Economic Recovery in Somalia

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I. Introduction

There were high hopes for a brighter future. After more than two decades of conflict, political uncertainty, multiple droughts and Somalia's worst famine in sixty years, the landscape began to change. The Federal Government lost its transitional status and became officially recognised by an increasingly long list of countries and institutions.[1] An ambitious president was elected. Official delegations began visiting Mogadishu once more, including a visit by United States Secretary of State, John Kerry.[2] Expectations were high.

It appeared that the recovery was not just political. Economic fortunes were improving as well. Trading activity began to increase again. Shops reopened, rising numbers of diaspora started returning and investment firms began opening in Mogadishu. The national post service resumed operations. The Central Bank Act was passed, which simultaneously gave the institution a stronger mandate as well as preclude it from lending to the Government.[3] A veritable construction boom kicked off in Mogadishu, the city received its first ATM cash machine and in June 2015, an agreement between MasterCard and a Somali bank launched the first ever domestic issuance of debit cards. The Wall Street Journal wrote of 'glimmers of hope'[4] while African Development Bank wrote of a 'turning point' due to the 'positive political and security developments as well as the commitment of the international community.'[5] Emerging from the clamour of countless conferences, consultations, summits and high-level meetings, a belief was emerging that this time, something was different. This time, Somalia was recovering.

Or was it? What turn did Somalia take? As the Federal Government approaches its fifth year, new developments have raised concern over the trajectory and pace of progress. The Prime Minister was dismissed by a no-confidence motion in December 2014. The new Prime Minister, Mr Omar Abdirashid Ali Sharmake, took three attempts to successfully appoint a new cabinet endorsed by parliament. Concerns about corruption have threatened the steady flow of development finance. High profile attacks by Al Shabaab, both within Somalia and beyond, have raised questions about whether the organisation can be contained. Meanwhile, instability in Yemen has led to large numbers of refugees arriving into Somalia.[6]

It seems timely, therefore, to reassess the pace of progress and trajectory of recovery in Somalia. More than that, it is essential to examine whether economic recovery is occurring at the same pace and alignment with political and social recovery. If this is not the case, as we will argue, peace-building gains may be temporary. The roots of conflict are grown in the fertile soil of economic desperation.

The contribution of this article is to provide an overview of economic recovery in Somalia that is largely absent from the academic literature. We collate and summarise the most recent quantitative statistics available and match these against qualitative information, including government reports and economic analysis. Our primary conclusion is a positive one; for the first time in more than two decades, Somalia's economy is finally beginning to recover. Growth has returned. New market opportunities are being generated. The trade structure is diversifying and confidence is rising among investors, the diaspora and donors. To be clear, this trajectory is fragile. Political uncertainties and the looming arrival of oil exploration are threats that we discuss in this regard. Nonetheless, our primary thesis is that the five years since the establishment of the Federal Government has been, on balance, a positive period for economic reconstruction in Somalia.

Our paper is structured as follows. We first make the case for the importance of economic development despite the massive social and political challenges that prevail in Somalia. We then outline the pathway to recovery that has been delineated by the Federal Government. We assess progress along this route and then identify some of the major threats to further progress.

II. Economic Recovery as a Peace-Building Tool

At first glance, it might seem callous to focus on economic recovery when conflict persists and the humanitarian need in the country remains so severe. 855,000 people are facing acute food insecurity and the Humanitarian Appeal for 2015 is only 35 percent funded.[7] FGS (2014) reports that one in 18 women die in childbirth, one in 10 women die before the age of one and only one in three Somalis have access to clean water.

Despite a hunger for grassroots reconciliation,[8] instability persists and security concerns remain paramount. In addition to around 20,000 Somali national forces,[9] there are about 23,000 African Union Mission troops deployed in the country, with its casualties reportedly rising over 4,000. While most urban centres, including Mogadishu, are now under the control of the Federal Government or its allies, large swathes of rural areas remain uncontrolled. Even within urban areas, violence episodes persist, as attested by sporadic assassinations of senior policy makers and attacks on government compounds. According to an anonymous source in Davis and Mills (2015), AK47s in Mogadishu remain as ubiquitous as umbrellas in London.

