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Economic Commission for Africa

COUNTRY PROFILE

2016



SOMALIA



United Nations
Economic Commission for Africa

COUNTRY PROFILE **2016**



SOMALIA

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Abbreviations and acronyms

AfDB	African Development Bank Group
AMISOM	African Union Mission in Somalia
CEN-SAD	Community of Sahel-Saharan States
CPA	country programmable aid
ECA	Economic Commission for Africa
FSNAU	Food Security and Nutrition Analysis Unit – Somalia
GDP	gross domestic product
IGAD	Intergovernmental Authority on Development
IMF	International Monetary Fund
IPU	Inter-Parliamentary Union
ISIL	Islamic State in Iraq and the Levant
ODA	official development assistance
OECD	Organisation for Economic Co-operation and Development
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNFPA	United Nations Population Fund
USAID	United States Agency for International Development

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Somalia at a glance

General information		Rankings	
Subregion	East Africa	Human development index (United Nations Development Programme)	n/a
Official language	Somali	Gender inequality index (United Nations Development Programme)	n/a
Currency	Somali Shilling	Ibrahim index of African governance (M Ibrahim Foundation)	54/54 (2015)
Capital city	Mogadishu	Ease of doing business index (World Bank)	190/190 (2016)
Regional Economic Community membership (s)	Inter-Governmental Authority for Development (IGAD), Community of Sahel-Saharan States (CEN-SAD)	Corruption perceptions index (Transparency International)	176/176 (2016)

Economic growth



The economy is estimated to have grown by 3.7 per cent and inflation contained to just 1 per cent in 2015. The gross domestic product (GDP) per capita of Somalia is estimated at \$450. On the other hand, the trade deficit widened to nearly \$3 billion. The trade deficit is financed mainly with international development assistance and remittances, which leaves the economy vulnerable to external shocks. Agriculture makes up about 60 per cent of GDP, a share that has remained relatively stable since 2000. The share of services in GDP grew in the 1990s, but has plateaued since then. Financial services and telecommunications are currently among the most dynamic service activities and have notable potential for future growth.

Fiscal policy



The Government of Somalia has managed to increase tax revenue steadily since 2013. Despite the rising revenues, however, government expenditure as a share of GDP is among the lowest in the world. Given the enormous social and infrastructural deficits resulting from years of conflict, a significant increase is required both in government revenue and government expenditure. The fiscal deficit declined from \$6.6 million in 2013 to \$5.8 million in 2014, representing less than 1 per cent of GDP. The deficit has been financed by debt and official development assistance. Although the fiscal deficit is low, the stock of external debt was estimated to be \$5.3 billion in 2014, equivalent to about 90 per cent of GDP. A large share of the outstanding debt was accrued before 1991, when hostilities broke out. While debt burden indicators for Somalia meet the requirements for assistance under the Heavily Indebted Poor Countries Initiative, it has not yet satisfied the remaining criteria of the Initiative, which would allow it access to such assistance.



Monetary policy

Inflation at the national level has been low and is expected to remain at around 3 per cent in 2016 and 2017. The economy is still largely dollarized, and the Central Bank of Somalia has announced that one of its highest priorities in the next five years is to introduce a new and unified currency. A first step towards achieving this is a strengthening of the current dual monetary system, which consists of using local currency for low-value transactions and foreign currency for larger transactions and savings.



Current account

Both current transfers and net factor income have increased steadily and are expected to grow at faster rates in 2016 and 2017. Two of the largest sources of financial inflows into the current account are official development assistance (ODA) and remittances. Net official development assistance has increased since 2010, and reached a level of slightly over \$1 billion per year. Remittance inflows are estimated to be about \$1.2 billion per year, although they may be declining for a number of reasons, including changing regulations in the countries of origin. The trade deficit has expanded slightly in recent years and is forecast to continue to expand through 2017.



Capital and financial accounts

Recent estimates suggest that the capital account balance has remained largely unchanged since 2013. Foreign direct investment increased in 2015 to an estimated \$516 million, reflecting the faith that foreign investors have in the economic future of Somalia. At the same time, savings and investment have remained relatively stable, leaving an external resource gap of approximately 1.3 per cent of GDP.



Demography

On the basis of the most recent population estimation survey, the population of Somalia is estimated to be 12.3 million. Of that population, 42.4 per cent is urban. Young people (those under 30 years of age) constitute three quarters of the population. Displacement is still high, with 9 per cent of the population identified as internally displaced. The United Nations Department of Economic and Social Affairs ranks Somalia as the third most urbanized country in East Africa, behind two much smaller countries, Djibouti and Seychelles (Department of Economic and Social Affairs, 2014).



Poverty

About 4.7 million people in Somalia are in need of livelihood support. One million of those people face acute threats to their food security and are unable to meet their minimum food needs (Security Council, 2016b). World Bank estimates suggest that 69 per cent of the population is currently living on less than \$1.90 a day, the international poverty line. According to UNDP, 82 per cent of the population lives in multidimensional poverty (UNDP, 2012).



Employment

The unemployment rate for those aged 15-64 years was estimated at 54 per cent in 2012. For those aged 14-29 years, the unemployment rate was even higher, 67 per cent. Creating sufficient employment opportunities for young people is thus a particularly pressing challenge. Two thirds of young people surveyed by UNDP reported that they intended to leave Somalia (UNDP, 2012). The desire to find a well-paid job was the main reason cited by 64 per cent of those intending to leave.



Health

Maternal and infant mortality ratios are high, with infant mortality estimated at 109 per 1,000 live births in 2009. Meanwhile, an estimated 3.2 million people are in urgent need of access to health services.



Education

Because of the collapse of the State in the early 1990s, education has been provided privately, as for most other social services, often in madrasas (Koranic schools). The literacy rate outside the madrasas is about 48 per cent for those aged 14-29 years. About 1.7 million school-age children are not receiving an education. Only 16 per cent of adults (aged 15 years and above) have received primary education or higher. There are more females than males in the Koranic schools, a situation which defies the trend in other schools.



Gender

Gender-based violence has been a feature of the Somali conflict, particularly among displaced populations. In south-central Somalia, 91 per cent of young people surveyed reported that they had experienced gender-based violence, as compared to 10 and 31 per cent in the states of Somaliland and Puntland, respectively. Somali family law grants women inheritance rights equal to those of men. However, the existence of informal law and customary practices often means that, in effect, women receive smaller inheritances than men or none at all. In August 2016, the National Leadership Forum agreed to instruct clan elders to ensure that 81 of a total of 275 seats in the Lower House were reserved for women.

The economy of Somalia is recovering from a prolonged crisis. The collapse of the regime of President Mohamed Siad Barre in 1991 ushered in a turbulent period of conflict and humanitarian crises. Official statistics for the period are not available, but annual economic growth rates are estimated to have averaged close to zero or were negative over the 1990s and 2000s (Central Bank of Somalia, 2012). A new Federal Government was appointed in 2012, however, following gradual improvements in security over the five years prior to that. Stability is now steadily returning to large parts of the country. The economy is estimated to have grown by 3.7 per cent in 2015, against a backdrop of negligible inflation (1 per cent). On the other hand, the trade deficit widened to nearly \$3 billion. The trade deficit is financed mainly with international development assistance and remittances, which leaves the economy vulnerable to external shocks.

Social development in Somalia has been constrained by insecurity and vulnerability to natural disasters. Between 450,000 and 1.5 million people have died because of violence or hunger since war broke out in 1991 (UNDP, 2012). Currently about 4.7 million people in Somalia are in need of life-saving or livelihood support (about 40 per cent of the population). Within that group, 1 million people face acute threats to their food security and are unable to meet their minimum food needs (Security Council, 2016b). In the 2016 Humanitarian Response Plan for Somalia, there was a call for \$885 million to be raised to meet those needs, but as at May 2016, only 12 per cent of that amount (\$102.9 million) had been raised (Office for the Coordination of Humanitarian Affairs, 2015b).

