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Integrating Climate Change with Somalia's Development: The Case for Water

WORLD BANK GROUP


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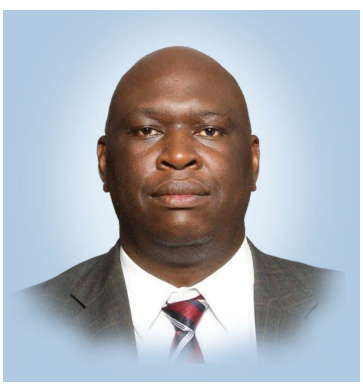
In Memory of John Randa



This edition is dedicated to the late John Randa who was serving as Senior Economist for Somalia and as the lead author, had just completed this report at the time of his passing. A Kenyan national, John joined the World Bank Group in 1998 and became the Senior Economist for Somalia in 2015.

John made significant contributions to the Somalia Program. He led the annual flagship publication of the Somalia Economic Update (SEU) series including this eighth edition. He also led the trade analytics and advisory and statistics work as well as co-authored numerous publications.

John will be remembered for his kindness, humanity, generosity, and a great sense of humor filled with his hearty laughter that warmed everyone around him.

He will be dearly missed as a friend, big brother, and consummate professional.

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ABBREVIATIONS

AfDB	African Development Bank
AML/CFT	Anti-money laundering and countering the financing of terrorism
CBS	Central Bank of Somalia
DMU	Debt Management Unit
ECF	Extended Credit Facility
ENSO	El Niño Southern Oscillation
ET	Evapotranspiration
FAO	Food and Agriculture Organization
FAOSTAT	Food and Agriculture Organization Corporate Statistical Database
FCV	Fragility, Conflict, and Violence
FDI	Foreign Direct Investment
FGS	Federal Government of Somalia
FIES	Food Insecurity Experience Scale
FMS	Federal Member State
GDP	Gross Domestic Product
GSS	Galmudug State of Somalia
ha	Hectare
HIPC	Heavily Indebted Poor Country
HSS	Hirshabelle State of Somalia
IBAN	International Bank Account Number
IDP	Internally Displaced Person
IMF	International Monetary Fund
INGO	International non-governmental organization
JSS	Jubaland State of Somalia
km	Kilometre
km²	Square kilometre
KYC	Know your customer
l/cap/day	Litre per capita per day
l/s/km²	Litre per second per square kilometre
LCD	Litre per capita per day
ICT	Information and Communication Technologies
LIC	Low-income Country
m³	Cubic meter
m³/ha/year	Cubic meter per hectare per year
MCM	Million cubic meter
MCM/yr.	Million cubic meter per year
microS/cm	Micro siemens per centimetre
mm/d	Millimetre per day
mm/yr	Millimetre per year
MoEWR	Ministry of Energy and Water Resources
MoWD	Ministry of Water Development
NDP	National Development Plan
NPS	National Payment System
NGO	Non-governmental Organization
NRA	National Risk Assessment
NWRS	National Water Resource Development Strategy
OAG	Office of the Auditor General
ODA	Official Development Assistance
PFM	Public Financial Management
PPP	Public-private Partnership
PSS	Puntland State of Somalia
SIHBS	Somalia Integrated Household Budget Survey
SWALIM	Somalia Water and Land Information Management (FAO)
SWC	Soil and Water Conservation
SWS	South West State of Somalia
UN	United Nations
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
WASH	Water, Sanitation, and Hygiene
WB	World Bank
WDA	Somali Water Development Agency
WHO	World Health Organization

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FOREWORD

Somalia has remained on a strong economic reform path despite the various global and exogenous shocks that have continued to buffet the economy. Recurrent climate-related shocks, such as cycles of droughts, floods, locusts' infestation, higher international commodity prices, as well as increased insecurity and conflict, have interrupted the country's growth trajectory. However, this has not deterred the country's commitment to continue advancing reforms to strengthen key economic institutions and promote macroeconomic stability and recovery. As a result, Somalia has continued to make progress toward meeting the conditions for achieving the HIPC Completion Point in December 2023.

Within the framework of resilience, the eighth edition of the World Bank's Somalia Economic Update series provides an in-depth analysis of recent economic developments and growth outlook and makes a case for integrating climate change with Somalia's growth agenda. The increased frequency and magnitude of shocks in Somalia directly affect the poor and contribute to displacement, food insecurity, and conflict. Somalia's waters are a vital ingredient in building resilience, improving prosperity, and developing the economy. Overall, the Economic Update series aims to contribute to policymaking process and stimulate national dialogue on topical issues related to economic recovery and development.

To enable Somalia continue transitioning from fragility and to improve household resilience to shocks, access to water is important. Water is the central enabler of human development, urban development, job creation, and a driver of long-term economic growth. Underpinning resilience and prosperity, Somalia needs an integrated economic policy that places water at its center. Economic success will be deeply influenced by the extent to which the country is able to fully harness its available green and blue water resources, including allocating them to the highest value social, economic, and environmental uses. Better water management is also critical for helping the country cope with climate variability and climate change and for smoothening out economic shocks, particularly from floods and droughts.

Lastly, as Somalia reaches the HIPC Completion Point, it is important that the country continues its reform path to achieve inclusive economic growth and prosperity to avoid sinking into future debt in the medium-term and post-HIPC era. The reforms needed are numerous and cut across many sectors which the World Bank has discussed with the authorities. This report, therefore, only highlights macroeconomic policies and reforms that promote inclusive growth and institutional building including enhancing fiscal space for development priorities while strengthening expenditure controls; strengthening financial integrity; integrating Somalia into the global financial system; and improving debt management.

Kristina Svensson
Country Manager, World Bank Somalia

HORUDHAC

Soomaaliya weli waxay ku sii jirtaa dhabada dib u habbaynta dhaqaalaha xoogan ka sakow dhacdooyinka xun ee kala duwan caalami ahaan iyo kuwa dibada ah ee ku sii coda inay waxyeelayso dhaqaalaha. Dhibta cimilada la xidhiidha ee soo noqnoqta, sida waraagyada abaaraha, daadadka, ayaxa meelo soo gala, qiimayaasha alaabta caalamiga ah ee sare, siiba amni darada kordhaysa iyo khilaafka, waxay fara gelisay dhabada koboca dhaqaalaha. Si kastaba ha ahaatee, tan dib looma dhigo, ballan qaadka wadanka in la sii wado dib u habaynta sare u kacaysa si loo xoojiyo wakaaladaha dhaqaalaha muhiimka ah iyo sare u qaadka degenaanta iyo soo kabashada dhaqaalaha dhammayska tiran. Iyaddoo ay tahay natiijada, Somaaliya waxa uu sii waday inuu horumar ka sameeyo dhanka buuxinta xaaladaha ka guul gaadhida HIPC Dhammaystirka Qodobka gudaha Diisaambar 2023.

Gudaha haykalka adkaysiga, daabcaada sideedeed ee Baanka Adduunka Dhaqaalaha Soomaaliya taxanahu waxa uu bixiyaa faaqidaad qoto dheer ee horumarka dhaqaalaha dhawaa iyo koboca muuqaalka oo ka sameeya kiis isku dhafida isbeddelka cimilada ee leh ajandaha koboca Soomaaliya. Inta jeer ee korodhka iyo sida ay u wayntahay jugtu, gudaha Soomaaliya si toos ah waxay u saamaysaa dadka saboolka ah oo waxay ka qayb qaadataa barakaca, cunto yaraanta iyo khilaafyada. Biyaha Soomaaliya waa waxyaabaha ugu muhiimsan ee dhisida adkaysiga, horumarinta badhaadhaha, iyo horumarka dhaqaalaha. Guud ahaan, taxanaha La socodka arrimaha Dhaqaalahu waxay u jeedadiisu tahay inay wax lagu biiriyo nidaamka xeer dejinta oo la dhiiri geliyo wada hadalka qaranka ee ku saabsan arrimaha dhacdooyinka jira la xidhiidha ee soo kabashada dhaqaale iyo horumarka.

SI awood loo siiyo Soomaaliya si ay u sii wado ka wareegida jilicsanaanta oo loo horumariyo u adkaysiga qoyska ee waxyaabaha naxdinta leh, una helaan biyo waa muhiim. Biyaha waxaay suurageliyaha muhiimka ah ee horumarka aadamaha, horumarka magaalada, shaqo abuurka, iyo wadaha koboca dhaqaalaha xiliga dheer. Kordhinta awooda adkaysiga iyo barwaaqada, Soomaaliya waxay u baahan tahay xeerka isku dhafka ah ee dhaqaalaha ee biyaha keena badhtankeeda. Dhaqaalaha guusha dhaqaalaha Soomaaliya si qoto dheer ayay u saamayn doonta xadka wadanku uu awoodo inay si buuxda u maamusho khayraadkeeda biyaha la heli karo ee cagaarka iyo buluuga, ay ku jiraan u qoondaynta iyaga qiimaha u sareeye ee isticmaalka bulsho, dhaqaale, iyo deegaan. Maaraynta Wanaagsan ee biyaha sidoo kale waxay muhiim u tahay caawinta wadanku inuu la tacaalo kala duwanaanshaha cimilada iyo isbeddelka cimilada ee debcinta dhibaatooyinka dhaqaalaha, gaar ahaan kuwa ka yimaada daadadka iyo abaaraha.

U dambayn, marka Soomaaliya gaadho Qodobka Dhammaystirka HICP, waa muhiim in wadanku sii wado dhabadeeda dib u habbaynta si looga guul gaadho koboca dhaqaalaha iyo barwaaqada si la isaga ilaaliyo daynka mustaqbalka gudaha xiliga dhexe iyo ka dib cahdiga HICP. Dib u habbaynta loo baahan yahay waa mid fara badan oo waxay soo dhex martaa qaybo badan kaas oo Baanka Adduunka waxay kala hadleen masuulada. Warbixinta, sidaas awgeed, keliya waxay muujinaysaa xeerarka dhaqaalaha dhammaystiran iyo dib u habbaynta sare u qaado koboca loo dhan yahay iyo dhismaha wakaalada ay ku jiraan sare u qaadka meesha maaliyada ahmiyadaha horumarka marka la xoojinayo maamulka kharash garaynta; xoojinta wada jirka dhaqaale; ku darida Soomaaliya nidaamyada maaliyada caalamiga ah; iyo horumarinta maaraynta daynta.

Kristina Svensson
Maamulaha Wadanka, Baanka Adduunka Soomaliya

Somalia's economic growth slowed significantly in 2022 as surging inflation and weaker external demand weighed on global activity. Tighter global financial conditions and a pronounced rise in global inflation held back private consumption and investment. At the same time, the war in Ukraine dampened global economic activity and export demand. As a result, the global economy grew at 3.1 percent in 2022 from 5.9 percent the previous year. The slowdown reflected synchronous policy tightening aimed at containing very high inflation, worsening financial conditions, and continued disruptions from the Russian Federation's invasion of Ukraine. Somalia is vulnerable to such shocks because of the economy's reliance on external trade and financing, limited economic diversification, and susceptibility to natural disasters.

> "Drought dampened economic activity in 2022, wiping out the agricultural sector and intensifying a humanitarian crisis

After a moderate rebound in 2021, Somalia's economy faced further turbulence in 2022. The World Bank estimates gross domestic product (GDP) growth to have slowed to 1.7 percent in 2022, from 2.9 percent in the previous year.[1] The slowdown in economic activity in 2022 was a result of prolonged drought, which persisted for five consecutive seasons of diminished and irregular rains and higher commodity prices. These factors were a drag on growth and led to a pause in 2021's modest economic recovery from the COVID-19 pandemic. The cost of living was also elevated because of higher global food and energy prices, thus tempering the growth of consumption. The economy continues to be weakened by a series of exogenous and persistent shocks, including decades of conflict, recurrent climate shocks, desert locust infestation, animal disease outbreaks, and recently the impact of the COVID-19 crisis. However, increases in private sector credit, construction activity, and intermediate imports have helped support economic activity and prevented the economy from contracting further.

Private consumption spending drove GDP growth in 2022, as in past years. Growth in private consumption was supported by remittances and official grants. Despite high inflation, private consumption increased, reflecting pent-up demand associated with the lifting of COVID-19 pandemic restrictions. However, rising food and fuel prices eroded the purchasing power of Somalis, thus hampering higher growth. The current account deficit worsened to 16.8 percent of GDP in 2022 from 12.5 percent the previous year. The drought depressed exports of live animals, while imports surged owing to both high global commodity prices and increased domestic demand due to the drought.

Drought dampened economic activity in 2022, wiping out the agricultural sector and intensifying a humanitarian crisis. Relentless drought and high food prices weakened household livelihoods and purchasing power. The drought was the longest—it started in late 2020 and continued up to early 2023—and has been the most severe in recent history. Indeed, it surpassed the 2010/2011 and 2016/2017 droughts in both duration and severity. The debilitating drought left Somalia on the verge of a humanitarian catastrophe, destroying crops and livestock, and forcing huge numbers of people to leave their homes in search of food and water.

[1] Somalia National Bureau of Statistics released new GDP series in June 2023. This new series shows the economy grew by 2.4 percent in 2024. The new GDP series is based on data from the 2022 Somalia Integrated Household Budget Survey (SIHBS). Data collected through the SIHBS was used to improve GDP estimates by revising household consumption. The GDP was rebased to 2022 prices and the series was backdated to 2016. Comparing the new GDP series (2022 base year) to the previous series (2017 base year) shows that: the new nominal GDP level is 37 percent higher on average between 2016–2022, and new real GDP level is 66 percent higher on average between 2016–2022 (see Annex A1 for detailed analysis of the new rebased series).

Drought also decimated the performance of the agricultural sector as one-third of all livestock in the worst-affected areas had died since mid-2021. In addition, crop production remained extremely poor. This intensified a humanitarian crisis, with nearly half of the population being food insecure, and 1.3 million people being displaced.

Inflationary pressures intensified in 2022. Consumer prices accelerated in the first half of 2022 due to both domestic and external factors. Commodity prices, which started to rise in mid-2021, were driven by challenges in global supply chains and continued to increase due to the severe drought conditions. Drought reduced the capacity of Somalis to grow and buy their own food, thereby increasing food insecurity. At the same time, Russia's invasion of Ukraine disrupted the global food markets and energy prices. Overall food inflation remained significantly high and stickier as compared to previous periods. Indeed, overall inflation peaked in July 2022, and started declining in the second half of the year as international energy prices started to ease. However, food price inflation remained above 10 percent in some regions especially Somaliland, reflecting supply disruptions caused by the drought.

> "FGS fiscal space remains limited to respond to shocks or invest in public service delivery

The financial sector continued to grow with increases in commercial bank assets and liabilities. The public's confidence in the financial system increased, as signaled by domestic assets of the banking sector having more than tripled in the last five years to 15.4 percent of GDP in 2022. Credit to the private sector increased by 25 percent, despite the economic slowdown in 2022. This slowdown was driven by four subsectors of construction loans, trade financing, real estate, and investments in partnerships and joint ventures. However, the banks still maintain their risk-averse stance, only lending on short-term trade finance and for relatively large loans whose share in the total portfolio of banks increased during the pandemic. As a result, households are prohibited from borrowing from commercial banks, despite excess liquidity due to increased default risk perceptions since the COVID-19 crisis.

The external sector was weighed down by drought and global developments. Even though the current account deficit remained invariant at 16.8 percent of GDP in 2022 compared to the previous year, high global commodity prices and drought necessitated increased food importation, thus leading to a higher oil import bill. The trade balance deteriorated as export earnings from livestock were insufficient to offset the significant increase in import bills. The trade deficit was financed by remittances and official grants. Because of the country's weak production base and tough investment climate, the external sector will remain vulnerable, partly because of deteriorating terms of trade. The growth of remittance inflows was sluggish in 2022, reflecting global economic conditions as the Somalia diaspora faced tight global financial conditions and high inflation rates where they live.

The Federal Government of Somalia (FGS) maintained its pre-COVID fiscal performance, but fiscal space to respond to shocks or invest in public goods remains limited. Public finances improved markedly in 2022, after fiscal pressures in 2021 caused by the political stalemate. Federal revenue collection exceeded pre-COVID levels, surpassing the annual target by 5 percent in 2022. Total donor grants more than tripled as compared to 2021, owing to the resumption of budget support and increased project grants in response to the severe drought. Nonetheless, the fiscal situation remains challenging, offering limited opportunities to either respond to shocks or invest in human development and physical infrastructure. Although

domestic revenue mobilization has improved over time, it remains low and insufficient to meet recurrent expenditure needs. Domestic revenues could finance only around one-third of the total expenditures in 2022, leaving a large share of the budget to be financed by external grants, as well as ad hoc rationalization of expenditures in line with available resources. Meanwhile, public expenditures continue to rise, dominated by personnel costs. However, social spending is largely financed by grants. FGS expenditures are dominated by the wage bill and the use of goods and services as the country continues to establish basic functions needed for stabilization and state-building. The size of the wage bill could not be financed by tax revenues.

Medium-Term Outlook Points Toward Recovery

The World Bank projects that the economy will record a modest growth of 2.8 percent in 2023. As this fall short of Somalia's estimated population growth rate of 2.9 percent, it effectively means that per capita GDP will contract by 0.1 percent in 2023. The economy is projected to pick up over the medium term as economic activities gain momentum, with growth expected to increase gradually to 3.7 percent and 3.9 percent in 2024 and 2025, respectively. The projected growth in 2023 has been revised downward by 0.8 percentage point as compared to the 2022 Somalia Economic Update (World Bank 2022) forecast. However, the recovery is still expected to be tempered by the legacy of past shocks, including the drought, disruption of grain supplies from Ukraine, and the global pandemic. These shocks have worsened poverty and triggered the cost-of-living surges.

The baseline scenario assumes a modest recovery as climatic conditions improve, global commodity prices continue to ease, and investor confidence increases. Declining global commodity prices will have a stronger positive effect on the economy by boosting economic activity. It is assumed that average rains will lead to the gradual recovery of agricultural production with a modest recovery of exports, particularly in the second half of 2023. Continued humanitarian and social protection support will cushion households against the lingering drought effects. It also assumes investor confidence is buoyed by the new government's plans to stabilize public finances, and the country's anticipation of reaching the Heavily Indebted Poor Country (HIPC) Completion Point by the end of 2023, hence increasing the risk appetite for investors. Economic reforms and increased public investment should attract foreign direct investment (FDI) and encourage increased broad-based private sector activity, which will gradually boost the low domestic productive capacity. Over the medium term, peace dividends and unlocked concessional borrowing after debt relief will boost output growth.

> "A modest recovery is expected in the medium term as climatic conditions improve, global commodity prices continue to ease, and investor confidence increases

Risks to the Outlook are Tilted to the Downside

The medium-term outlook remains uncertain and will continue to be subject to risks from global developments, climate-related shocks, and security threats. Risks to the outlook remain tilted to the downside because of high cost-of-living increases and drought. Pressures in global commodity markets could lead to increased price volatility. Climate change is exacerbating exposures to weather-related shocks, as the country is reliant on rainfall to support the growth of output and exports. An escalation in violence or adverse weather events could substantially worsen ongoing humanitarian crises and dampen growth. These risks can impede economic activity and reverse the growth recovery in the baseline scenario.

Given the volatility of Somalia's economy and the high risks to growth, this Economic Update considers alternative scenarios for the growth outlook. In the downside scenario, the economy is projected to grow at 2.1 percent in 2023, increasing to only 2.9 percent in 2024. This projection reflects: (i) poor climatic conditions with drought or floods; (ii) agricultural production continuing to decline as food insecurity worsens, leading to increased food imports to cushion the vulnerable population; (iii) poor export performance due to the drought; (iv) a global recession caused by high interest rates; and/or (v) geopolitically driven fragmentation of the global trade system. In the upside scenario, growth will be more robust, at 3.3 percent in 2023 and 4.2 percent in 2024. This scenario assumes: improved weather conditions leading to the recovery of agricultural production and a continued reversal of the drought effects; the conflict in Ukraine being resolved swiftly; and the global tightening not leading to a global recession. Under such a scenario, growth will be driven by higher private and public consumption, higher domestic and foreign investment post-HIPC Completion Point in 2023, and increased net exports as the current account improves.

> "As Somalia reaches the HIPC Completion Point, it must continue its reform path to achieve inclusive economic growth and prosperity

Policy Priorities for Somalia in the Post-HIPC Transition

As Somalia reaches the HIPC Completion Point, it is important that it continues its reform path to achieve an inclusive economic growth and prosperity to avoid sinking into future debt in the medium term and post HIPC era. While the reforms needed are numerous and across many sectors, this report only highlights macroeconomic policies and reforms that promote inclusive growth and institutional building. These include enhancing fiscal space for development priorities while strengthening expenditure controls; strengthening financial integrity; integrating Somalia in the global financial system; and improving debt management.

