Somalia has experienced moderate real GDP growth, averaging about 3.4% a year over the past four years. However, the country’s growth slowed in 2017 due to the ongoing drought, and real GDP growth that year was estimated at 2.4%. Growth is expected to recover to 3.5% in 2018 and 2019.

Creating jobs for the youth, providing social services such as education and health, and building sustainable livelihoods are Somalia’s immediate key development challenges.

Positive strides have been made in reconstructing and rebuilding Somalia’s infrastructure, which has been devastated by armed civil conflict for over 25 years.

OVERVIEW

Somalia experienced moderate real GDP growth in the last four years, averaging about 3.4% a year. However, the country’s growth slowed in 2017 due to drought. Real GDP growth for 2017 was projected to fall to 2.4%, recovering to 3.5% in 2018 and 2019 largely thanks to recovery of the agricultural sector, increased private sector investments, and improved security. Inflation has been contained by dollarization and the sharp decline in oil prices and is predicted to remain around 2.7% over the next couple of years. Heavy dependence on primary commodities – the main source of export earnings – remains a structural bottleneck and reflects the country’s narrow economic base, which makes Somalia highly vulnerable to vagaries of the market such as price fluctuations and environmental shocks.

Food insecurity – owing to drought and exacerbated by conflict and trade disruptions – remains a persistent and serious challenge. The 2017 drought, caused by consecutive poor rainfall seasons and low river levels, resulted in about 6.7 million people in Somalia needing urgent humanitarian assistance. Voluntary repatriation of Somali refugees returning from Kenya in response to the Kenyan Government’s plans to close the Dadaab and Kakuma refugee camps has continued. The Kenyan Government maintains that refugees pose security threats within the country. Returnees face numerous challenges, including lack of access to land and basic services, social reintegration, and restoration of their livelihoods. Somalia’s 2017 drought crisis has compounded these challenges.

Somalia ranks lowest of all African countries on the AfDB’s 2016 Africa infrastructure development index. The country’s immense reconstruction and development challenges are the result of a devastating armed civil conflict that has lasted more than 25 years. This has led to high levels of poverty caused by limited social and physical infrastructure, underdeveloped industrial and financial sectors, adverse climatic conditions, and continuing fragilities, including sporadic violence and insurgency, political uncertainty due to inter-clan tensions and rent seeking, inadequate human and institutional capacity, and weak public financial governance. However, there has been significant progress in infrastructure reconstruction and financing since the establishment of the AfDB’s Somalia Infrastructure Fund.
RECENT DEVELOPMENTS AND PROSPECTS

Somalia’s economy is largely dominated by the informal sector. Most of the population lives below subsistence level and is engaged in small-scale business. The private sector has demonstrated impressive resilience in areas such as telecommunications, financial services, construction, livestock, and fisheries. The Somali diaspora is the major investor in the country and is estimated to provide 80% of the start-up capital for small and medium enterprises. Returnees establish businesses individually or as a group by pooling resources, and sometimes manage their business interests from outside the country.

Key economic achievements include the drafting of the first national development plan (NDP) 2017–2019, which outlines the country’s economic reconstruction and development priorities. The country is also currently preparing for the arrears clearance process through the Highly Indebted Poor Country Initiative (HIPC) and Multilateral Debt Relief Initiative (MDRI). In May 2017, the Somali authorities and the IMF met to review and conclude the first staff monitored programme (SMP), which ran from May 2016 to April 2017. Performance under the SMP was judged to be broadly satisfactory. Consequently, in June 2017, the IMF approved a second SMP for May 2017-April 2018. The new SMP continued to support (i) macroeconomic stability and capacity development and (ii) implementation of measures necessary for debt relief under the HIPC Initiative.

By endorsing the Sustainable Development Goals (SDGs), Somalia made a commitment to achieve them. However, owing to the country’s political instability, security challenges, and inadequate institutional, human, and financial resources, among others, achieving them will be a challenge. The NDP (and subsequent economic development strategies) are expected to focus on the SDGs. The creation of jobs for youth, provision of social services such as education and health, and building of sustainable livelihoods will continue to be a priority for the federal Government.