Those challenges are set in the context of a country with a considerable natural resources base, most of which has been underexploited. There are significant oil and gas reserves attracting the attention of multinational companies. There is the potential to develop energy through solar power and hydropower. The country also has abundant marine resources, charcoal and frankincense, and livestock is the country's largest export. The Food and Agriculture Organization estimates that about 80 per cent of the population relies on the country's natural resources for their livelihood. Yet Somalia lacks both the policy framework to manage those resources and the government institutions needed to enforce it. Section 5.1 of the present document details the implications of the situation for the structural transformation agenda. At the same time, three quarters of the population are below the age of 30 years. The "youth bulge" in the age pyramid presents acute and specific challenges, discussed in section 5.2.

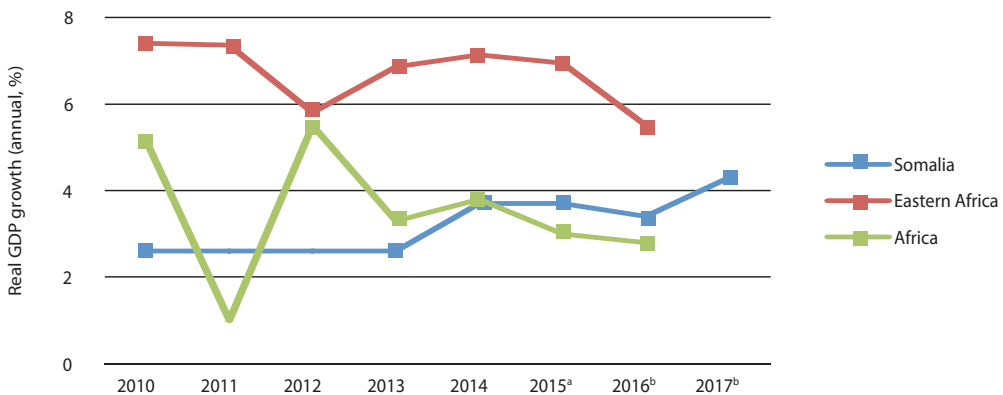
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National and subregional context

The average growth of the economy of Somalia between 2010 and 2015 is estimated to have been 3 per cent per year. That is below the equivalent figures for both Africa as a whole and East Africa, which were 3.6 and 6.9 per cent respectively (see figure 1). However, the growth of the country increased in 2013 and has closely tracked the African growth rate every year since. Furthermore, the outlook is positive. Together with the International Monetary Fund (IMF), the Government of Somalia expects the economy to grow 3.6 per cent in 2016 and 4.3 per cent in 2017. The fiscal deficit remains within sustainable limits and exports are beginning to grow once more.

One factor assisting economic recovery has been the relative success of neighbouring countries. Ethiopia, for example, recorded some of the fastest economic growth rates in the world since 2010, and Kenya recently achieved middle-income status. Somalia is wisely seeking to capitalize on those developments. In addition to being a member of the Intergovernmental Authority on Development (IGAD), Somalia has joined the Common Market for Eastern and Southern Africa and signed free trade agreements with China and Kenya. It lodged a request to join the

Figure 1: Real gross domestic product growth, Somalia versus Eastern Africa, and Africa, 2010-2017, percentage



Source: Federal Government of Somalia. Department of Economic and Social Affairs, IMF (2015), IMF (2016) and calculations by ECA.

^a Estimates.

^b Forecasts.

East African Community, however, the application was rejected in March 2016 for reasons of insecurity. This disappointing result was made particularly difficult for Somalia to accept when a neighbouring country was admitted one month later.

Despite such developments, the majority of the external trade of Somalia remains directed towards the Persian Gulf. On average, three quarters by value of the country's annual exports were sent to States members of the Cooperation Council for the Arab States of the Gulf during the period 2008-2014. In comparison, less than 5 per cent each year remained in Africa over the same period.

Recent developments have also put pressure on Somalia relations with its East African neighbours. Kenya and Somalia are locked in a legal dispute with respect to 100,000 km² of seabed that each claim to be within their territorial waters. Kenya has already awarded contracts for exploration of these waters, which could hold large amounts of oil and gas. At the request of Somalia, the International Court of Justice was to hold hearings on the matter in September 2016.

Federal elections scheduled to take place in October 2016 were delayed. Broad-based electoral colleges will vote to choose the 275 members of the Lower House, whose seats will be allocated according to the 4.5 clan-power sharing formula.¹ The Upper House will be created with 48 seats divided equally across the six federal states, three seats given to Somaliland and another three to Puntland. In both houses, 30 per cent of the seats will be reserved for women. Looking forward, the National Leadership Forum has adopted a political road map for the period 2016-2020 that includes a set of benchmarks and deadlines leading up to elections by universal suffrage, to be held in 2020. An important component will be the revision of the provisional federal constitution of 2012. Meanwhile, in Somaliland, presidential and parliamentary elections are due to be held in March 2017.

The process of establishing a system of governance based on united federal States is continuing. A number of regional administrations continue to have interim or temporary federal status while internal divisions are being addressed. The Interim Juba Administration recently made progress in resolving issues related to the allocation of positions in and the integration of militia, to the point where it is expected that a cabinet will be appointed in the coming months. Meanwhile, the regional assembly of the Interim South-West Administration held its first plenary session on 10 March 2016. In contrast, however, progress in the regions of Mudug, Hiraan and Shabelle Dhexe has proved more difficult and interim administrations for those areas have not yet been established.

¹ There are four major clans: the Hawiye, Darood, Dir/Isaaq and Rahanweyn. The language of the Rahanweyn clan is Maay, the three other clans speak Mahaatiri. There are several smaller ethnic communities, including the Bantus (UNDP, 2012). The 4.5 rule allocates four seats to the four major clans and shares the equivalent of half a seat across the remaining smaller communities.

Beneath the Federal Government administrations will be representative administrations at the district level, to be established under the Wadajir National Framework for Local Governance, which was launched by the President in March 2016. Its objective is to establish a system based on four pillars: social healing, peace dividends, civic dialogues and local governance. The process of establishing those administrations is expected to be community-led, although the particulars of elections and delegated authority, among other factors, are yet to be fleshed out.

These political developments are set against a backdrop of complex and dynamic security challenges. The security situation worsened in the first half of 2016, with Al-Shabaab stepping up its attacks (Security Council, 2016a). There was an increase in the number of assassinations in Mogadishu, and there were mortar attacks on important government buildings, including the presidential compound (Villa Somalia). Meanwhile, the Islamic State in Iraq and the Levant has claimed their first attack on Somali soil in an ambush of a convoy of the African Union Mission in Somalia (AMISOM) in April 2016. At the same time, AMISOM initiated the third phase of Operation Juba Corridor, the principal objective of which is to destroy Al-Shabaab strongholds in central Somalia and cut their supply routes. As part of that operation, AMISOM liberated the town of Adan Yabal in the Shabelle Dhexe region and Galcad in the Galguduud region in the same month as the Islamic State attack took place.

Notwithstanding the significant challenges, the international community is placing increasing faith in the stability of Somalia. In May 2013, the United Kingdom of Great Britain and Northern Ireland was the first country of the European Union to reopen its embassy in Mogadishu. Turkey has established an embassy in Mogadishu.

Box 1: Africa Regional integration index - Somalia

The Africa regional integration index is designed to measure how well each country in the continent is meeting its commitments under pan-African integration frameworks, such as the African Union Agenda 2063 and the Abuja Treaty. The index is a joint project of the African Development Bank, the African Union Commission and ECA. The index tracks the following dimensions: free movement of persons; trade integration; productive integration (development of regional value chains); regional interconnections; and infrastructure and macroeconomic policy convergence. For more detailed information, the reader may consult the report on the index and the dedicated website.

It was not possible to give Somalia an overall ranking in the index owing to a lack of data, but rankings for some individual dimensions of the index were available. The table below also gives rankings awarded by CEN-SAD.