Given the urgency of these challenges, it does not seem surprising that economic developments have received comparatively less attention in academic circles than social and political ones. However, it is doubtful whether Somalia will ever fully recover if it does not develop an economy that meets the needs of its citizens in a sustainable way. As described in the country's first Human Development Report produced by the United Nations Development Programme in 2013—UNDP (2012)—"development without peace is not sustainable, and peace without development is not durable," at page 17. So long as 82 percent of Somalia's population continue to live in multi-dimensional poverty and 75 percent of its youth remain without a job,[10] any semblance of peace will always remain fragile.

In fact, there is strong evidence that economic recovery is a powerful peace-building tool. In post-conflict countries, an economic growth rate of 10 percent is associated with a reduction in the risk of reverting to conflict within the next decade from 42 percent to 27 percent, Collier et al. (2008). From the opposite perspective, if economic growth decreases by five percent, it raises the risk of conflict the next year by fifty percent, Miguel et al. (2004).

One of the most direct mechanisms through which economic development can contribute to the peace-building agenda is by increasing the opportunity cost of conflict. In other words, it can raise the cost of participating in violence by increasing the reward from abstaining. In Somalia, this mechanism may have particular resonance. According to Davis and Mills (2015), most of the new recruits to Al Shabaab are signing up because they are in need of income to pay off their debts. Creating peace-dependent jobs would reduce this flow.

That is not to say that an economic recovery agenda should be prioritised above humanitarian assistance or stabilisation programmes. Far from it. The underlying thesis of this article is that security and humanitarian assistance should remain priorities, but that economic recovery must be a concomitant consideration. Assistance will not produce durable results if the underlying drivers of vulnerability are not addressed. So long as economic recovery initiatives do not compromise the achievement of immediate humanitarian needs, they should be pursued with vigour and commitment.

III. Mapping out a Path to Economic Recovery

The Council of Ministers approved the Economic Recovery Plan for 2014–15 in September 2013. The short-term aim of the plan is to support the most productive sectors by providing stability and rehabilitating critical infrastructure. In the long term, the aim is to achieve "sustained economic development and poverty alleviation, founded on responsible macroeconomic management, infrastructure rehabilitation and equitable access to services,' FGS (2013) at page 3. The Plan requires 642 million United States Dollars (USD) of external financing, however flagship programmes have been prioritised that would require less than one third of this; 222 million USD. The flagship programmes include upgrading state capacity, rehabilitating key infrastructure and getting one million children to school.

One of the limitations of the Plan is that it only applies to South Central Somalia. This is on the basis Puntland and Somaliland are at a different position in terms of development, peace and stability. They also already have similar development plans. However, it is hoped that the Plan will eventually precede a poverty reduction strategy paper for all of Somalia.

The Plan is based on a broader platform set by the Federal Government in the form of its Six Pillars Manifesto. These pillars are good governance, economic recovery, peace building and reconciliation, unity and integrity, service delivery and international relations. The Economic Recovery Plan is relevant to them all, but directly relevant to economic recovery and service delivery.

IV. The Scale of the Challenge

Economic recovery from an episode of conflict takes a long time. As a rough example, instability in Burundi during the 1990s lead to notable reductions in living standards.

It was not until 2007, nearly 20 years later, that Burundi's gross national income returned to the same level that it had been in 1988. Across the border, in neighbouring Rwanda, it has been estimated that six years after the conflict, GDP per capita remained 25–30 percent lower than it would have been had the conflict not occurred, Lopez (2005).[11] This is partly due to the fact that violence tends to repeat itself.[12] Indeed, some have even questioned whether full economic recovery is even possible.[13]

The magnitude of the task stands in contrast to the urgency of the current, pressing needs. Members of the Federal Government have been urged to "make a difference quickly, raise taxes to do so including building infrastructure and paying salaries, and stay alive," Mills et al. (2013). This is no mean feat.

Perhaps the greatest challenge is infrastructure. The public energy supply is broken, leaving the vast majority of Somalis reliant on charcoal and firewood for their household needs.[14] This is despite the fact that the country has some of the greatest potential for developing wind[15] and solar[16] power generation in Africa. Health infrastructure also remains inadequate. For instance, there were four doctors per 100,000 people, compared with the Africa-wide average of 58, during the period 2007–2009, per AfDB (2013a). Roads are dilapidated because there has been no major investment in transport infrastructure since the 1980s. Meanwhile, the solutions are not self-evident. In the case of transport infrastructure, for example, Ali et al. (2015) makes a strong case that unless investments are carefully designed and accompanied by improvements in governance, they are unlikely to result in any long term benefits.