Food insecurity, caused by a drought since end-2016 and exacerbated by conflict and trade disruptions, remains a persistent and serious challenge. The drought, a result of consecutive poor rainfall seasons and low river levels, has resulted in about 6.7 million Somalis needing urgent humanitarian assistance. In response, humanitarian actors launched a revised response plan in June 2017 to prevent famine, which sought USD 1.5 billion to reach 5.5 million people in need. Through the NDP, the Federal Government of Somalia (FGS) made food security a priority strategic goal, underscoring the need to revive the country’s traditional economic sectors such as agriculture, expand overall irrigation infrastructure, and improve the availability and accessibility of rural credit and financing support to smallholder farmers and cooperatives.

Although Somalia has ratified a number of international and regional environmental regulations and treaties, most of the country has lacked an environmental regulatory and institutional framework for the past three decades. The result has been tremendous destruction of natural resources. The UN Security Council has determined that the illegal trade of charcoal is a huge factor in funding terrorism and is a major cause of deforestation. Drought is also a persistent threat in certain regions of the country, but long term efforts to address the situation are being hindered by continued insecurity and lack of access to many recovered areas due to Al-Shabaab’s blockade of major supply routes. The construction of large dams on the Ethiopian section of the Shabelle and Jubba rivers has also reduced the flow of water downstream in Somalia, and harmed livelihoods in regions they feed.

Somalia is faced with the complex and pressing challenge of state building and reconstruction with extremely limited public revenue and inadequate institutional capacity. The

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**TABLE 1. Macroeconomic indicators**

<table>
<thead>
<tr>
<th></th>
<th>2016</th>
<th>2017(e)</th>
<th>2018(p)</th>
<th>2019(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Real GDP growth</td>
<td>3.2</td>
<td>2.4</td>
<td>3.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Real GDP per capita growth</td>
<td>0.5</td>
<td>-0.4</td>
<td>0.6</td>
<td>0.6</td>
</tr>
<tr>
<td>CPI inflation</td>
<td>2.3</td>
<td>2.9</td>
<td>2.7</td>
<td>2.7</td>
</tr>
<tr>
<td>Budget balance (% of GDP)</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.1</td>
</tr>
<tr>
<td>Current account (% of GDP)</td>
<td>-10.1</td>
<td>-11.1</td>
<td>-10.7</td>
<td>-10.0</td>
</tr>
</tbody>
</table>

Source. Data from national sources; estimates (e) and predictions (p) are based on the authors’ calculations.
Government’s ability to provide basic public goods is severely limited. However, it is improving its capacity to govern. The AfDB has been tasked to take the lead in infrastructure planning and development in Somalia, given the Bank’s comparative advantage in this sector and in the region.

MACROECONOMIC POLICY

Fiscal policy
High public expenditures relative to low revenues have contributed to Somalia’s fiscal deficits. However, domestic revenue as a percentage of GDP has shown some improvement, from an estimated 0.6% in 2012 to 1.8% in 2016, still far below the IMF’s recommended 15% for low-income countries. The improvement is thanks to better tax administration and increased engagement with the private sector. The Federal Government’s capacity to generate sufficient revenue and stabilize the fiscal and macroeconomic environment continues to be constrained by the small size of the formal economy, and an inability to collect taxes due to widespread insecurity and institutional constraints. A comprehensive strategy is required to improve domestic resource mobilization through tax compliance. The Government also has very limited capacity and data to undertake robust macroeconomic analysis, which would help underpin forecasts of the resource envelope and expenditure estimates.

