

# Somalia: At the Crossroads of Peril and Opportunity



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*Despite very challenging conditions, Somalia has managed to achieve considerable progress since it resumed relations with the Fund in April 2013. Sustained growth and development will require continuous international support and capacity building, but the success of Somalia will ultimately rest on the strength of its people – and this they have in abundance. Read MCD’s Carolina Castellanos blog.*

One January afternoon in 2014, I got on the phone with one of our Somali government counterparts. We were talking about the newly established Somali cabinet, which had grown from 10 ministries to 25. Suddenly, loud blasts rang out in the background of our call. Alert but not noticeably frightened, the gentleman explained the noise was gunfire outside his building. As we rushed to say goodbye, he joked about the new bullet holes the offices would add to the collection. To me, this brief conversation epitomized Somalia at its core: a volatile political and security situation, a newly engaged international community, and an incredibly resilient people.

For professionals in an international organization, Somalia offers the rare opportunity to help build a state virtually from the ground up. Somalia is reshaping its core government institutions even as it struggles to gain control over its territory, all amid some of the worst social, economic, and security conditions in the world. The Federal Government of Somalia (FGS) has effective control over just a few areas of the country and the capital city. The rest of the country remains under the administration of sub national governments or under control of the notorious Al-Shabaab, an Al-Qaeda affiliated militant group.

### Brief history of Somalia



The government of Somalia collapsed in 1991 after the Siad Barre regime was forced out of power by a coalition of militia groups. A civil war ensued and splintered the country into several autonomous regions. Each of these regions had its own government, army, and in some cases, even its own currency. In 2012, a new Federal Parliament was elected by traditional elders from all the regions of Somalia. This parliament elected Hassan Sheikh Mohamud as the president of the FGS. In the following months, national governments and international organizations recognized the newly established FGS.

Despite sharing a common culture, ethnicity, and a very unique clan system (see chart at the end), Somalia is struggling to achieve national unity.

Somalia is a largely dollarized economy, in part because of the absence of a central bank in the past two decades, and the large amount of remittances sent home by the Diaspora. About 80 percent of the Somali shillings in circulation are counterfeit, and authentic bills are in deteriorating physical condition.

## The current political economy



Despite the challenging conditions, Somali adaptability shows in a dynamic domestic private sector and many prosperous businesses owned by the Somali Diaspora. The country's financial sector provides a good example. Virtually all financial institutions are informal and started out as Hawalas (or money remittance companies), which evolved into Somalia's de facto banking system. Hawalas perform a vital social role because their branches reach the poorest and most remote areas of the country. Some of the biggest Hawalas are currently holding discussions with the Central Bank of Somalia (CBS) to get formal bank licenses.

Economic activity expanded by about 4½ percent in 2013 in nominal terms. Growth was led by agriculture, forestry, fishing and construction. Consumption increased by 4½ percent, driven by population growth and returning members of the Diaspora. While government final consumption expenditure increased by

147 percent, this increase also reflects a broadening of statistical coverage. By the end of 2014, preliminary assessments estimate that agriculture, forestry and fishing will grow by 6½ percent. Other important sectors include information and communications, and wholesale and retail trade, estimated to have grown by around 4½ percent. Estimates of real growth are not yet available for lack of an accurate GDP deflator.

*Somali currency only the top bill is an original the rest are counterfeit.*

## Engagement with the Fund and the international community

Economic policymaking and sustained technical assistance have been hindered by complex clan politics and high turnover in the Somali government's economic team. While Somalia was welcomed back as an active member of the Fund, it remains ineligible for financial assistance until it clears its arrears status. Somalia is also in arrears with other multilateral and bilateral donors. Clearing Somalia's arrears will require thorough external debt reconciliation, debt relief financing with donors, and, with respect to the Fund, establishing a government track record of cooperation on policies and payments that could eventually lead to a Staff-Monitored Program (SMP).