A dearth of education opportunities is producing a workforce of low productivity and few skills.[17] This creates shortages in critical areas, which generates the paradoxical situation that despite having colossal unemployment rates, Somalia still imports skilled labour from neighbouring countries. Even high profile government institutions, such as the Central Bank of Somalia, report difficulties in attracting staff with the necessary technical and professional skills. With an adult literacy rate of 24 percent, it will take many years to build the human capital necessary for a flourishing economy.

Tied with this challenge is the need to create jobs, particularly for the youth. Three-quarters of the population are younger than 30 years old, UNFPA (2014). The high fertility rate and low life expectancy (estimated at about 50) means that this proportion is more likely to further increase over time rather than decrease. Two thirds of youth surveyed by UNDP in 2012 reported that they intend to leave the country. In south central Somalia, this proportion was 97 percent. Getting a well-paid job was the main reason cited by 64 percent of those intending to leave, while better educational opportunities and escaping from conflict were cited by 17 percent of respondents, UNDP (2012). As was discussed above, a failure to create jobs for these youth also comes with the risk of strengthening the drivers of conflict.

At the same time, the creation of jobs requires a strong private sector. The private sector needs finance. Unfortunately, the financial sector in Somalia is not functioning well. Credit is limited, the currency is not trusted and the Central Bank has limited ability to regulate the industry.[18] The formal financial sector has been retarded by the conflict.[19] Meanwhile, regulation changes in the United States are threatening the steady flow of remittances. This could have serious implications given that the African Development Bank estimates that remittances provide up to 40 percent of household income. Reports are emerging of money transfer agents personally delivering money in suitcases, by catching a plane from the United States to Dubai, where it is then funnelled through to Somalia using the hawala system.[20]

In all, there are a number of factors, which illustrate that the scale of the challenge is immense. The process of economic recovery will take many years. Nonetheless, there are positive signs that the country is at least heading in the right direction.

V. Signs of Progress

Reconstruction of the Somali economy is evident in the areas of growth, confidence and trade.

A. Growth

Somalia's economy is growing again. While accurate data is difficult to attain,[21] it is generally agreed that the economy stagnated during the conflict. Since 2008, however, our best estimates are that growth has returned. The economy grew by 3.7 percent in real terms in 2014, according to IMF (2015). The main sources of growth were in the areas of agriculture, construction and telecommunications. Looking forward, growth is expected to continue. The IMF expects the economy to grow by 2.7 percent 2015 and then hover close to 4 percent in 2016 and 2017. Based on the research described above, this would suggest that the likelihood of increased conflict is reducing.

There are also isolated, but more tangible signs of economic growth. Port activity in Mogadishu is growing, as is construction within the city.[22] Investments in renewable energy are simultaneously tapping into some of Somalia's most abundant natural resources (its wind and its sunlight) while also breaking up the choking grip that small groups of elite businessmen have exerted over traditional energy supplies.[23]

New sources of income are also emerging. The fisheries sector, for example, has the potential to generate significant numbers of jobs, with USAID (2014) suggesting that four jobs would be created on land, for every one job created at sea. Fish stocks in the area are the only "under-fished" stocks left on the planet according to the FAO.[24] Most of the stocks are found in deep-sea areas, beyond the continental shelf. The deep-sea fishing beyond the continental shelf has the most abundant fish stocks. The country may be about to access these areas due to the ongoing construction of new vessels and the necessary facilities to process the fish caught. At the same time, the Federal Government is negotiating with Spanish, French and Taiwanese companies who are already fishing these stocks, to ensure that the Somalia government receives a share of their revenue.

The scale of the opportunity is best demonstrated by the extent to which it is currently being missed. Large schools of tuna migrate along the coast of East Africa and concentrate in Somali waters. Yet it is cheaper in Puntland to buy imported canned tuna from Thailand than it is to buy any of the local tuna. Indeed, fishing tends to be limited to small-scale, artisanal activities. Investments in boats, training and modern fishing techniques should quickly yield sustainable increases in income. One may argue that the industry will always be constrained by the common distaste that Somalis have for eating fish, a lack of investment in the value chain, instability on land, piracy at sea or a combination of the above.[25] Yet many of these factors are changing. Piracy rates off the coast of Puntland, for example, have decreased dramatically to the point that the area internationally identified as high risk has recently (October 2015) been formally reduced. Other security improvements and improved investment flows present an opportunity to develop the sector and exploit the longest coastline of any country in Africa.