On the expenditure front, the Federal Government has indicated that it will refrain from spending money not fully covered by realistic revenue projections or confirmed grants. Revenue windfalls such as additional grants for budgetary support will be used to build up buffers for contingent measures, including inflows of refugees and humanitarian aid, and to pay down domestic arrears. Furthermore, the Government intends to implement the reforms needed to enhance cash management practices. The Somali Government has committed to remain current on its bills and continues to adhere to the sequestration provision in the 2016 Appropriation Law. Nonetheless, in the event of shortfall in revenue or grants, it is recommended that the Government reduce expenditure commitments, particularly on non-priority spending, including the annual budgetary fund for election and planned domestic expenditure arrears payments, and prioritize the use of any existing un-earmarked cash buffers.¹

Monetary policy
The Central Bank of Somalia (CBS) lacks the institutional and human resource capacity to develop and execute sound monetary policy. Since April 2016, the exchange rate has remained relatively stable at about 23 000 Somali Shillings (SOS) to the USD. The Central Bank of Somalia has issued no bank notes since 1991 and has control over neither the exchange rate nor the supply of the SOS, which is printed by private entities. The bulk of payments are conducted via USD, mobile phone payment platforms, and counterfeit SOS notes. Moreover, official international reserves are very low. However, over the past few years and with support from, amongst others, the AfDB, the IMF, and the World Bank, the CBS has been building capacity and implementing the requisite monetary policy and financial supervision systems to be able to play its conventional role in the economy.

The CBS is developing and implementing a comprehensive roadmap for the prudent growth of financial intermediation in Somalia, supported by advice from international donors and technical assistance providers. For example, with support from the IMF and US Treasury Department, the CBS has started the process of prudential regulation, supervision, and examination of commercial banks. Through enhanced licensing procedures, the formal banking sector is starting to strengthen. So far, 6 commercial banks and 14 money transfer businesses have been licensed by the CBS, and an additional 13 applications for commercial bank licenses are pending. Formal commercial banking activity is geographically concentrated in Mogadishu, with each institution having only a few branches in other parts of the country. The commercial banks are typically engaged in money transfers and trade finance. Money transfer businesses (hawalas) also flourish in the unregulated and informal environment.

Important progress has been made in recruiting directors and senior officials of key departments at the CBS. This will improve the Central Bank’s capacity to absorb advice from international donors and technical assistance providers. With the IMF’s assistance, the CBS has developed a two-phase roadmap for a comprehensive national currency reform, which takes into account the country’s underlying situation, security issues, and socio-political factors.

Economic co-operation, regional integration and trade
Somalia has one of the lowest rankings in the 2016 Africa Regional Integration index, designed to measure how African countries are meeting their commitments under the various pan-African integration frameworks such as Agenda 2063 and the Abuja Treaty.

Somalia is heavily dependent on imports of both consumer and intermediate goods, resulting in consistently large annual trade deficits. The deficits have been mainly financed by remittances and international aid. In 2016, the country’s imports and exports were estimated at USD 2 billion and USD 628 million, respectively. The main trading partners are Ethiopia, Oman, Saudi

¹. IMF, Somalia, 2017 Article IV Consultation and First Review.
Arabia, India, Kenya, China, Yemen, Pakistan, and Turkey. Main exports include live animals, hides, and skin, whilst imports are mainly consumer products, vegetables, raw sugar, wheat flour, and rice. Somali exports to the region are very low. The need to develop potential trade corridors, such as Mogadishu-Baidoa-Dolow-Nairobi, and improve customs and border management to facilitate trade and increase revenues is becoming increasingly important and urgent.

Despite its strategic geographical location in the Horn of Africa, Somalia has had limited participation in regional economic activities. This is a consequence of the more than two decades of civil war and subsequent state collapse. Nonetheless, the Federal Government hopes that regional integration can help the country achieve its goals of sustainable, pro-poor economic growth, poverty reduction, and stability. Active regional integration will enable Somalia to benefit from having the longest coastline in Africa.

In particular, its strategic geographical location as a bridge or corridor between the Horn of Africa region and the Middle East, Asia, and Europe could transform Somalia into a logistics hub and free trade area for exports from and imports to the region (specifically Kenya, Ethiopia, and South Sudan). In this context, the potential benefits to Somalia of regional integration include increased physical access to markets, an enhanced trade environment, and improved business competitiveness.