Overall rank :				
Not available because of missing data*				
Free movement of persons	Trade integration	Productive integration	Infrastructure	Financial integration and macroeconomic policy convergence
Fifth in the IGAD (score: 0.2).	Seventh in the IGAD ranking (score: 0.2).	Seventh in the IGAD ranking (score: 0).	Fourth in the IGAD ranking (score: 0.6).	No ranking available for lack of data.
Best performer in the IGAD ranking is Uganda (score: 0.8).	Best performer in the IGAD ranking is Uganda (score: 1).	Best performer in the IGAD ranking is Kenya (score: 1).	Best performer in the IGAD ranking is Djibouti (score: 0.8).	
Twentieth in the CEN-SAD ranking (score: 0.3).	Twenty-fifth in the CEN-SAD ranking (score: 0.02).	Twenty-sixth in the CEN-SAD ranking (score: 0).	Twenty-second in the CEN-SAD ranking (score: 0.2).	

Free movement of persons:

Moderate to poor score (fifth in the IGAD ranking, twentieth in the CEN-SAD ranking). Somalia allows nationals of all African countries to enter with a visa issued on arrival, but no nationals from African countries are allowed to enter visa-free. Somalia has ratified the relevant CEN-SAD instruments concerning free movement of persons, rights of establishment and free movement of workers; IGAD has no such protocol.

Trade integration:

Poor score (seventh in the IGAD ranking, twenty-fifth in the CEN-SAD ranking). No data were available on the average applied tariff as a share of intraregional imports for Somalia. Trade as a share of GDP with the regional economic communities of which Somalia is a member is not balanced. From 2010 to 2013, Somalia imports from IGAD members accounted for 28 per cent on average of the country's GDP; imports from CEN-SAD members accounted for around 8 per cent. By contrast, the country's exports to the region over that same period were low, with exports to IGAD accounting for less than 0.1 per cent of GDP on average and exports to CEN-SAD accounting for around 1 per cent of GDP.

Productive integration:

Poor score (seventh in the IGAD ranking, twenty-sixth in the CEN-SAD ranking). Somalia appears to be poorly integrated into regional value chains, since its trade does not complement that of its CEN-SAD or IGAD partners. Data on the share of intermediates in its trade with CEN-SAD and IGAD members were unavailable.

Infrastructure:

Moderate to poor score (fourth in the IGAD ranking, twenty-second in the CEN-SAD ranking). In terms of the cost of intra-African mobile telephony roaming charges, Somalia ranks twenty-third out of 38 African countries for which data were available. Somalia ranks lowest among all African countries on the infrastructure development index of the African Development Bank. Around 81 per cent of international flights are intra-IGAD, while 78 per cent are intra-CEN-SAD.

Overall, Somalia performs relatively poorly across the board, particularly in terms of trade integration and productive integration. Where specific policy measures are concerned that could boost its performance, Somalia could consider waiving visa requirements for nationals of a greater number of African countries and look into other measures to boost intraregional trade.

* A continent-wide ranking, in which all African countries from all regional economic communities will be compared with one another, is currently under development for the Africa regional integration index and will be added to subsequent updates of the country profiles of the Economic Commission for Africa.

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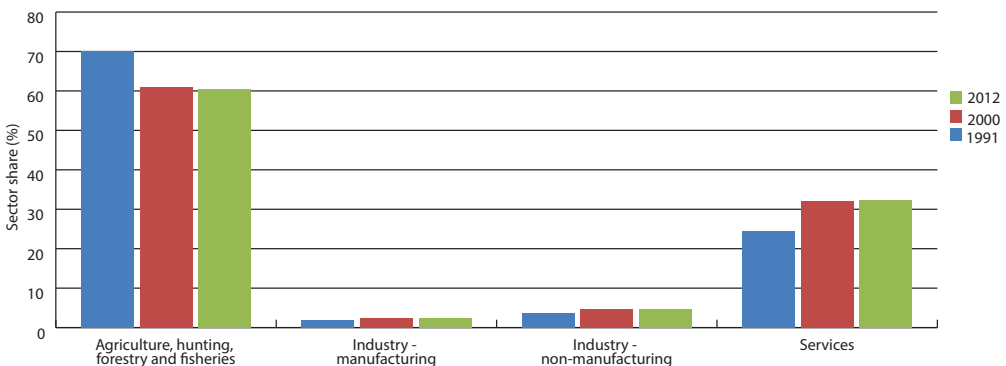
Economic performance

3.1 Economic growth

Agriculture contributes about 60 per cent of the GDP of Somalia, a share that has remained relatively stable since 2000 (see figure 2). Within agriculture, livestock is the largest subsector, accounting for about 40 per cent of GDP. Production is mainly limited to small-scale activities, with limited use of modern agricultural techniques. The contribution of services to GDP grew in the 1990s, but has plateaued since then. Financial services and telecommunications are the main types of services that are currently growing and that have notable potential for future growth.

With respect to financial services, the Central Bank of Somalia notes that none of the major formal banking institutions survived the civil war (Central Bank of Somalia, 2012). Instead, for a long period the financial sector consisted primarily of remittance firms and informal money transfer institutions, such as hawala brokers. However, the gradual arrival of improved security has brought with it increasing numbers of formal financial institutions that are eager to be involved in the considerable stream of remittances flowing into the country. More than \$1 billion in remittances is sent to Somalia every year, constituting nearly one quarter of household income (UNDP, 2012). MasterCard has announced plans to enter the country, and Mogadishu received its first cash machine in October 2014. Somali businesses are also

Figure 2: Sector shares of GDP



Source: UNCTAD (2014).

involved. Dahabshiil, for example, is a Somaliland-based company that now operates in more than 150 countries, employs 2,000 staff and engages with more than 20,000 money transfer agents.

Another important area in which the Somali economy is modernizing is the telecommunications industry. The telecommunications industry has managed to thrive despite years of instability. In fact, it has grown into one of the most competitive and advanced telecommunications industries in Africa. Somalia boasts some of the lowest international call rates on the continent and, as at March 2013, there were 11 licensed operators in Somalia whose networks covered the whole country.

Finally there is evidence suggestive of structural transformation in Somalia. Increasing numbers of workers are leaving agriculture. UNCTAD, in particular, estimates that the proportion of the labour force working in agriculture has fallen from 77 per cent (1980) to 66 per cent (2010) and finally to 64 per cent (2014) (UNCTAD, 2015, p. 129). However, the absence of more detailed data on industry employment shares precludes more thorough analysis on the rate and underlying causes of structural transformation in Somalia. Industry employment would be a fruitful area for further data collection and research.

3.2 Fiscal policy

As a share of the economy, total expenditure of the central Government is one of the lowest in the world, reaching barely 5 per cent of GDP. That is clearly not enough to address the manifest challenges of State-building and reconstruction. However, the Federal Government has managed to increase tax revenue steadily each year since 2013 (see table 1). Most revenue has been derived from levies at the port and airport of Mogadishu: more than 70 per cent of domestic revenue is generated from international duties (Security Council, 2016a). Nevertheless, the Government is actively working to diversify its revenue streams and eventually intends to introduce taxes in relation to income, property, corporate activities and goods and services. This is a challenging task, as the introduction of new taxes has been met with violence in the past. For instance, Mohamed (2014) reports that armed guards now accompany tax collectors in Mogadishu following the murder of around 25 tax collectors between 2012 and 2014.² Grants from the international community have steadily increased, which is discussed in section 3.5.

Meanwhile, the growth of revenue has outstripped the growth of expenditure, resulting in a slight decline in fiscal deficit, from \$6.6 million (2013) to \$5.8 million (2014), which is less than 1 per cent of GDP. The Federal Government has projected that the books would be balanced in 2015, although official statistics are not yet available to determine whether this did, in fact, occur. The Government continues to face difficulties in making payments. The

² Prior to the Federal Government of Somalia, the Islamic Courts Union, which controlled Mogadishu, also faced violent resistance to its attempted introduction of new tax measures (Harper, 2012).

