

# Somalia National Development Plan

2017-2019

Accelerating economic  
recovery and resilience

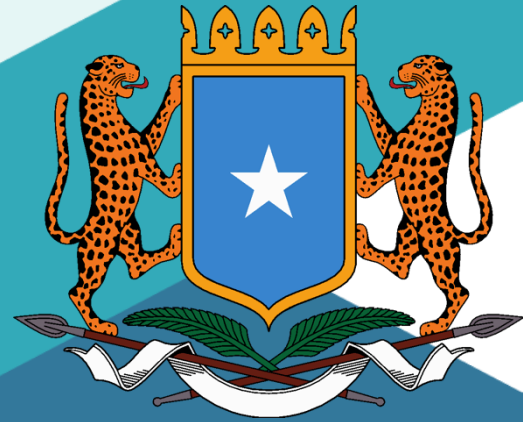
*London Conference on Somalia  
May 10 & 11, 2017*

# Objectives of this presentation

1. Focus on underlying constraints on economic recovery and resilience
2. Integrates several strands:
  - Somalia National Development Plan, 2017-2019
  - Somalia Public / Private Dialogue
  - The PFM Action Plan & Roadmap to IFI Arrears Clearance & Debt Relief
3. Proposes national “priorities of the priorities for Somalia” for early implementation
4. Proposes mobilization of public / private and domestic / international resources behind priorities

# Outline of the Presentation

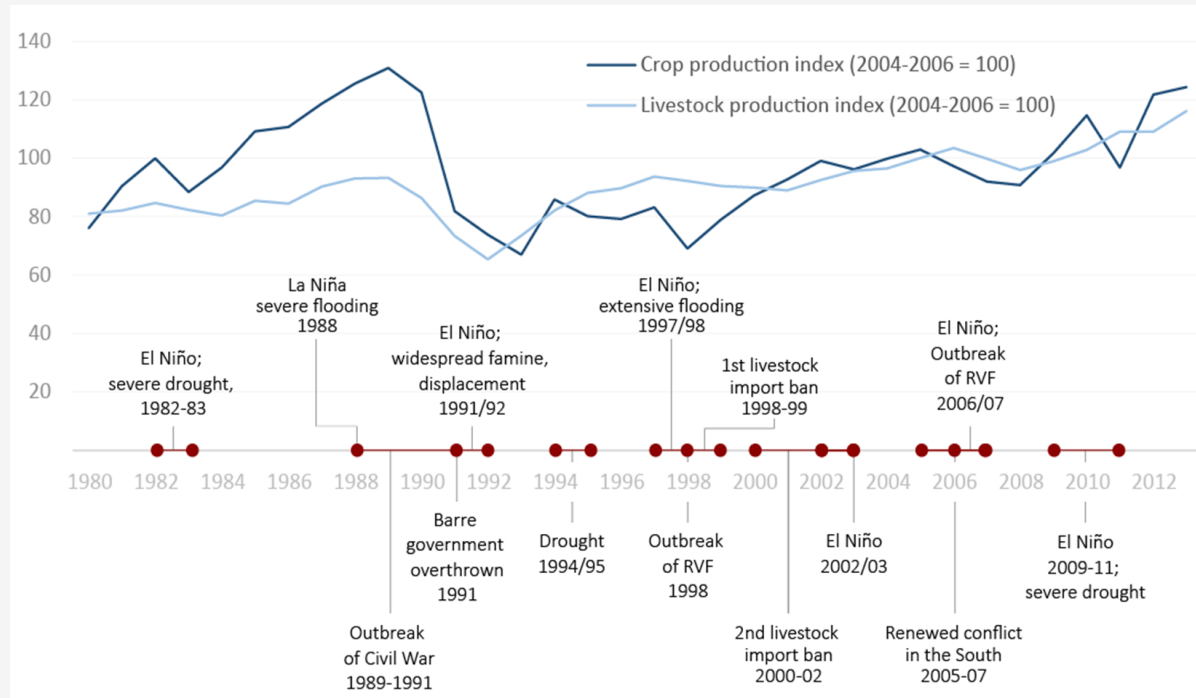
1. Analytical Framework:  
*...key constraints in the economy and potential entry points*
2. Accelerating economic recovery and resilience  
*...top thematic / programmatic areas from the National Development Plan*
3. Creating the enabling Environment  
*...Public / Private Dialogue and financial governance*
4. Financing +  
*...mobilizing and aligning resources for development*



# Analytical Framework

# More than 60% of GDP derived from natural resources...but Somalia is increasingly vulnerable to environmental degradation and shocks

El Niño-derived droughts, subsequent floods, import bans, and animal disease challenge the growth of the natural resources sectors; **the current drought has displaced over 500,000 people and risks undermining long-run livelihoods**



Increasing frequency of climate shocks: the Horn of Africa is highly exposed to recurrent cycles of drought, flood and animal health

The current drought has displaced over 500,000 people and will have medium to long-run implications on the economy & livelihoods

Decades long deficit in resilience investments, particularly water and irrigation systems

Weak land management (pasture, forestry, watershed) is driving environmental degradation

Livestock health and management systems remain rudimentary and place the sector at risk