Debt policy
Somalia’s external debt stock, presently estimated at USD 5 billion, continues to accumulate arrears. USD 1.5 billion of the debt is owed to multilateral creditors, with about USD 1.3 billion in arrears. The largest creditors include the AfDB, the World Bank, the IMF, and the Arab Monetary Fund. Outstanding debt to Paris Club creditors is about USD 2.3 billion, all in arrears. The Federal Government, supported by the AfDB, has been reconciling the debt and nine of ten Paris Club creditors have responded positively to requests to provide data on debt owed. Debt to non–Paris Club creditors is estimated at USD 1.5 billion and only 3 of the 13 known/potential creditors have responded with data. The largest creditors are in the Gulf region and are expected to account for 90% of non-Paris Club claims. So far, no commercial claims have been established, but the Federal Government is continuing to discreetly engage official bilateral creditors to establish the existence of such claims in their countries.

With the assistance of AfDB consultants, the Federal Government has been reconstructing the loan database within the Commonwealth Secretariat Debt Recording and Management System (CS-DRMS) – the computerised debt management system the Government has adopted. For a country to access the HIPC debt relief initiative decision point, debt data must be fully reconciled, loan by loan, with creditors. As the Somalia debt data is being reconstructed from detailed creditor data, this reconciliation process – to be undertaken by IMF and World Bank staff soon before the HIPC decision point – should then be relatively simple.

Somalia is currently preparing for the arrears clearance process through the HIPC and MDRI. In May 2017, the Somali authorities and the IMF met to review and conclude the first SMP, which ran from May 2016 to April 2017. Performance under the SMP was judged to be broadly satisfactory. By the end of 2016, all but one of the structural benchmarks had been observed and five of the six indicative targets had been met. Revenue performance was weak, which meant the target on new domestic arrears accumulation was breached.

In June 2017, the IMF approved a second SMP that covered May 2017 to April 2018. The second SMP continued to focus support on macroeconomic stability and capacity development and to implement the measures necessary for achieving debt relief in the future under the HIPC Initiative. The Authorities updated their memorandum of economic and financial policies (MEFP) for 2017–19, in which they outlined their fiscal and financial policies reform agenda. These include better budgetary execution and outturns, broadening the tax base, and implementing a financial sector development roadmap. The NDP 2017-2019 also largely fulfils the requirements of an Interim Poverty Reduction Strategy Paper (IPRSP), another key step in the HIPC debt relief process, and its successful implementation is now a priority.

ECONOMIC AND POLITICAL GOVERNANCE

Private sector
Somalia’s economy is largely dominated by the informal sector, and the majority of the population lives at the subsistence level and is engaged in micro and small-scale businesses. Despite being ranked last of 190 countries on the World Bank’s Doing Business Index in 2016 and 2017, Somalia’s private sector has demonstrated impressive resilience in areas such as telecommunications, financial services, construction, livestock, and fisheries. It has been estimated that Somali women make up over 60% of business owners, consisting of microenterprises as well as medium to large enterprises and businesses connected to the diaspora. The extensive Somali diaspora has played a major role by investing funds from abroad, as well as returning to Somalia with critical skills and human capacity. However, major private sector investments are unlikely in the near future, given
Somalia’s still volatile and fragile situation. Somalia also lacks the essential infrastructure, institutions, and policies to support an effective business environment. Therefore, to encourage further private sector expansion, the country must develop business regulations for trade, improve the efficiency of trade logistics services, and improve infrastructure such as electricity.

Through the Somalia core economic institutions and opportunities programme (SCORE) project, the World Bank is working to improve the environment for private and financial sector development and catalyse private investment and job creation. The Ministry of Industry and Commerce has the responsibility to regulate the private sector more effectively, a difficult proposition given that almost all activity currently operates informally, with business people accustomed to no Government oversight or interference.

**Financial sector**

Somalia’s nascent financial sector comprises the Central Bank, a few commercial banks, and several money transfer businesses. Six commercial banks and 14 money transfer businesses, or **hawalas**, have been provisionally licensed by the CBS, and an additional 13 applications for commercial banking licenses are pending. Formal commercial banking is geographically concentrated in Mogadishu, with each institution having only a few branches in other parts of the country. Money transfer businesses continue to dominate the formal and informal financial sector and facilitate the transfer of remittances from the Somali diaspora, donor resources, and foreign investments, and are flourishing in an unregulated and informal environment. The commercial banks are typically engaged in money transfers and trade finance.