Table 1: Fiscal accounts (millions of United States dollars)

	2013	2014	2015 ^a
Total revenue and grants	110.8	145.3	183.7
Tax revenue	65.1	73.8	77.9
Non-tax revenue	4.1	10.5	22.5
Grant	41.7	61.0	83.3
Expenditure and net lending	117.4	151.1	183.7
Current expenditure	117.4	150.9	169.7
Capital expenditure	0.0	0.2	13.9
Overall balance	-6.6	-5.8	0.0
Financing ^b	0.0	22.9	32.9

Source: Federal Government of Somalia and IMF (2015).

a Projected.

b Includes liquidation of recovered government assets and accumulation of new arrears.

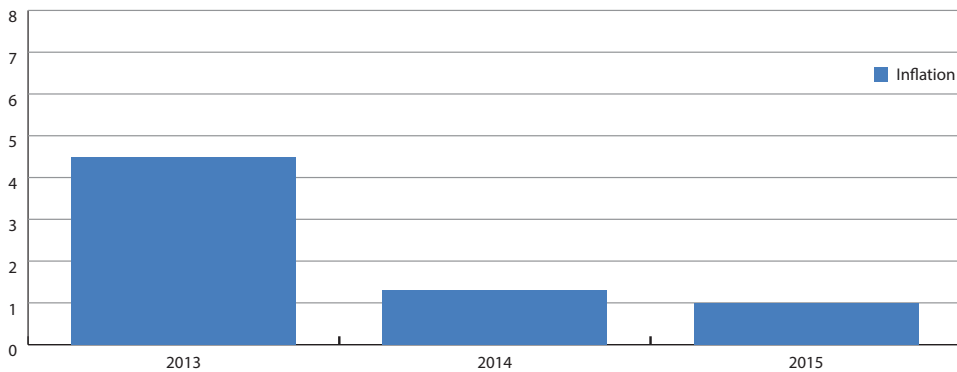
payment of army salaries, for instance, has been highlighted as a significant concern, given the implications for the security situation. Army salaries are estimated to be between 6 and 13 months in arrears.

The fiscal deficit has been financed by a combination of debt and official development assistance (official development assistance is discussed in more detail in section 3.4). The country has accrued a high debt burden from previous political regimes, and this has resulted in limited access to debt financing in recent years. IMF estimates that the external debt was \$5.3 billion in 2014, which is equivalent to more than 90 per cent of estimated GDP (IMF, 2015). Most of that debt was in arrears, and as long as that remains the case, Somalia will not be eligible for financial assistance from IMF. The debt burden indicators do meet the requirements for assistance under the Heavily Indebted Poor Countries Initiative, but Somalia has not yet satisfied the remaining criteria that would give it access to such support.

3.3 Monetary policy

Established in 1960, the Central Bank of Somalia remained largely dormant during the civil war and was able to reopen its doors in Mogadishu and Baidoa only in 2006. Its principal goals are to promote and maintain price stability, regulate the financial system and support the general economic policies of the Government.³ This is a challenging mandate, given that the dollar remains the de facto currency in circulation. In response, the Central Bank has announced that one of its highest priorities for the period up to 2021 is to introduce a new and unified currency. Its first step towards achieving that goal is to strengthen the current dual monetary system under which local currency is used for low-value transactions and foreign currency for larger transactions and savings.

3 Article 4 of the Central Bank of Somalia Act of 2011.

Figure 3: Annual inflation (percentage)

Source: IMF (2015).

Notwithstanding those challenges, inflation at the national level has been low (see figure 3) and is expected to remain at around 3 per cent in 2016 and 2017 (IMF, 2015). Yet this figure hides significant variation in inflation rates within the country, due to differing security situations and the difficulty of transporting goods from one market to another. According to FSNAU the consumer price index increased by 3 and 7 per cent in central and north-eastern regions, respectively, over the 12 months up to April 2016. In comparison, the consumer price index declined by 3 per cent in southern regions (FSNAU, 2016a).

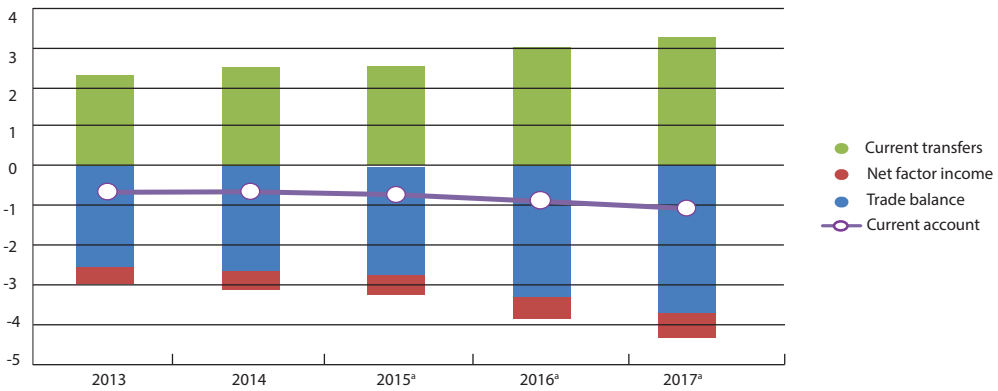
3.4 Current account

Current transfers and net factor income have both increased steadily, and are expected to grow at faster rates in 2016 and 2017. Two of the largest sources of financial inflows into the current account are official development assistance and remittances. Remittance inflows are estimated to be about \$1.2 billion per year, although they may be declining for a number of reasons, including changing regulations in the countries of origin (FSNAU, 2015).

Somalia's main trading partners are Oman, the United Arab Emirates and Yemen. Together these three countries usually account for about 80 per cent of Somalia's exports each year. The trade deficit has expanded slightly in recent years and is forecast to continue doing so in 2017 (see figure 4). The steadily growing trade deficit will not be sustainable unless the country's financial inflows continue to grow at a proportional rate. This vulnerability is discussed further in section 3.5.

An important priority for Somalia is to develop viable export industries that can generate foreign currency. At the moment, Somalia's principal export is livestock, which generates about 50 per cent of its export earnings. Exports of cattle have steadily increased each year since 2010, with a slight reduction in 2015 (see figure 5). By contrast, the camel export industry is struggling. One of the principal challenges to growth in that industry has been

Figure 4: Current account balance (billions of United States dollars)



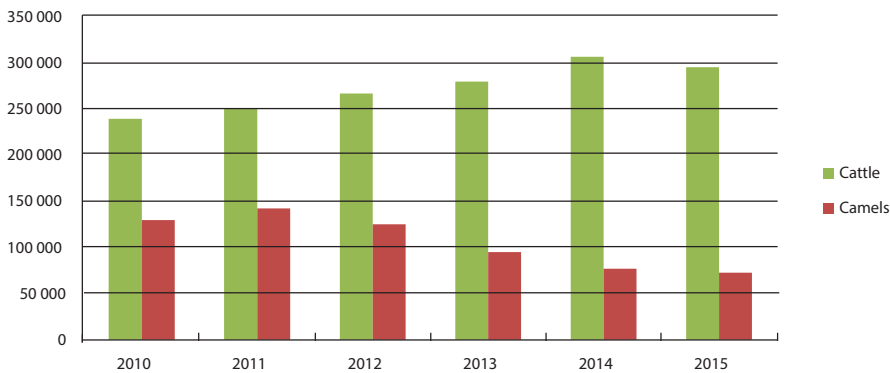
Source: Federal Government of Somalia and IMF (2015).

^a Provisional data.