# Decades of no investment or maintenance has led to deep deficits across all infrastructure categories

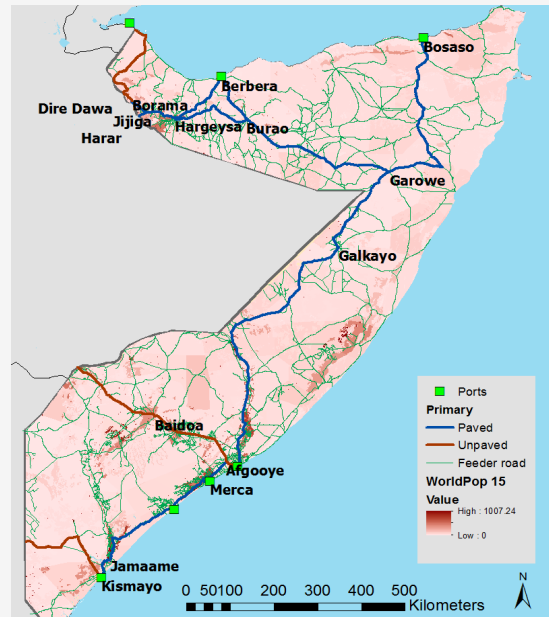
## Energy

**Energy access among the lowest in the world.** Privately owned mini-grids supply majority of power in the country to an estimated 10-15% of population. Mini-grid customers pay as much as \$1/kWh for unreliable and primarily diesel-based electricity.



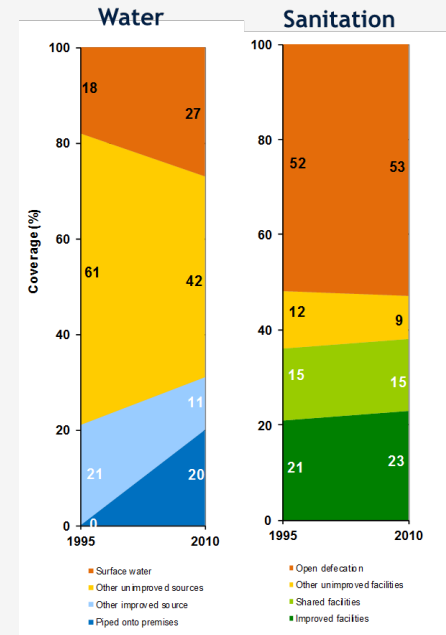
## Transportation

**Transport infrastructure in severe need of investment.** Official road network of 6,827 km, mostly unpaved. Transport sector needs estimated at \$1.9 billion. Ports critical in facilitating exports and supplying consumption, but need improvement and expansion.



## Urban/Municipal

**Over 50% of Somalis live in urban areas.** Urban areas provide a shock absorber for populations in times of drought and conflict; export nodes. Municipal infrastructure lacking. Water and sanitation is a particular challenge with lowest access rates in the world.



# And yet....Somalia's economy is dynamic: urbanized, high consumption financed by remittances with a vibrant private sector

### Livestock:

- Somalia is the largest exporter of live animals, contributing 40% of GDP
- largest employer in rural/dryland areas, and
- largest export (80% of total export earnings)

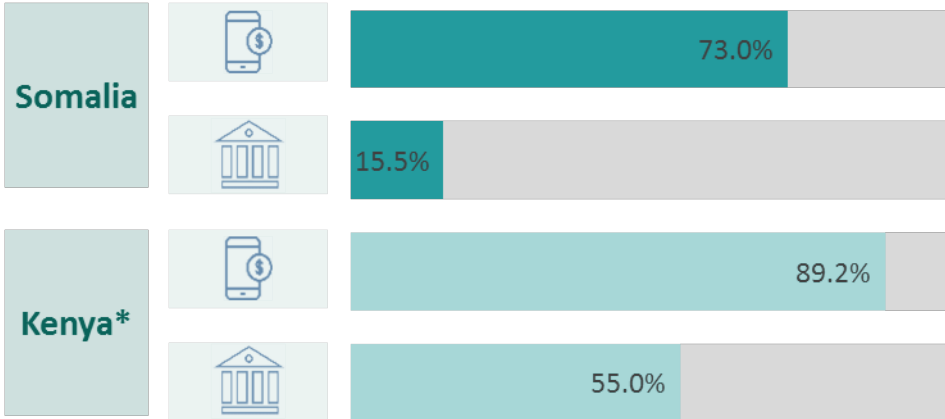
### Remittances:

- \$1.5 billion in 2016, or c. 25% of GDP = highest in the world
- Represents 80% of start-up capital for businesses
- Over half of Somali women receive remittances

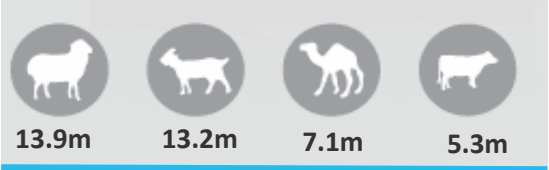
### Telecommunications:

- Somalia has some of the larger mobile money penetration rates on the continent
- 50% salaries and 80% utility bills settled via mobile money