To be fair, reaching a rapid pace of economic growth is one thing. Achieving high quality economic growth that creates meaningful jobs and meets the needs of citizens is a more ambitious and much more important agenda. Even in this respect, however, there are positive signs. Agriculture is the backbone of Somalia's economy, making up two thirds of its GDP and employing a similar proportion of its workforce. In the north of Somalia, primarily Somaliland and Puntland, the primary form of agriculture is the production of livestock. In the much less arid South-Central Somalia, two main rivers and more consistent rainfall enable planting and the production of crops. For many years, however, this sector has failed to meet the needs of its citizens. Food production per person fell during the years of the civil war.[26]

Yet this downward trend has also stopped, or may have even reversed. The most recent data suggests that food production per capita is now growing again, albeit at a modest level.[27] Some of Somalia's traditional produce before the war, such as bananas,[28] are now being grown again. A number of small, discrete interventions have achieved productivity gains.[29] The small-scale nature of farming and the absence of modern equipment also suggest that there are numerous opportunities for rapid and significant improvements in yield, despite the harsh environment. Indeed, the size of the potential agricultural yields is reported to be much larger than national demand, suggesting that a sustainable export market could eventually become a viable option.

At the same time, a major risk in conflict-affected countries is inflation.[30] Shortages in basic foods, intermediate goods and key services can lead to rising prices that wipe out any gains that one might expect from high rates of economic growth. This has occurred in Somalia in the past. For example, between 1992 and 1995, the weighted average annual rate of inflation was 331.2 percent, AfDB (2013b). More recently, the presence of multiple fake currencies in circulation led to skyrocketing prices in 2007, according to the Central Bank of Somalia. The effects of such inflation tend to hurt the poor the most. In a 2013 survey of Daynile settlement in Mogadishu, 91 percent of respondents reported that food was their highest cost, USAID (2013).

At the moment, however, it appears that inflation is better contained. According to the Food Security and Nutrition Analysis Unit (FSNAU) backed by the Food and Agriculture Organization of the United Nations,[31] consumer price inflation has remained broadly stable at a national level in the three years following the famine of 2011. More recently, IMF (2015) estimated that consumer price inflation was 1.3 percent in 2014, that it should remain at about 4 percent in 2015, and then fall to 3 percent in 2016 and 2017. Unskilled wages have also remained stable. Meanwhile, the sale price of livestock have recorded mild, but steady increases.[32] Finally, the terms of trade of local labourers (or their ability to afford basic necessitates like cereal) has been declining, although only at mild to moderate levels, FSNAU (2015b).

In all, a more promising picture emerges than one might expect from a country in Somalia's position. Indeed, and perhaps most importantly, inflationary pressures are not eliminating the improvements in welfare that economic growth can bring. Somalia's economic recovery is generating the dividends of peace.

B. Confidence

Economic recovery is more than numbers alone. Sentiment is central. In this respect, an important recent dynamic is the return of the diaspora. According to the HIPS (2014), "[d]ata on the scale of diaspora return is lacking. It is, however, broadly acknowledged, based on the increasing visibility of the diaspora in society, that there has been a steady increase in returns in the past few years." This is consistent with other partial evidence. Passenger volumes through Mogadishu's international airport are increasing, with arrivals outpacing departures.[33] Google searches for "flights to Somalia" have increased notably[34] with major airlines, including Turkish Airlines and Qatar Airways, now offering direct flights to Mogadishu. Meanwhile, the rise and momentum behind the Twitter hashtag "SomaliaRising" represented a surge of optimism on social media.

The return of diaspora is notable for the fact that it signals an increasing faith in the security situation and the prospects of the Somali economy. It also brings valuable skills, money and international connections. Of course, it can also generate problems. For example, concerns have arisen among some Somali that their ‘fair-weather friends’ are parachuting in to take jobs and political opportunities, Hammond, et al. (2011). On balance, however, the prevailing dynamic is a positive one. From an economic perspective at least, the returning diaspora are giving momentum to the recovery.