Money transfer businesses handle an estimated over USD 1.5 billion in annual remittances to Somalia, which remain a major source of foreign exchange for the country. To maintain the flow of remittances from abroad and assuage the concerns of international financial institutions, law to combat money laundering and financing of terrorism (AML/CFT) law was passed by Parliament in early 2016. It empowers the CBS to implement legal measures to govern and monitor money transfer businesses in Somalia. Various related regulations are already in force, including registration and licensing and customer registration regulations. The Federal Government is now developing an initial action plan to build AML systems and capacity for better financial and remittance supervision. The action plan targets the CBS, international financial institutions, local financial institutions, and money transfer businesses.

Other notable initiatives at the CBS include the implementation of core banking and payment-settlement systems, and starting the process to adopt international standards and best practices. The CBS Board has also adopted guiding principles for currency reform, to be implemented in two stages. In the first stage, likely during the current IMF SMP, the CBS will issue a single denomination – the new SOS 1 000 banknote, with the aim of eliminating counterfeiting and to maintain a free-floating exchange rate. The second phase will involve the issue of additional new banknote denominations.

**Public sector management, institutions and reforms**

The Office of the Prime Minister continues to provide leadership to develop a framework for public sector capacity building, but public service reform requires a broader cross-government structure (cabinet sub-committee or equivalent) that has not yet been established. And the Capacity Development Directorate in the Office of the Prime Minister still requires significant strengthening. Newly formed states and interim administrations are not currently involved in dialogue on civil service policies.

Through the NDP 2017-2019, the Federal Government is committed to setting up a legal and regulatory personal management system that sets standards on entry into and departure from the public sector; it will include pension arrangements.

**Natural resource management and the environment**

As mentioned above, Somalia has suffered massive destruction of its natural resources due to a lack of environmental regulatory and institutional framework. Illegal trade in charcoal is causing deforestation, while large dams on the Ethiopian sections of the Shabelle and Jubba Rivers have reduced the flow of water downstream in Somalia.

Somalia is among the countries most vulnerable to climate change. Its climate is characterized by rainfall variability, rising temperatures, and flood and drought. With the support of the United Nations Development Programme, the Federal Government has formulated a national adaptation programme of action that addresses risks associated with climate change to increase the country’s resilience. The AfDB also seeks to improve the resilience of pastoral and agro-pastoral communities to climate change through a project (Rural Livelihood Adaptation to Climate Change in the Horn of Africa Phase II) funded by the Global Environmental Facility.

**Political context**

Since his election as President of the Federal Government of Somalia in February 2017, President Mohamed Abdullahi Mohamed (Farmajo) has made a concerted effort to reach out to Federal Member States (FMSs) to consolidate Somalia’s
nascend federal system. This includes trips to various states including Jubaland, Puntland, and most recently Galmudug to meet with regional leaders and show support to the on-going efforts to reconcile differences amongst local communities. Discussions are also on-going to integrate state level security forces into the Somali National Army (SNA).

Although gains have been made in promoting political stability, Somalia’s political stability remains tenuous. This is due to the following main challenges: high levels of insecurity exacerbated by Al-Shabaab insurgents, the large stocks of weapons held by or accessible to the civilian population, and ineffective law enforcement mechanisms; weak capacity of state institutions; high levels of poverty; and high unemployment, especially among young adults. Ciannism, which is at the heart of deep political divisions over federalism and a major contributor to low levels of trust, continues to play a central role in perpetuating political instability. Clans primarily contest the current and future distribution of resources and power.

Important issues to be addressed include finalizing the state formation process, which will involve defining the exact status of Federal Member States, allocation of powers, resource and revenue sharing, type of political system, and the federal justice model. Reaching a settlement on outstanding constitutional issues, including completing the constitutional review process, will also be important. Work needs to continue towards one-person one-vote elections in 2021, which implies adoption of a clear roadmap and electoral laws. Meanwhile, Somailand continues to consider itself an independent State and seeks international recognition of its sovereignty, distinct from Somalia, while Puntland maintains its claim to parts of the Sool and Sanaag regions, a claim Somailand has rejected.

