established through the competitive licensing round to be used to guide the negotiations of the commercial terms of direct awards.

5. Consensus is re-established between the FGS and all FMS concerning petroleum sector management and revenue sharing — and revenue-sharing arrangements are equitable.

The FGS needs to consult Puntland to understand its concerns over the Baidoa Agreement and the Petroleum Act. In addition, it needs to take steps to address them in the context of discussions with all FMS. The FGS is also advised to review the revenue-sharing provisions in the Baidoa Agreement to assess whether there is a need to rebalance the revenue shares to improve equity. To accomplish this, the FGS will need to model the revenue implications of different revenue-sharing scenarios prior to holding any revenue-sharing discussions with the FMS.

The FGS should also take steps to establish fiscal rules under the 2019 PFM Act to determine how much petroleum revenues are shared in any given year, and how much are saved. If re-opening the Baidoa Agreement and amending the Petroleum Act is not feasible in the short-term, the FGS also has an opportunity to use the Constitutional review process to establish an overarching mechanism for equalizing all revenues across the FMS. In this way, they would not be entirely determined by individual sector agreements.

6. Increase efforts to develop FGS regulatory capacity.

The MPMR needs to develop and issue all the regulations required by the Petroleum Act. The FGS also needs to partner with international organizations to develop the capacity of the SPA to regulate petroleum sector operations, particularly in the areas of oversight, monitoring, and audit of petroleum operations, as well as environmental management. To address the local environmental risks of fossil fuel production, it will also be important to strengthen the capacity of the National Climate Change Committee, which is a multistakeholder, high-level policy coordination committee. In addition, an intergovernmental cooperation agreement concerning the management of environmental risks should be established.

ANNEXES

ANNEX 1: BAIDOA AGREEMENT: PETROLEUM REVENUE SHARES

Table 1: Revenue Shares according to the Baidoa Agreement (%)

Revenue	FGS	FMS	District	FMS
Percent share		(producing)	(producing)	(all non-producing)
Offshore profit oil	55	25	10	10
Onshore profit oil	30	30	20	20
Royalty	40	40	10	10
Signing bonus	40	60		
Surface rent	30	50	20	
License fee	50	50		
Production bonus	30	50	10	10
Corporate income tax	100			
Export tax	60	40		
Capital gains tax	50	30	20	
Seismic data	50	50		
Capacity building	50	50		
Local community development		30	70	

Table 2: Baidoa Agreement: Revenue Shares by FMS (%)

Percentage Share	FGS	Oil-Producing FMS (including producing District)	Each Non-oil Producing FMS
Offshore profit oil	55	35	2
Onshore profit oil	30	50	4
Royalty	40	50	2
Signing bonus	40	60	
Surface rent	30	70	
License fee	50	50	
Production bonus	30	60	2
Corporate income tax	100		
Export tax	60	40	
Capital gains tax	50	50	
Seismic data	50	50	
Capacity building	50	50	
Local community development		100	

Note: This includes the Banadir Regional Administration.

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