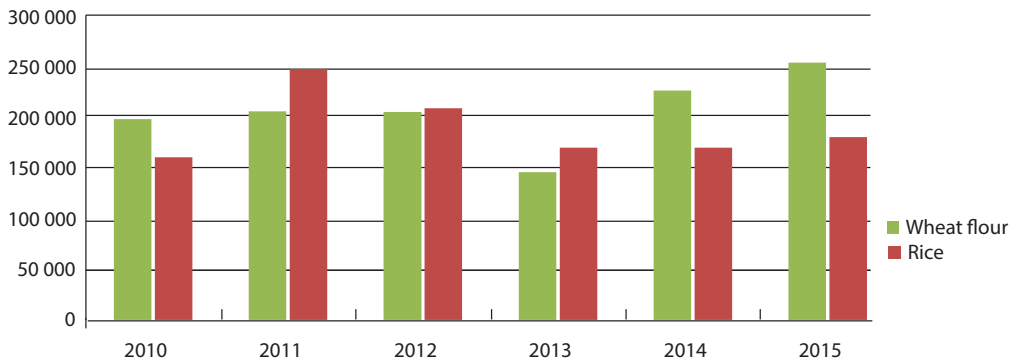
disease control. More broadly, Somali exports struggle to compete on the international stage because Somalia has no national quality control procedures or regulations. One of the reasons for the tendency to export live animals is that it offers recipient countries the opportunity to impose their own quality control measures at the time of slaughter and distribution. There would be scope for considerable value addition if Somalia could guarantee quality standards and export packaged meat.

Somalia’s main imports are food, notably wheat, rice, sugar, molasses and honey. Imports of wheat flour have steadily increased each year since 2010, with the exception of 2013 (see figure 6). Meanwhile, disaggregated trade data suggest that while imports of rice have fluctuated, there are important changes occurring in the composition of exports (Wilson,

Figure 5: Exports (heads of cattle and heads of camel)



Source: FSNAU (2016b).

Figure 6: Imports (tons)

Source: FSNAU (2016b).

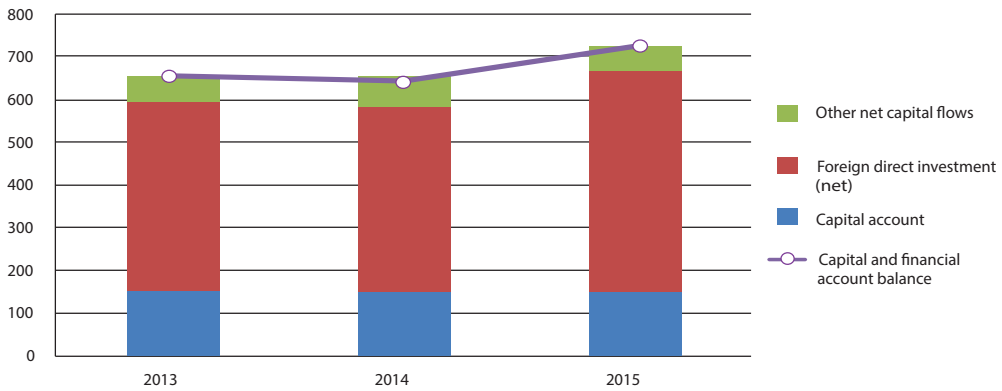
2015). Comparing the five years before 2008 with the five years after, imports of capital goods essential for an expanding economy increased, while luxury goods imports decreased. In particular, imports of civil engineering and contractors' plant and equipment, of tractors and of lighting fixtures and fittings all grew, respectively by 411 per cent, 448 per cent and 360 per cent. Meanwhile, imports of tobacco fell by 58 per cent.

Finally, considerable illegal trade occurs across the borders of Somalia. Arms imports appear to have been increasing: figures from the Stockholm International Peace Research Institute suggest that the value of arms imports to Somalia doubled between 1999 and 2013 (Njagi, 2014). In addition, areas of the country still under the influence of Al-Shabaab have been generating revenue from illegal charcoal exports. Njagi reports that about \$360 million to \$384 million worth of charcoal exports are thought to leave East Africa every year.

3.5 Capital and financial accounts

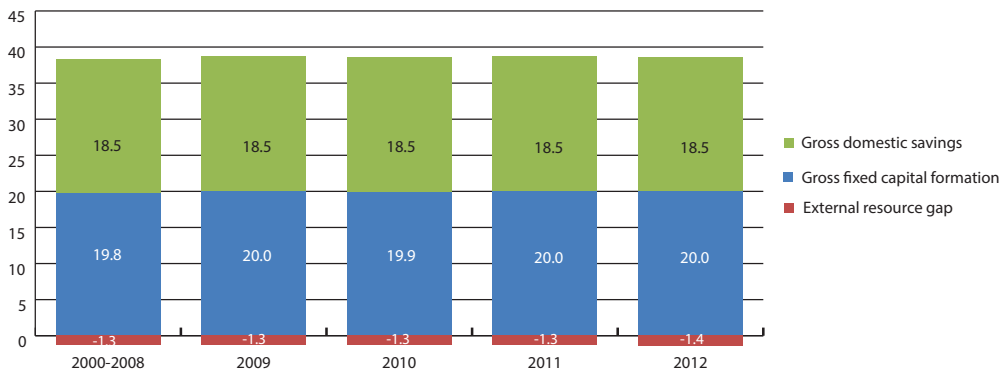
Recent estimates suggest that the capital account balance has remained largely unchanged since 2013 (see figure 7). Foreign direct investment is projected to have increased in 2015 to \$516 million, a fivefold increase compared with 2012 reflecting the faith investors have in the economic future of Somalia (UNCTAD, 2016). In 2014, flows for foreign direct investment in the amount of \$434 million were directed mainly towards the telecommunications, electricity and hotel sectors (IMF, 2015, p. 3). At the same time, savings and investment have remained relatively stable, leaving an external resource gap of approximately 1.3 per cent of GDP (see figure 8).

Figure 7: Financial account balance (millions United States dollars)



Source: Federal Government of Somalia and IMF (2015).

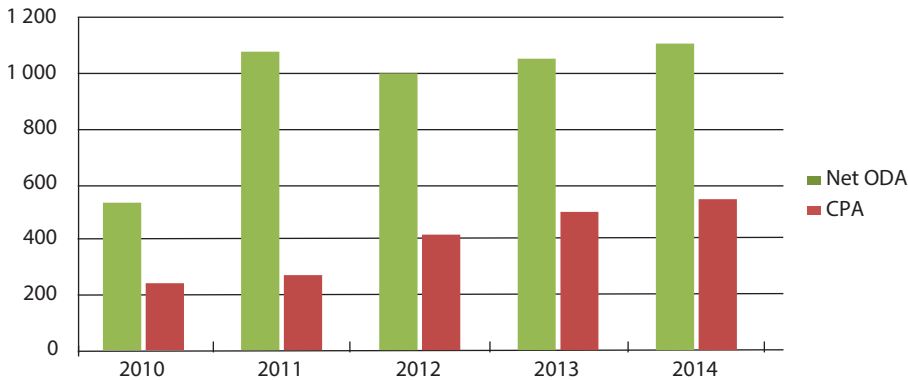
Figure 8: Resource gap (percentage of GDP)



Source: UNCTAD (2014).

Development assistance is governed by the framework provided by the Somali Compact between the Federal Government and the international community.⁴ It was developed in consultation with civil society, Somali citizens and representatives of the international community, and includes a special provision for Somaliland. At its signing in 2013, members of the international community pledged \$2.4 billion to support Somalia’s reconstruction. This was followed by further pledges of \$8 billion in October 2014. While these pledges have not yet fully materialized, net ODA has increased since 2010 and reached a level of slightly over \$1 billion per year (see figure 9). More promising still, the levels of country programmable aid have increased steadily each year since 2010, reflecting a growing trust in national institutions.

4 The Somali Compact is the result of the principles of the New Deal for Engagement in Fragile States agreed by the fragile States, including Somalia, that make up the Group of Seven Plus.

Figure 9: Official development assistance (millions of constant United States dollars)

Source: OECD (2016).