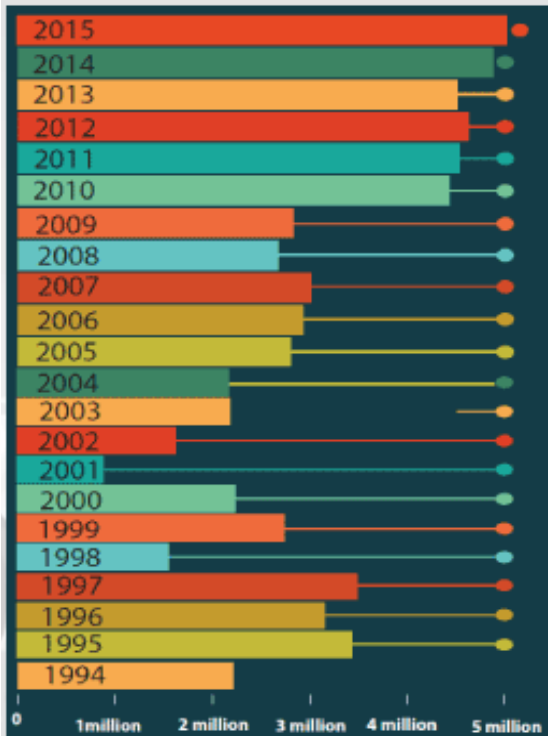
Mobile money vs. traditional banking access rates



Livestock population (# of heads), 2015



Heads of livestock exported, 1994-2015



# Private sector is vibrant....but faces a number of obstacles to further growth

## Lack of Security and the rule of law raise business costs and inhibit commerce/ access to markets

### Poor access to finance

- Credit information and collateral laws lacking
- AML/CFT compliance concerns due to lack of unique ID system

### Low skills & labor market systems

- Skills training and employment services are not available, affordable, or demand driven
- There is weak labor market information and monitoring mechanisms

### Limited access to nontraditional overseas markets

- Somalia will need to engage in global and regional trade arrangements including EAC
- Lack of certification & poor standards constrain Somali SMEs from connecting to overseas markets
- Somali businesses face comparatively higher barriers to market access and are uncompetitive in pricing

### Lack of regulation

- Lack of regulation or poor enforcement particularly in sectors like health and education hamper investments

## Doing Business in Somalia 2017

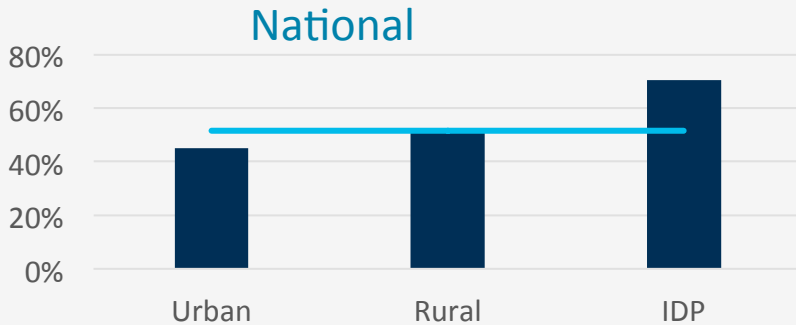
- Somalia has entered the global Doing Business Survey for the first time
- The results are bleak – but set out clearly the areas for needed reform

Topics	DB 2017 Rank	DB 2016 Rank
Overall	190	190
Starting a Business	184	183
Dealing with Construction Permits	187	186
Getting Electricity	188	188
Registering Property	148	149
Getting Credit	185	185
Protecting Minority Investors	190	190
Paying Taxes	190	190
Trading across Borders	156	156
Enforcing Contracts	109	107
Resolving Insolvency	169	169



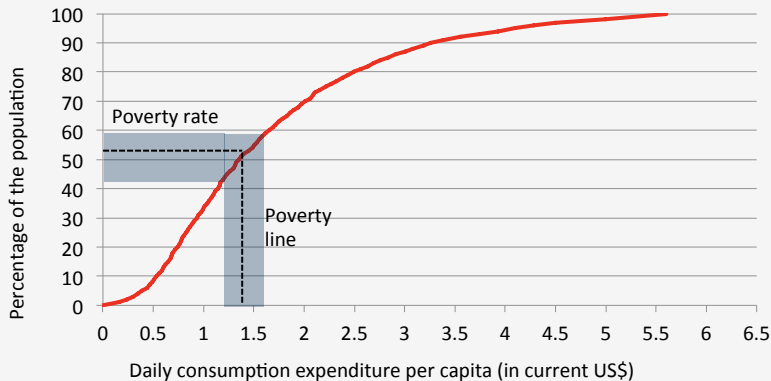
# Outcomes: Somalis are young, poor and vulnerable