- To enhance fiscal space for development priorities, the government needs to raise more revenue and strengthen expenditure controls. The Somali authorities should maintain the commitment to avoid running a budget deficit and to make timely payments supported by the fiscal buffer. The Federal Government of Somalia (FGS) and Federal Member States (FMS') should continue efforts to improve tax policy focusing on the harmonization of fiscal regimes for customs and inland revenues which can also advance the federal agenda. Strengthening controls over the wage bill should be a priority, particularly regarding ad hoc personnel costs and allowances. Since wage bill expenditures account for more than half of public expenditures, improving controls is critical for enhancing fiscal sustainability. Upon reaching the HIPC Completion Point, there may be opportunities to borrow to finance new investments in human capital and physical infrastructure. The FGS can take steps now to develop an adequate legal framework to support borrowing and strengthen capacity to manage fiscal risks, particularly if the federal and state governments enter public-private partnerships and new concessions arrangements.
- To increase access to finance and integrate the financial system to global finance system. To increase access to finance, the government and Central Bank of Somalia (CBS) could take tangible measures to deepen financial inclusion and enhance the stability of the financial sector. Stepping up supervision of MTBs by the CBS as well as enacting the Financial Institutions Law and

National Payment Systems Law can support the stability of the financial sector and bring all payment systems under one regulation. In addition, reducing the challenges faced by Somali entrepreneurs – including those owned and managed by women –in accessing finance involves increasing the capacity of financial institutions to mitigate risk perceptions and developing credit and collateral registries could help to increase access to financial products. To integrate with the global financial system, financial integrity will need to be improved. Enacting the Digital Identification Bill would provide the first step towards implementing a digital identification (ID) which could help to address know-your customer and due diligence concerns thereby supporting the establishment of correspondent banking relationships. Somalia's progress in strengthening the anti-money laundering / combatting of financing against terrorism (AML/CFT) agenda will be assessed in 2024. Preparing a national risk assessment will help Somalia get ready for a mutual evaluation, which is led by the Middle East and North Africa Financial Action Task Force (MENA-FATF).

- The FGS needs to improve its debt management framework. Risks to debt sustainability will persist even after Somalia reaches the HIPC Completion Point and receives debt relief. The country needs to take conscious steps to avoid falling back into an unsustainable debt position when it regains access to development finance. In addition to maintaining a prudent fiscal stance, it is critically important to strength the legal framework for debt management, institutionalize the functions of the Debt Management Unit (DMU), and build capacity for managing fiscal risks, including from contingent liabilities. Primary debt legislation should specify the purpose of borrowing, the use of guarantees and on-lending, and the need for parliamentary approval of all domestic and external borrowing, as well as the issuance of guarantees. These improvements to primary legislation can help to provide the enabling framework for a time when Somalia can again borrow.

> "The increased frequency and magnitude of shocks in Somalia directly affects the poor and contributes to displacement, food insecurity, and conflict

Integrating Climate Change with Somalia's Growth Agenda: The Case for Water

The increased frequency and magnitude of shocks in Somalia directly affects the poor and contributes to displacement, food insecurity and conflict. Somalia's waters are a vital ingredient to building resilience, improving prosperity, and developing the economy. It is well understood that water—including its variability and scarcity—are closely linked to economic output, international trade, human capital formation, poverty, and economic shocks. Balancing the demands for food and the supply of water are also central to Somalia's growth agenda. Without major changes in society, policy and politics, the current downward trend in food availability is likely to continue, thereby dampening economic growth and worsening levels of poverty. Without these major changes, recurrent food insecurity, and extremely difficult conditions will be the norm for many in the coming decades.

Somalia's climate ranges from hyper-arid, to arid, and semi-arid tropical; as such, it is linked to a high variability in rainfall, as well as surface and groundwater stocks and flows. More than half of the country's surface water originates from beyond its national boundaries, primarily

in Ethiopia. Droughts and flooding are common. Provided that blue water (from aquifers, sub-surface storage, rivers, and reservoirs) is allocated to the most productive needs and managed efficiently, Somalia should have enough for Water, Sanitation and Hygiene (WASH), livestock watering services, as well as the broader needs of its economy well into the future. In contrast, food production requires very large quantities of water. Most of this is provided by green water, which is the water retained in soil after rainfall and subsequently transpired by plants—whether grasses (consumed by livestock), or crops (consumed by people and livestock). However, irrigation requires large quantities of blue water to produce food or other crops.

Somalia's population was estimated to be around 17 million in 2023 (UNDESA 2019), but it could grow by about 550,000 per year and reach 35 million by 2050. This growing population requires more food and water, both of which are currently consumed at extremely low rates, thus contributing to high levels of poverty. Since 1975, there has been a decline in the per person food consumption in Somalia.

> Somalia's economic success will be deeply influenced by the extent to which the country can fully harness its available green and blue water resources

Food importation is important in Somalia and will remain so in the future. However, these imports need to be secured and paid for. Currently, remittances from the Somalia diaspora, international aid and export earnings pay for imported food. The first two are potentially unreliable sources of support. In the future, Somalia needs to improve trade, agricultural productivity (crop and livestock) and raise export earnings to feed the nation.

Somalia's water footprint today, at approximately 650m^3/person/year, is low. The footprint of this consumption is almost entirely represented by the water it takes to grow food. Looking into the future, and in a business-as-usual scenario, by 2050, the available water resources per capita in Somalia for consumption may only be 365m^3/person/year. Without significant virtual water imports, such low consumption rates would be associated with an extremely low food intake. If Somalia relied only on its internally renewable water resources without importing food, and its associated virtual water, the country would be prone to severe food insecurity. Such a future must not be allowed to happen.

In Somalia, water is not just a sector concern but a key enabler of and constraint for economic growth. In short, Somalia's economic success will be deeply influenced by the extent to which the country is able to fully harness its available green and blue water resources, including allocating them to the highest value social, economic, and environmental uses. Managing water better is also critical for helping the country cope with climate variability and climate change and for smoothening out economic shocks, particularly from floods and droughts. However, the reverse is also true, as decisions about agriculture, land use and urban development, and economic policy all have significant implications for the sustainability and resilience of Somalia's water resources. Water insecurity, including exposure to floods and droughts, is amplified by environmental degradation, deforestation, and climate change.

Moving toward a more circular economy will increase the long-term resilience of Somalia's water resources and economy. Many countries around the world are looking into the re-use or recycling of scarce water resources for different purposes, including agriculture and the urban water supply. One re-use challenge facing many countries is that they are already heavily

invested in more traditional water technologies and infrastructure, thus making transition costs prohibitive. Somalia's less developed infrastructure and service delivery models may offer some benefits here, as they involve less investment in 20th century technologies.

Somalia already provides good examples of dealing with water scarcity and variability. Over the centuries, its mobile pastoral systems have adapted to climate variability by moving herds to harness variable rainfall in time and space. However, they increasingly face challenges, including problems in easily accessing pasture for grazing, conflict, and shortages of water for livestock on migratory routes. These problems need to be addressed to improve agricultural productivity, both for local markets and exports.

> Underpinning resilience and prosperity, Somalia needs an integrated economic policy that places water at its center

Recent years have seen a marked improvement in water governance, and there has been progress in developing the institutional frameworks for the sector. A National Water Resources Strategy was published in 2021, complemented by a Roadmap to Implementation. The Roadmap identifies opportunities to use water for socioeconomic development and highlights how equitable access to water can help reduce conflict. In the first half of 2023, the Water Sector Coordination Facility and a suite of technical working groups were institutionalized within the Ministry of Energy and Water Resources. These governance improvements are an important step in a long journey to improve a sector that has been characterized by fragmentation, lacking clear demarcation of responsibilities between the national, state, district, and municipal authorities.

The provision of safe and reliable drinking water and access to suitable sanitation for Somalia's growing urban areas needs deeper understanding. The rural water sector is well understood and supported, and existing projects are largely scalable without much modification. In the short term, it is important to understand urban water supply and sanitation, analytical work should focus on understanding water and sanitation service delivery to households and firms in urban areas, unpacking the roles of emerging water utilities, and determining appropriate governance mechanisms. This will help provide services for rapidly growing urbanization and will contribute to bridging the gap between rural and urban economies. Given the links between the education of girls, the availability of water and sanitation, as well as menstrual hygiene management options in schools and reducing population growth, school WASH is also vital to Somalia's transformation.

For Somalia to continue to transition from fragility and to improve household resilience to shocks, access to water is important. Water is the central enabler of human development, urban development, job creation, and a driver of long-term economic growth. Underpinning resilience and prosperity, Somalia needs an integrated economic policy that places water at its center encompassing recommendations that relate to five opportunities for change and innovation, including:

- Ensure coordination and deliver a whole-of-society water dialogue.
- Optimize the use of both blue and green water to grow the national economy.
- Boost export revenues, and convert Somalia's livestock sector into a world-class, high-quality animal and meat export market.
- Enter a circular economy and ecology that builds on resilience, innovation, and integrated systems.
- Establish robust, inclusive, and transparent governance systems for water management.

Koboca dhaqaalaha ee Soomaaliya si wayn ayuu u yaraaday sanadkii 2022 iyaddoo sicir bararka sare u kacaya iyo dalabka dibada ee daciifka ah uu ka miisaan batay hawsha caalamiga ah. Xaaladaha maaliyada caalamiga ah ee giijisan iyo lagu dhawaaqay sare ukaca sicir bararka caalamiga ee dib u dhigay isticmaalka gaarka ah iyo maalgelinta. Isku wakhti, dagaalka Yuukraynwaxa uu waxa uu yareeya firfircoonidaa dhaqaalaha adduunka iyo dalabkii dhoofinta. Natiijo ahaan, dhaqaalaha adduunku waxa uu kordhay 3.1 boqolkiiba sanadkii 2022 laga bilaabo 5.9 boqolkiiba sanadkii hore. Hoos u dhacu waxa uu muujiyay xeerka isku marka ah ee adkaynta loola jeedo xakamaynta sicir bararka aadka u sareeya, xaaladaha maaliyada ka sii daraya, iyo burburinta sii socota ee ka timid farogelinta Federaalka Ruushka ee Yuukrayn. Soomaaliya waxay u nugushahay dhacdooyinkan xun sababtoo ah ku tiirsanaanta dhaqaale ee ganacsiga dibada iyo maalgelinta, kala duwanaanshaha dhaqaale ee xadidan, iyo u nuglaanshaha masiibooyinka dabiiciga ah.

Ka dib korodhka dhexdhexaadka sanadkii 2021, Soomaaliya dhaqaalaheedu waxa uu la kulmay dhibaatooyin dheeraad ah sanadkii 2022. Baanka Adduunku waxa uu ku qiyaasay wadarta alaabta gudaha wadanka (GDP) koboceedu inuu hoos u dhacay ilaa 1.7 boqolkiiba sanadkii 2022, laga bilaabo 2.9 boqolkiiba sanadkii hore.[1] Hoos u dhaca socodka dhaqaalaha sanadkii 2022 waxaa keenay abaarta sii daba dheeraatay, oo sii socotay shan xili oo isku xiga ee roobka yaraaday oo aan caadiga ahayn iyo qiimaha alaabta oo sare u kacay. Asbaabahan waxay ka dhigeen koboca mid jiitama oo waxay keentay joogsiga 2021 soo kabashadii dhaqaale caadiga ah ee safmarka COVID-19. Kharashka nolosho sidoo kale sare ayuu u kacay sababtoo ah cuntadda caalimga ah ee saraysa iyo qiimayaasha tamarta, sidaasna ay ku beddeshay koboca isticmaalka. Dhaqaalahu waxaa sii itaal daraynaya taxanaha sababto dibada ka yimid iyo saamaynaha xun ee dhaqaale. ay ku jiraan tobanaan sano oo khilaad ah, dhacdooyinka xun ee cimilada oo soo noqnoqda, ayaxa oo duulaan ah, dilaaca cudurada xoolaha, iyo dhawaan saamaynta dhibta COVID-19. Si kastaba ha ahaatee, korodhka daynta qaybta gaarka ah, hawsha dhismaha, iyo soo dejinta dhexe ayaa caawisa taageerida hawsha dhaqaalaha oo ka hortagtay dhaqaalahu inuu isku soo ururo in dheeraad ah.

Kharash garaynta isticmaalka gaarka ah waxay kobcisay GDP sanadkii 2022, sida sanadihii hore. Koboca isticmaalka gaarka ah waxaa taageeray xawaaladaha iyo deeqaha rasmiga ah. Ka sakow sicir bararka sare, isticmaalka gaarka ah ayaa kordhay, iyadoo muujinaysa korodhka sare ee dalabka la xidhiidha iyaddoo la qaaday xayiraada safmarka COVID-19. Si kastaba ha ahaaree, sare u kaca qiimayaasha cuntadda iyo shidaalka waxa uu burburiyay awooda wax iibsiga Soomaalida, sidaasna ku beddelay kobocii sare. Dhinaanshaha kootada ee hadda waxay sii xumaaray ilaa 16.8 boqoliiba GDP gudaha 2022 laga bilaabo 12.5 boqolkiiba sanadkii hore. Abaartu waxay sii daciifisay dhoofinta xoolaha nool, marka soo dejintu ay sare u kacday sababtoo ah labbadaba qiimayaasha sare ee alaabta caalamiga ah iyo dalabka gudaha wadanka oo kordhay sababtoo ah abaarta.

Abaarto waxay daciifsay hawsha dhaqaalaha sanadkii 2022, iyaddoo baabiisay qabta beeraha oo sii adkaysay dhibta aadamaha. Abaar qalafsan iyo qiimayaasha sare ee cuntadda ayaa daciifiyay quudka qoysaska iyo awooda wax soo iibsiga. Abaartu waxay ahayd tii ugu dheerayd—waxay bilaabantay 2020 oo waxay sii socotay ilaa wakhti hore oo 2023—oo waxay ahayd midii ugu darnayd

[1] Somalia National Bureau of Statistics released new GDP series in June 2023. This new series shows the economy grew by 2.4 percent in 2024. The new GDP series is based on data from the 2022 Somalia Integrated Household Budget Survey (SIHBS). Data collected through the SIHBS was used to improve GDP estimates by revising household consumption. The GDP was rebased to 2022 prices and the series was backdated to 2016. Comparing the new GDP series (2022 base year) to the previous series (2017 base year) shows that: the new nominal GDP level is 37 percent higher on average between 2016–2022, and new real GDP level is 66 percent higher on average between 2016–2022 (see Annex A1 for detailed analysis of the new rebased series).

gudaha taariikhdii dhawayd. Dhab ahaan, waxay dhaaftay 2010/2011 iyo 2016/2017 abaarihii labbada mudda iyo darnaanta. Abaartii wax baabiinaysa waxay Soomaaliya kaga tagtay cidhifka masiibada aadami, iyaddoo baabiisay dalaga iyo xoolaha nool, oo ku khasabtay tiro badan oo dad ah inay ka tagaan guryahooda iyagoo raadinaya cunto iyo biyo. Abaarta sidoo kale waxay baabiisay qaybta wax soo saarka beeraha laga bilaabo saddex meelood oo meel dhammaan xoolaha nool gudaha aagaga ay sida xun u saamaysay waxay dhinteen laga bilaabo badhtankii 2021. Intaaa waxa dheer, wax soo saarka dalagu waxa uu sii ahaaday mid si xad dhaaf ah u liita. Tani waxay xoojisay dhibta aadanimada, iyaddoo ugu dhawaan nus ka mid ah mujtamaca oo amni daro cunto la kulmaya, iyo 1.3 malyan oo qof oo barakacay.

Cadaadiska sicir bararka la xoojiyay sanadka 2022. Qiimaha macaamiisha waxa uu kordhay nuskii hore ee 2022 iyaddoo ay sababtay labbadaba asbaabo gudaha wadanka ah iyo dibadaba. Qiimaha alaabta, ee bilaabantay inay sare u kacdo badhtankii 2021, waxaa waday caqabadaha saadka isku xidhan ee caalamiga sh oo sii socotay in la kordhiyo iyaddoo ay sababtay xaaladaha daran ee abaarta. Abaarta ay yaraysay awooda Soomaalida si ay u kobocdo oo ay u iibsadaan cuntaddooda, halkaasna ay kordhisay amni darada cuntadda. Isku wakhti, farogelinta Tuushka ee Yuukrayn waxay burburisay suuqyada cuntadda caalamiga ah iyo qiimayaasha tamarta. Sicir bararka cuntadda guud ahaaneed waxay sii ahayd mid si wayn u saraysa oo aan joogsanayn marka la barbar dhigo muddooyinka hore. Dhab ahaan, sicir bararka guud ahaan sare ayuu u kacay Juulay 2022, oo waxa uu bilaabay inuu hoos u dhaco nus ka mid ah sanadka marka qiimayaasha tamarta caalamiga ah ay bilowday inay khafiifto. Si kastabaha ahaatee, sicir bararka cuntadda waxay ka sii saraysay 10 boqolkiiba gobolada qaarkood gaar ahaan Somaliland, iyaddoo muujinaysa burburka saadka ay sababtay abaartu.

Qaybta maaliyada way sii kobocday korodhka gudaha hantida iyo daynka bangiga ganacsiga. Kalsoonida dad waynaha gudaha nidaamka maaliyada la kordhiyay, sida ay ishaartay hantida wadana ee qaybta isticmaalka baanka oo haysa wax ka badan inay saddex jibaarantay gudaha shantii sanadood ee u dambeeyay 15.4 boqolkiiba GPD gudaha 2022. Daynta qaybta gaarka ah oo korodhay 25 boqolkiiba, ka sakow hoos u dhaca dhaqaalaha 2022. Hoos u dhacan waxaa waday afar qayb hoosaad ee amaahda dhismaha, maalgelinta ganacsiga, hantida dhulka iyo dhismayaasha, iyo maalgelinta iskaashi la samaynaya shirkadaha isku biiray. Si kastaba ha ahaatee, bangiyada waxay weli halis ugu jitaan mowqif ka duwan, keliya amaahinaya ganacsiga maaliyada xiliga gaaban oo si la barbar dhigi karo amaahda badan taas oo saamigeeda ku jirta wadarta faylka baananku ay korodhay mudadii safmarka. Natiijo ahaan, qoysaska waxaa laga mamnuucay inay ka soo amaahdaan bangiyada ganacsiga, ka sakow lacagaha soo hadha oo ay sababtay fikraha khatarta kordhay laga bilaabo ilaa dhibtii COVID-19.

Qaybta dibada waxaa culays saaray abaaraha iyo horumarka caalamiga ah. Xataa in kastaa dhinaanshaha kootada hadda ay sii ahaatay mid aan isbeddelin ilaa 16.8 boqolkiiba GDP sanadkii 2022 marka la barbar dhigo sanadkii hore, qiimayaasha sare ee badeecadaha caalamiga ah iyo abaarta lama huraanka ka dhigtay korodhka cunto soo dejinta, iyaddoo keentay biilka soo dejin saliideed oo aad u saraysa. Dheelitiranka ganacsigu wuu ka sii daray marka macaashyada alaabta la dhoofiyo ee ka yimid xoolaha nool aanay ku filnayn bilowga korodhka muhiimka ah ee biilasha alaab soo dhoofinta. Dhinaanshaha maaliyada ay maalgeliso xawaaladaha iyo deeqaha rasmiga ah. Sababtoo ah wadanka salkiisa wax soosaarka liita iyo jawiga maalgelinta ee adag, qaybta dibada waxay ahaan doontaa mid nugul, qayb ahaan sababtoo ah xaaladaha ganacsiga ee ka sii daraya. Koboca xawaaladaha imaanshaheedu waxa uu

ahaa mid gaabis ah 2022, oo muujinaysa xaaladaha dhaqaalaha caalamiga iyaddoo ay qurba joogta Soomaaliya la kulmeen xaalado maaliyadeed oo adag iyo qiimayaasha sicir bararka sare halka ay ku nool yihiin.

Dowladda federaalka Soomaaliya (FGS) waxay sii wadaa bandhigeedii maaliyada ee ka horeeyay COVID, laakiin boosta maaliyada si looga jawaabo dhibaatooyinka ama in la maalgeliyo badeecadaha guud weli way xadidan tahay. Maaliyadaha dad waynaha waxay u horumareen si calaamad san sanadkii 2022, ka dib cadaadiska maaliyad agudaha 2021 oo ay sababtay is marin waaga siyaasadeeda. Ururinta dakhliga federaalka waxa uu ka batay heerarkii ka horeeyay COVID, o dhaafay yoolka sanadlaha ah ee 5 boqolkiiba sanadkii 2022. Wadarta deeqda deeq bixiyaha aad ayay u saddex laabantay marka la barbar dhigo 2021, iyaddoo ay sababtay dib u bilowga taageerada miisaaniyada iyo deeqaha kordhay ee mashruuca oo jawaab u ah abaarta daran. Ka sakow, xaalada maaliyadu waxay sii ahaatay caqabad, oo bixiso fursado xadidan miduun inay ka jawaabaan dhibaatooyinka ama maalgelinta horumarka aadamaha iyo kaabayaasha muuqda. In kastoo ururinta dakhliga wadanka ay horumartay muddo ka dib, way hoosaysaa weli oo kuma filna inay buuxiso baahiyaha soo noqnoqda ee kharashka. Dakhiga wadanka waxa uu maal gelin karaa keliya ilaa saddex meelood oo meel wadarta kharashyada 2022, isagoo u baneeyaya qayb wayn oo maaliyada inay maalgeliso deeqaha dibadu, siiba xaalada caqli celinta ah ee kharashkada la siman khayraadka la heli karo. Markaana, kharashyada dad waynahu sare ayay u sii kacaan, iyaddoo ay maamulaan kharashyada shaqaalaha. Si kastaba ha ahaatee, kharash garaynta bulshadda si wayn waxaa u maalgeliya deeqaha. Kharashyada FGS waxaa maamula biilka mushaharka iyo isticmaalka badeecadaha iyo adeegyada marka wadanku uu sii wado inuu dhiso shaqooyinka aasaasiga ee looga baahan yahay degenaanshaha iyo qaran dhisida. Cabirka biilka mushaharka laguma maal gelin karo dakhliyada cashuurtu.