**SOCIAL CONTEXT AND HUMAN DEVELOPMENT**

**Building human resources**

The overall health situation in Somalia remains poor. It has some of the worst health indicators in the world. One of every 12 women dies during pregnancy. The average fertility rate is 6.6 children per woman. Access to maternal health services is low: only 44% and 38% of births in Somailand and Puntland, respectively, are attended by skilled birth attendants. About half of the women in Somalia are anemic, whether pregnant or not. One of every seven Somali children dies before his or her fifth birthday. The leading causes of infant and child mortality include malaria, pneumonia, diarrhoea, and measles. Malnutrition is an underlying factor in over a third of the deaths.

However, some progress has been made in strengthening the health sector. For example, the Federal Government has made available an essential package of health services, which provides the families of more than 80 000 pregnant women and 406 000 children under age five access to high quality health, emergency obstetric, and neonatal care.

The average HIV prevalence rate for adults is estimated at 0.7%. This figure appears relatively low, but various surveys suggest that HIV awareness and prevention mechanisms remain low, thereby increasing the risk of infection. Somalia is estimated to have one of the highest rates of tuberculosis in the world.

Since 2012, the Federal Government, in collaboration with development partners such as UNICEF, Africa Educational Trust, and Global Partnership for Education, has been implementing programmes to revive the public education sector, boosting children’s enrolment in formal primary education and alternative basic education. But the Government has a long way to go in addressing the country’s education needs. Currently, only about 42% of school-aged children are enrolled in primary schools, fewer than 8% of children attend secondary schools, and only 4 of 10 girls go to school. Parents cite low availability of sanitation facilities (especially separate latrines for girls), lack of female teachers (less than 20% of primary school teachers in Somalia are women), safety concerns, and social norms that favour boys’ education over that of girls as the main factors that inhibiting parents from enrolling their daughters in school. The need to expand equitable access to quality education and training, increase public spending on education progressively over the timeframe of the NDP (2017-2019), and develop a National Education Act, cannot be understated.

**Poverty reduction, social protection and labour**

The World Bank estimates that poverty in Somalia is extremely high, and that about half the population (51.6%) live below the poverty line. Poverty is even more pronounced in rural areas and camps for the internally displaced. Poverty is aggravated by the lack of an effectively functioning Government, widespread insecurity, and natural disasters like floods and droughts. The country’s high fertility rate and its fragile environment make it more difficult to reduce poverty. The United Nations Population Fund (UNPF) delivers essential reproductive health supplies and services in partnership with both non-Governmental and Governmental organizations. In 2015, the UNPF’s expenditure on integrated sexual and reproductive health services, which includes family planning and maternal health, amounted to 69.3% of its total expenditure in Somalia.
Somalia’s annual per capita income is USD 435, according to World Bank estimates, making it the fifth poorest country in the world. The Somalia high frequency survey (2016) estimated that the richest 20% of the population consume seven times more than the bottom 20%. Unemployment as a percentage of the economically active population is estimated at 47.4%. In addition, with an estimated youth unemployment rate of 67%, one of the highest in the world, many young people (about 70% of Somalia’s population of 12 million are under the age of 30) do not see Somalia offering them any tangible prospects in the future. High unemployment has created frustration among young people, which increases their vulnerability to militant groups and other criminal activities, and also migration to other African countries, Europe, Asia and the Middle East.

Somalia recently ratified three fundamental ILO conventions, bringing the total number of ratified conventions to 19, of which 17 are in force. The country has still not ratified 69 conventions, including important ones such as the Minimum Age Convention of 1973 and the Occupational Safety and Health Convention of 1979. Though Somalia ratified the Worst Forms of Child Labour Convention of 1999 (Convention No. 182) in 2014, it has made no real progress towards implementing it.

In collaboration with the Federal Government and constituent partners, the ILO is developing a new decent work country programme for Somalia, with the objective of achieving decent work in the country in the context of its national development frameworks. This programme will aim to assist the Federal Government to reduce unemployment.