1. Every second Somali lives in poverty; most of them in IDP settlements.

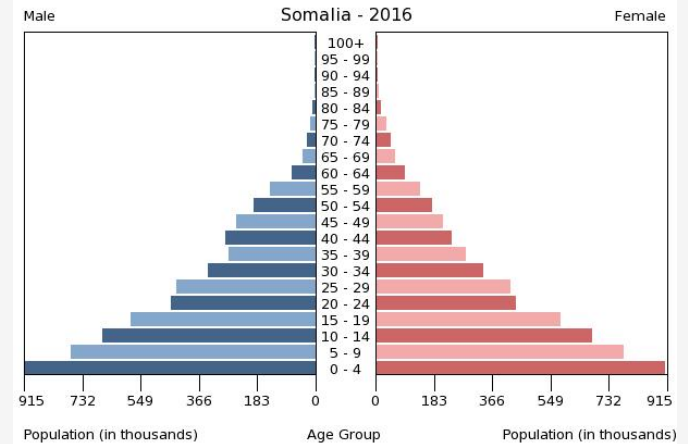


2. Many more are vulnerable to fall into poverty due to shocks

Poverty after a 10% consumption shock

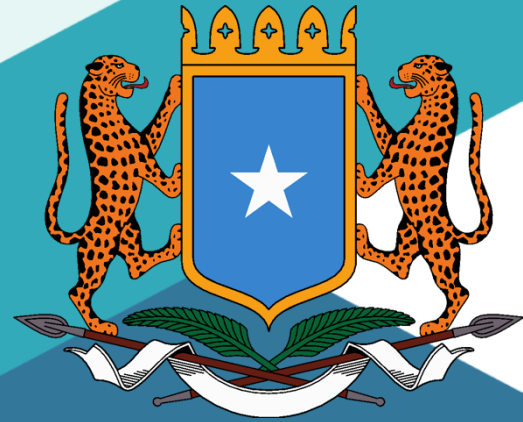


3. A very young population with 91 % under age 40, 75 % under 30 and 58 % under 20



4. Youth unemployment: **67%**

- One of the highest rates in the world
  - Female unemployment: **74%**
  - Male unemployment: **61%**



# Priorities for accelerating economic recovery & resilience

# The National Development Plan (NDP) lays out over-arching priorities for Somalia's recovery and development for 2017-19

## Somalia NDP The Economic Objectives:

- Reduce abject poverty – **target: reduction in poverty incidence by 2% annually**
- Stimulate a vibrant economic sector, with particular focus on agriculture, livestock and fishing – **target: stable growth of 3 -5 % annually**
- Increase employment opportunities and decent work particularly for the youth – **target: at least 500,000 stable jobs**
- More resilient communities that can withstand internal and external shocks – **target: an improved capacity to respond to the next drought**



## Within the NDP economic pillar – three top priorities stand out:

Basic infrastructure: renewable energy, water & connectivity

Increasing productivity in agribusiness

Access to skills and finance

### Principles

- National coverage where possible
- Subsidiarity: delivery at local level
- Local content & procurement
- Balanced participation of public and private sectors

- **Resilience**
- **Youth employment**
- **Growth and Investment**

# Priority program area 1: Enabling infrastructure Basic water access

## Renewable energy

**Context:** Somalia has major potential for renewables (solar and wind). Despite that, 9m Somalis have no electricity – a major constraint on SME development. Average cost: \$0.50-2.00/kwh

**Objective:** Leverage private sector activity to lower the cost and increase access

### Investment priorities

- 5 hybrid mini-grid pilots in urban areas (PPP)
- Increased access to off-grid solar solutions
- Evolved financial products

### Enabling policies

- Regulation to enable off-grid and mini grid development
- Regulation to enable shared distribution
- Energy Bill/ Masterplan

## Basic Water Access

**Context:** Investment in water systems infrastructure is required for agriculture, livestock and resilience. The drought highlights the importance of rural storage, as well as for sustainable water systems in small towns.

**Objective:** Productivity and resilience by rehabilitation of key water systems.

### Investment priorities

- Community based water storage and maintenance
- Construction of 100 sand-dams for *wadis*
- Small towns investment

### Enabling policies

- Environment policy incl both surface and ground-water
- Policy discourse on rural land tenure

## Connectivity

**Context:** Long-term connectivity needs are enormous. Short-medium term focus on feeder roads, urban areas and ports. PPPs possible in ports and ICT. Labor-based works will provide short-term boost in livelihoods.

**Objective:** Improve market access for traders and consumers.

### Investment priorities

- Municipal infrastructure in 5 key cities
- Initiate 1 growth corridor
- feeder roads program
- port rehabilitation (PPP)

### Enabling policies

- Vocational Training for construction industry
- Building Government capacity to implement PPPs

# Priority program area 2: Employment generation through agribusiness

## Livestock

**Context:** Livestock = backbone: 40% of GDP and 80% of exports. Exports on the rise, c.5m heads in 2015. Opportunities for private investment in value chain: feed, by-products, breeding.

**Objective:** Develop opportunities for value addition and exports.

### Investment priorities

- Animal health service infrastructure
- Milk collection, pasteurizing and packaging centers
- Strategic fodder reserves

### Enabling policies

- Meat & Dairy Act
- Epidemiology and Data Management Unit (EDMU)
- Regulatory frameworks and certification

## Fisheries

**Context:** Strategic opportunity for export and domestic market. 3<sup>rd</sup> largest export sector; employs c.90k on full and part time basis

**Objective:** Maximize full potential of small-scale fisheries. Minimize post-harvest losses. Increase public revenue from licensing off-shore fleets.

### Investment priorities

- Cold storage and other post-harvest facilities
- Facilitated tuna licensing round in 2017

### Enabling policies

- Unified licensing framework (Fed & State)
- Reduction of illegal fishing

## Agriculture

**Context:** Somalia is a food deficit country: only 22% of per capita cereal needs met by domestic market. Agriculture has potential for increased employment and growth.

**Objective:** Increase agricultural production; expand value chain and export-oriented crops.

### Investment priorities

- Rehabilitation of irrigation schemes: local and large-scale (Shebelle River)
- Cold storage

### Enabling policies

- R&D on improved seeds
- Policy discourse on rural land tenure
- Certification to promote agricultural exports

# Priority program area 3: Increasing skills and finance

## Skilling and Training

**Context:** Skills gap means that companies are importing labor, or without the right skills, despite the availability of a large pool of unemployed youth.