Investors are also showing increasing faith in Somalia’s future. Domestic investment is increasing with local businesses increasingly reinvesting their profits in the local economy. International investors are also contributing. Between 1997 and 2005, net foreign direct investment to Somalia was at very low levels; at around $2 million USD per year. Since then, it has increased nearly 5,000% to $107 million per year (2006–2014).[35]

Finally, an increasingly broad range of international donors are exhibiting confidence in Somalia. According to the Ministry of Finance, “non-traditional donors” provide two-thirds of budget support. In fact, budget support in 2014 and 2015 includes contributions from Turkey, the Arab League, Qatar, China, Nigeria and the United Arab Emirates. The Organisation for Islamic Cooperation is also increasing its presence in the country, launching its largest ever relief operation in response to the 2011 famine.[36]

Diversification of the aid supply may increase the reliability of its flow as well as the ability of the Federal Government to direct funds received towards the specific areas it wishes to prioritise. In total, aid flows to Somalia have increased from 240 million USD in 2005, to around 1 billion each year in since 2011 in current prices. A survey of forward spending plans among donors suggests that these flows may increase by three percent between 2014 and 2015.[37] While promising, not all programmes in Somalia have benefited from this increase; the Humanitarian Appeal for 2015 remains only 35 percent funded as at August 2015.

In summary, the Somali diaspora, investors and international donors are all becoming increasingly more willing to place a bet that Somalia’s future will be more prosperous. Confidence is returning.

C. Trade

A final source of optimism is one that capitalises on Somalia's strongest geographical asset—its location. A major shipping route passes Somalia on its way to the Suez Canal, where close to 10 percent of the world's sea-borne trade passes through. As a result, Somalia is in an excellent position to participate in international trade. A collection of evidence suggests that this is gradually beginning to occur once again.

Somalia's main export is livestock. During the conflict, this industry was massively affected, with exports of live animals falling as low as 23 million USD. Since 2008, however, things have changed. In the five years to 2013, the value of Somali livestock exports have grown 38% on average every year. The most recent data confirms that this growth continued into 2014. In that year, the country exported the largest number of livestock for two decades.[38] According to the International Trade Centre, the value of Somalia's exports grew 131% between 2009 to 2013. Most importantly, 40% of this increase was due to improvements in competitiveness, and not external factors such as world trade volumes. One such source of improved competitiveness has been disease control and surveillance, particularly in goat rearing.

This picture may appear to be very optimistic. However, the quality of the data available is slightly stronger in the area of trade. This is because there are multiple reference points upon which to compare reported data and fill in the gaps.[39] While the process is not free from flaws,[40] it can provide insightful glimpses into the structure and performance of the external economy. In the case of Somalia, it certainly appears to do this. A line-by-line comparison of goods and services coming in and out of Somalia suggests that the structure of its economy may be changing. Comparing the five years before and after 2008, we find that imports of some luxury consumption goods, like manufactured tobacco, have decreased significantly; by 58 percent in the case of tobacco.[41] In contrast, imports of goods that are more useful for growing an economy, like civil engineering and contractors' plant and equipment, tractors, lighting fixtures and fittings have all grown by 411%, 448% and 360%. In short, growth conducive imports are up while luxury consumption goods are down.

To be clear, only a very small proportion of the Somali population participates in international trade. Also, in the long road to recovery, these are modest gains. Somali exporters in particular, will need to lift their performance considerably if they are to compete on the international stage. The confidence that foreign consumers have in the quality of their exports is low. Even if it was high, there are no established quality standards or regulatory system.[42] This forces Somalia's trading partners to send their own people to monitor quality standards in production. It has also meant that some Somali exporters are reportedly mislabelling their goods to hide their Somali origins.

In all, however, it is clear that Somalia's participation in international trade is in the healthiest position that it has been for more than twenty years. The export sector is generating revenues and there is considerable potential for further growth.

VI. A Fragile Trajectory

The preceding analysis has made the case that for the first time in recent history, the economy of the world's most conflict affected nations is finally starting to recovery. However, it would be naïve to assume that success is guaranteed. One particular threat to this trajectory is oil. Indeed, the commercial exploitation of oil is on the horizon for Somalia. This could either knock the country off its pathway to recovery or accelerate it further along its way.