Muuqaalka Xiliga Dhexe Waxay tilmaamaysaa Soo kabashada

Baanka Adduunka waxa uu muujiyaa in dhaqaalagu waxay duubi doonaan koboca ugu hooseeya ee 2.8 boqolkiiba sanadka 2023. Marka tani hoos u dhacday heerka koboca dad waynaha Soomaaliya lagu qiyaasay ee 2.9 boqolkiiba, si waxtar leh macnaheedu waxa weeye in GDP qofkiiba waxay hoos u dhacaysaa 0.1 sanadka 2023. Dhaqaalaha waxaa la filayaa inuu doorto xiliga dhexe maadaama hawlaha dhaqaalahu way korodhaa, iyaddoo koboca la filayo inay kordhiso aayar ilaa 3.7 boqolkiiba iyo 3.9 boqolkiiba sanadka 2024 iyo 2025, si la xidhiidha. Koboca la filay 2023 dib ayaa loo eegay hoos 0.8 boqoliiba marka la barbar dhigo 2022 Cusboonaysiinta Dhaqaalaha (Baanka Adduunka 2022) saadaasha. Si kastaba ha ahaatee, soo kabashada weli waxaa la filayaa inay sii adkayso dhaxalka jugtii hore, ay ku jiraan abaarta, burburka saadka badarka ah ee ka yimid Yuukrayn, iyo safmarka caalamiga ah. Jigtan waxaa ka sii daray saboolnimada oo waxay keentay sare u kaca kharashka nolosha.

Xadka muuqaalka waxa uu aqbalaa soo kabashada caadiga ah sidii xaaladaha cimilada inay horumarto, qiimaha alaabta caalamiga ah way sii fududaataa, oo maalgeliayayaasha kalsoonidiisa way korodhaa. Qiimaha badeecadaha ee hoos u dhacaya caalami aha waxay ku lahaan doontaa saamayn wanaagsan oo xoogan dhaqaalaha wadanka iyaddoo kodhinaysa hawsha dhaqaalaha. Waxaa loo qaatay in celceliska roobku uu keeno soo kabashada aayarta ah ee wax soo saarka beeraha oo wata soo kabasho caadi ah oo dhoofinta alaabta ah gaar ahaan badhka labbaad ee 2023. Taageerada sii socota ee aadaminimada iyo taageerada ilaalinta bulshaddu waxay ka dayri doontaa qoysaska ku lidka saamaynta abaarta hadhay. Sidoo kale waxay u qaadataa kalsoonida maalgeliyaha waxaa ka farxiya qorshayaasha cusub ee dowladda si loo dejiyo maaliyadaha dad waynaha, iyo rajada wadanka ee gaadhida Wadanka Saboolka ah ee Wayn u Qaamaysan (HIPC) Qodobka Dhamamystirka dhammaadka

2023, markaana kordhinaysa khatarta damaca maalegliyayaasha. Dib u habbaynta dhaqaalaha iyo maalgelinta dad waynaha korodhay waxay soo jiidanaysaa maalgelinta tooska ah ee ajnabiga (FDI) oo waxay dhiirigelisaa qaybta garka ah ee hawsha ballaadhan, taas oo guud ahaan taageeraysa awooda wax soo saarta wadanka ee yar. Xiliga dhexe, qaybsiga macaashka ee nabada ah iyo tanaasulka amaahashada furan ka dib dayn ka cafinta waxay kordhin doontaa koboca wax soo saarka.

Khataraha Muuqaalku Waxa uu u Janjeedhaa Hoos

Aragtiyada xiliga dhexe lama hubo oo waxay ku sii socon doontaa inay ahaato mowduuca khataraha ka yimid horumarka caalamiga ah, jugta la xidhiidha cimilada, iyo khataraha amniga. Khataraha muuqaalku waxay u eeg tahay inay u janjeedho hoos sababtoo ah korodhka kharashka nolosha ee sare iyo abaarta. Cadaadiska gudaha suuqyada alaabta caalamiga ah waxay keeni kartaa isbeddelka qiimaha ee kordhaya. Isbeddelka cimilada waxay sii xumaysaa gaadhida jugta cimilada la xidhiidha, wadan ahaan waxay ku tiirsan tahay da'ida roobka si ay u taageerto koboca wax soo saarka iyo dhoofinta alaabta. Korodhka rabsahda ama dhacdooyinka cimilada lidka ah ee sida muuqata u sii xumaysa dhibaatooyinka joogtada ah ee aadamaha oo yaraysa koboca. Khatarahan waxay xanibi karaan hawsha dhaqaalaha oo waxay dib u celin karaa koboca soo kabashada gudaha xadka muuqaalka.

Iyaddoo ay muuqato isbeddelka dhaqaalaha Soomaaliya iyo khataraha sare ee koboca, Cusboonaysiintan Dhaqaalaha waxay ka fekertaa muuqaalka beddelka ah ee koboca muuqaalka guud. Muuqaalka hoose, dhaqaalaha waxaa la filayaa inuu kordho ilaa 2.1 boqolkiiba 2023, korodhka keliya 2.9 boqolkiiba 2024. Filashadan waxay muujinaysaa: (i) xaaladaha cimilada liidata ee wadata abaarta ama daadka; (ii) wax soo saarka beeraha inay hoos u dhacdo marka cunto yaraanto ay ka sii darto, iyaddoo keenta soo dhoofinta cuntadda oo korodha si ay u ilaaliso mujtamaca nugul; (iii) bandhiga dhoofinta liita ee ay sababtay abaarta; (iv) hoos u dhaca dhaqaalaha ee caalamiga ah ee ay sababtay heerarka dulsaarka sare; iyo/ama (v) jugraafiga siyaasadeed ee uu wado burburka nidaamka ganacsiga caalamiga ah. Muuqaalka dhanka sare, korodhka waxa uu ahaan doona mid aad u adkaada, ilaa 3.3 boqolkiiba gudaha 2023 iyo 4.2 boqolkiiba gudaha 2024. Muuqaalkan waxa uu u qaataa: xaaladaha cimilada oo hagaagay oo keena soo kabashada wax soo saarka beeraha iyo dib u noqodka sii socda ee saamaynta abaarta; khilaafka Yuukrayn oo si degdeg ah loo xaliyo; iyo adkaynta caalamiga ah oo keenaysa hoos udhaca caalamiga ah. Si waafaqsan muuqaalkan, koboca waxaa waddi doono isticmaalka gaarka ah ee sare iyo ka guud, maalgelinta sare ee wadanka gudahiisa iyo ka dibada ka yimidaa ka dib HIPC Qodobka Dhammaystirka 2023, oo waxay kordhisay shabakada dhoofinta marka xisaabta hadda horumarto,

Ahmiyadaha Xeerka ee Soomaalua gudaha Xiliga kala guurka Ka dib HIPC

Marka Soomaaliya gaadho Qodobka Dhammaystirka HICP, waa muhiim inay sii wado dhabadeeda dib u habbaynta si looga guul gaadho koboca dhaqaalaha iyo barwaaqada si la isaga ilaaliyo daynka mustaqbalka gudaha xiliga dhexe iyo ka dib cahdiga HICP. Marka dib u habbaynta loo baahday ay badan yihiin iyo dhammaan qaybaha badan, warbixinta keliya waxay muujisaa xeerarka dhaqaalaha gebi ahaan iyo dib u habbaynta sare u qaada koboca loo dhan yahay iyo dhismaha wakaaladeed.2 Kuwan waxaa ku jira sare u qaadista meesha maaliyada ee ahmiyadaha horumarinta marka la xoojinayo maamulka kharashyada baxaya; xoojinta wada jirka maaliyada; ku dhafida Soomaaliya gudaha nidaamka maaliyada caalmiga ah; iyo horumarinta maamulka daynta.

- Si sare loogu sii qaado meesha maaliyada ee ahmiyadaha horumarinta, baahiyaha dowladda si loo urursho dakhli badan iyo xoojinta xakamaynta kharashka. Masuuliyiinta Soomaaliya waa inay ilaaliyaan ballan qaadka si la isaga ilaaliyo dhinaanshaha miisaaniyada socota oo loo sameeyo lacag bixinta wakhtiga habboon ee uu taageero meesha banaan ee maaliyada. Dowladda Federaalka Soomaaliya (FGS) iyo Xubinta Dowladda Federaalka (FMS') waxay sii wadi doonta dedaalada si loo horumariyo xeerka cashuurta ee xooga saaraya ku haboonaysiinta nidaamyada cashuurta ee nidaamka kastamada cashuuraha iyo dakhliga gudaha wadanka kaas oo sidoo kale hore u sii wada ajandaha federaalka. Xoojinta xakamaynta ku saabsan xeerka mushaharka waxay noqon kartaa ahmiyada, gaar ahaan ku saabsan khaashyada gaarka ah ee marka laoo baahdo ah iyo gunnooyinka. Maadaama xeerka mushaharka kharashyada ay ka dhigan yihiin wax ka badan nus kharashyada dad waynaha, horumarinta maamulku waa u muhiim in sare loo qaado waarida maaliyada. Marka la gaadho Goobta Dhammaystirka HIPC. waxaa jiri kara fursadaha in la amaahdo maalgelinta cusub ee maaliyada ee raasamaalka aadamaha iyo kaabayaasha muuqada. FGS waxay qaadi kartaa tallaabooyinka si loo horumariyo haykalka sharciga ee ku filan si loo taageero amaahashada iyo awooda xoojinta si loo maareeyo khataraha maaliyada, gaar ahaan haddii dowladaha federaalka iyo gobolka geli iskaashiyada dad waynaha-gaarka ah iyo tanaasulaadka habbaynta cusub.
- Si loo kordhiyo helida maaliyada oo loogu dhafo nidaamyada maaliyada kuwa kale ee nidaamyda maaliyada caalamiga ah. Si loo kordhiyo helida maaliyada, dowladda iyo Baanka Dhexe ee Soomaaliya (CBS) waxay qaadi kartaa tallaabooyin la taaban karo si loo qoto dheereeyo ka qayb gelinta maaliyadeed iyo sare u qaadista degenaanshaha qaybta maaliyada. Ku talaabsida kormeerida MTBs ee CBS siiba dhaqan gelinta Sharciga Haydaha Maaliyada iyo Sharciga Nidaamyada Lacag bixinta Qaranka waxay taageeri karaan degenaanshaah qaybta maaliyada oo waxay dhammaan keenaan nidaamyada waafaqsan hal sharci. Intaa waxa dheer, yaraynta caqabadaha ay la kulmaan ganacsatada Soomaalida ah –ay ku jiraan kuwan ay leeyihiin oo ay maamulaan haweenka –helida maaliyada ka qaybta ah korodhka awooda ee hay'adaha maaliyada si loo fududeeyo sida loo arko khataraha iyo horumarinta daynta iyo diiwaanada damaanadaha ayaa caawin kara in la kordhiyo helida alaabta maaliyadeed. Si loog dhafo nidaamka maaliyada caalamiga, daacadnimada maaliyada ayaa u baahan doonto in la horumariyo. Dhaqan gelinta aqoonsiga Sharciga Dhigitaalka ah waxay bixin kartaa tallaabooyinka koowaad dhanka hirgelinta aqoonsiga dhijitaalka ah (ID) ee caawin karta si looga hadlo garo macmiilkaaga iyo walaacyada baadhitaanka sidaas awgeed taageeraysa dhisida xidhiidha baan isticmaalka is waafaqsan. Horumarka Soomaaliya waxa uu xoojinayaa Ku lid ahaanshaha dhiqida lacagta / la dagaalanka maalgelinta argagixisada (AML/CFT) ajandaha waxaa la qiimayn doonaa 2024. Diyaarinta qiimaynta khatarta qaranka waxay caawin doontaa Soomaaliya inay u diyaar garowdo qiimaynta labbada ah, taas oo ay hogaamiso Bariga dhexe iyo Waqooyiga Afrika Kooxda Heeganka Tallaabada Maaliyada (MENA-FATF).
- FGS waxay u baahan tahay horumarinta qaab dhismeedka maamulka daynteeda. Khataraha waarida daynta way sii socon doontaa xataa ka dib Soomaaliya markay gaadho Goobta Dhammaystirka HIPC oo hesho dayn ka cafinta. Wadanku waxa uu u baahan yahay inuu qaado tallaabooyin damiirku soo jeedo si la isaga ilaaliyo in dib loogu noqdo meeshii daynka aan waarida lahayn marka ay dib u soo hesho maaliyada horumarinta. Intaa ka sakow, si loo sii wado heerka maaliyada xikmada leh, aad ayay muhiim u tahay in la xoojiyo qaabka sharciga u samaysan yahay ee maamulka daynta, bulshadda

qaabkeeda lagu soo saaro shaqooyinka Qaybta Maamulka Daynta (DMU), oo la dhiso awooda maaraynta khataraha maaliyada, ay ku jiraan kuwa ka yimid dayn suuragal ah. Sharciga koowaad ee daynka waa inuu caddeeyaa ujeedada amaahsashada, isticmaalka damaanadaha iyo cid kale sii amaahinta, iyo baahida oggolaanshaha baarlamaanka dhammaan amaahashada gudaha iyo dibada, siiba soo saarida damaanada. Horumarinta sharciyada koowaad waxay caawin kartaa in la siiyo qaabka awood siinaya wakhti marka Soomaaliya ay mar labbaad amaahan karto.

Ku dhafisa Isbeddelka Cimilada Ajandaha Koboca ee Soomaaliya: Xaalada Biyaha

Inta jeer ee korodhka iyo sida ay u wayntahay jugtu, gudaha Soomaaliya si toos ah waxay u saamaysaa dadka saboolka ah oo waxay ka qayb qaadataa barakaca, cunto yaraanta iyo khilaafyada. Biyaha Soomaaliya waa waxyaabaha ugu muhiimsan dhisida adkaysiga, horumarinta badhaadhaha, iyo horumarka dhaqaalaha. Si wanaagsan ayaa loo fahan san yahay in biyaha—oo ay ku jiraan kala duwanaanshadeeda iyo yaraanshaha—ayaa si dhow ugu xidhan wax soo saarka dhaqaalaha, ganacsiga caalamiga ah, samaynta raasamaalka aadamaha, saboolnimada, iyo saamaynta xun ee aan la filayn ee dhaqaalaha. Dheelitirka dalabyada cuntadda iyo saadka biyaha sidoo kale waa xudunta ajandaha koboca ee Soomaaliya. Iyaddoon lahayn isbeddelo wayn gudaha bulshadda, xeerka iyo siyaasada, hoos u dhaca hadda ee helitaanka cuntadda waxaa dhici karta inay sii socoto, sidaasna ay yarayso koboca dhaqaalaha oo ka sii darto heerarka saboolnimada. Iyaddoon lahayn isbeddeladan waa wayn, cunto yaraanta soo noqnoqota, iyo xaaladaha aadka u adag waxay noqon doonaan curfiga kuwa badan todobaanka sano ee soo socda.

Cimilada Soomaaliya waxay ka kooban tahay dhul aad u engegan, ilaa dhul engagan, iyo dhulka kulaalaha saxaare u eekaha ah, waxay ku xidhan tahay kala duwanaanshaha sare ee roob soo da'ida, siiba oogada iyo kaydka biyaha dhulka hoostiisa iyo biyaha qulqulaya. In ka badan kala badha biyaha oogada wadanku waxa uu ka yimaadaa meel dhaafsiisan xadadka qaranka, muhiim ahaan gudaha Itoobiya. Abaaraha iyo daadadku waa kuwa ku badan. Haddii biyaha buluuga ah (ee ka yimaada dhagaxa biyaha qabta, kaydka oogada ka hooseeya, webiyada, iyo kaydadka biyaha waxaa loo qoondeeyay baahiyaha aadka u so wax soo saark abadan oo loo maareeyo si waxtar leh, Soomaaliya waa inay hasytaa Biyo ku filan, Sixo iyo Caafimaadk (WASH), adeegyada waraabinta xoolaha, siiba baahiyaha ballaadhan ee dhaqaalaheeda mustaqbalka. Taas lidkeed, soo saarida cuntaddu waxay u baahan tahay tiro badan oo biyo ah. Badanka tan waxaa bixiya biyaha cagaaran, oo ah biyaha laga helo camuuda ka dib marka uu roobku da'o iyo ka dibna ay soo saartay dhirtu—haddii ay tahay doog (ay cuneen xoolahu), ama dalag (ay cuneen dadka iyo xoolahu). Si kastaba ha haatee, waraabintu waxay u baahan tahay tiro badan oo biyaha buluuga ah si loo soo saaro cunto ama dalag kale.

Soomaaliyada mujtamaceeda waxaa lagu qiyaasay inuu yahay ilaa 17 malyan sanadka 2023 (UNDESA 2019), laakiin waxaa ku kordhi kara ilaa 550,000 sanadkiiba oo waxay gaadhi kartaa 35 malyan sanadka 2050. Mujamacn kordhayaa waxa uu u baahan yahay cunto badan iyo biyo, labbadaba hadda lagu qaato qiimayaal aad u hooseeya, sidaasna ka qayb qaadanaya heerarka sare ee faqiirnimada.. Ilaa iyo 1975, waxaa jiray hoos u dhac qaadashada cuntadda qofkiiba ah gudaha Soomaaliya.

Soo dhoofinta cuntaddu waa muhiim gudaha Soomaaliya oo sidaas ayay ahaan doontaa mustaqbalka. Si kastaba ha ahaatee, waxyaabahan la soo dhoofsadaa waxay u baahan yihiin inay amni noqdaan oo la bixiyo lacagtooda. Hadda, xawaaladaha ka iminaya qurba joogta Soomaaliya, kaalmada caalamiga ah iyo macaashka laga helo

wax dhoofinta ayaa lagu bixiyaa cuntadda la soo dhoofsado. Labbada u horeeya suuragal ahaan waa ilaha taageerada aan la isku halayn karin. Mustaqbalka, Soomaaliya waxay u baahan tahay inay horumariso ganacsiga, wax soo saarka beeraha (dalaga iyo xoolaha nool) oo ay sare u qaado macaashyada laga helo wax dhoofinta si loo quudiyo wadanka.

Raadka biyaha Soomaaliya ee maanta, ugu dhawaan 650m³/qofkii/sanadkii, way yar tahay. Raadka isticmaalka ugu badan gebi ahaantiis waxa uu ka dhigan yahay biyaha ay qaadato in cunto lagu beero. Marka la eego mustaqbalka, iyo ganacsiga sidii muuqaal caadi ah, sanadka 2050, khayraadka biyaha la helii karo qofkiiba gudaha Soomaaliya ee isticmaalku keliya waxay noqon karaan 365m3/qofkii/sanadkii. Iyaddoonay jirin biyo la isticmaalay oo badan, soo dhoofinta heerarka aadka u hooseeya ee isticmaalku waxa uu la xidhiidhi doonaa qaadashada cuntadda oo aad u hoosaysa.3 Haddii Soomaaliya ay ku tiirsan tahay khayraadka biyaha gude ahaan dib loo cusboonaysiiyo iyaddoon cunto la soo dhoofsan, iyo biyaheeda la isticmaalay ee la xidhiidha, wadanku waxa uu u nuglaanayaa cunto yaraan daran. Mustaqbalkan waa inaan la oggolaan inuu dhaco.

Gudaha Soomaaliya, biyahu maaha qaybta walaaca leh laakiin waa suurageliyaha muhiimka ah iyo caqabada kobica dhaqaalaha. Si kooban haddii loo sheego, guusha dhaqaalaha Soomaaliya si qoto dheer ayay u saamayn doonta xadka wadanku uu awoodo inay si buuxda u maamusho khayraadkeeda biyaha la heli karo ee cagaarka iyo buluuga, ay ku jiraan u qoondaynta iyaga qiimaha u sareeye ee isticmaalka bulsho, dhaqaale, iyo deegaan. U maaraynta biyaha si wanaagsan sidoo kale waxay muhiim u tahay caawinta wadanku inuu la tacaalo kala duwanaanshaha cimilada iyo isbeddelka cimilada ee debcinta dhibaatooyinka dhaqaalaha, gaar ahaan kuwa ka yimaada daadadka iyo abaaraha. Si kastaba ha ahaatee, lidkeed sidoo kale waa run, sida go'aamada ku saabsan beeraha, isicmaalka dhulka iyo horumarinta magaalada, iyo xeerka dhaqaalaha dhammaan waxay leeyihiin cawaaqib wayn oo ah waarida iyo soo kabashada khartaada biyaha ee Soomaaliya. Biyo yaraanta, ay ku jiraan fatahaada daadadka iyo abaaraha, waxaa sii kordhiya burburka deegaanka, goynta kaymaha, iyo isbeddelka cimilada.

U socodka dhanka dhaqaalaha la isticmaalo oo dibna loo isticmaalo waxay kordhin kartaa adkaysiga Soomaaliya khayraadkeeda biyaha iyo dhaqaalaha. Wadamo badan oo ku xeeran adduunku waxay ka dhursugayaan dib u isticmaalka ama dib u warshadaynta alaabta la isticmaalay ee khayraadka biyaha yar wixii ah ujeedooyin kala duwan, ay ku jiraan beeraha iyo kaydka biyaha magaalada. Mid ka mid caqada dib u isticmaalka wajahaysa wadamo badan waa inay hadda ka hor aad u maalgeliyeen teknoolajiga biyaha dhaqameed oo badan iyo kaabayaal, sidaasna uga dhigta kharashyada u wareegida kuwa mamnuuc ah. Kaabayashaasha Soomaaliya ee aan aad u horumarsanayn iyo qaababka bixinta adeegyada waxay bixin kartaa waxyar oo faa'iido ah halkan, maadaama ay ka qayb ahaanayaan maalgelinta teknoolajiga qarniga 20naad.

Soomaaliya hadda ka hor waxay bixisaa tusaalooyin wanaagsan ee la macaamilka biyo yaraanta iyo kala duwanaanshaha. Qarniyo aad u badan, waa nidaamyada reer guuraaga ay la qabsadeen kala duwanaanshaha cimilada iyaddoo la hayaaminayo xoolaha si looga faa'iidaysto da'itaanka roobka iyo meesha. Si kastaba ha haatee, si kordhaysa waxay ula kulmaan caqabado, ay ku jiraan dhibaatooyinka si fudud u helida daaqa la daaqo, khilaafka, iyo yaraanshaha biyaha ee xoolaha maraya jidadka ay ku hayaamaan. Dhibaatooyinkan waxay u baahan yihiin in wax laga qabto si loo horumariyo wax soo saarka beeraha, labbadaba suuqa gudaha iyo dhoofintaba.