**Objective:** Reduce business skills gap and increase employability of Somalis through demand driven vocational training

### Investment priorities

- Establish skills development center that matches skills training to business needs

### Enabling policies

- Demand driven vocational training & certification in priority sectors/ skills eg. construction, ICT, accounting & finance

## Innovative finance

**Context:** Integration of ICT and financial services evolving fast – increased access to financial services. 6 commercial banks now licensed/13 MTBs

**Objective:** Increased security of financial services; deepening of financial markets.

### Investment priorities

- Unique and secure ID for all Somalis
- Payment systems reforms
- TA to mobile money service providers
- Establishment of Remittances Fund to leverage flow


### Enabling policies

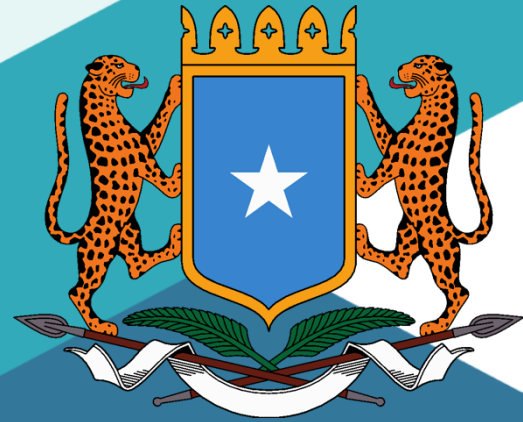
- Regulatory framework for MM
- Continued strengthening of Central Bank of Somalia

***These are critical “enablers” for all other private sector activity in Somalia.***

***In addition, Somalia continues to make improvements to public and private sector enabling environment:***

See next section



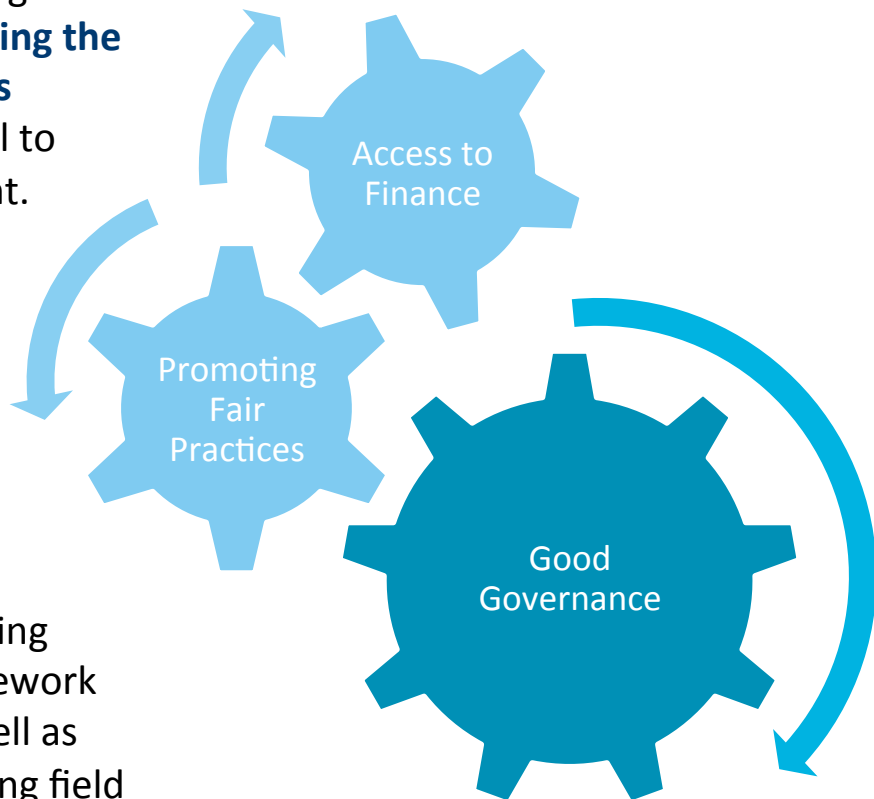


# Enabling Environment



# Addressing these constraints requires creating an enabling environment characterized by stability, security, good governance and access to finance