The largest providers of development assistance to Somalia during the period 2010-2015 have been the United States of America and the United Kingdom, in that order. The European Union is also a major donor, although it recently announced a 20 per cent reduction in its support for AMISOM. Non-traditional donors have been rapidly increasing their presence in the region. Turkey, in particular, has increased its net official development assistance from \$5 million per year (2006-2010, in constant prices) to \$88 million per year (2011-2014). It is now the third largest donor country. In February 2016, the President of Turkey, Recep Tayyip Erdogan, co-hosted the High-level Partnership Forum on Somalia which was attended by nearly 50 member States and 11 international organizations. Meanwhile, Saudi Arabia has provided \$50 million to Somalia in the first half of 2016 in order to reduce the budget deficit. China has also been active, supporting the financing and construction of roads, hospitals, schools and the largest stadium in the country. China was also one of the first countries to reopen its embassy in Mogadishu.

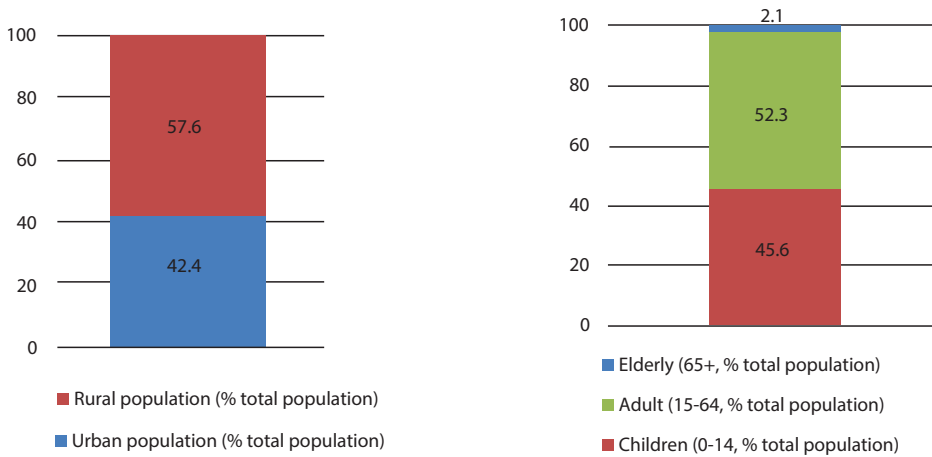
4

Social developments

Social development in Somalia has been significantly constrained by insecurity and natural disasters. Between 450,000 and 1.5 million people have died because of violence or hunger since war broke out in 1991 (UNDP, 2012). In one famine alone – caused by drought – between October 2010 and April 2012, more than a quarter of a million people are estimated to have died (United Nations News Centre, 2013).

4.1 Demography

The first official population estimate of Somalia since the 1975 census was conducted by the Government of Somalia and UNFPA in 2013 (UNFPA, 2014). It found that Somalia had a population of 12.3 million, 42.4 per cent of which was urban (see figure 10). Nine per cent of the population was identified as internally displaced persons, while the remainder were rural (22.8 per cent) and nomadic (25.9 per cent). A cross-country analysis by the United Nations Department of Economic and Social Affairs ranks Somalia as the third most urbanized country in East Africa, behind two much smaller countries: Djibouti and Seychelles, despite Somalia's very low population density of 18 per km² (Department of Economic and Social Affairs, 2014). Somalia's population grew at an average of 2.4 per cent during the period 2010-2015 (Department of Economic and Social Affairs, 2016). This is a higher rate than neighbouring Djibouti (1.3 per cent), but a lower one than neighbouring Ethiopia (2.5 per cent) and Kenya (2.7 per cent). Somalia is forecast to experience a fivefold increase in its population between 2015 and 2100. With a median age of just 16.5 years, it also has the sixth youngest population in the world.

Figure 10: Population make-up (years)

Source: Government of Somalia and UNFPA (2014).

As a consequence, Somalia is facing a “youth bulge” in its age pyramid: close to three quarters of the population is below the age of 30 (Somalia and UNFPA, 2014). The combination of a high fertility rate and low life expectancy, estimated to be about 50 (UNDP, 2012), means that, over time, the share of young people in the total population is likely to increase rather than decrease. Two thirds of young people surveyed by UNDP reported that they intended to leave Somalia (UNDP, 2012). In south-central Somalia that number was even higher at 97 per cent. The desire to get a well-paid job was the main reason cited by 64 per cent of those intending to leave, while better educational opportunities and escaping conflict were cited by 17 per cent of the respondents.

4.2 Poverty and employment

About 4.7 million people in Somalia are currently in need of livelihood support. One million of those people face acute threats to their food security and are unable to meet their minimum food needs (Security Council, 2016b). The Humanitarian Response Plan for Somalia 2016 contains a call for \$885 million to be raised to meet those needs, but as of May 2016, only 12 per cent of that amount (\$102.9 million) had been raised. UNDP estimated that 82 per cent of the population was living in multidimensional poverty, i.e. was suffering multiple dimensions of deprivation (UNDP, 2012). That figure was lower in urban areas (61 per cent), but higher in rural areas (95 per cent). It is estimated that 69 per cent of the population live below the updated international poverty line of \$1.90 per day (Security Council, 2016a). Meanwhile, the limited statistics available suggest that inequality has increased. Income inequality, as measured by the Gini coefficient, has risen from 0.39 in 2001 to 0.48 in 2010.

In 2002, the unemployment rate for those aged 15 to 64 was 47 per cent. By 2012, the unemployment rate had risen to 54 per cent (UNDP, 2012). For those aged 14 to 29, the

unemployment rate was 67 per cent. Among the young people surveyed, the main reasons cited for being unemployed were a lack of job opportunities (42 per cent), followed by a lack of employable skills (18 per cent). Even among employed young people, 70 per cent were seeking different jobs. They cited low pay in their current job as the main reason, followed by the need for a full-time job and lack of job satisfaction. Of Somalis who were employed, 95 per cent worked in agriculture or services.

4.3 Health

The civil war has resulted in a health-care system that is weak, inadequately resourced and inequitably distributed. The maternal and infant mortality ratios are high (see table 2). Meanwhile, an estimated 3.2 million people need access to emergency health services. Acute diarrhoea, malaria and other communicable diseases are common in many parts of Somalia, primarily as a result of poor sanitation and a lack of safe water. Forty-five per cent of Somalis do not have access to safe water and 37 per cent do not have access to basic sanitation (Office for the Coordination of Humanitarian Affairs, 2015a).

There are very few health professionals in the country, and those that are present are severely constrained in their ability to provide services owing to security concerns and resource limitations. As one example, Médecins Sans Frontières pulled out of Somalia in August 2013 after multiple attacks on its staff. More recently, the Government developed a strategic plan for the health sector and a multisectorial national policy for water, sanitation and hygiene. However, health service providers are still unable to provide life-saving services at the scale required and many organizations continue to withdraw staff and reduce their services owing to funding deficits, danger to staff, or both (Security Council, 2016b).

Food security is another major health challenge, particularly over the short to medium term. Severe drought conditions have hit parts of the states of Somaliland and Puntland, which

Table 2: Health indicators

	2002	2006	2008	2009
Married women using contraceptives (% aged 15-49)		14.6		
Maternal mortality ratio (per 100,000 live births)			1200	
Antenatal care by a skilled provider (at least one visit, %)		31.6		
Births attended by a skilled provider (%)		33		
Infant mortality rate (age 0-1, per 1,000 live births)				109
Under-five mortality rate (per 1,000 live births)				180
Children under five moderately or severely underweight (%)				13.9
Undernourished population (%)	71			

Source: UNDP (2012).

are threatening 385,000 people in these areas with acute food insecurity if they do not receive assistance. In total, the Office for the Coordination of Humanitarian Affairs estimates that 1.7 million people are in need of assistance in Somaliland and Puntland (Office for the Coordination of Humanitarian Affairs, 2016). More recently, FSNAU estimated that 305,000 children under the age of five years are acutely malnourished. Of those, 58,300 may face death if they do not receive urgent humanitarian assistance.