Siinta biyo la cabo oo badbaado ah oo la isku halayn karo iyo helida sixo ku habboon aagaga magaalada Soomaaliya ee kobcaysa waxay u baahan tahay fahan qoto dheer. Qaybta biyaha miyiga si wanaagsan ayaa loo fahmaa oo loot aageeraa, oo mashaaricda jiraa si wayn ayaa loo qiyaasaa iyadoon lahayn dib u habbayn badan. Xiliga gaaban, waa muhiim in la fahmo biyaha saadka biyaha magaalada iyo sixidada, taxliilinta shaqada waa inay xooga saarta fahanka biyaha iyo u gudbinta adeegyada sixida qoysaska iyo shirkadaha gudaha aagaga magaalada, furida doorarka adeegyada byaha soo baxaya, iyo go'aaminta maamulka farsamada ku habboon. Tani waxay caawin dootaa bixinta adeegyada korodhka magaalada degdega ah oo waxay ka qayb qaadan doontaa isku xidhida u dhaxaysa dhaqaalaha miyiga iyo magaalada. Iyaddoo ay caddayn xidhiidhada u dhexeeya waxbarashadda hablaha, iyo helitaanka biyaha iyo sixida, siiba doorashooyinka maamalka caafimaadka xaydka gudaha dugsiyada iyo yaraynta korodhka mujtamaca, dugsiga WASH sidoo kale waxa uu muhiim u yhahay isbeddelka guud ee Soomaaliya.

Sanadihii dhawaa waxay muujiyeen horumarka ku suntan maamulka biyaha, oo horumar ayaa ka jiray dhanka horumarinta qaab dhismeeyada wakaalada ee qaybtan, Xeelda Khayraadka Biyaha Qaranka waxaa la daabacay 2021, iyaddoo dhammaystir u Qorshaha u degan Hirgelinta. Qorshaha la dejiyay waxa uu caddaynayaa fursashada si loogu isticmaalo biyaha horumarka dhaqan bulsheed oo waxa uu muujinayaa helitaanka loo siman yahay ee biyaha inay caawin karaan yarayanta khilaafka. Nuska koowaad ee 2023, Xarunta Isku xidhka Qaybta Biyaha iyo kooxda shaqada farsameed waxaa lagu daray qaybta Wasaarada Tamarta iyo Khayraadka Biyaha. Horumarkan maamulka waa tallaabo muhiim safarka dheer si loo horumariyo qaybta ku sifaysnayd burburka, la'aanta xadadka cad ee masuuliyadaha ee u dhexeeya qaranka, gobolka, degmadda, iyo masuuliyiinta degmadda.

Soomaaliya si ay u sii wado ka wareegida jilicsanaanta oo loo horumariyo u adkaysiga qoyska ee waxyaabaha naxdinta leh, una helaan biyo waa muhiim. Biyaha waxaay suurageliyaha muhiimka ah ee horumarka aadamaha, horumarka magaalada, shaqo abuurka, iyo wadaha koboca dhaqaalaha xiliga dheer. Kordhinta awooda adkaysiga iyo barwaaqada, Soomaaliya waxay u baahan tahay xeerka isku dhafka ah ee dhaqaalaha ee biyaha keena badhtankeeda oo ku daro tallooyinka la xidhiidha shanta fursadood ee isbeddelka iyo casriyaynta, ay ku jiraan:

- Xaqiijinta isku xidhka iyo gudbinta wadahalka bulshadda oo dhan ee biyaha.
- Ka faa'iidaysiga isticmaalka labbadaba biyaha buluuga ah iyo kuwa cagaaran si loo kobciyo dhaqaalaha qaranka.
- Kordhinta dakhliyada dhoofinta alaabta, iyo u beddelka qaybta xoolaha nool ee Soomaalyamid la mid ah nooca adduunka, xoolo aad u tayo sareeya iyo suuqa dhoofinta hilibka.
- Gelida dhaqaalaha isticmaalka iyo dib u isticmaalka alaabta leh iyo deegaanka oo ku dhisan adkaysiga, casriyaynta, iyo nidaamyada isku dhafan.
- Dhisida nidaamyo adag, laga wada qayb qaato, maamulka hufan ee maaraynta biyaha.

RECENT ECONOMIC DEVELOPMENTS

1. Somalia's Economy Remains Fragile amid Increased Recurrent Shocks

1.1 The Global and Regional Context

The global economy slowed significantly in 2022. After a sharp rebound in 2021, the global economy decelerated sharply in 2022, growing at 3.1 percent from 6.0 percent the previous year (World Bank 2023a). High inflation, rapid monetary tightening, reduced fiscal support, and major energy disruptions in Europe slowed economic activities in 2022. However, towards the end of 2022, global conditions improved as inflation started to decline in the United States. Also, gas prices in Europe started to decline. In addition, China's economy rebounded as the country loosened its zero-COVID-19 policy, leading to a better-than-expected growth. Global growth is expected to decelerate further in 2023 to 2.1 percent as a result of policy tightening aimed at containing very high inflation, worsening financial conditions, and continued disruptions from Russia's invasion of Ukraine. The world's largest economies are all undergoing a period of pronounced weakness, and the resulting spillovers are exacerbating other headwinds faced by emerging markets and developing economies. The combination of slow growth, tightening financial conditions, and heavy indebtedness is likely to weaken investment and trigger corporate defaults, thereby generating further negative shocks that could push the global economy into recession.

Sub-Saharan Africa's recovery was abruptly interrupted by the global slowdown. Sub-Saharan Africa's GDP growth slowed to 3.6 percent in 2022 from 4.4 percent in 2021, as surging inflation and weaker external demand weighed on economic activities in the region. Inflation rose sharply across the region amid soaring global prices for staple foods and energy and depreciating currencies. However, growth was better than expected as it was supported by global trade, high commodity prices, and domestic demand. Economic activity is projected to further slow to 2.5 percent in 2023 because (i) the global economy continues to be persistently sluggish; (ii) central bank rates are rising to fight inflation; (iii) inflation rates remain high, although declining; and (iv) challenging global and domestic financial conditions persist amid high levels of debt. Growth is estimated to increase to 3.7 and 4.1 percent in 2024 and 2025, respectively. According to World Bank (2023c), the increased growth forecasts are due to the easing of austerity measures, and more accommodative monetary policy amid falling inflation.

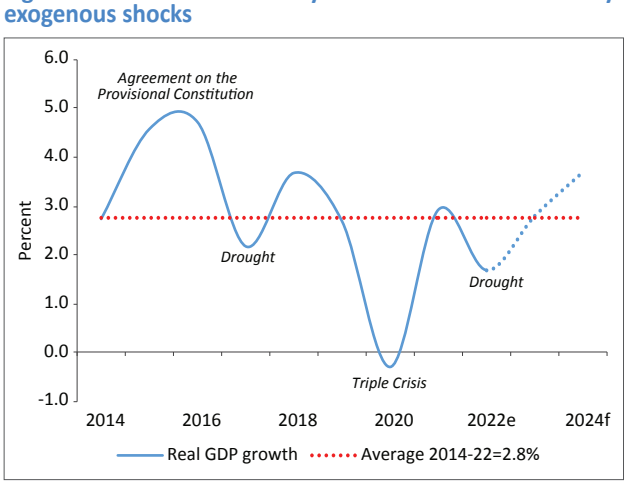
Similarly, growth in fragility, conflict and violence-affected, low-income countries (FCV LICs) slowed as a result of global developments. Growth in FCV countries grew at a rate of 2.5 percent in 2022 from 1.2 percent in 2021. As in other regions, growth was also affected by global developments, higher inflation, conflicts, adverse weather events, and rising production costs. These factors also kept food supplies tight. Growth in these economies is projected to average 5.4 percent in 2023–24, broadly in line with previous forecasts. However, if Ethiopia (the largest fragile LIC) and several fragile states that are expected to complete large mining projects (Democratic Republic of Congo and Mozambique) are excluded from the growth forecast, the outlook will substantially worsen, with downgrades of 0.4 percentage point both in 2023 and 2024. The reduced use of fertilizer and other farming inputs, whose costs rose sharply, is envisaged to result in below-average agricultural production in 2023. Moreover, fragility, conflict, and climate change are set to continue to drive poverty and food insecurity and restrain growth by amplifying the weakness in domestic demand.

1.2 Recent Economic Developments in Somalia

Recurrent shocks dampened economic activity in 2022

Somalia's economy faced further turbulence in 2022, due to climatic and global commodity shocks. The World Bank estimates GDP growth to have slowed to 1.7 percent in 2022, from 2.9 percent in 2021 (Figure 1.1). The slowdown in economic activity in 2022 was a result of a prolonged drought that persisted for five consecutive seasons of failed and irregular rains and higher commodity prices. These factors were a drag on growth and paused 2021's modest economic recovery from the COVID-19 pandemic. The economy continues to be weakened by a series of exogenous and persistent shocks, including decades of conflict, recurrent climate shocks, desert locust infestation, disease outbreaks, and recently the impact of the COVID-19 crisis (Figure 1.1). Livestock production suffered in 2022 as the number of live goats and sheep (Somalia's main export product), declined by 3.1 percent of the total live animals exported in 2022. However, increases in private sector credit, a rise in construction activity, and an increase in intermediate imports helped support economic activity and prevented the economy from contracting further.

Figure 1.1: Somalia's economy continues to be buffeted by exogenous shocks



Source: SNBS 2022 and World Bank Estimates (2023).

[4] As civilians escaped from the war zone to safer areas.

Growth in 2022 was driven by private consumption. Somalia's growth in 2022 was driven by private consumption, which was supported by remittances and official grants. Despite higher prices, private consumption increased, driven by pent-up demand associated with the lifting of the COVID-19 pandemic restrictions. However, rising food and fuel prices eroded Somalis' purchasing power, hampering higher growth. Food and energy price increases reflect larger-than-expected and more persistent damage to consumer demand from sharp cost-of-living increases, amplified by other vulnerabilities, such as unfavorable weather and insecurity. Government consumption slowed in 2022, contributing 0.6 percent to growth compared to 0.9 percent in 2021. The prolonged electoral stalemate led to a withholding of budget support by donors, leading to increased fiscal pressures. Similarly, the political impasse affected the business environment, slowing investment.

The severe drought also undermined the balance of payments. The drought reduced the supply of live animals for export, while imports surged owing to both high global commodity prices and increased domestic demand due to the drought. Exports of goods and services declined to 17 percent of GDP compared to 20.1 percent in 2021, whereas imports increased by 10 percentage points to 96.2 percent of GDP during this period. The current account deficit worsened to 16.8 percent of GDP in 2022, from 12.5 percent the previous year.

Increased insurgency activities and ongoing military operations to secure the country intensified challenges from forced displacement. The government is undertaking a military offensive against Al-Shabaab to weed out the militants from many areas of southern and central Somalia. This operation is in line with the UN Security Council Resolution which reconfigured the African Union Mission in Somalia (AMISOM) into the African Union

Transition Mission in Somalia to support the FGS in its efforts to continue countering Al-Shabaab. The expressed hope is that the FGS will gradually assume greater security responsibilities going forward. This military offensive, which began in 2022, has resulted in widespread insecurity and an acute deterioration of humanitarian access, mostly in the rural areas. According to the UN, up to 621,000 civilians were displaced due to conflict in 2022. However, the operations provided increased economic opportunity for expanded access into areas previously under Al-Shabaab control. Despite the operation, the risk of insecurity through constant threats from militant attacks, abductions, landmines, and violent crime remains high.

Prolonged drought dampened growth and intensified a humanitarian crisis in 2022

Severe drought and high food prices weakened household livelihoods and purchasing power. After five consecutive failed rainy seasons, the 2021/22 drought was the longest and most severe in recent history. Indeed, it surpassed the 2010/2011 and 2016/2017 droughts in terms of duration and severity (OCHA, 2023). Extreme drought left Somalia on the verge of a humanitarian catastrophe, destroying crops and livestock, and forcing huge numbers of people to leave their homes in search of food and water. It also escalated staple food prices, with the average price of red sorghum having more than tripled in Bay and Shabelle. At the same time, the value of livestock (a main source of livelihoods) plummeted, from US$319 paid per cattle to the current US$273. The situation was exacerbated by ongoing conflict, global supply shocks, and the Ukraine-Russia crisis. The impacts of the drought were also compounded by the effects of the COVID-19 crisis, increased conflict, displacement, as well as a severe desert locust upsurge in 2020 and 2021.

Drought stymied the performance of the agricultural sector. According to the United Nations (UN), the drought devastated the agriculture sector—the backbone for rural and urban population livelihoods, and the source of Somalia's exports (UN OCHA 2023). One-third of all livestock in the worst-affected areas had cumulatively died since mid-2021. Crop and livestock production remained extremely poor during this period, as drought conditions affected 90 percent of the country. As a result, average Deyr (October–December) season rainfall in 2021/2022 was below average. As such, it was characterized by more depressed rains with poor spatial and temporal distributions and harsh conditions as compared to previous similar periods. The worst affected regions included Lower Juba, Middle Juba, Gedo, Mudug, Nugaal, Bari, Toghdheer and Sool, which experienced severe water shortages for domestic purposes, livestock, and agricultural production (FAO 2021).

The erratic and marginal rains resulted in poor pastures and low agricultural production. The 2022 Deyr rains only marginally replenished pasture and water resources. They enabled crop cultivation in some areas, albeit with cumulative rainfall ranging from 25 to 55 percent below average across most parts of Somalia. In southern Somalia, the cereal harvest was estimated at 40–60 percent below the 1995-2021 average, and there were very few agricultural labor opportunities for poor households relying on this income source. In the agropastoral and riverine livelihood zones, water levels were low in the Juba and Shabelle rivers due to poor rains. In addition, the area planted was far below normal, as households were displaced away from their farms, and farmers had reduced ability to afford seeds, irrigation, and other inputs. Moreover, the

[5] The UN Security Council Resolution S/RES/2628 (2022) authorized African Union member states to deploy up to 19,626 uniformed personnel including a minimum of 1,040 police personnel — until December 31, 2022. A deployment of up to 17,626 uniformed personnel was also authorized—with the same minimum police personnel between January 1, 2023, and March 31, 2023. Additionally, the Council requested the Union to ensure certain structures are in place, including those providing clear oversight of the African Union Transition Mission in Somalia, including clear command and control of the Mission and operational coordination between its contingents.

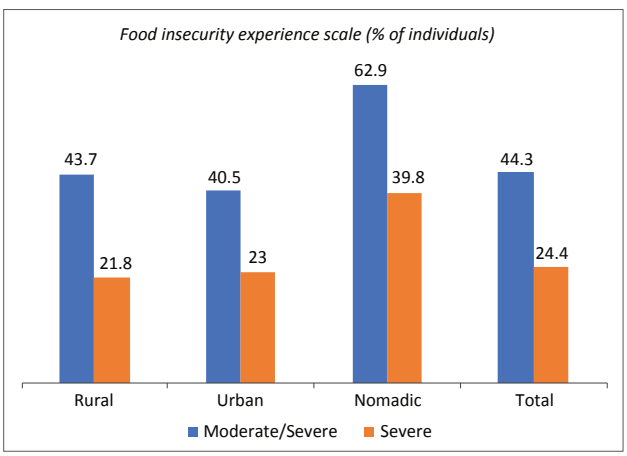
[6] Internal Displacement Monitoring Centre: https://www.internal-displacement.org/countries/somalia.

[7] Climate in Somalia is characterized by a bimodal annual rainfall pattern, which is created by the movement of the Intertropical Convergence Zone (ITZ) across the country from April to July. The northerly movement of the ITZ brings the major Gu rains. From September to November, the southerly movement of the ITZ results in the minor Deyr rains. The rainy seasons are separated by two dry spells, known locally as Jilaal (January–March) and Hagaa (July–September).

drought affected livestock health, thus limiting milk access and saleable animals among the poor and vulnerable pastoral households. Pastoral households accumulated high debt burdens, driven by the prohibitive costs of water and feed for livestock, resulting in increased reliance on purchasing food for the family on credit, and abnormal livestock migration to distant areas in search of pasture and water (UN OCHA 2023).

The prolonged severe drought intensified a humanitarian crisis in 2022. By the end of December 2022, 7.1 million people—nearly half of the population—were food insecure, and 1.3 million people were displaced (FEWS NET 2023). Worsened food security and nutrition outcomes pushed the poor and vulnerable communities to the brink of starvation. According to the Somalia Integrated Household Budget Survey (National Bureau of Statistics 2023), food insecurity was a major concern for Somalis households. Indeed, 44.3 percent of the total estimated households were moderately food insecure, and 24.4 percent were severely food insecure. Similarly, over half of the households (52.2 percent) were unable to afford healthy and nutritious food; 47.7 percent were worried that they would not have enough food to eat; and 43.5 percent ate less than they thought they should (Figure 1.2). This was compounded by a high level of malnutrition, with over 1.3 million children having received treatment for malnutrition between January and November 2022. High food prices, increased conflict and insecurity, and disease outbreaks aggravated food insecurity and malnutrition.

Figure 1.2: Food Insecurity is aggravated by recurring climatic shocks



Shocks are difficult to predict, but are the sources of poverty and vulnerability

Most Somali households were hit with multiple and contemporaneous shocks in 2022. The impact of a shock on household welfare is worse if there are other shocks as well. The SIHBS identifies the shocks that affected households the previous 24 months (SNBS 2023). The three major shocks included higher food prices, drought and a loss of livestock. In this context, 53 percent of total households identified sharp increases in food prices as the

Food insecurity experience	2019	2020	2021	Total
Worried you would not have enough food to eat	48.2	44.3	63.3	**47.7**
Unable to eat healthy and nutritious food	52.1	47.7	73.7	**52.2**
Ate only a few kinds of food	48.7	44.2	66.8	**48.3**
Had to skip a meal	42.8	38.6	62.2	**42.7**
Ate less than you thought you should	41.6	40.3	62.3	**43.5**
Ran out of food	36.1	34.8	55.8	**37.8**
Hungry but did not eat	34	31.7	52.3	**34.9**
Went without eating for a whole day	24.8	24.2	45.6	**27.1**

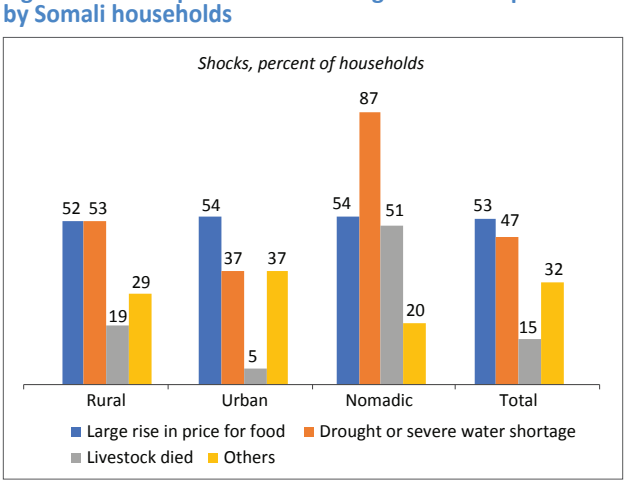
Source: Somalia National Bureau of Statistics (2023).

Note: Food security situation during the month preceding the survey. The Food Insecurity Experience Scale (FIES) is a methodology developed by the FAO to identify households facing difficulties in accessing food. Under this methodology, people experiencing moderate levels of food insecurity will typically eat low-quality diets. At times during the year, they might also have been forced to also reduce the quantity of food they would normally eat. Those experiencing severe levels would have gone for entire days without eating due to a lack of money or other resources to obtain food.

major shock followed by the impact of drought at 47 percent, and livestock fatalities at 15 percent (Figure 1.3).

The poor households are more exposed to natural shocks, reflecting their location and dependence on agriculture as a source of living. As a result of these multiple and compounding shocks, many rural and nomadic households face widening food consumption gaps. Furthermore, the erosion of their livelihoods limits their coping capacity. Thus, 51 percent of nomadic households reported the death of livestock as a shock as opposed to only 5 percent of urban households. The deleterious effects of drought affected more nomads (87 percent) as compared to 53 and 36 percent of households living in rural and urban areas, respectively (Figure 1.3). The contemporaneous and multiple shocks have created a surge in population displacement from rural areas to IDP settlements, mostly in urban areas. This has in turn led to the provision of sustained humanitarian food assistance required to prevent a crisis (Integrated Food Security Phase Classification [IPC] Phase 3/serious) or worse outcomes, as well as to protect livelihoods.

Figure 1.3: Food prices were the largest shock experienced by Somali households

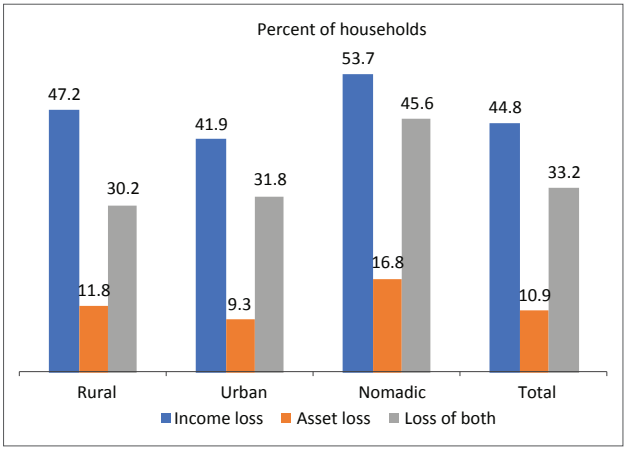


Source: SIHBS (SNBS 2023).