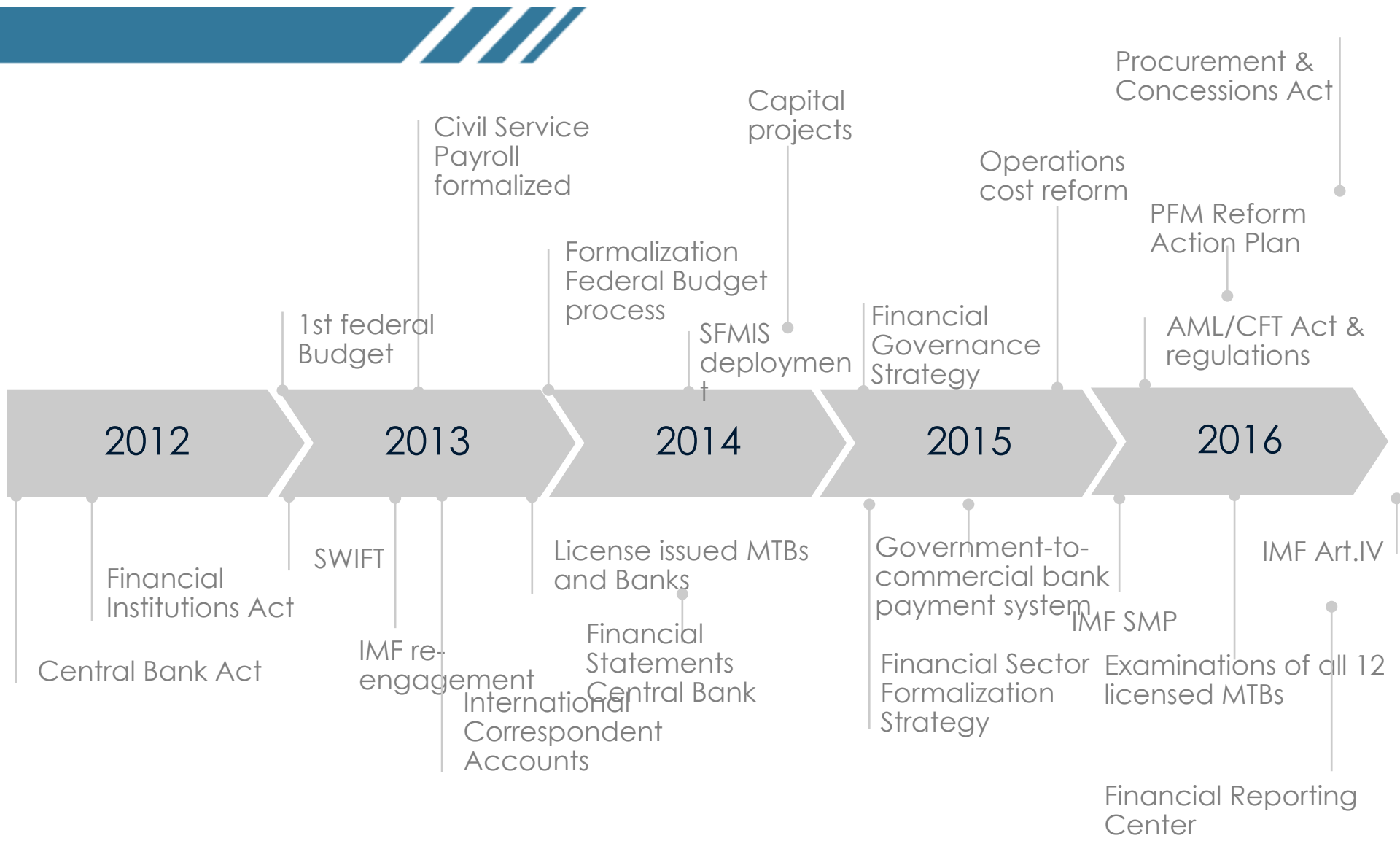
**Formalizing the financial sector** through licensing and supervision and **restoring the credibility of Somalia's currency** will be crucial to economic development.



Addressing issues of **transparency and corruption**, establishing necessary legal framework and regulations as well as ensuring a level playing field

Government must effectively play its role in establishing **effective fiscal policies** and strengthening **public financial management**, including credible budget, robust payment systems and expanding budget beyond the wage bill to address public goods and service.

# Federal Government and Federal Member States have made considerable progress on financial and economic governance



# Much progress has been made in laying down foundation of financial governance and Federal Government remains committed to continue fiscal reforms

## Much has been done in recent years to improve fiscal management and strengthen institutions...

- Credible 2017 budget passed underpinned by more realistic revenue measures
- Strengthened treasury systems through electronic payments and scaled up Somali Financial Management System (SFMIS)
- Established Interim Procurement Board reviewing large contracts along with the FGC
- Launched Public Financial Management Action Plan, laying out our top priorities
- Embarked on IMF Staff Monitored Program (SMP)
- Improved revenue administrative capabilities
- Progressed legislative framework with passing of foreign investment, AML/CFT and procurement bill
- Addressed issues of transparency and corruption, passing bill for establishing the Anti-Corruption Commission, and implementing the Open Government Initiative.
- Initiated harmonization of taxes and defined basic principles towards a national fiscal framework.

## We need to build on this progress and intensify our efforts to strengthen financial systems...

- Pass the Public Financial Management Act
- Improve budget execution through cash management and expenditure controls including commitment control
- Strengthen arrears management and limit the accrual of domestic arrears
- Better financial reporting compliant with international standards
- Improving fiscal revenues by enforcing current laws and expanding the revenue base
- Revisit tax legislation and invest in robust systems in the mid to long-term.
- Implement governance reforms for more efficient organization structure, introduce audit and review functions and establish a large and medium-sized tax-payer office.
- Develop national fiscal framework that would allow for some consolidation and resource sharing addressing the inequality of access to resources

# Access to financing is a key enabler for economic growth. Prudential policies for the formalization and growth of financial sector in Somalia are underway.

## There are emerging systemic challenges facing the financial sector in Somalia...

- The financial sector in Somalia is largely domestic commercial bank and money transfer businesses based, and the country is among the least monetized economies in the world.
- Most of the banking sector is characterized with a relatively low capital, liquidity risks, and large structural risks.
- Current withdrawal of correspondent banking relationship in the financial service providers has impacted the Somali financial sector.
- Sudden stop of remittances in Somalia could pose a significant threat to the stability of the country.
- There is a prevalence of counterfeit Somali Shilling in the country
- As the Somali economy is heavily dollarized, with multiple fake currencies circulating in the market, there is a need for immediate currency reform to stabilize the exchange rate and encourage measured economic growth.