4.4 Education

The formal education system collapsed in 1991. Since then, education, like most other social services, has been provided privately, often in madrasas. Supply is heavily outstripped by demand. About 1.7 million school-age children are not receiving an education (Office for the Coordination of Humanitarian Affairs, 2015a). As this is a long-term problem, education attainment rates across the population are low. Only 16 per cent of adults aged 15 years and above have received primary education or higher (table 3). Less than 10 per cent of those living in rural areas have received secondary education or above.

One goal of the Humanitarian Response Plan for Somalia 2016 is to raise the number of children in safe learning environments from 60,000 to 200,000. However, it seems unlikely that such a goal will be achieved; under the Humanitarian Response Plan for Somalia 2015, only 13 per cent of the 340,000 targeted children were reached because of inadequate funding. Meanwhile, the first Government-led school census, conducted in early 2016, has provided information that will be essential for the development of long-term education development programmes.

The literacy rate outside the madrasas is about 48 per cent for those aged 14 to 29 (UNDP, 2012). Among those, the literacy rate for men was 53 per cent and that of women 43 per cent. About 36 per cent of young people surveyed by UNDP gave as the main reason for not attending school their inability to afford the expense, while 22 per cent cited household work and 17 per cent felt that school was not relevant for getting jobs.

Table 3: Education

	2007	2012
Net enrolment ratio (primary, %)	78.4	
Received primary education (% aged 15 and above)		15.7
Male		17
Female		14.4
Urban		16.2
Rural		14.4
Received secondary education or higher (% aged 15 and above)		15.7
Male		18.8
Female		12.5
Urban		19.4
Rural		6.6

Source: UNDP (2012).

Table 4: Educational attainment of people aged 15 and above (percentage of the population that has completed each level)

	None	Madrasa	Primary	Secondary +	Total
Male	37.3	26.9	17	18.8	100
Female	41.3	31.8	14.4	12.5	100
Total	39.3	29.3	15.7	15.7	100
Urban	39	25.4	16.2	19.4	100
Rural	40	39	14.4	6.6	100

Source: UNDP (2012).

4.5 Gender

Gender-based violence has been a feature of the conflict in Somalia, particularly among displaced populations. Prosecution for gender-based violence is rare according to UNDP, and the traditional parts of Somali society are not accustomed to openly discussing such issues (UNDP, 2012). That said, rates of gender-based violence vary across regions. In south-central Somalia, 91 per cent of the young people surveyed reported that they had experienced gender-based violence, compared to 10 and 31 per cent in Somaliland and Puntland, respectively.

Somali family law grants women inheritance rights equal to those of men. However, the existence of informal law and customary practices often means that, in practice, women receive smaller inheritances than men or none at all. Women are also not represented proportionally in political and judicial institutions. According to IPU, as at April 2016, 14 per cent of the seats in parliament were held by women (IPU, 2016). That is well short of the 30 per cent required by the Garoowe principles, on which the Constitution of Somalia is based. The rate also compares poorly with the world average of 22.8 per cent, and with those of other countries in the region, such as Ethiopia (38.8 per cent) and Eritrea (22 per cent). Nonetheless, in the election in August 2016, 30 per cent of the seats in both houses of the Federal Parliament were to be reserved for women. The Government of Somalia has also announced its intention to ratify the Convention on the Elimination of All Forms of Discrimination against Women.

5

Major policy challenges

5.1 Harnessing natural resources for structural transformation

Somalia has abundant natural resources, particularly with regard to its marine or “blue” economy (ECA, 2016a), that could be used as a powerful tool to drive a structural transformation of the economy. Structural transformation is necessary to improve stability and security in a sustainable way. At the same time, however, natural resources can be a divisive issue. Managed poorly, they can exacerbate political fissures, drive a wedge between communities and perhaps ultimately derail the federalization agenda. The Monitoring Group on Somalia and Eritrea, which is backed by the United Nations, recently argued that the increased international interest in Somalia’s mineral and maritime resources is one of the greatest challenges to peace and security in the country.

The most contentious natural resource in Somalia is oil. While assessments are still being conducted, some estimates, such as those provided by the Heritage Institute for Policy Studies in Mogadishu, suggest that there could be as many as 110 billion barrels of oil within the country’s territory. Oil exploration in Somalia dates back to 1956, and concessions were awarded in the 1980s. However, those were abruptly terminated owing to the conflict and it is only now that development drilling has become a realistic and feasible prospect. The Government signed its first oil deal with Soma Oil and Gas, a company based in the United Kingdom. In Somaliland, another company based in the United Kingdom has a production-sharing contract for an onshore area of 22,840 km² known as the Odewayne block. In Puntland, production-sharing agreements have been reached in respect of the Dhahoor Valley and the Nugaal Valley exploration areas.

Given their size, these potential oil reserves could provide significant and steady revenue for the Federal Government and subnational governments over the course of many years, even with the oil price at its current low, which would provide a window to invest in economic development programmes that could create new industries and higher-paid jobs.

However, numerous challenges stand in the way of realizing such a prospect. One obvious challenge is security. For example, Genel Energy, an Anglo-Turkish company, suspended its oil exploration programme in Somaliland in 2014 because of security concerns. A further challenge arises from the need to establish revenue-sharing arrangements between the Government of Somalia and subnational governments. This important but divisive issue has been a major

stumbling block in the federalization agenda. Yet even if it is overcome, an appropriate policy framework needs to be designed and implemented before oil exploitation can occur. The Government of Somalia has stated that “there is a lack of an effective petroleum legal and fiscal framework that meets the requirements of all stakeholders” (Somalia 2013, p. 74).

Other than oil, the most abundant natural resources in Somalia are livestock, charcoal, marine resources, solar energy, hydropower and frankincense. The greatest challenge is to use those resources sustainably. Desertification, marine pollution, the depletion of wildlife resources and the overexploitation of charcoal have all been cited by the United Nations as major areas of concern in Somalia. The lack of a reliable electricity supply has forced the majority of the population to rely on traditional solid fuels, including charcoal and wood. In fact, 97 per cent of urban households still depend on charcoal. To source charcoal, trees are cut and burned, which accelerates desertification, removes fertile soil and damages zones used for grazing livestock. The situation is exacerbated by high demand for charcoal in the Gulf States (AfDB, 2013). About 1.7 million hectares, or nearly 20 per cent of the forest cover in Somalia, has been lost since 1990, a rate similar to that observed in Ethiopia and the United Republic of Tanzania (ECA, 2014). In the north-western area of Somaliland, villages have been abandoned as a result of climatic changes that have eliminated reliable water sources and made the area unfit for human habitation. Unilateral, uncoordinated private water developments, often built by wealthy livestock owners, are also putting significant pressure on resources in rural Somaliland and Puntland.

Nonetheless, one area that holds considerable promise is fisheries. Piracy in Somali waters has decreased dramatically following effective international measures, opening up the deep-sea areas beyond the continental shelf where most abundant fish stocks are. At the moment those stocks are being exploited only by foreign trawlers. The Federal Government is negotiating with the foreign owners of those trawlers to ensure that it receives some revenue from their activities. The United Nations Assistance Mission in Somalia is also helping to mobilize international support to address illegal, unreported and unregulated fishing in Somali waters. More importantly progress is being made in building Somali ships and on-land processing facilities that would enable Somali operators to access deep-sea fish stocks. The benefits are considerable: fish stocks in Somali waters are the only underexploited stocks left on the planet, according to USAID. USAID further estimates that the fisheries sector has the potential to generate four jobs on land for every one job created at sea (USAID, 2014).

Ensuring that fisheries in Somalia are managed sustainably and that they overcome the aforementioned challenges requires targeted and coherent policy action, for which strong government institutions are needed. Unfortunately, the capacity of the State is weak in Somalia (AfDB, 2013). Government ministries are dispersed and poorly funded. There is also a lack of coherence and coordination among local, regional and government institutions. In the fisheries sector, for example, not all stocks in Somali waters are underexploited. Fish stocks

closer to shore, on the continental shelf, tend to be more vulnerable (USAID, 2014). Stocks of lobster, the only type of seafood to be successfully exported from Somalia, are beginning to dwindle, largely because of overexploitation. If fishery is to become a tool for sustainable structural transformation, it is essential to manage the exploitation of fish stocks so that harvests are kept at sustainable levels.