Climatic shocks have had devastating consequences to the economy. Amid poor social safety nets and weak health systems, the poorest households will resort to unhealthy coping mechanisms (including restricting consumption). These shocks have also led to more internal displacement. Rising food and energy prices—fueled in part by the Russian Federation's invasion of Ukraine and climate shocks—have affected Somalia's economy at a macro level. As such, they have dimmed its efforts to reduce poverty as articulated in the National Development Plan-9. At the household level, high food price inflation can have detrimental impacts on poorer households, who spend a larger share of their income on food in the short run.

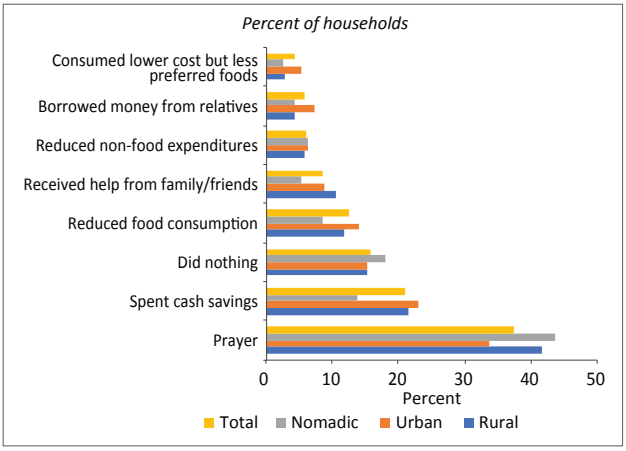
The accumulated history of shocks is increasingly associated with poverty. Climate change and armed conflict are among Somalia's defining challenges in tackling poverty. Natural disasters have had a high and lasting impact on the poor. The effects of these shocks have been multi-dimensional including: the economic effects on wealth and income; social effects (destroying trust and social capital within villages); and impacts on health (death, illness), among others. Idiosyncratic shocks are almost always associated with income or wealth losses. However, social shocks are less likely to cause income or wealth losses, but they clearly have a psychological and social impact. According to the SIHBS (SNBS 2023), 45 percent of total households suffered income loses because of shocks; 11 percent suffered asset losses; and 33 percent suffered both losses. However, when this is disaggregated in terms of locations, 54 percent of nomads suffered income losses, and 46 percent suffered both loses of assets and income. Both rural and urban populations suffered little assets losses because of the shocks (Figure 1.4).

Figure 1.4: Contemporaneous shocks have led to loss of income and assets



Source: SIHBS (SNBS 2023).

Figure 1.5: Coping mechanisms of households during shocks



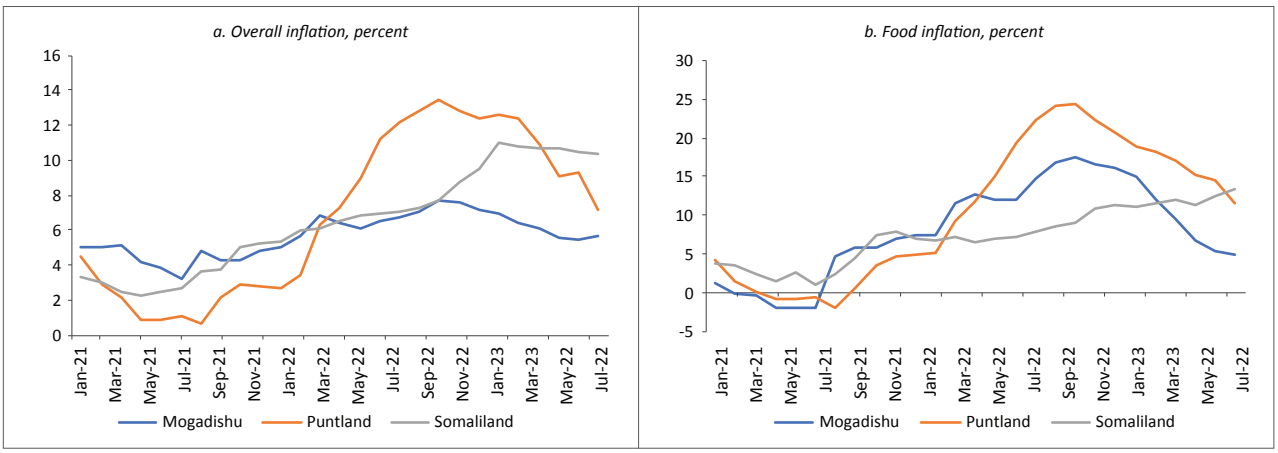
Source: SIHBS (SNBS 2023).

Households have responded differently to the various shocks. Figure 1.5 shows the most common responses to the shocks adopted by affected households according to place of residence. Most households (37 percent) resort to prayers when shocks hit them, whereas 16 percent do nothing. However, 21 percent draw down their savings, 13 percent reduce consumption, and 9 percent seek help from family and friends (Figure 1.5). In addition, 6 percent of the households reduce non-food expenditures. According to the SIHBS (SNBS 2023), urban households responded relatively more by spending cash savings (23.0 percent) as compared to 21.4 and 13.7 percent of rural and nomadic households, respectively. Rural households received more support from international organizations (5.3 percent) as compared to 2.4 and 3.6 percent of urban and nomadic households, respectively. Finally, nomadic households were relatively more prone to prayer (43.6 percent compared to 41.7 and 33.6 percent of rural and urban households, respectively); doing nothing (18.0 percent compared to 15.3 and 15.2 percent of rural and urban households, respectively); and selling livestock or poultry (11.2 percent compared to rural household rate of 4.0 percent (see Figure 1.5).

Inflationary pressures intensified in 2022, with consumer prices remaining persistently high

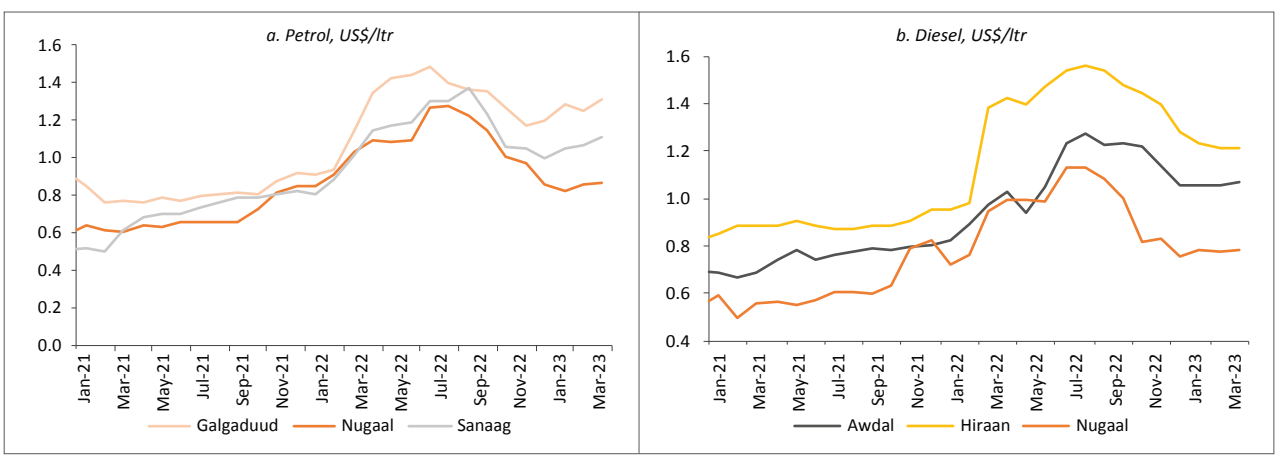
Consumer prices accelerated in the first half of 2022 due to both domestic and external factors. Commodity prices rose significantly in 2022 due to the severe drought conditions, as well as the impacts of Russia's invasion of Ukraine. The drought reduced the capacity of Somalis to grow and buy their own food, thereby increasing food insecurity. In addition, the Ukraine-Russia crisis disrupted the global food markets and energy prices. Specifically, the global supply of oil, wheat, and fertilizer, among other commodities, was disrupted, causing global prices to skyrocket. Up to 90 percent of the Somalia's wheat imports come from Russia and Ukraine. The high oil prices worsened the country's oil import bill, which more than doubled in 2022. As a result, prices in Somalia were significantly elevated, with overall inflation averaging 6.8 percent up from 4.6 percent in 2021 in Mogadishu; 11.1 percent in Puntland up from 2.2 percent; and 8.3 percent in Somaliland up from 3.7 the previous year (Figure 1.6a). Overall inflation was at its peak in July, that is, at 7.7 percent in Mogadishu, and 12.6 and 11.0 percent in Puntland and Somaliland, respectively, in October 2022. Even though inflationary pressure has eased, commodity prices remain persistently high.

Figure 1.6: Inflation was high in 2022, driven by high food and energy prices



Source: World Bank (2022b), Ministry of Planning Puntland, Ministry of Planning Somaliland.

Figure 1.7: Fuel prices were at an all-time high in 2022



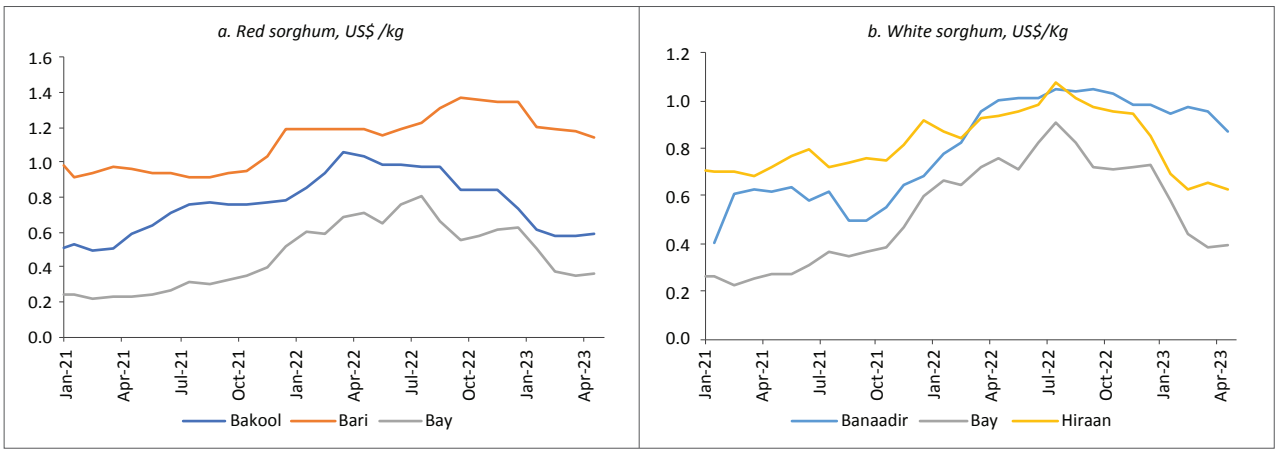
Source: Food Security and Nutrition Analysis Unit (FSNAU) database (2023).

The inflationary pressures increased significantly despite the economy being de facto dollarized. Generally, the highly dollarized nature of the economy can be a source of stability in times of low and stable global commodity prices. However, both overall and food inflation remained significantly high and stickier as compared to previous periods. There are also spatial differences in prices in Somalia. The prices of crops (grains in particular) tend to be higher in Northern Somalia than in central and southern Somalia (see figure 1.8). When drought occurs and is cushioned by food aid, food prices in the north tend to decline as the supply of food from aid increases. For livestock, the prices of animals (and livestock products) are cheaper in the north compared to central and southern Somalia. However, during droughts, prices in the south tend to increase faster than in the north.

Reforms have stabilized the financial sector, but drought made banks risk averse

The financial system continues to be stronger following reforms at the Central Bank of Somalia (CBS). The CBS continued its reform path, despite the exogenous shock buffeting the economy. Improved regulatory frameworks have yielded positive results that are increasing the public's confidence in the financial system, while also supporting growth in credit to the private sector. As of the end of April 2023, there were 13 licensed commercial banks, 10 licensed Money Transfer Businesses (MTBs),

Figure 1.8: Local cereal price increased in 2022



Source: Food Security and Nutrition Analysis Unit (FSNAU) database (2023).

and four licensed Mobile Money Operators (MMOs) in the country. In addition, the CBS approved licenses for two international banks in 2022, signaling the improved confidence in the country's banking system and further enhancing opportunities for investment. The Central Bank remains committed to fostering inclusive economic growth and building a robust, stable, and sound financial system.

Somalia is developing and implementing an AML/CFT Action Plan based on the National Risk Assessment (NRA). The Somali authorities published a National Risk Assessment in May 2022 and subsequently a NRA Action Plan in February 2023. These documents highlighted gaps in the current systems related to AML/CFT and included measures to address these risks. A key area of risk identified is the lack of a verifiable source of identification, which constrains the development of know-your-customer (KYC) protocols. Currently, the country lacks an accepted form of identification, thus limiting compliance with KYC requirements. However, in March 2023, progress was being made as the country enacted the legislative framework for digital identification. The enacted Digital Identification Law is expected to provide a basis for developing electronic KYC regulations by the end of 2023. This will help to support the ability of financial institutions to assess risks, and eventually increase access to finance. In addition, the country enacted the Targeted Financial Sanctions Law. Somalia will also be subjected to the Middle East and North Africa Financial Action Task Force (MENA-FATF) mutual evaluation, which will assess progress in addressing money laundering and terrorism financing concerns.

Commercial banks in Somalia adopted the International Bank Account Numbers (IBAN) in 2022 to reduce for cross border transactions errors. This is an internationally agreed system of identifying bank accounts across national borders. As such, it facilitates the communication and processing of cross-border transactions with a reduced risk of transcription errors. The use of IBAN across all transactions going through the National Payment System (NPS) will help transform the financial sector, as these are fast and secure payments both domestically and internationally. IBAN enhances performance in payment processing and reduces operational risks for bank transactions by enabling the NPS to electronically validate bank account numbers, as well as to choose the route a payment must take without manual involvement. This will also help to restore the assurances of international correspondent

[8] The publication of the National Risk Assessment was supported by the first operation of this series.

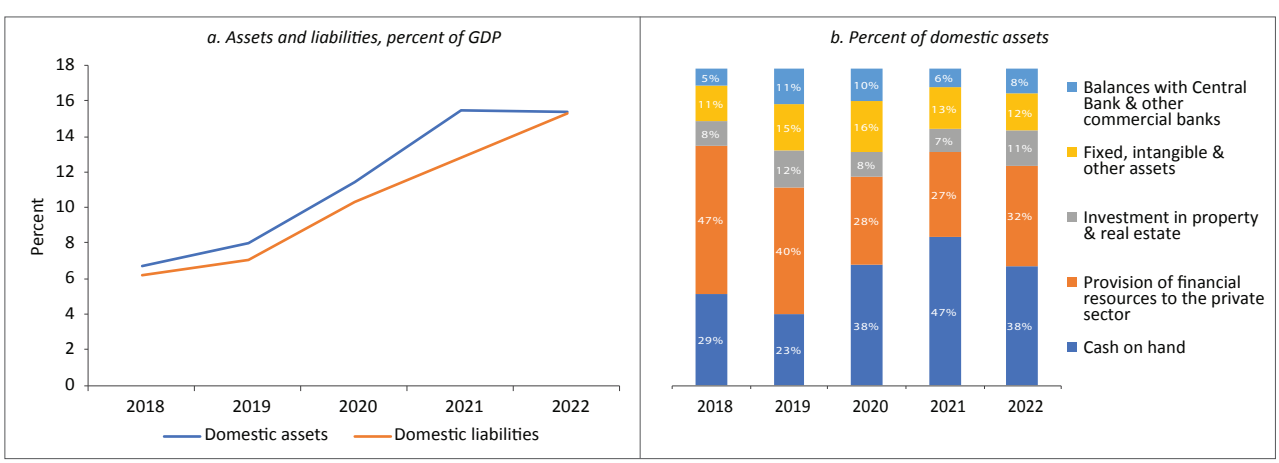
banks, regulators, and investors about the country's reintegration into the international financial markets.

Somali banks' domestic assets continue to increase. Domestic assets of commercial banks have more than tripled in the last 5 years, from US$394 in 2018 to US$1.3 billion in 2022, equivalent to 15.4 percent of GDP (see Figure 1.9a). The asset growth averaged 35 percent per year during this period, which signals improved confidence in the banking system. Domestic assets are dominated by cash on hand, which constituted 38 percent and stood at US$476 million. The provisions of financial resources to the private sector constituted 32 percent and stood at US$400 million in 2022 (Figure 1.9b).

Credit to the private sector increased despite the economic slowdown. It increased to US$400 million in 2022, growing by 25 percent from the previous year. This represents 31.8 percent of total domestic assets, up from 27 percent in 2021 (Figure 1.10a). Credit growth was driven by four subsectors: construction loans (41 percent); trade financing (35 percent); real estate (25 percent); and investment in partnerships and joint ventures (11 percent growth)—see figure 1.10b. The four subsectors contributed more than 75 percent of the total credit of the banking system. Trade financing dominated financing assets and represented 25 percent of private sector credit. Construction loans came second at 14 percent. Commercial banks preferred loaning funds to sectors where they could verify activity or take collateral, particularly in trade financing, construction, real estate, or enter joint ventures or partnerships with prospective borrowers. However, this leaves a large unmet market demand for financing the real economy (World Bank Group and UNIDO 2021).

Households are locked out of borrowing by commercial banks, despite excess liquidity. Banks reduced financial intermediation and outreach efforts as default risk perceptions persisted and remained elevated since the COVID-19 crisis. They have maintained their risk-averse stance, only lending for short-term trade finance and for relatively large loans whose share in the total portfolio of banks increased during the pandemic. To that extent, the share of personal/household loans has declined from 13 percent in 2019 to 8 percent in 2023. According to the Somalia Integrated Household Budget Survey (SIHBS), 82.9 percent of households prefer borrowing from a trader/merchant; 17.5 percent prefer borrowing from a relative/friend/neighbor; and only 2 percent

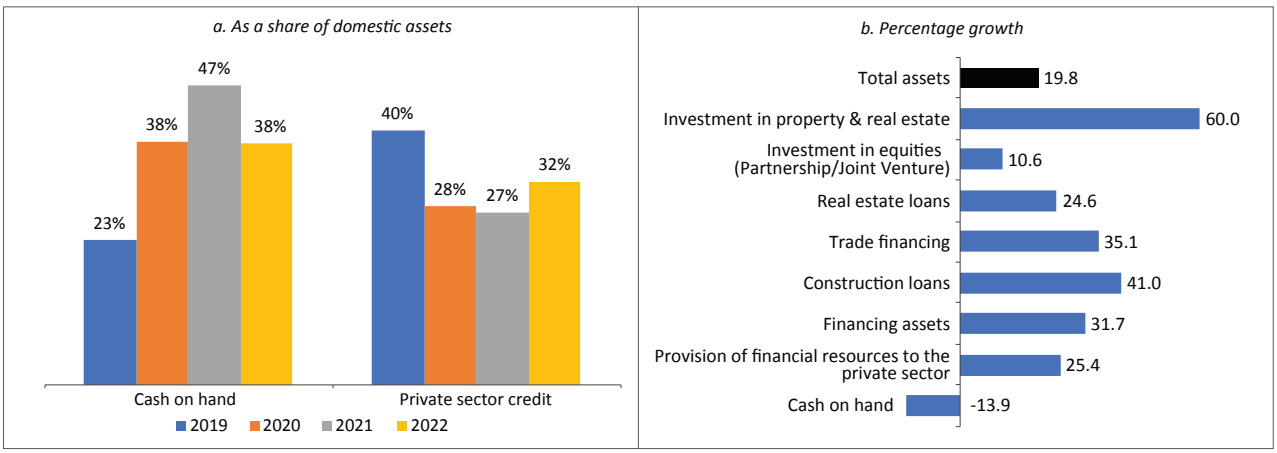
Figure 1.9: Increasing bank assets and liabilities



Source: Central Bank of Somalia database (2023).

[9] This is consistent with results from the 2019 Enterprise Survey for Mogadishu and Bosaso, which showed that Somali businesses relied on internal sources of funding for 92 percent of their working capital needs. Only 2 percent of the needs were met by banks (as compared the Sub-Saharan Africa average of 8 percent). The survey found that although 94 percent of the firms in Somalia had a bank account, only 4 percent had a bank loan or a line of credit.

Figure 1.10: Commercial banking assets grew in 2022



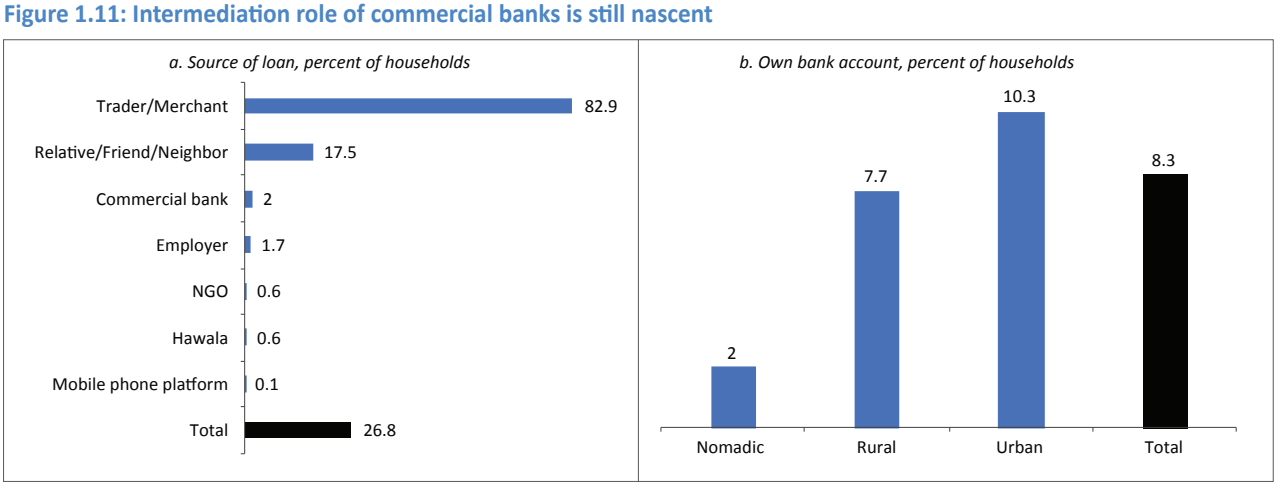
Source: Central Bank of Somalia database (2023).

prefer borrowing from commercial banks (Figure 1.11a). Furthermore, only 8.3 percent of households own a bank account, mainly those located in urban areas (Figure 1.11b).