**Gender equality**

Women’s lives in Somalia are generally governed by patriarchal beliefs and customary laws that restrict their participation in a number of areas. Female genital mutilation is still widely practised, and women are at high risk of domestic and other forms of violence. About one in ten marriages take place before the girl is 15 years old, and about half before she is 18. While the full scope of sexual violence remains unknown, internally displaced women and girls are particularly vulnerable to rape by armed men, including Government soldiers and militia members. To address this, the Federal Government has endorsed an action plan to address the alarming levels of sexual violence. However, implementation has been slow and protection of the most vulnerable communities is lacking.

As stability gradually returns, the fight for equality and protection of women’s rights under the law is making progress. In this regard, the Federal Government, together with the African Union Mission in Somalia (AMISOM) and Somali civil society, is working on a national gender policy. The Ministry of Women and Human Rights formulated a national gender policy in 2016, and a gender based violence working group strategy was developed in 2014 to strengthen preventive measures and improve access to justice for victims of gender-based violence.

**THEMATIC ANALYSIS: INFRASTRUCTURE FINANCING**

**Overview of current infrastructure**

Somalia faces immense reconstruction and development challenges as a result of the past quarter-century of armed civil conflict. At the bottom of the 2016 AfDB Africa infrastructure development index, the country suffers from a limited social and physical infrastructure, underdeveloped industrial production and financial sectors, adverse climatic conditions, and continuing fragility.

The AfDB has been tasked to lead infrastructure planning and development in Somalia, and since 2014 has been involved in carrying out sector needs assessments (including for information and communications technology, water and sanitation, transport, and energy) to analyse the state of infrastructure. An assessment of the transport sector shows that Somalia has suffered from lack of maintenance, leading to the near disappearance of infrastructure, especially roads, a weakening of institutions to the point of irrelevance, and a need to repair, rebuild, and re-create institutional and regulatory frameworks. It is estimated that only 13% of roads are paved and these are mostly in poor to very poor condition. And animal transport continues to be the most important or only form of transport for many people.

The energy sector is key to improving security and stability, quality of life, and productivity. Energy production and supply is the main obstacle to the creation of enterprises, expansion of output, and quality improvement mentioned by investors and business people. While most cities have some level of public supply of electricity, but it is low quantity, low quality, and unreliable – hardly usable for productive purposes. In fact, many economic activities that require reliable electric power supply, such as telecommunications, have their own power generation, sometimes coupled with supply to neighbouring households. Locally available charcoal and firewood are the main sources of energy, and the resulting near-term destruction of the vegetation cover is the most important energy and environmental problem facing the country. Large-scale imports of energy are impossible, partly because of low effective demand due to the fall in incomes after the collapse of the state.

Eighty to ninety percent of Somalia’s population relies on wood and charcoal for cooking. About four million tons of charcoal
are consumed each year, which is quickly exhausting Somalia’s few remaining forests. The continuing illegal export of charcoal further contributes to the assault on the precarious, fragile, and slow-growing vegetation, while also financing terrorism. The prevalence of charcoal and wood for cooking also creates serious health hazards at the household level, where women and girls are responsible for both procuring fuels and cooking and suffer from respiratory diseases as a result.

Somalia is endowed with significant water resources, particularly within the Shabelle and Juba river basins that have development potential. The supply of clean water is an absolute necessity in Somalia. In recent years access to water has increased in urban areas but fallen in rural areas. There has been almost no improvement in sanitation in urban areas, while modern sanitation facilities remain largely non-existent in rural areas, with almost universal open defecation. Cities have no sewers, so faeces are disposed of in unhealthy and unsustainable ways. Recent UNICEF studies show that health outcomes are not improving due to inadequate investments in infrastructure.

Currently, only 23% of the population has access to modern sanitation. Water and sanitation are generally provided by the private sector with the public sector providing complementary services and little oversight. With limited public financial resources, donors and the private sector are the main providers of financing in both rural and urban communities. UNICEF, with either its own or donor funds, is a major purveyor of water supply services and capacity building and technical assistance to water supply authorities.

