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# **SOMALIA**

- Somalia's largely informal economy is characterised by major information and data gaps, making estimates of economic aggregates highly uncertain.
- Significant progress has been made in peace- and state-building and in the economic recovery programme, helped by substantial support from donors.
- Despite the long conflict, Somalia has a vibrant and dynamic private sector in its more stable regions.

### **Overview**

The country's GDP was estimated at USD 5.8 billion in 2010 (the last year for which official figures are available), with a per capita GDP of USD 600. According to estimates for 2013, real GDP increased by 5% to 6% and consumer prices by 2% to 3%. Agriculture is the mainstay of the economy and of livelihoods, accounting for about 60% of GDP and employing 65% of the workforce. Livestock accounts for about 40% of GDP and more than 50% of export earnings. Exports also include fish, charcoal, bananas, hides and skins, and scrap metal. Sugar, sorghum and maize are produced for the domestic market. The country is highly dependent on imports of food, fuel, construction materials and manufactured goods. Despite the long conflict, the more stable regions of Somalia boast a vibrant and dynamic private sector, including the financial sector, water, electricity and other vital services. Somalia continues to rely heavily on inflows of aid and remittances. Humanitarian and development aid in 2012 amounted to USD 750 million, or around USD 76 per capita. Annual remittances, estimated at USD 1-1.5 billion, are the largest contributor to national capital inflows and wealth. External funding and expertise also help to provide muchneeded infrastructure. The main own sources of revenue for the Federal Government of Somalia (FGS) are the Mogadishu port and airport.

Total external sovereign debt to public creditors is estimated at USD 5.7 billion (around 80% of GDP), of which USD 1.5 billion is owed to multilateral creditors (79% in arrears), USD 2.5 billion to Paris Club creditors (most of which is in arrears) and USD 1.6 billion to non-Paris Club bilateral creditors.

On 16 September 2013, the FGS and the international community endorsed the Somalia New Deal Compact. The Compact lays out the critical priorities under the five peace- and state-building goals that have been endorsed as part of the New Deal principles for engagement in fragile states, which includes a special arrangement for Somaliland. Development financial assistance to the country will be mobilised and channelled through a proposed new financial architecture called the Somali Development and Reconstruction Facility. In order to rebuild the Somali economy and improve service delivery, the FGS has developed a two-year Economic Recovery Plan for 2014-15 that was presented alongside the Compact.

#### External sector

Somalia's main trading partners are the United Arab Emirates, Yemen and Oman. Somalia is in principle a member of the Common Market for Eastern and Southern Africa (COMESA) but was unable to join its activities in recent years. However, as Somalia has undergone reconstitution as a Somali state recognised by the African Union, it is expected that the country will be able to rejoin the COMESA regional integration arrangement in the near future. The country has submitted an application to become a member of the East African Community, which is still under discussion.

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Somalia does, however, have independent free trade agreements with several nations, including China and Kenya. In 2010 (the last year for which information is available), Somalia recorded a trade deficit of USD 740 million (around 13% of GDP).

## Donor relations and co-ordination

The international community is continuing its re-engagement programme with Somalia through broad recognition of and support for the FGS. The Somali Compact was strongly endorsed in Brussels by the international community, with pledges amounting to EUR 1.8 billion. A new United Nations Assistance Mission in Somalia (UNSOM) was established in June 2013. Countries such as the United Kingdom and Turkey have already established embassies, and others have promised to do so and have appointed ambassadors. The existing aid co-ordination framework will remain in place until implementation of a new co-ordination and financing architecture begins under the New Deal Compact. The main active donors in Somalia have been co-ordinating under the Somalia Development Partners Forum. A Somalia Technical Working Group on External Debt has recently been established, comprising both bilateral and multilateral creditors, and co-chaired by the FGS, the International Monetary Fund and the World Bank, as the latter two have clear mandates in this area.

Somalia has, at the time of writing, qualified for funds primarily from the African Development Bank (AfDB) Fragile States Facility Pillar III (UA 2.5 million [AfDB Units of Account]). These funds were used for the public financial management project Rebuilding Financial Management Systems in Somalia (UA 1.3 million); statistical capacity building in Somalia as a whole, including the Puntland and Somaliland regions (UA 1.0 million); and the placement of two external debt experts in the Ministry of Finance and Planning to set up and capacitate the Debt Management Unit (UA 0.2 million). The AfDB is also considering further support for building statistical capacity at the federal level. The current top priority areas for capacity building are rehabilitation of physical facilities, development of a national statistical system strategy, and training and human capacity building.

The AfDB is also undertaking a number of infrastructure needs assessments in the energy, transport, information and communication technology, agriculture, and water and sanitation sub-sectors. The ultimate goal will be to develop an infrastructure action plan for Somalia, which will feed into the country's full Poverty Reduction Strategy Paper. The AfDB has also been working on a position paper on human and institutional capacity building, which may feed into the planned development of a broad capacity-building framework that is being driven by the Prime Minister's Office and supported by the United Nations Development Programme. The AfDB will be launching the Economic and Financial Governance Institutional Support Project, which will deliver key aspects of the government's Reform Action Plan on public financial management.

The AfDB's Economic and Financial Governance Institutional Support Project for Somalia will focus on critical aspects of the overall reform efforts, including the central bank. It will support the progress made by the FGS in public financial management and macro-fiscal reforms in areas such as budget preparation, audit reports, increased transparency and the establishment of an External Assistance Fiduciary Section.

## Political developments

The New Deal for Somalia Conference, held in Brussels in September 2013, stressed the importance of inclusive politics and mutual agreement in building strong and effective federalism. In this context, it welcomed the establishment of the Jubba Interim Administration and expressed support for Vision 2016, which aims at the adoption of the Federal Constitution by end-2015 and the holding of elections by 2016.

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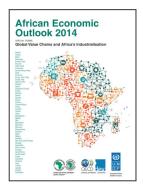


In December 2013, at the president's request, the parliament decided to dismiss the prime minister. The president appointed another prime minister, and a new government was formed and approved by parliament on 21 January 2014.

Since its establishment, the FGS has made progress in implementing the federal structure and consolidating national unity. Discussions are in progress between Somaliland and the FGS, under the auspices of the Turkish government.

Gains continue to be made on the security front, including piracy. In the course of 2013, cracks started to appear in the leadership of the jihadist group Al Shabaab. As a result of this disunity, and of the efforts of the African Union Mission in Somalia (AMISOM) and Somali security forces, Al Shabaab continues to be pushed back.

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