Blathasar (2014) suggests that there could be as much as 110 billion barrels of oil in Somalia. Exploration began as early as 1956. A number of concessions were awarded in the 1980s and then ended through force majeure clauses due to the conflict. It is only now, however, that development drilling is a realistic and imminent possibility. The Federal Government signed its first oil deal with Soma Oil and Gas, a company based in the United Kingdom. Soma Oil and Gas has permission to conduct seismic surveys and produce an assessment of oil and gas potential, due to be completed in 2015. In Somaliland, another United Kingdom based company has a production sharing contract for an onshore area of 22,840 square kilometres, known as the Odewayne block, EIU (2014).

The exploitation of oil presents significant revenue potential for the Federal Government which cannot be ignored. At the moment, the Federal Government's tax base is small and concentrated.[43] Efforts to diversify the revenue base and tax companies and citizens have been meet with violence.[44] A steady flow of royalties from oil revenues would relieve this pressure.

The problem, however, is that exploiting these resources comes with major political risks. In particular, the presence of oil in both Puntland

and Somaliland raises important questions about revenue sharing and coordination between central and regional government entities. This adds even more heat to the pressure cooker environment in which the federalisation project is being developed. Indeed, oil related issues have already threatened harmonious relations between the federal and regional governments.[45] A majority of respondents in a recent, albeit small, survey in Somalia reported that they felt that the current federalisation process was deeply flawed.[46] The exploitation of oil could further expose these divisions if it is not correctly managed. Moreover, there is a risk that the 2016 elections could become a focal point for this division, which would have serious economic implications.

Even if revenue sharing arrangements are agreed, there will be much policy and legislative work required before the country is in a position to fully maximise the benefits from oil exploitation. In the Government's own words, "there is a lack of an effective petroleum and legal framework that meets the requirements of all stakeholders," FGS (2013) at page 74. The historical relationship between conflict in Africa and the exploitation of natural resources demands a careful and measured approach.[47]

At the same time, oil exploitation introduces complexities on the international stage. In particular, relations with Kenya are already strained by the June 2013 decision of the Somali Cabinet to extend its Exclusive Economic Zone under the United Nations Convention on the Law of the Sea to include six downstream oil and gas exploration blocks. Kenya has already sold these blocks to international companies, Reitano and Shaw (2013). Navigating this issue will be complicated given the crucial contribution that Kenyan troops make to the African Union Mission in Somalia. In addition, international companies who lost their rights to concession areas in other parts of Somalia during the 1990s may well raise disputes if commercial drilling begins in those areas again. This would also be a complicated issue given the desire of the Federal Government to attract international investment into the country.

Finally, any production of oil will require a production-sharing agreement between the company in question and Somali authorities. These are notoriously political documents that can generate discontent. For example, a draft production-sharing agreement between Soma Oil & Gas Holdings Ltd and the Federal Government caused outrage when it emerged that the proposal could potentially lead to Soma Oil accruing 90 percent of oil revenues.[48] While oil prices have fallen and will remain low for the next year at least,[49] the political importance of oil has hardly changed. As Ahmad (2015) notes, for a political system to be durable in Somalia, citizens will have to be convinced that political power is not merely a proxy for clan power or sub-clan power. Managing oil revenues in such a way will be an exceptionally difficult task.

In short, Somalia's economy may be recovering, but it is being forced to navigate a precarious path. While sound policies and international support will be essential, some measure of good fortune may also be required if it is to capitalise on the current opportunities and emerge as a more peaceful, prosperous country.

VII. Conclusion

Economic recovery in Somalia was never going to be simple. The complexity of the political environment, the scale of the conflict and the breadth in the diversity of interests eliminated that possibility from day one. For many years, progress was elusive. Then, at the end of the first decade of the twenty-first century, it appeared that things might be changing. Small signs were emerging that Somalia, and its economy, might have been in the process of turning the corner. However, until now, there has not been an holistic analysis of whether these signs were isolated and peripheral, or whether they were representative of something more fundamental. The key point of this article is to conduct such analysis and present a body of evidence suggesting that Somalia's economy is finally beginning to recovery. Quantitative and qualitative information in the areas of growth, trade and confidence have been advanced in support of this conclusion. There is no doubt that the momentum behind recovery is fragile and will remain so. Nonetheless, the general trajectory is a positive one. Somalia's economy is rising.

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Notes

1. For example, the United States officially recognised the Federal Government of Somalia in January 2013. Three months later, the IMF also recognised the Government, which allowed relations to resume for the first time in 22 years.