Domestic liabilities have steadily increased as confidence in the banking sector improved. They increased to US$1.2 billion, equivalent to 15.3 percent of GDP in 2022, a significant increase from 6.2 percent of GDP in 2018 (Figure 1.9a). Customer deposits remain the primary liabilities of commercial banks, constituting 93 percent of domestic liabilities in 2022. These deposits increased by 24 percent to US$1.2 billion from US$942 million in 2021. This was primarily driven by demand deposits of individuals, which increased by 51 percent to US$635 million. However, commercial entities contracted by 2 percent to US$462 million during this period. The contraction in commercial entities' deposits was because of an unwinding of their reserves built up during the pandemic. Saving deposits increased 61 percent to US$66 million, representing 5 percent of commercial bank liabilities in 2022.

Despite sluggish economic growth, the quality of commercial bank assets remained high. The total consolidated shareholder equity increased by 20 percent in 2022 to reach US$1.5 billion, whereas the share capital increased by 13 percent to reach US$192 million (Table 1.1). The quality of commercial bank assets remained high and their level of credit risk low. The non-

Figure 1.11: Intermediation role of commercial banks is still nascent



Source: SIHBS (Somalia National Bureau of Statistics 2023).

performing loan (NPL) to gross loans ratio increased marginally to 1.5 percent in 2022, from 0.8 percent in 2021, thus signaling the tight lending environment during drought, as well as higher interest rates and uncertainties in the global economies. Nevertheless, banks are at a lower risk of loss if they do not recover the loan amounts owed. The commercial consolidated bank capital asset ratios have enough cushion to absorb a reasonable share of losses before they become insolvent. The capital asset ratio declined from 13.9 percent in 2021 to 12.8 percent in 2022, still sufficient to be in accordance with Basel 2 recommendation of 8 percent (Table 1.1).

The external sector was weighed down by drought and global developments

The current account deficit remained invariant as official grants helped finance the drought-induced food imports and higher commodity imports. The current account stood at 16.8 percent of GDP in 2022, the same level as the previous year. This was despite high global commodity prices, poor exports and a drought which necessitated increased food imports, leading to a higher oil import bill. The trade balance deteriorated as export earnings from livestock were insufficient to offset the significant increase in import bills due to high food and energy prices (Table 1.2). The trade deficit widened by 7.4 percentage points to

Table 1.1: Banking sector performance in Somalia, 2020–22

	2020	2021	2022	Percentage change (year-on-year)
Balance sheet Items (US$ millions)				
Cash on hand	**299.6**	**552.7**	**476.1**	**-13.9**
Credit to the private sector	**219.0**	**318.9**	**399.7**	**25.4**
Of which				
Financing assets	145.8	222.7	293.3	31.7
Investment in equities (partnerships, joint ventures)	73.8	96.2	106.4	10.6
Investment in property and real estate	60.8	85.9	138.2	60.9
Total assets	**845.7**	**1221.2**	**1462.5**	**19.8**
Customer deposits	667.2	941.8	1164.3	23.6
Total shareholder's equity	133.4	196.1	215.1	9.7
Net profit after tax	-2.9	4.0	-0.4	-110.0
Non-performing financial assets	5.8	2.7	6.1	125.9
Total capital	100.5	162.9	183.3	12.5
Total net assets	806.5	1168.4	1437.0	23.0
Ratios (percent)				
Non-performing assets/gross loans	2.6	0.8	1.5	
Profit/equity	-2.1	2.1	-0.2	
Capital/assets	11.9	13.9	12.8	
Loans/deposits	32.9	33.9	34.3	

Source: Central Bank of Somalia

Table 1.2: Imports surged as COVID-19 restrictions eased

Variables (as a percentage of GDP)	2020	2021	2022
Current account balance	−14.9	−16.8	−16.8
Trade balance	−67.4	−71.7	−79.1
Exports of goods and services	17.1	17.2	17.0
Imports of goods and services	84.5	88.9	96.2
Remittances	23.2	27.8	26.3
Official grants	30.6	27.8	36.6
Foreign direct investment	7.8	8.0	7.8

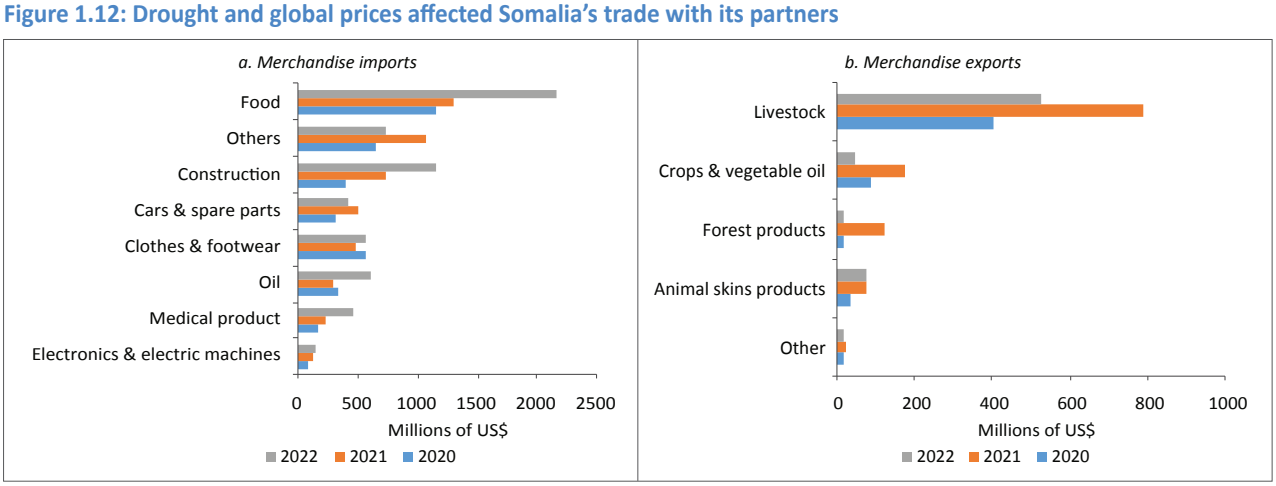
Source: Somalia Authorities and IMF (2023)

79.1 percent of GDP, up from 71.7 percent in 2021. Remittances and official grants, estimated at 63 percent of GDP, helped to finance the trade deficit. Because of the country's weak production base and tough investment climate, the external sector will remain vulnerable, partly because of deteriorating terms of trade.

Somalia's import bill increased significantly because of huge food imports driven by drought and high global commodity prices. A significant drop in domestic production of food due to drought forced Somalia to increase its food imports. These accounted for more than a 50 percent increase in total merchandise imports in 2022. Somalia's overall imports of merchandise goods increased by 32.4 percent to US$6.3 billion, from US$4.8 billion in 2021 (Figure 1.12a). This significant increase was driven by food imports which grew by 66 percent; construction materials by 57 percent; oil products more than doubled; and medical products which grew by 106 percent.

Exports of live animals declined due to the prolonged drought. Somalia's exports are dominated by livestock, whose numbers and health are susceptible to the increased frequency of droughts, in turn affecting overall export earnings. Merchandise exports slumped by 43 percent in 2022 to US$667 million from 1.2 billion in 2021, with livestock exports falling by 34 percent to US$521 million from US$785 million (Figure 1.12b). The total number of live animals exported through Somalia's ports declined by 2.2 percent in 2022. This was mainly driven by a 3.1 percent fall in live goats and sheep, the dominant category of the export

Figure 1.12: Drought and global prices affected Somalia's trade with its partners



Source: Central Bank of Somalia.

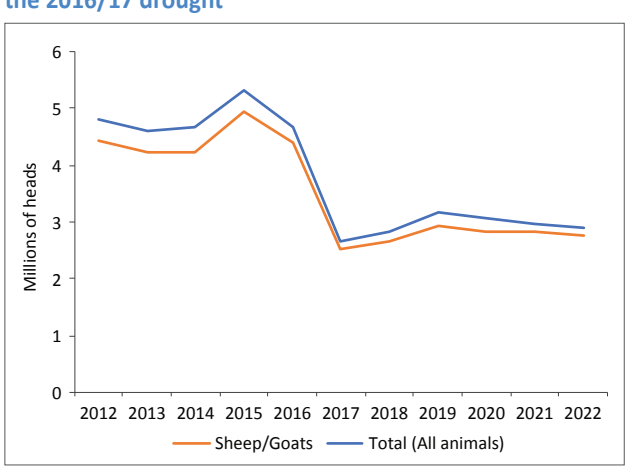
basket (Figure 1.13). Similarly, although only accounting for a small share, crop and vegetable oil exports contracted by 74 percent to US$45 million from US$175 million the previous year.

Remittance growth was sluggish in 2022, affected by tight global conditions; however, they recovered in the fourth quarter. Remittances support consumption and investment, as well as cushion households in times of shocks. Remittances inflows have remained relatively resilient to the recurrent shocks that have buffeted the country throughout 2010–22, including during the COVID-19 global pandemic. Growth in remittances was sluggish in 2022, reflecting global economic conditions. Remittances recorded a 4.2 percent growth rate compared to 19.1 percent in 2021, the lowest growth in the last 5 years (Figure 1.14). The slowdown was attributed to tight global financial conditions as monetary policies tightened, and high inflation rates experienced in the countries where most of the Somali diaspora resides. The growth of remittance inflows for individuals remained invariant, growing at 0.5 percent to US$2.1 billion. On a quarterly basis, remittance inflows to individuals grew by 9.4 percent as measured by quarter-on-quarter growth in Q1. However, the tightening of monetary policy to combat high inflation in western economies led to slow down of remittances. In this context, inflows to individuals contracted to 0.5 percent and 6.6 percent in Q2 and Q3, respectively, due to these global developments. However, they recovered in Q4, growing by 7 percent as inflationary pressures eased in global markets. Total remittance inflows grew by 5.8 percent in Q1 but slowed in Q2 and Q3 to 1.8 and 2.5 percent, respectively, before recovering significantly in Q4 to 12.7 percent.

Public finances have improved markedly, but fiscal challenges remain

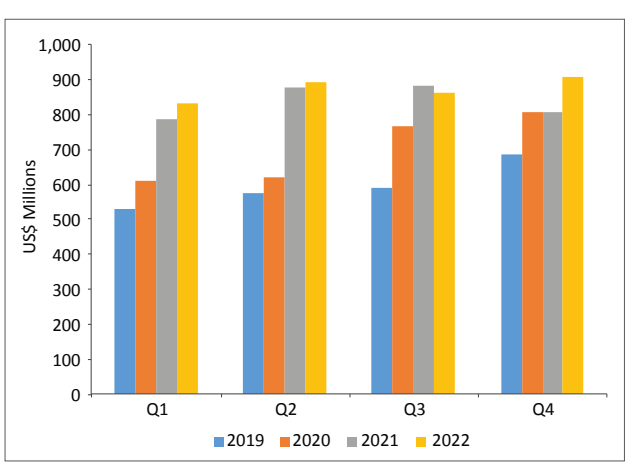
Domestic revenue mobilization by the FGS has recovered from the 2020–21 crises of the COVID-19 global pandemic and a prolonged electoral impasse. Revenue collection remained steady despite the severe drought through 2022. Domestic resources were 14 percent higher than for pre-COVID levels, surpassing the annual target by 5 percent in 2022 (Table 1.3). Total donor grants more than tripled as compared to 2021, owing to the resumption of budget support and increased project grants in response to the severe drought. Overall, domestic revenues increased by 0.2 percentage points to reach 3.2 percent of GDP. Donor grants increased by 3.6 percentage points to 5.6 percent of GDP, pushing total revenues to 8.9 percent of GDP.

Figure 1.13: Live animals exports have not recovered since the 2016/17 drought



Source: Food Security and Nutrition Analysis Unit (FSNAU) database (2023).

Figure 1.14: Growth in remittances slowed in 2022



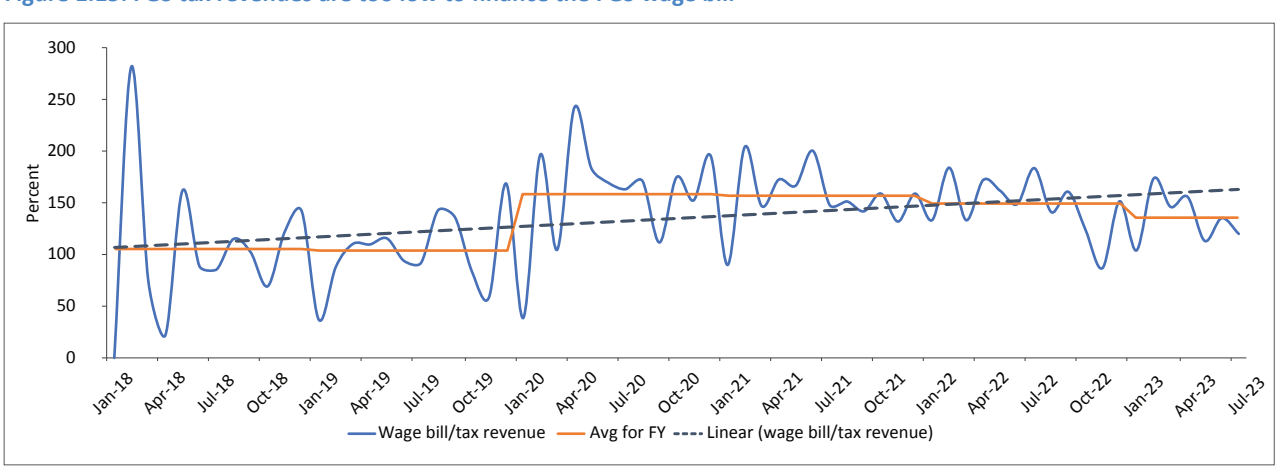
Source: Central Bank of Somalia (2023).

FGS expenditure priorities are shifting toward social programs; however, capital spending remains small. Total expenditures grew in tandem with revenue growth to reach 9 percent of GDP in 2022, from 6.2 percent in 2021. This increase was driven by social spending accounting for 27 percent, becoming the largest share of the total FGS sector spending. In addition, intergovernmental grants more than doubled during this period. These expenditure increases were all in response to the prolonged drought conditions. Importantly, the response to recurrent shocks and pro-poor spending in Somalia is virtually dependent on external grants, as the government has neither the fiscal space nor the capacity to borrow to finance deficit spending. Capital spending has remained small over the years, accounting for only 2 percent of the total spending in 2022, equivalent to 0.2 percent of GDP.

The fiscal situation remains challenging, as domestic resources remain too low and insufficient to meet increasing expenditure needs. Although domestic revenue mobilization has improved over time, it remains low, with a tax-to-GDP ratio averaging only 2 percent of GDP in the last 5 years. Public expenditures are growing faster than revenue growth. The total FGS domestic revenues could only finance just over one-third of the total expenditures in 2022, leaving a large share of the budget to be financed by external grants, as well as ad hoc rationalization of expenditures in line with available resources. Importantly, the government is constrained in financing its wage bill, which has remained the largest spending category—and growing faster than tax revenues (Figure 1.15). Therefore, to improve fiscal sustainability and maintain prudent fiscal policy, the government will need to fast-track the numerous efforts underway to increase domestic revenues. At the same time, it will need to constrain its wage bill and reliance on external donor funds.

Similarly, budget planning and utilization remain a challenge bringing to question FGS' budget credibility. There are significant variances between actual outturns and original budgets, with an increasing percentage of adjustments to the original budget in the last five years. Each year the FGS Parliament has had to pass a supplementary Appropriation Act. Domestic revenue forecasts have generally remained accurate and surpassed targets during this period, except in 2021 during the prolonged electoral impasse. However, forecasting for donor grants, which constitute a large share of the budget, needs improvement. The realization of donor commitments ranged from 75 percent in 2018 to 66 percent in 2022. As a result, total

Figure 1.15: FGS tax revenues are too low to finance the FGS wage bill



Source: Staff computations based on data from the FGS Ministry of Finance.

revenue outturn deviations from the original budgets have ranged from 7 percent in 2018 to 24 percent in 2022 (Table 1.3).

Domestic revenue collection surpassed the annual target in 2022, and the resumption of budget support eased liquidity pressures

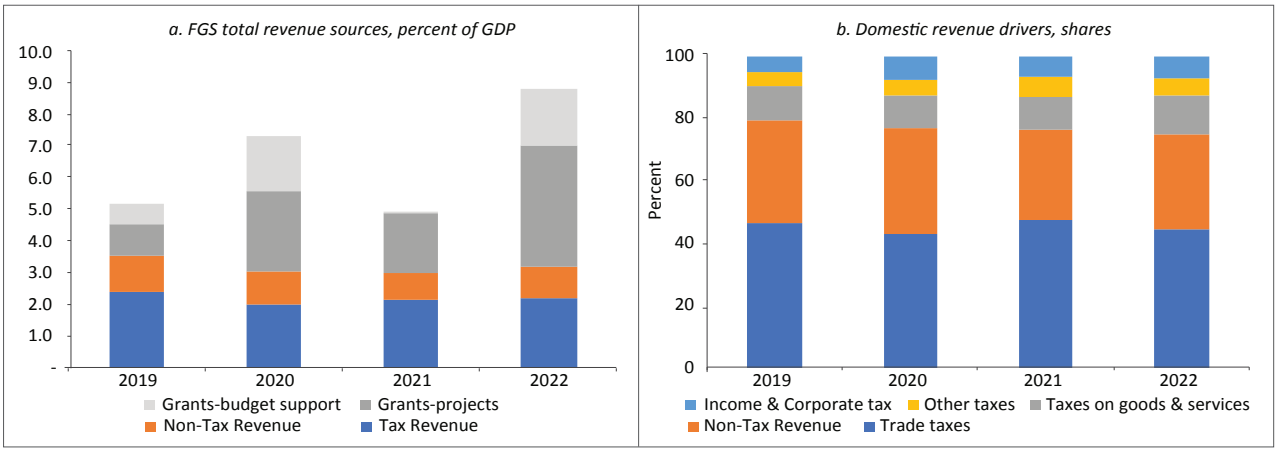
FGS domestic revenue collection increased by 14.4 percent in 2022 due to the continued recovery from the COVID-19 crisis and the conclusion of the prolonged electoral period (Table 1.3). Actual revenue collection surpassed the annual budget target of US$250 million by 5 percent to reach US$262.7 million, which is equivalent to 3.2 percent of GDP. This growth was driven by increases across all domestic revenue sources, except other taxes which declined by 3.4 percent compared to 2021. Trade taxes and non-tax revenues remain the main drivers of domestic resources, accounting for 44 percent and 31 percent of total domestic revenues, respectively, in 2022 (Figure 1.16b). Growth in trade taxes grew were mainly driven by revenue increases from petroleum products at 17 percent; food (mainly flour, rice, and spaghetti) at 26 percent; and the importation

Table 1.3: FGS fiscal operations, 2019–2023 (US$ millions)

	2019	2020	2021	2022		2023	2022	2022
	Actual	Actual	Actual	Budget	Actual	Approved Budget	vs 2021	Actual vs Budgeted
Revenue and grants	**337.8**	**506.8**	**376.5**	**944.9**	**721.9**	**950.7**	**92%**	**-24%**
Domestic revenues	**229.7**	**211.2**	**229.6**	**250.1**	**262.7**	**283.3**	**14%**	**5%**
Tax revenues	154.7	139.5	162.8	173.7	181.7	189.9	12%	5%
Taxes on income, profits, property	11.7	16.2	15.8	15.8	18.7	18.6	18%	18%
Taxes on goods and services	25.0	21.3	23.4	30.8	32.8	33.1	40%	7%
Taxes on international trade	107.0	91.1	109.0	111.3	116.2	123.2	7%	4%
o/w import tax on khat	16.6	5.5	11.6	16.0	13.7	20.0	18%	-14%
Other taxes	11.1	11.0	14.6	15.9	14.1	14.9	-3%	-11%
Non-tax revenues	74.9	71.7	66.8	76.4	81.0	93.4	21%	6%
o/w telecoms spectrum fees	8.7	1.7	1.2	13.1	4.1	6.0	256%	-69%
Grants	**108.1**	**295.6**	**147.0**	**694.8**	**459.2**	**667.4**	**212%**	**-34%**
Budget support	65.5	123.1	2.5	174.6	145.5	170.6	5722%	-17%
Budget support	42.6	172.5	144.5	520.2	313.7	496.8	117%	-40%
Expenditure	**315.7**	**482.2**	**460.1**	**919.5**	**719.5**	**977.2**	**56%**	**-22%**
Compensation of employees	162.8	227.0	250.1	266.0	259.6	287.5	4%	-2%
Use of goods and services	92.7	80.3	106.1	232.2	140.7	226.4	33%	-39%
Interest and other charges	-	1.8	0.9	2.5	0.8	5.8	-11%	-68%
Grants (intergovernmental)	45.0	90.2	45.9	132.4	111.2	190.5	143%	-16%
Social benefits	-	62.1	39.9	247.3	188.9	201.3	374%	-24%
Other expenses	0.4	2.2	1.3	5.6	5.1	11.5	302%	-8%
Capital	14.8	18.6	16.1	33.5	13.2	54.2	-18%	-61%
Budget balance	**22.1**	**24.6**	**-83.6**	**25.4**	**2.4**	**-26.6**		
Amortization	0.0	12.7	13.7	10.4	11.9	14.2		
Memo:								
Nominal GDP (US$ millions)	6,485	6,883	7,628	8,158	8,158	8,738		

Source: FGS Ministry of Finance (2019–2023).