The Government of Somalia is demonstrating an eagerness to address those issues. For instance, it has drafted a plan to train and equip the navy and coast guard, referred to as the Naqude (Captain) plan. More broadly, the Deputy Prime Minister launched, in January 2016, a national biodiversity strategy and action plan. The state government of Somaliland is also stepping up its strategy to leverage its blue economy assets. It is developing its port facilities at Berbera after reaching an agreement in May 2016 with Dubai-based ports operator. The Somaliland concession lasts for 30 years, with an automatic extension for 10 years. It is set up as a joint venture between the state government of Somaliland and DP World, with DP World owning 65 per cent of the joint venture and the governing authorities of Somaliland managing and investing in the port. To expand the port's infrastructure, phased investment of up to \$442 million is planned, dependent on trans-shipment volumes (Fitch, 2016). The policies are promising, however, success will depend on the degree of their implementation. They will require considerable human and financial resources to translate policy into action, as well as sustained support from the international community. It remains to be seen whether such commitments will be forthcoming.

5.2 Somalia and future generations: meeting the needs of children and young people

Future generations in Somalia will bear the full brunt of persistent political and social instability. Many children are directly affected by conflict. For instance, in the first quarter of 2016 alone, close to 1,000 children were the subject of violations of the law on children and armed conflict, including incidents of recruitment, abduction and killing. Other children are affected more indirectly, for example, because they are deprived of education opportunities. As noted above, the Office for the Coordination of Humanitarian Affairs estimates that 1.7 million school-age children are not receiving an education (Office for the Coordination of Humanitarian Affairs, 2015a). Nearly 80 per cent of those are internally displaced. In south-central Somalia, only 22 per cent of children are enrolled in primary school. Meanwhile, weak institutions and a lack of basic public services have resulted in a large number of children being deprived of basic nutrition and health services. For example, FSNAU estimates that 305,000 children below the age of five years are acutely malnourished. Of those, about 58,300 may face death if they do not receive urgent treatment (Security Council, 2016b).

In addition to the inherent injustice, the implications for the future are troublesome. Low rates of access to education impairs the development of human capital, which is a fundamental

driver of long-term economic growth (Mankiw, Romer and Weil, 1992). Divisions that form when children are excluded from the education system tend to persist into adulthood and create fault lines in society. From the opposite perspective, education systems that are inclusive would foster three social dynamics needed by Somalia: greater social cohesion, improved social mobility and more civic participation in governance (Gradstein and Justman, 1999; ECA, 2016b).

The Government of Somalia and its international partners are aware of the toll that such instability is taking on young people and children, and are taking measures to address the situation. For instance, the Ministry of Youth and Sports is developing a national youth policy. Somaliland and Puntland have developed their own youth policies. In addition, the Cabinet of the Federal Government is also considering the introduction of a pilot unit for the protection of women and children within the Somali peace unit. However, the effectiveness of those measures will depend on the degree of their implementation. Until progress is made in that regard, the status quo will remain, with two thirds of young people in Somalia hoping to leave the country (UNDP, 2012). In south-central Somalia, that number was 97 per cent.

At a more fundamental level, there is a need to redefine the approach to children and young people. For many, the large and growing number of young people in Somalia is viewed with fear, largely because young people tend to make up the majority of those involved with militias and armed gangs, including Al-Shabaab (UNDP, 2012). That might explain, for example, why young people find it difficult to gain access the justice system in Somalia and have very limited political rights. For instance, a candidate must be at least 35 years old to be eligible to run for the House of Representatives in Somaliland. A more constructive approach, as forcefully argued by UNDP, is to treat young people as assets, not threats (UNDP, 2012). Taking that perspective, young people could be taken on board as partners for peace and development, rather than viewed as obstacles. Somali young people surveyed by UNDP expressed a strong desire to be involved in peacebuilding initiatives (UNDP, 2012).⁵

5 The approach is consistent with Security Council resolution 2250 (2015), in which the Council urged Member States to consider ways to increase inclusive representation of youth in decision-making at all levels.

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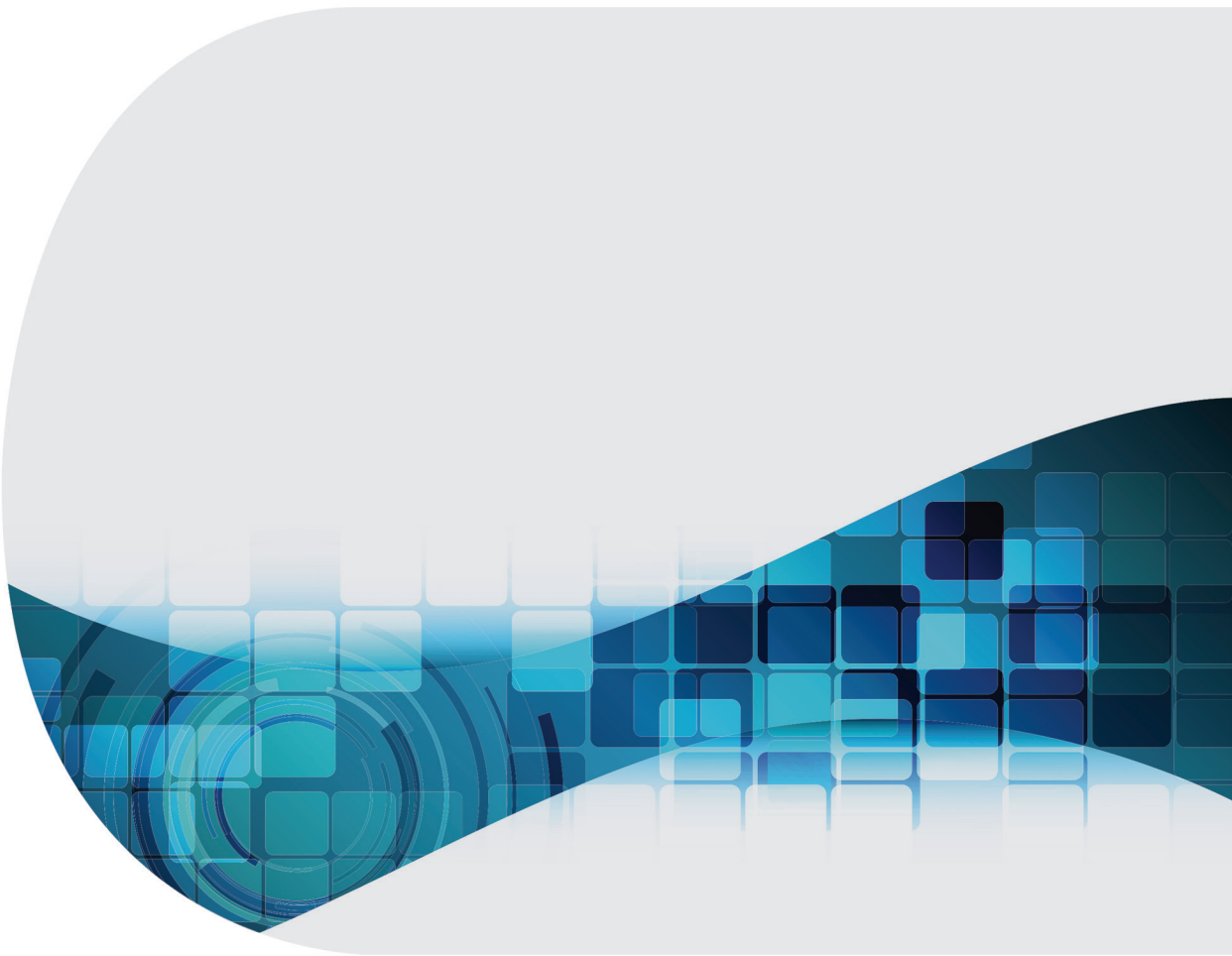
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