2. Between October 2014 and January 2015 alone, Mogadishu received the Secretary-General of the United Nations, Ban Ki-moon, the President of the World Bank, Jim Yong Kim and the President of Turkey, Recep Tayyip Erdogan. During this period, the Intergovernment Authority on Development also held a meeting in Mogadishu for the first time since 1985.

3. Except for temporary advances that are considered necessary to smooth revenue flows during one financial year.

4. Stewart (2013).

5. AfDB (2013b) at page 1.

6. On 12 May 2015, the International Office for Migration reported that 4,826 refugees from Yemen had been registered in Somalia, with a further 9,703 in registered in Djibouti. Earlier (March 2015) the United Nations Refugee Agency estimated that perhaps as many as 100,000 would arrive in Somaliland alone during the remainder of 2015, per Magdaleno (2015).

7. As at August 2015, per OCHA (2015).

8. Rapid consultations for the Economic Recovery Plan (discussed further below) found that the consulted communities "had one thing in common: they expressed grassroots reconciliations and service delivery as their absolute priorit[ies]," FGS (2013) at page 39. A 2012 survey by the United Nations Development Programme (UNDP) of youth in Somalia (of the ages 14 to 29) found that two-thirds of respondents reported an intention to leave Somalia. Getting a well-paid job was the main reason cited by 64 percent of those intending to leave, UNDP (2012).

9. The Secretary-General's most recent report on Somalia—UNSG (2015)—notes that 13,829 Somalia national army and 5,134 police force personnel are biometrically registered in the human resources system.

10. AfDB (2013a

11. Semeels and Verpoorten (2013) also find that areas within Rwanda that conflict of greater intensity were still significantly lagging behind other areas in terms of consumption per capita, six years on.

12. For example, the 2011 World Development Report notes that since 2003, every new civil war that has begun was the resumption of a previous civil conflict.

13. See Cerra and Saxena (2007).

14. 87 percent of Somalia's energy consumption is through the use of charcoal and firewood, FGS (2013).

15. More than half of Somalia records average wind speeds of more than 6 metres per second, while is highly suitable for electric energy generation, International Energy Association, *Africa Energy Outlook*; Nunez, *Powering progress*.

16. Somalia records one of the highest daily averages of total solar radiation in world and receives an average of 3,000 hours per year of sunlight, Nunez, *Powering progress*.

17. It has been reported that 90% of the education infrastructure was destroyed while the estimated school participation rates have reached as low as single figures.

18. United States dollars are used for large transaction with Somali Shillings used for the rest. The Shillings tend to be counterfeit, old, falling apart or all of the above. Meanwhile, the Central Bank does not yet have any ability to control money flows or foreign currency exchange rates.

19. Recent evidence from Afghanistan suggests that the lack of development of formal financial networks may be due to persistent conflict, Blumenstock et al. (2014). This is because populations experiencing episodes of violence tend to prefer holding cash rather than other financial instruments, such as mobile money. From a positive perspective, this suggests that as conflict gradually reduces in Somalia, there may also be a gradual improvement in financial intermediation and the development of a formal network.

20. See Trindle (2015) for further elaboration.

21. According to AfDB (2013b), "Somalia is still characterized by a severe lack of basic economic and social statistics." at page 2. As at September 2013, the Central Bureau of Statistics had nine core staff, only three of whom had a university degree. It also did not have a permanent office, FGS (2014).

22. The number of ships docking at the Mogadishu Port doubled in the first quarter of 2013, according to Gatehouse (2013).

23. Collusion among energy providers, a lack of investment and inefficient business modes have caused the price of electricity in Somalia to be more than one USD per kilowhat hour—one of the highest prices in the world, according to USAID (2014).

24. To be clear, not all fish stocks in the region are under-fished. In particular, fish stocks on the continental shelf close to shore are vulnerable according to USAID (2014) due to the fact that the shelf is narrow, the fish stocks are small and the coral reefs are fragile. Lobster is one of the few types of seafood that have been successfully exported from this region. Lobster stocks are now being depleted.

25. "Somalis in general have had very limited interest in fishing and their seafood consumption is thought to be among the lowest in the world" Persson et al., "Failed State: Reconstruction of domestic fisheries catches in Somalia…" Persson (2014) at page 111.

26. Food production per capita, fell by an average of 2.9 percent per year during the period 1997–2002. It then fell 1.4 percent during 2002–2007, FAO (2015).