Figure 1.16: Domestic revenue performance improving, but still too low to finance increasing expenditures



Source: FGS Ministry of Finance (2022).

of khat at 18 percent. Although revenues from khat continue to rise, they are 17 percent lower compared to the pre-COVID level. Non-tax revenues grew by 21 percent during this period due to revenue increases from visa charges and passports at 40 percent; overflight fees at 34 percent; and harbor fees at 15 percent. Similarly, revenues from telecommunications spectrum fees more than doubled; however, they were only 50 percent of the pre-COVID levels. 2022 growth in taxes on goods and services, the third largest revenue stream, was from signature bonus revenues paid in relation to oil exploration, as well as an increase in sales tax from airline tickets. Though small, income taxes increased by 18 percent during this period.

Donor grants more than tripled in 2022 with the resumption of budget support and increased project grants (Figure 1.16a). Total donor resources increased by 3.6 percentage points to reach 5.6 percent of GDP from 2 percent in 2021. Budget support grants, which virtually disappeared in 2021 following a 15-month prolonged electoral period, resumed in the second half of 2022. These grants were mainly from the World Bank and the European Union. Bilateral commitments from Türkiye and the United Arab Emirates were also realized. These grants eased liquidity pressures and enabled the budget to close with a small fiscal deficit of 0.1 percent of GDP. Projects grants more than doubled in 2022 to reach US$314 million compared to 2021. Indeed, they were 82 percent higher than their highest level in 2020 during the onset of the pandemic. Growth in project grants was driven by the response to the severe drought mainly through the crisis response projects and the national social safety net program (Baxnaano). With increasing donor grants, disbursements are improving, albeit slowly; with two-thirds of the total donor commitments being realized in 2022.

Public expenditures continue to rise, dominated by personnel costs whereas social spending is largely financed by grants

The total expenditures of the FGS reached US$731.4 million in 2022, equivalent to 9 percent of GDP (Table 1.3). This was 2.8 percentage points higher than in 2021, representing 79 percent of the approved budget. Expenditures are dominated by the wage bill and the use of goods and services as the country continues to establish basic functions needed for stabilization and state-building (Figure 1.17a). These expenditures are allocated mainly to administrative and security costs. The wage bill still accounts for the lion's

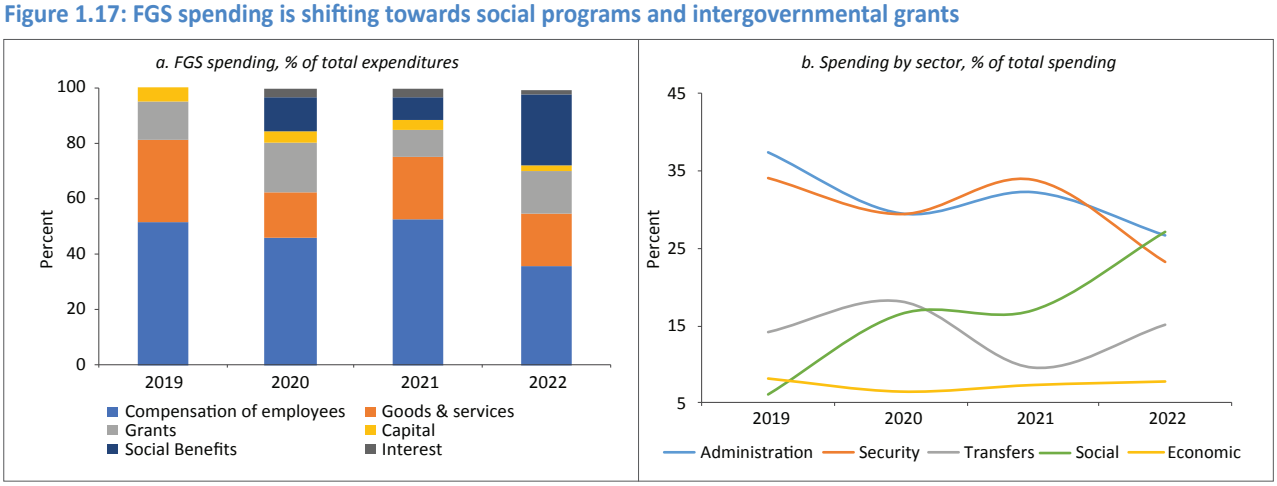
share of total spending, despite declining in share and increasing only marginally in recent years. It increased by 3.8 percent in 2022, reaching 3.2 percent of GDP and accounting for 35 percent of the total expenditures (Figure 1.17a). The use of goods and services increased by 33 percent to 1.7 percent of GDP, representing 19 percent of total expenditures. The government increased spending on social benefits and intergovernmental grants in 2022 as the country battled with severe drought and high commodity prices during the recovery from the COVID-19 crisis. Social benefits increased over four times to account for 26 percent of the total spending, up from only 8 percent in 2021 and 13 percent at the height of the COVID-19 crisis in 2020. Similarly, intergovernmental grants to subnational governments more than doubled from the previous year, accounting for 15.2 percent of expenditures in 2022 (Figure 1.17a).

The government is increasing resources for social and economic programs (Figure 1.17b). Social expenditures accounted for 27 percent of total spending in 2022, up from 17 percent in 2021. Cash transfers under the Baxnaano social safety program accounted for most of the social sector spending, at 83 percent, representing 23 percent of total FGS spending. Expenditures on education increased slightly to account for 2.8 percent of total spending in 2022. Expenditures in the health sector declined 3 percentage points to account for 1.6 percent of total spending, with only 19 percent of the annual sector budget being executed. Spending in the economic sector increased by almost two-thirds to account for 7.8 percent of total spending during this period. However, project grants boosted investments in road infrastructure, urban development, and water services. Nevertheless, the provision of security and administrative services remains the core priority of the FGS (Figure 1.17b). Though declining in share, the administration and security sectors still dominate total spending; both accounted for 50 percent in 2022.

Fiscal performance at the sub-national level improved, with higher intergovernmental grants supporting fiscal operations

Domestic revenue collection increased across all FMS in 2022, albeit from a small base (Figure 1.18a). Like the FGS, trade taxes dominate domestic revenues in the FMS, particularly among those with ports, including Puntland (PSS) and Jubaland (JSS). However, the FMS without ports remain at a disadvantage and mainly rely on grants to finance their operations. Taxes on goods and services, the second revenue driver, increased across all FMS though they constituted only a small share of revenues

Figure 1.17: FGS spending is shifting towards social programs and intergovernmental grants



Source: Staff computations based on FGS Ministry of Finance and IMF/World Bank data 2022.

mobilized in states without ports. The increase in domestic revenues ranged from 2 percent in PSS, 9 percent in JSS, 13 percent in Galmudug, to 24 percent in the South West State. Grants more than doubled in all the states in 2022 as compared to 2021, thereby easing budget implementation challenges as the country contended with multiple shocks. Strengthening the framework for fiscal federalism by enhancing the dialogue between the FGS and the FMS remains key to supporting revenue mobilization efforts and implementing some of the interim agreements already reached, particularly those concerning the sharing of resources.

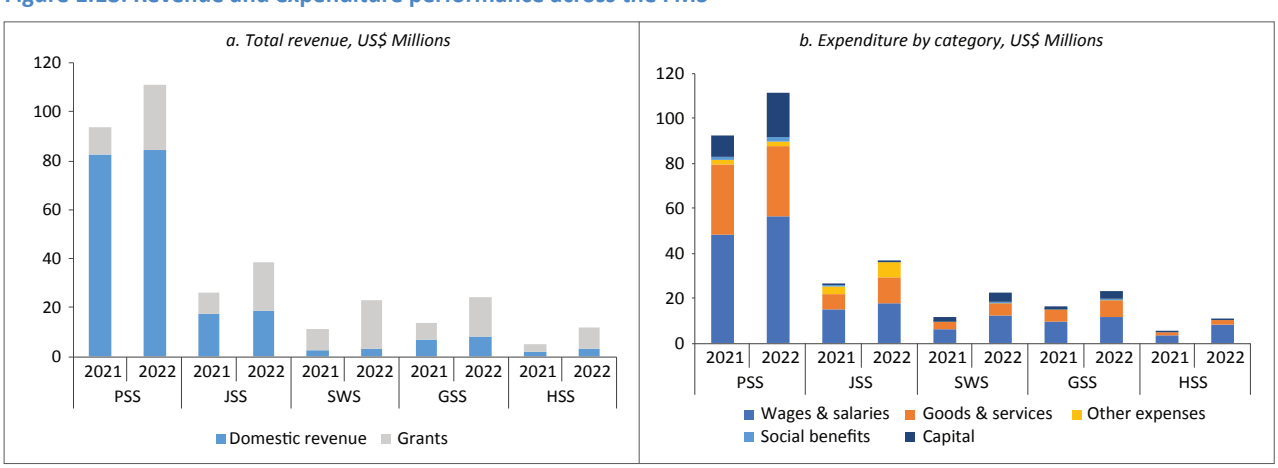
Almost all spending is for the wage bill and the procurement of goods and services (Figure 1.18b). Capital spending is very small, mainly for buildings and equipment. Increases in expenditures across the states were driven by revenue growth, with the PSS recording the highest expenditures at US$111 million, almost double the pre-COVID level. Total spending was back to the pre-COVID level of US$38.4 million in JSS, and it more than doubled across all the other states during this period.

FGS 2023 budget: Approved expenditure greatly exceed domestic revenue

The Parliament approved the 2023 FGS budget of US$950.7 million, with total revenues and grants estimated to increase by 32 percent compared to the 2022 outturn (Table 1.3). Domestic revenues are expected to only increase by 8 percent to US$283 million, whereas donor grants will increase by 45 percent to US$667 million. Donor grants are expected to finance the largest share of the budget at 70 percent, increasing by 2 percentage points to 7.6 percent of GDP. Projects grants will drive overall grants, growing by 58 percent. These mainly consist of World Bank projects. Budget support is expected to increase by 17 percent. Total revenues are estimated to be 2 percentage points higher compared to the previous year, that is, from 8.8 percent of GDP to 10.9 percent in 2023 (Table 1.3).

Domestic revenues are estimated to reach 3.2 percent of GDP in 2023, financing only 30 percent of the budget. Revenue growth is expected across all streams, with non-tax revenues estimated to record the highest growth of 15 percent. It is driven by increases in overflight and harbor fees, as the rebound from the COVID-19 crisis continues. In addition, telecommunication spectrum fees increased as efforts to improve collection continue (Table 1.3). Trade taxes are expected to continue an upward trajectory, increasing by 6 percent compared to the 2021 outturn. Taxes on goods and services are expected to remain unchanged.

Figure 1.18: Revenue and expenditure performance across the FMS



Source: Staff computations based on FMS and Ministries of Finance data.
Note: GSS=Galmudug State of Somalia; HSS=Hirshabelle State of Somalia; JSS=Jubaland State of Somalia; PSS= Puntland; SWS=South West State of Somalia.

The FGS is set to implement several revenue measures to improve tax collection and administration in 2023. These include: (i) increasing sales tax collection through the installation of electronic point of sale (POS) machines at major business premises; (ii) introducing tax clearance certificates to increase corporate income tax collection, mainly from large businesses; and (iii) enforcing revenue collection from highly profitable firms, particularly in the telecommunications industry. Similarly, the FGS envisages pursuing, on a pilot basis, a withholding tax arrangement that will enable its suppliers and contractors to pay their corporate income tax in advance. The FGS will also introduce excise taxes on various items related to the information and communication technologies (ICT) sector, including internet data and outbound cross-border money transfers. Finally, the FGS will streamline the issuance of exemptions to eliminate discretionary exemptions.

Total FGS expenditures are estimated to increase by 2.2 percentage points to 11.2 percent of GDP in 2023, amounting to US$977 million (Table 1.3). Intergovernmental grants are projected to record the highest increase of 71 percent, amounting to US$190 million compared to 2022. This represents 19 percent of the total budget. Donor-funded health activities are driving the increase in transfers to the FMS. Similarly, the procurement of goods and services will increase by 61 percent during this period. The wage bill remains the highest expenditure driver It's estimated to increase by 10.8 percent, accounting for 29 percent of total FGS spending. Social benefits to the poor and vulnerable households, mainly under the national cash transfer program, are set to increase by 6.5 percent. Expenditures through donor projects are expected to boost capital spending, which is estimated to be more than four times the 2022 outturn accounting for 6 percent of the total budget, compared to 1.8 percent in 2022.

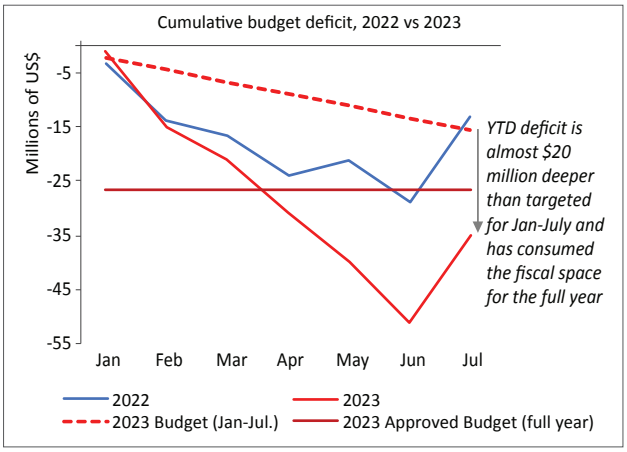
The budget proposes to sustain increased pro-poor spending in social protection, health, and education, mainly through donor-funded programs. Health spending is estimated to increase over 7 times to US$83.6 million compared to the 2022 outturn, with about 80 percent of the health budget targeted to be spent at the FMS level. Education expenditures are expected to more double, with three-quarters of the expenditures going to teacher wages and school infrastructure. The Baxnaano program and the crisis response projects will drive increased spending on social protection.

Economic sector spending will more than triple in 2023, accounting for 18 percent of the total budget. This will be driven by increased spending spread across the water, energy, urban development, and road infrastructure sectors. Donor projects are increasingly playing a critical role in enhancing public service delivery and strengthening government institutions. Nevertheless, administration and security sectors still dominate expenditures, accounting for half of the total budget. The administration sector is set to increase by 30 percent and security by 16 percent in 2023. Therefore, collecting sufficient revenues to cover the wage bill, rising security costs, as well as human and physical capital, will remain pressing priorities for the government.

Fiscal challenges will continue in 2023 as rapid expenditure growth surpasses available resources

The FGS projects a shortfall of US$26.6 million in 2023 that would be financed by accumulated savings. As of end-July, the FGS had already run up a cumulative deficit of US$35.1 million, almost double compared to a similar period in 2022, as increasing expenditures outstripped available resources (Figure 1.19). Domestic revenue collection has improved markedly in the first seven months of 2023, surpassing the annual budget target by an estimated US$7.7 million, assuming a pro-rated monthly average. However, the budget

Figure 1.19: FGS fiscal challenges to continue in 2023



Source: Staff computations based on FGS Ministry of Finance data (2023).
Note: YTD=year to date.

is comprised of a large share of donor grants, amounting to 70 percent, mainly for projects. As such, it will have no impact on the fiscal deficit. In this regard, revamping revenue mobilization efforts, as well as constraining expenditure increases—particularly wages, is crucial for fiscal sustainability going forward.

Domestic resources increased by 32.2 percent in the first seven months of 2023 as compared to the same period in 2022 (Table 1.4). Trade taxes drove the strong performance, with monthly collections averaging US$12 million, up from US$9 million in 2022. Non-tax revenues grew by 30 percent during this period, with overflight, harbor, and visa and passport fees driving performance. Collections from the telecommunications spectrum fees were less than 50 percent the annual target of US$6 million. Donor disbursements remain slow, with only about 12 percent being realized during this period.

Table 1.4: FGS revenue and expenditure outturn, January to July 2022–23

Item	2022 (Jan-July) (millions of US$)	2023 (Jan-July) (millions of US$)	Percentage change (Year-on-year)
Total revenue and grants	**285.4**	**250.7**	**-12.2%**
Domestic revenue	**130.8**	**172.9**	**32.2%**
Tax revenue	**91.1**	**121.1**	**33.0%**
Income and corporate taxes	9.5	12.5	32.2%
Taxes on goods & services	13.6	20.9	53.5%
Trade taxes	60.4	83.5	38.2%
Other taxes	7.6	4.2	-44.2%
Nontax revenue	**39.7**	**51.8**	**30.5%**
Grants	**154.6**	**77.7**	**-49.7%**
Total expenditure	**298.6**	**285.8**	**-4.3%**
Recurrent	293.8	281.9	-4.0%
Compensation of employees	142.9	162.1	13.4%
Use of goods and services	56.9	60.4	6.3%
Interest and other charges	6.7	8.2	22.8%
Intergovernmental grants	41.4	39.0	-5.8%
Social benefits	44.8	11.5	-74.4%
Other expenses	1.2	0.8	-32.5%
Capital	**4.8**	**3.9**	**-20.1%**

Source: FGS Ministry of Finance, July 2023.

FGS expenditure was 4 percent lower in January to July 2023 compared to a similar period in 2022, as total revenue underperformed by 12 percent (Table 1.4). Actual expenditures reached 31 percent of the total approved budget, with close to 80 percent of the spending going to the wage bill and the procurement of goods and services. Wages and salaries accounted for 57 percent, and goods and services for 21 percent. Intergovernmental transfers were 5.8 percent lower compared to a similar period in 2022. The government continues its commitment to debt service, with payments reaching US$8.2 million during this period.

Debt Relief: Progress towards HIPC Completion Point and post-HIPC Environment

Somalia expects to reach the HIPC Completion Point by the end of 2023. The FGS has maintained its track record of maintaining macroeconomic stability, it has increased sending on poverty reduction, and it has been implementing the NDP-9, which serves as Somalia's poverty reduction strategy. As of October 2023, almost all HIPC Completion Point triggers have been achieved (see Table 1.5).

The HIPC Initiative will enable Somalia to eliminate a debt burden that has plagued the country for over three decades. Upon reaching the HIPC Completion Point, the country will qualify for full and irrevocable debt relief. Somalia's debt stock is expected to fall to 6.6 percent of GDP at the end of 2023 from to 40 percent of GDP in 2022. In a post-HIPC environment, the FGS would have expanded opportunities to finance investments in development priorities and expand basic service delivery. Nevertheless, and ensuring that debt levels remain sustainable.

Table 1.5: FGS has achieved almost all HIPC completion point triggers

HIPC Completion Point Triggers	Progress
Poverty reduction strategy implementation	
1. Satisfactory implementation for at least one year of Somalia's full poverty reduction strategy, as evidenced by an Annual Progress Report on the implementation of the poverty reduction strategy submitted by the government to IDA and the IMF.	**Done** The Annual Progress Report (APR) evaluating the implementation of the National Development Plan in 2020 was completed in June 2022. World Bank and IMF staff produced the Joint Staff Assessment Note (JSAN) that reviews the APR in July 2023. **NDP9 costing to be included in the 2024 Budget.**
Macroeconomic stability	
2. Maintain macroeconomic stability as evidenced by the satisfactory implementation of the IMF-supported program.	**Done** The fifth review of the ECF-supported program was completed on May 17, 2023. The sixth review and final review will be considered for approval by the IMF Executive Board on December 13, 2023.
Public financial and expenditure management	
3. Publish at least two years of the audited financial accounts of the FGS.	**Done** The Office of the Auditor General published the 2019, 2020, and 2021 FGS financial accounts.
4. Issue regulations to implement the Public Financial Management Act's provisions on debt, public investment, and natural resource revenue management.	**Done** The PFM regulations—including chapters on debt, public investments, and natural resource revenue management—were approved by the Cabinet in May 2022.