Despite these challenges, Somalia has participated in a productive dialogue with the international community and the Fund. Since April 2013, the Fund has been actively providing technical assistance in areas ranging from currency reform to banking operations, central banking, financial sector supervision, anti-money laundering/combating the financing of terrorism (AML/CFT), macroeconomic statistics, and revenue policy and administration.

A few important milestones have already been reached, including the preparation of the first national budget, the development of initial GDP and external sector estimates, and the preparation of the central bank financial statements. With the support of international donors, the Fund launched the three-year, multi-donor Trust Fund for Capacity Development in Somalia, and established a new Somalia Resident Representative that took office in December 2014. Due to security limitations in Mogadishu, staff visits and the Somalia Resident Representative office are based in Nairobi.

Unfortunately, even Nairobi has grown riskier following recent terrorist attacks by Al-Shabaab, in retaliation for Kenyan military participation in the UN-African Mission to Somalia (AMISOM).

Despite colossal hurdles, Somalia has achieved great progress since it resumed relations with the Fund in April 2013. In partnership with the Fund and the donor community, the Somali government is fast laying the building blocks to restore key economic institutions. Make no mistake: sustained growth and development in Somalia will require continuous international support and capacity building. But the success of Somalia will ultimately rest on the strength of its people – and this they have in abundance.

<b>The Somali Clans</b>		
Somalis ( <i>Soomaaliyeed</i> ) are cushitic people who group themselves into clans and subclans. The general notion is that there are four main clans: <b>Dir</b> , <b>Hawiye</b> , <b>Darod</b> and <b>Rahanweyn</b> . Some claim there is a fifth clan known as <b>Beesha Shanaad</b> , (literally, the fifth clan) that groups together all ethnic minorities. Somali politics and the assignment of high level government positions are strongly determined by clan representation.		
<b>The Dir Clan</b> (about 30 percent of the population). In Somalia, the Dir mostly inhabit the west and central areas of Somaliland, the coastal northeast region of Kismayo, and the coastal area west of Mogadishu. Outside Somalia, the Dir live in the southwest region of Djibouti and in the northern Ethiopian region of Ogaden.		
<b>The Hawiye Clan</b> (about 25 percent of the population). In Somalia, the Hawiye mostly live north of Mogadishu and in the eastern coast towards Puntland. Outside Somalia, the Hawiye live in the northeast region of Kenya and the southwest Ogaden.		
<b>The Darod Clan</b> (about 20 percent of population). The Darod are the most geographically spread of all clans. Inside Somalia, they live in Puntland, east of Somaliland and in the southwest region of Somalia. Outside Somalia, the Darod live in the Ogaden and the eastern region of Kenya.		
<b>The Rahanweyn Clan</b> (about 20 percent of the population). The Rahanweyn live in the northern parts of the Shabelle and Juba rivers and in between the cities of Kismayo and Mogadishu.		
<b>The Beesha Shanaad</b> (about 5 percent of the rest of the population). The Beesha Shanaad are spread around the regions near the Juba and Shabelle rivers and the southern coastal area.		
<b>Somalia</b>		
Surface area (square kilometers)	637,657	
Population in 2013 (country/Mogadishu, 000)	13,000/2,000	
<b>Socioeconomic indicators</b>	<b>2012</b>	<b>2013</b>
GDP: Gross domestic product (million current US\$)	2,052.0	8,423.0
GDP per capita (current US\$)	277.3	632.2
Telephone/mobile subscribers, total (per 100 inhabitants)	1.4	23.0
Population growth rate (average annual %)	2010-2015	2.5
Life expectancy at birth (years)	2010-2015	55.0
Life mortality rate (per 1000 live births)	2010-2015	147.0
Gross school enrollment ratio (f/m per 100)	2005-2011	15.0/28.1
Sources: IMF staff estimates, United Nations, World Bank		

Source: Somali authorities, Mr. Ake Lönnberg.