27. Specifically, food production per capita is estimated to have grown 0.4 percent per year on average during the period 2007–2012, FAO (2015).

28. Italian colonialists brought banana farming to the Shebelle and Juba basins in the 1920s. The industry grew rapidly, driven by investment from Italian and American companies. In the 1980s, the industry reached its peak, exporting about 96 million USD per year. However, the industry collapsed during the civil war and it is only beginning to be regenerated now, Kushkush (2014).

29. For example, a recent intervention involving the provision of training and resources led to a 50 percent increase in crop production across 60,000 Somali households, FGS (2014).

30. Very high inflation inflicted Iraq, for instance, between 2003 and 2008, as discussed in Grigorian and Kock (2010).

31. Relative to other economic variables, inflation is well monitored in Somalia thanks to the Food Security and Nutrition Analysis Unit. This Unit collects data in nearly 100 rural and urban markets.

32. This is due to a combination of high demand (within Somalia and abroad) as well as improving cattle condition.

33. Between October 2012 and March 2013, the passenger volumes going through Mogadishu's Aden Abdulle International Airport increased by 47%. The number of arrivals more than doubled while the number of departing passengers decreased slightly, Business Daily (2013).

34. These searches were close to non-existent between 2004 and 2010. They then increased 71% in 2012 alone and have remained at high levels since, per author's analysis of data from Google Trends.

35. Calculated using data from UNCTAD (2015), which is in current prices and used current exchange rates.

36. Svoboda (2015) provides a detailed discussion on the changing role of the Organisation for Islamic Cooperation in Somalia and in humanitarian assistance.

37. Calculated using data from OECD (2015).

38. In total, the exported amounted to 4.6 million goats and sheep, 340,000 cattle and 77,000 camels. The total value of these exports was 360 million, FSNAU (2015a).

39. Domestically reported data can be crosschecked against the trade flows declared by Somalia's trading partners, who should effectively produce mirror statistics. This is a process referred to as "mirroring."

40. Deriving trade data through mirroring is a second-best alternative to using the country's national statistics. One of the reasons is that it can be difficult to identify the true source of a traded good (for example, goods may be exported by one country then re-exported to the country in question). The value of goods can also be confused because exports are usually calculated on one basis (using cost, insurance and freight, often referred to as CIF), while imports are calculated using other basis (the free on board value, often referred to as FOB).

41. Imports of tobacco and tobacco manufactures have fallen from around 60 million in 2006, to less than 10 million every year since 2010. Calculated using data from UNCTAD (2015).

42. A Turkish company—PGM Firm—was recently appointed by the Federal Government to inspect the quality of Somali imports and exports. However, it is too early to ascertain the affect that this will have on the market.

43. Most tax revenue comes from the port and airport in Mogadishu, with little business or income tax. This form of tax is inefficient and leaves the government vulnerable to business cycles and the actions of a small group of people.

44. There were 130 tax collectors in Mogadishu, as at October 2014. Between 2012 and this date, nearly 30 tax collectors had been murdered. The head of the taxation and revenue department subsequently reported that armed guards must now accompany tax collectors, Mohamed (2014). Before the Federal Government was established, the Islamic Court Union also encountered violent resistance when they sought to introduce taxation measures, Harper (2012).

45. As Reitano and Shaw (2013) discusses in more detail, the sale of exclusive exploration rights by the Puntland authorities led a legal dispute between the Puntland authorities and the transitional Federal Government which is not yet fully resolved.

46. HIPS interviewed 213 people in five cities: Mogadishu, Baido, Kismayo, Galkayo and Garowe. 68 percent of respondents reported that they support a federal system of governance as the best way to share power across clans. In Mogadishu, 56 percent of respondents reported that they viewed the current federalisation process to be flawed. 75 percent of respondents in Baidoa were dissatisfied with the process, while Kismayo was the only city where a majority (60 percent) of respondents expressed support for the current process, HIPS (2015).

47. In the mineral sector, recent research suggests that mining in Africa is associated with an increase in conflict in the area where the minerals are found. This conflict can then spread into other areas within the country by providing a source of finance to the groups that are fighting, Berman (2015).

48. See Gridneff (2015) for example.

49. Oil prices fell by close to 50 percent in the second half of 2014 and are expected to remain low at least until the end of 2016 World Bank Group (2015).