## Formalizing the sector and restoring the credibility of the Somali currency are top priorities...

- The Central Bank of Somalia is strengthening the compliance with AML/CFT regulations to protect the flow of funds for millions of Somalis that depend remittances as source of income.
- Work is underway to develop and implement key regulations for banking and money transfer businesses as well as build supervisory capability at the CBS.
- There is a pressing need to establish correspondent banking relationships (CBRs), which would enable the provision of domestic and cross-border payments.
- CBS, with advice and assistance from the IMF, is establishing a roadmap for a comprehensive national currency reform taking into account the underlying situation, security issues, and socio-political factors.
- CBS is preparing a cautious national currency reform framework with wider domestic and international consultation

# A Public Private Cooperation Agreement to Jointly Accelerate Somalia's Economic Recovery

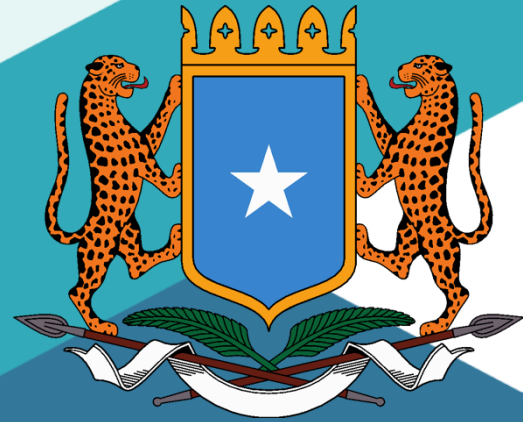


The Cooperation Agreement will be included here from the PPD



## SCCI

Somali Chamber of Commerce and Industry  
Rugta Ganacsiga Iyo Warshadaha Soomaaliyeed