The information and communication technology industry in Somalia has flourished under a self-regulated private sector regime and makes an important contribution to the economy. Somalia is reported by the Global System for Mobile Communications Association to have 11 operators and 4 million mobile connections. Telephone and Internet services are available across most of Somalia, which has among the lowest international call rates in Africa. Still, the growth in information and communications has been geared mainly toward voice/SMS services. Internet services remain prohibitively expensive primarily because they rely mostly on satellite internet connectivity. Electronic money transfer and banking services are flourishing in the context of an underdeveloped formal banking system. It is estimated that money transfer services handle almost USD 1.5 billion in annual remittances to Somalia, among many other large transactions.

**Finance landscape**

The Somali Compact established a new architecture to intermediate economic reconstruction and development assistance to Somalia. The new financial architecture includes a Somali development and reconstruction facility (SDRF), which will house three separate multi-partner trust funds administered by the World Bank, the United Nations, and the AfDB. As part of the Compact, the Federal Government specifically requested the AfDB to establish and manage a fund to support the rehabilitation and development of infrastructure. Given its comparative advantage and experience across the continent in infrastructure development, the AfDB agreed to take the lead on Somalia’s infrastructure agenda. The AfDB multi-partner Somali infrastructure fund (SIF) is part of a comprehensive, coherent, and coordinated multi-partner initiative to assist Somalia in consolidating peace and moving along a path of long-term development.

The SIF’s overarching goal is to contribute to the efforts of Somalia and its partners to consolidate peace, establish the basic institutions of a functioning state, and accelerate inclusive and sustainable economic recovery and development. The Fund will achieve this through the efficient and effective intermediation and coordination of development assistance, targeted towards infrastructure rehabilitation and development, and leading to improvements in the provision of infrastructure services in the sectors where it engages. The bulk of activities financed by the SIF will be hard infrastructure investment projects, particularly in the energy, transport, water and sanitation, and information and communications technology sectors. Through infrastructure needs assessments in these sectors and a consolidated SIF project pipeline, the AfDB has identified infrastructure projects for funding through the SIF. The SIF will also support institutional development related to infrastructure reconstruction and development. This will include strengthening the capacity of public organizations, including federal and state ministries, public enterprises such as utilities, and the laws, rules, regulations, and financial arrangements that govern the provision of infrastructure services.

**Innovative solutions and policy recommendations**

The SIF project pipeline has proposed 55 operations, totalling USD 454 million over six years. USD 358 million will be spent in Phase I (from 2017 to 2021) and USD 96 million in Phase II (2022 and beyond). Projects to be included in the SIF project pipeline, the AfDB has identified infrastructure projects for funding through the SIF. The SIF will also support institutional development related to infrastructure reconstruction and development. This will include strengthening the capacity of public organizations, including federal and state ministries, public enterprises such as utilities, and the laws, rules, regulations, and financial arrangements that govern the provision of infrastructure services.
Currently, the AfDB has approved three operations under the SIF framework: one in the water and sanitation sector, and two for institutional building in the areas of public works and economic governance. Two additional operations, to rehabilitate the Mogadishu–Afgoye road and to upgrade the Kismayu and Baidoa urban water supply infrastructure, are under preparation for consideration by AfDB’s Board in the third quarter of 2018. Due to Qatar’s 2017 political crisis with the Gulf countries, a donor conference that was expected to be a platform for mobilizing substantial resources to fund infrastructure projects under the SIF did not take place. In addition, the 2017 drought and humanitarian crisis drew donor funds that might otherwise have gone to infrastructure projects. This included a portion of AfDB resources that had been earmarked for infrastructure but were reallocated to the Short-term Regional Emergency Response Project in Somalia and South Sudan.

Finally, an Islamic Development Bank pledge to the SIF of USD 10 million has yet to materialize. As a result, SIF contributions are now limited to those received from the United Kingdom (GBP 1.5 million) and Italy (EUR 2.5 million). The AfDB is discussing pledges in 2018 from the EU (up to EUR 40 million) and Italy (another EUR 4 million). Looking ahead, the Ministry of Finance has promised to explore the possibility that Turkey might host the infrastructure donor conference in the first half of this year to mobilize funds for the pipeline of SIF projects.