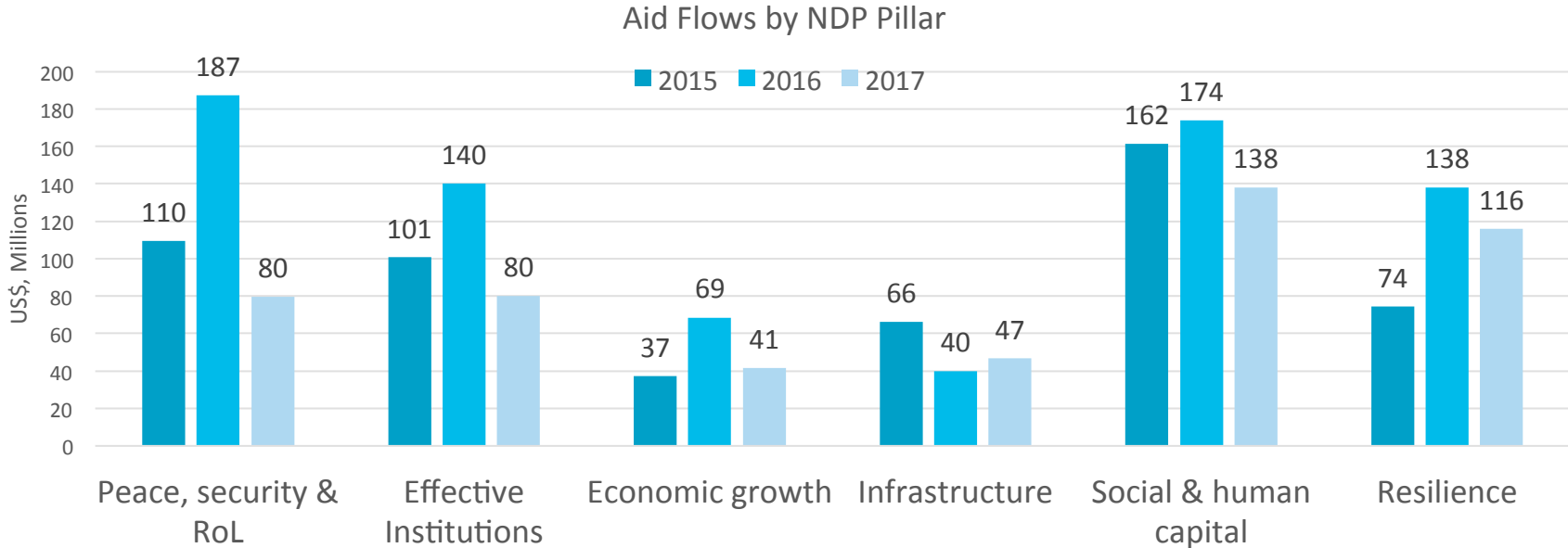


Financing +

# Aid flows to Somalia are currently prioritized towards short term imperatives

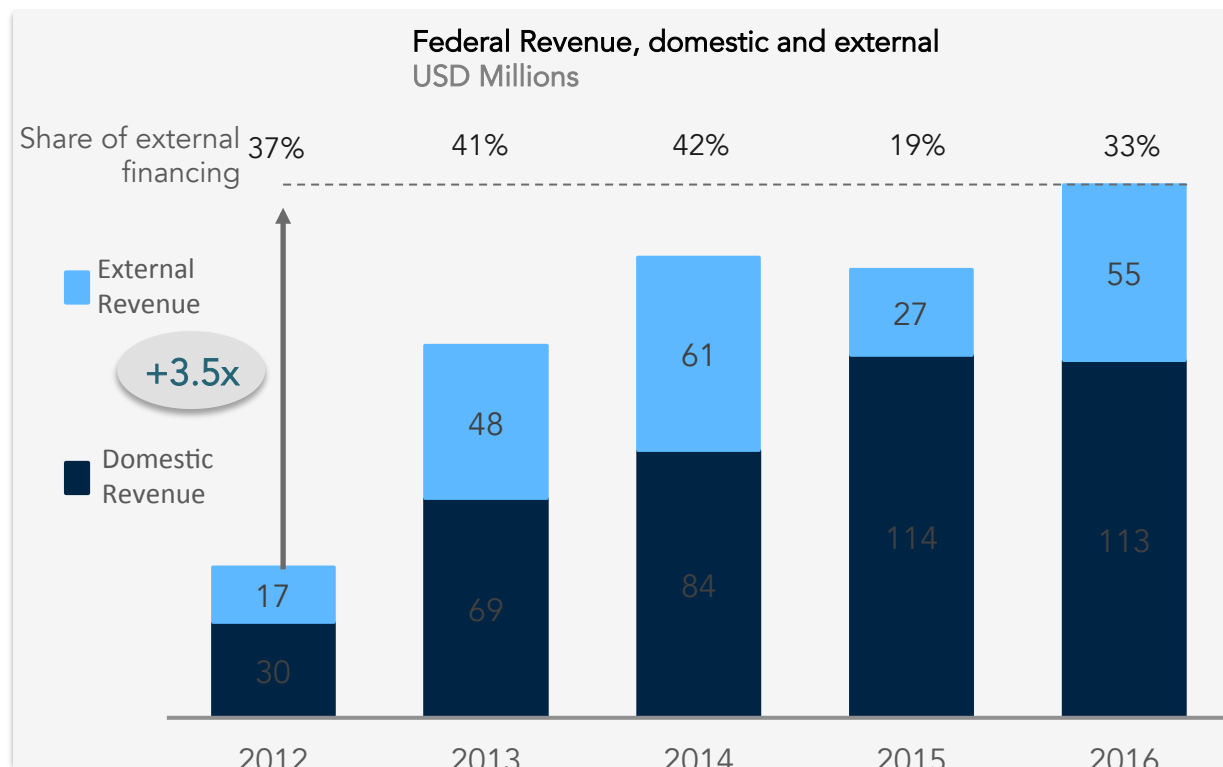
## New Partnership Agreement calls for alignment of donor funds to NDP priorities

- Economic growth and infrastructure are currently the least funded pillars of the NDP
- New sources of funds and alignment of donor funds to the top economic priorities listed is required
- Delivery can be channeled through the Multi-Donor Trust Funds, though combination of government implementation
- Increased use of innovative funds to leverage private financing is an option



# Domestic revenue is insufficient to finance investment needs – and is a top priority of government

- Domestic revenue mobilization remains very low by international standards—just 1.9 percent of GDP in 2015
- ...but has increased 51 percent between 2013 and 2015, from \$76 million to \$114 million
- **Revenue generation is critical for the government to achieve sustainability**
- Building the capacity to raise revenue through taxes reduces dependence on aid
- The government is developing a revenue mobilization strategy with the support of our partners
- **The tax system needs to be overhauled**
- Current tax system is almost obsolete and needs to be redesigned
- Government to concentrate on providing an enabling environment within which the private sector can prosper





# Restoring normal relations with international financial institutions can open up significant benefits in the medium term

## Detrimental Impact of Somalia's Debt and Arrears Burden

- Somalia's current US\$ 5.0 billion external debt and arrears constrains its state-building, economic recovery and resilience efforts for the following reasons:
  - Somalia is starved of new financing required to support the reconstruction and development of the country
  - Keeps away foreign investors and lenders
  - More generally, high debt and arrears weaken government's economic policy credibility
- Clearing Somalia's arrears and securing comprehensive debt relief, through the HIPC Initiative, will be critical in regaining access to concessional financing from both multilateral and bilateral development agencies

## Way forward

- The High Level Roundtable on Somalia (WB/IMF 2017 Spring Meetings) endorsed a milestones-based roadmap towards normalization

# Summary Highlights from the Roadmap



The milestones-based roadmap includes priority reforms including over the next 12-18 months:

## **PFM:**

- Deliver on priorities in the PFM Action Plan, including passage of PFM Bill
- Cash management & expenditure controls
- Accounting & financial reporting best practice
- Fiscal federalism

## **Tax and customs administration:**

- Separate upstream HQ and downstream functions
- Create audit & review
- Eliminate cash payments
- Reduce customs leakages through front-end declarations and physical examinations

## **Strengthening financial intermediation and inclusion:**

- Improved financial reporting by leveraging re-licensing processes
- Reserve management and monetary policy instruments

## **Reliable macro-economic data:**

- Balance of payments
- National accounts
- Inflation
- Reconstruction of external debt database

*For full information on milestones, refer to the “High Level Somalia Roundtable” Note issued following the IMF/WB Spring Meetings*

**In addition to the successful completion of the ongoing reforms, the following steps are necessary:**

- establishing a satisfactory track record of cooperation with the IMF on policies and payments
- reconciling external debt and confirming that debt sustainability indicators are above the relevant HIPC initiative thresholds
- normalizing relations with creditors, including through outreach to creditors to mobilize agreements and resources to finance debt relief
- PRSP