HIPC Completion Point Triggers	Progress
Domestic revenue mobilization	
5. Adopt and apply a single import duty tariff schedule at all ports in the Federal Republic of Somalia (to also foster greater trade integration).	**Not completed but satisfactory progress has been made.** The customs regulations on valuation and declarations were issued in September 2022 and the ad valorem tariff schedule was enacted in June 2022. The Customs Automated System (CAS) system has been implemented at Mogadishu and Kismayo ports of entry (seaports and airports)—including harmonized tariffs, harmonized HS codes, and harmonized item descriptions—but a common valuation table is yet to be applied. The reform has been paused in Bosaso and Garowe in the Federal Member State of Puntland due to political conditions.
Governance, anticorruption, and natural resource management	
6. Enact the Extractive Industry Income Tax (EIIT) Law.	**Done** The Extractive Industries Fiscal Regime Law was enacted in June 2023.
7. Ratify the 'United Nations Convention Against Corruption' (UNCAC).	**Done** Somalia acceded to the UNCAC in August 2021.
Debt management	
8. Publish at least four consecutive quarterly reports.	**Done** Quarterly debt bulletins have been published since 2020Q4 with information on the outstanding stock and composition of debt liabilities and financial assets, and, where they exist, loan guarantees and other contingent liabilities, including their currency denomination, maturity, and interest rate structure.
Social sectors	
9. Establish a national unified social registry (USR) as a functional platform that supports registration and determination of potential eligibility for social programs.	**Done** The authorities have established a USR with support from the World Bank, the World Food Program (WFP), and UNICEF. The USR platform/MIS has been developed and is ready to receive data and support the functions of registration and determination of eligibility. The core team dedicated to managing the operations of the USR has been established at the Ministry of Labor and Social Affairs. The Data Protection Law was approved by Parliament in March 2023.
10. FGS and FMS Ministers of Education (MOE) adopt an agreement defining their respective roles and responsibilities on curriculum and examinations.	**Done** On July 14, 2021, the FGS and FMS MoEs finalized and officially signed the revised draft education cooperation MoU at the intergovernmental meeting held in Garowe. A permanent intergovernmental forum for education has been formalized. Key agreements reached include the formation of national examination, certification, and curriculum boards. An interim committee to develop the board members' selection criteria was also established.
11. FGS and FMS Ministers of Health adopt a joint national health sector strategy.	**Done** The Somalia Health Sector Strategic Plan for 2022-2026 was finalized. FGS and FMS ministers have agreed on a framework for a joint national health strategy.
Growth/Structural	
12. Enact the Electricity Act and issue supporting regulations to facilitate private sector investment in the energy sector.	**Done** The Somalia Electricity Bill was enacted on March 8, 2023. Regulations are under preparation.
13. Issue Company Act implementing regulations on minority shareholder protection to encourage private sector investment.	**Done** The regulations of the Company Act were issued in January 2021. A second set of Regulations to the Company Act were issued in May 2022 specifically covering the issue of minority shareholder protection.
Statistical capacity	
14. Publish at least two editions of the Somalia Annual Fact Book.	**Done** The Annual Somalia Facts and Figures have been published, for 2018, 2019, 2020, and 2021.

Source: IMF, and World Bank, 2023.

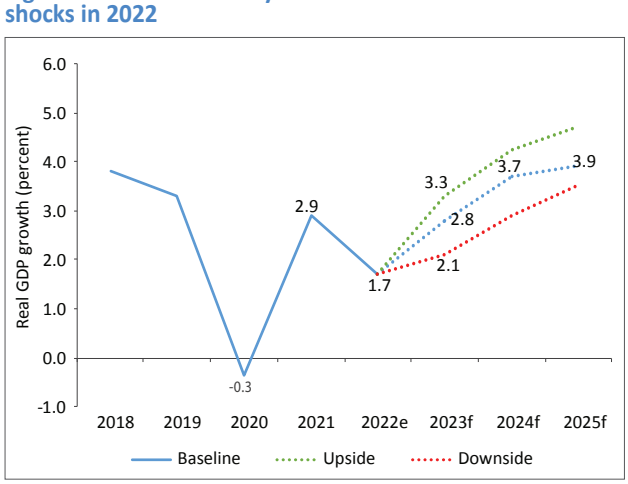
But must take important steps to avoid falling back into debt distress in the future. The authorities will need to continue strengthening macroeconomic institutions. To keep budget deficits manageable, limiting the growth in the wage bill and significantly increasing inland tax revenues are essential. And strengthening the FGS' public debt management framework is also critically needed. Specifically, the FGS can:

- Reduce compensation of employees to a level where it can be financed by tax revenues. The FGS tax revenues only averaged 2.2 percent of GDP in the last five years, 2018–22. In 2018–19, the wage bill averaged 104 percent of tax revenues. This has since increased to 140–160 percent in the period 2020-22.
- Increase inland tax revenues by 25 percent per year on average by 2029, that is, by the end of the NDP-10.[10] Although inland taxes have almost doubled in the last five years, they are just a small share, averaging only US$51 million in 2018–22. This is equivalent to 0.7 percent of GDP. An annual increase of 25 percent will double the collection in just three years, reaching US$130 million in 2026, which will be an estimated US$15 million higher than the 2022 outturn from customs. This growth will not only boost sustainability in running government operations, but also reduce the governments' overreliance on customs revenues.
- Institutionalize debt and fiscal risk management by bringing the DMU into the civil service, incorporating debt into the regular cash management systems of the Ministry of Finance, and assessing and limiting fiscal risks from all PPPs, while continuing to expand debt transparency.
- Continue refraining from non-concessional external borrowing for the first five years after the HIPC Completion Point. Giving priority to concessional financing sources during this period will allow the country to continue domestic reforms to boost growth, strengthen public finances, and raise more domestic revenues to ensure debt sustainability.

1.3 Medium-Term Outlook and Risks: Prospects for Recovery

The World Bank projects that the economy will record a modest growth of 2.8 percent in 2023 in the baseline scenario. The economy is projected to pick up over the medium-term, with growth expected to increase gradually to 3.7 percent and 3.9 percent in 2024 and 2025, respectively, as economic activities gain momentum (Figure 1.20). The projected growth in 2023 has been revised downward by 0.8 percentage point compared to the 2022 Somalia Economic Update forecast. The revision reflects several short-term headwinds, including the slowdown in the global economy, elevated levels of inflation, the lingering effects of drought, continued supply disruptions, and the war in Ukraine.

Figure 1.20: The economy is set to recover after severe shocks in 2022



Source: Somalia Authorities and World Bank staff forecasts.

[10] Inland tax revenues are comprised of taxes on goods and services, incomes and corporate taxes, and other taxes, mainly stamp duties and road taxes.

The baseline scenario assumes a modest recovery as climatic conditions improve, global commodity prices continue to ease, and investor confidence increases. Declining global commodity prices will have a stronger positive effect on the economy by boosting economic activity. On the domestic front, it is assumed that average rains (Gu and Dyer) will lead to gradual recovery of agricultural production, including a modest recovery of exports, particularly in the second half of 2023. Continued humanitarian and social protection support will cushion households against the lingering drought effects. It also assumes investor confidence will be buoyed by the new government's plans to stabilize public finances, and the country's anticipation to reach HIPC Completion Point by end of the 2023, thereby increasing the risk appetite for investors. Economic reforms and increased public investment should attract FDI and encourage increased, broad-based private sector activity, which will gradually boost the low domestic productive capacity. Over the medium term, peace dividends and unlocked concessional borrowing after debt relief will boost output growth.

Private consumption will continue to be the main driver of growth, despite being reduced real incomes. Higher global prices and drought reduced real incomes and consumption of Somalis. Private consumption is projected to be subdued in 2023, easing slightly to 3.7 percent in 2023 from 4.0 percent in 2022. However, it will recover to grow at an average of 4.5 percent in 2023 and 2024. The lower consumption expenditures in 2023 reflect the effects of cost-of-living increases, which are expected to temper the growth of real incomes and domestic demand due to the lingering effects of drought and insecurity. In 2024–25, improvements in climatic conditions, reaching the HPIC Completion Point, and stronger performance in the agricultural sector due to improved weather conditions and stronger exports of livestock will push consumption to grow at a faster rate. With this recovery, per capita private consumption is projected for muted growth in 2023. However, it is expected to increase to positive territory over the medium term. Improved Gu and Dyer rains in 2023 are leading to a recovery of agricultural productivity, improved household incomes and food security, as well as increased exports in 2024 and 2025. Government consumption continues to contribute negligibly to real GDP growth in 2023. After the government rationalizes its consumption upon reaching the HIPC Completion Point as terms of new financing moves to concessionary terms.

Inflation is projected to ease in 2023 and stabilize over the medium-term. In 2023, inflation is projected to be 3.8 percent, as global commodity prices continue to ease. Similarly, improvements in the Ukraine- Russia crisis can support the further easing of the global commodity prices. With expected average Gu and Dyer rains, local prices are projected to decline to their historical levels, which will support a recovery in agricultural production. The de facto dollarization will provide relative price stability, as global economies stabilize and given Somalia's dependence on imports.

Private investment is expected to pick-up in 2023 and over the medium term. Spending is projected to pick up with planned projects in the energy, port, and financial sectors. This promises to gradually reinvigorate the economy as benefits from reaching the HIPC Completion Point in 2023 start to emerge. In the meantime, the security operations to weed out Al-Shabaab in Somalia will also buoy investments. Economic reforms and increased public investment should attract FDI and encourage increased, broad-based private sector activity. This will

gradually boost the low domestic productive capacity. Real investment growth is expected to reach 4.1 percent in 2023 from 0.8 percent in 2022, and then growth faster to an average of 5.5 percent in 2024-25.

The external sector is projected to improve in 2023 and over the medium term. An easing of supply bottlenecks and declining global commodity prices will boost demand and reduce the import bill. Climatic conditions are expected to improve with a gradual recovery of agricultural activities, which will boost export earnings. Higher growth in remittances will improve household incomes and investments. As a result, the current account deficit will improve over the medium term, at 16.4 percent of GDP in 2023 and 14.4 percent and 14.6 percent in 2024 and 2025, respectively. Nevertheless, the trade deficit will continue to be high as the economy is highly import-dependent. Thus, it will take time to rebuild the economy's productive capacity.

Risks to the outlook are tilted to the downside

The medium-term outlook remains uncertain. It will continue to be subject to risks from global developments, climate-related shocks, and security threats. These risks can impede economic activity and reverse the growth recovery in the baseline scenario.

Global macroeconomic developments threaten Somalia's growth prospects. There are two aspects of this which might affect Somalia's economy. Given Somalia's dependence on imports—especially consumption goods—higher global inflation could lead to faster and larger financial tightening. This could in turn lead to a slowdown among Somalia's trading partners, that could also slow global demand or result in a recession. The higher prices from trading partners will pass through to domestic prices, adding to the inflationary pressure. In addition, a further tightening of global financial conditions will reduce remittances to and FDI in Somalia. Economic pressures or changing political priorities in donor countries could reduce the supply of official development assistance to Somalia.

Weather-related shocks add more risks to the outlook. Weather volatility is a perennial source of uncertainty for Somalia's growth prospects. Drought and floods continue to have a stranglehold on economic activity in Somalia, aggravating the humanitarian situation. Somalia has just experienced 5 seasons with little or unreliable rains, leading to a drought. More climatic shocks would have devastating consequences for communities and the economy. Amid poor social safety nets and weak health systems, the poorest households will resort to unhealthy coping mechanisms (including restricting consumption), as well as more internal displacement.

The ongoing offensive efforts to eliminate Al-Shabaab threaten to delay and dampen growth prospects. Although Somalia's economy remains stable, the ongoing offensive poses a risk to economic activity as it heightens insecurity in central and southern Somalia, thus severely affecting lives, livelihoods, and prospects for peace and development. The insecurity situation in Somalia will continue to dampen the business environment for potential domestic and foreign investors, while also putting more pressure on the government to spend on security.

Given the volatility of Somalia's economy and the high risks to growth, this Economic Update considers alternative scenarios for the growth outlook. In the downside scenario, the economy is projected to grow at 2.1 percent in 2023, increasing to only 2.9 percent in 2024. This is anchored in: (i) poor climatic conditions including drought or floods and agricultural production continuing to be low as food

insecurity worsens, leading to increased food imports to cushion the vulnerable population; (ii) poor export performance because of drought; (iii) global recession caused by high-interest rates; and (iv) an escalation of the conflict in Ukraine leading to high commodity prices. In such a scenario, the economy will grow at 2.1 percent in 2023 and 2.9 and 3.5 in 2024 and 2025 respectively. The higher domestic food inflation will reduce consumption and higher food imports will styme economic growth. The cost-of-living increases will temper the growth of real incomes and domestic demand will decline. In addition, the slowdown in the global economy and higher global prices will increase the import bill. Tighter global financial conditions will reduce remittances and FDI to Somalia and could further reduce the supply of official development assistance to the country. Lastly, increased insecurity and protracted conflict with Al-Shabaab will affect economic activities and erode business confidence.

On the upside scenario, growth will be more robust, at 3.3 percent in 2023. This is anchored in: (i) improved weather conditions leading to a recovery in agricultural production and continued reversal of the drought effects; (ii) the conflict in Ukraine will be resolved swiftly; and (iii) the global tightening does not lead to global recession. In such scenario: exports increase through modestly as livestock restocking takes place and regaining of body quality; imports will increase due to a continued pick-up of economic activities; and continued humanitarian and social protection support to cushion vulnerable households. Under such a positive scenario, economic recovery will be robust in 2023 and GDP is expected to grow at 3.3 percent. Economic growth for 2023 and 2024 will be 4.2 and 4.7 percent, respectively. Growth will also be driven by higher private and public consumption, higher domestic and foreign investment post-HIPC Completion Point in 2023, as well as net exports as the current account improves. This growth acceleration is attributed to improvements in climatic conditions, and the country reaching the HPIC Completion Point. In addition, the upswing in economic activity is attributed to a recovery in investment, with growth rates of 3.9 percent in 2023 and an average of 5.4 percent in 2024–25.

Policy Priorities for Somalia post- HIPC transition

As Somalia reaches the HIPC Completion Point, it is important that it continues its reform path to achieve an inclusive economic growth and prosperity to avoid sinking into future debt in the medium term and post HIPC era. While the reforms needed are numerous and covers across many sectors, this report only highlights macroeconomic policies and reforms that promote inclusive growth and institutional building.[11] These include enhancing fiscal sustainability to avoid running a budget deficit; replenishing the fiscal buffer; strengthening financial integrity; integrating Somalia in the global financial system; and improving debt management.

Enhancing fiscal sustainability

To enhance fiscal space for development priorities, the government needs to raise more revenue. Significant efforts have been made to improve and strengthen domestic resource mobilization by Somali authorities since 2016, progress has limited by low levels of growth, weak tax legitimacy, and fragmentation. Domestic resource mobilization can be enhanced through the harmonization of the customs and inland revenue administrations by focusing on reducing fragmentation, improving the regulatory framework, and strengthening tax administration. Clarifying revenue and expenditure responsibilities across levels of government can improve intergovernmental

[11] The World Bank produced "Collection of Policy Notes for the New Somali Government" in June 2022, which summarizes sectoral policies which can help Somalia achieve a higher faster and inclusive growth in short to medium run (World Bank 2022b).

fiscal coordination and dialogue with all the FMS can help to build consensus about the transition to a national customs administration and a national inland revenue administration. To gradually cover the operational costs, the FGS and FMS governments need to increase tax collection to finance core government activities to avoid borrowing in the short to medium term. It must do so in a coordinated way so that they do not all tax the same things or tax inter-state commerce. Reforms for consideration include completion of the ad valorem customs reform, full implementation of POS machines, introduction of a modern income tax system, improving tax and customs administration, among others.

To improve the efficiency of public expenditures, Somalia needs to strengthen controls over the wage bill and reorient the budget to service delivery. Somalia's expenditure needs are vast, with ongoing pressures to balance spending between military and administration expenses to secure the country, as well as identifying fiscal space for the priorities in the ninth National Development Plan (NDP-9). In the short- to medium-term, reforms should focus on improving public expenditure management to strengthen expenditure controls and fiscal transparency, improving the efficiency of public expenditures with a focus on the wage bill and a reorientation of the budget to service delivery. Curbing the growth of the wage bill and capping it to domestic or tax revenues will be critical for increasing the fiscal space necessary to implement the NDP-9 priorities in the social and infrastructure sectors. Going further, advancing the dialogue as to which level of government will assume key functional assignments, particularly in the security sector, could support an improved allocation of resources in line with responsibilities, thereby avoiding duplication. Over time, there should be a greater orientation toward social and economic expenditures, which can help to improve service delivery, perceptions of state legitimacy, and encourage tax morale.

Increasing access to finance and strengthening financial integrity

To increase access to finance the financial system needs Structural and regulatory further reforms. Increasing access to finance and inclusion, the government and Central Bank of Somalia could take tangible measures to deepen financial inclusion and enhance the stability of the financial sector. Stepping up supervision of MTBs by the Central Bank of Somalia (CBS) as well as enacting the Financial Institutions Law and National Payment Systems Law can support the stability of the financial sector and bring all payment systems under one regulation. In addition, reducing the challenges faced by Somali entrepreneurs – including those owned and managed by women –in accessing finance involves increasing the capacity of financial institutions to mitigate risk perceptions and developing credit and collateral registries could help to increase access to financial products.

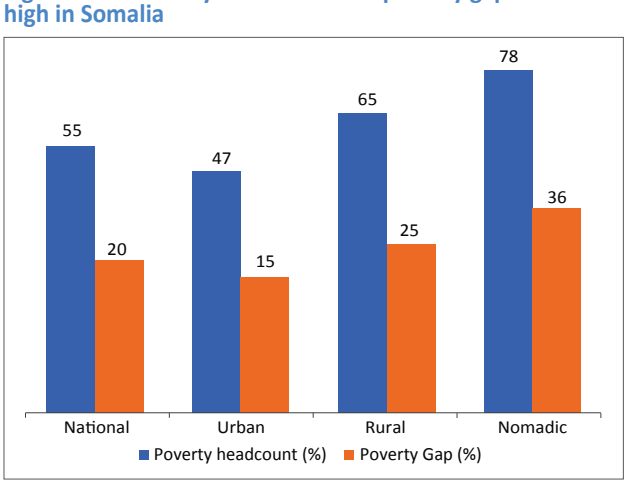
Strengthening financial integrity is critical to integrating Somalia in the global financial system in the post-HIPC Completion Point environment. The CBS should strengthen its working knowledge of supervised financial institutions and disclose risks to enhance public confidence. Strengthening the enforcement of AML/CFT, as well as suspicious transaction reporting, can also help to guard against financial integrity risks thereby supporting the establishment of correspondent banking relationships. Developing a trusted means of identification will also help to strengthen KYC protocols. Accelerating the completion of the national risk assessment is a priority in preparing for the Middle East and North Africa Financial Action Task Force Mutual Evaluation in 2024. As such, it is critical. To support market-

based financial intermediation, the CBS needs to work toward: (i) enhancing the prudential regulations for the banking sector; (ii) the adoption of revised regulations concerning capital adequacy; and (iii) the introduction of reserve requirements for banks over the medium-term. This will be key as it builds tools to influence credit markets and as it moves to create a monetary policy space by undertaking reforms to transition to a policy-oriented institution.

Improving management and the framework for debt management:

As Somalia is set to reach the HIPC Completion Point soon, the commitment of not borrowing and institutionalizing debt management functions and developing regulations to support guarantees and on lending management will be key. The country is expected to receive irrevocable debt relief upon reaching the HIPC Completion Point soon after meeting floating triggers agreed at the Decision Point. Debt relief will provide a fresh start for the country, as well as renewed access to development finance needed for inclusive growth. However, it is likely that risks to debt sustainability will persist after reaching the Completion Point. The country needs to take conscious steps to avoid falling back into unsustainable debt. The actions the country should undertake include: (i) institutionalizing the DMU's functions; and (ii) strengthening the legal framework for debt management and building capacity for managing fiscal risks from direct and contingent liabilities. This would include the risks that may arise from public-private partnership agreements in sectors, such as energy and ports, among others. Primary legislation for debt should be enhanced to include the purpose of borrowing, the use of guarantees and on-lending, and the need for parliamentary approval of all domestic and external borrowing, as well as the issuance of guarantees. Regulations are needed to support guarantees and on-lending management regarding limits, processing, and the monitoring of risks, as well as following-up on transactions. These improvements to primary legislation can help to provide the enabling framework for a time when Somalia can borrow.

Figure 1.21: Poverty headcount and poverty gaps remain high in Somalia



Source: SIHBS (SNBS, 2023).

1.4 Economic Growth Must Accelerate to Reduce Poverty

Poverty remains high and widespread in Somalia. According to the recent SIHBS (National Bureau of Statistics 2023), an estimated 54.4 percent of the Somali population lived below the national poverty line as they consume less than $2.06 per day (see Figure 1.21).[12] Of this, the nomadic population had the highest incidence of poverty at 78.4 percent. The rural population had a poverty rate of 65.5 percent. In urban areas, 46.1 percent fell below the national poverty line. Although the nomadic population records the highest poverty rate, it only accounts for 16.3 percent of the poor population compared to urban who have the lowest poverty headcount rate but account for over half of the poor population at 54.6 percent. The poverty gap measures the depth of poverty by considering how far, on average, the poor

[12] This poverty line is anchored on the cost of basic needs (the cost of food) that can provide the *energy requirements needed for humans to survive per person per day.* The standard requirement of 2,200 kcal/person/day but for Somalia, the median total calorie intake in Somalia is 1,832 per person, per day. This translates to US$738 per person per year for food requirement and necessary non-food items. Comparing the consumption aggregate data of Somalia population against this national poverty line, the poverty headcount rate is 55 percent.

are from that poverty line. This figure was 20 percent in 2022 and highest (36 percent) for the nomadic community in Somalia. It was the lowest among urban dwellers (15 percent). The 2023 Somalia Poverty Report estimates that the extreme national poverty rate—the share of population whose total per capita expenditure is below the food poverty line—is 20.9 percent with nomadic and urban population at 46.8 and 13.8 percent respectively.[13]

Somalia's economic growth rates have been too low to reduce extreme poverty and boost shared prosperity in the medium to long term. With the population growing at an annual average rate of 2.9 percent since 2013, real GDP growth has not been sufficient to sustain per capita income growth for poverty reduction. The estimated per capita income growth has been mostly negative during years of shock, and less than 1.0 percent during years of economic recovery. Per capita GDP was 0.4 percent in 2021 and contracted by 0.5 percent in 2022. These growth rates are inadequate to have a significant impact on the twin goals of reducing poverty and boosting shared prosperity. The COVID-19 pandemic, higher global commodity prices and climatic shocks have contributed to the slow pace of poverty reduction in the country. Somalia's poverty headcount ratio was estimated at 55 percent in 2022 (SNBS 2023). With per capita GDP growth projected to be less than one percent in 2023—2025 period, Somalia still falls short of accelerating poverty reduction over the medium term, thus undercutting the country's capacity to meet the twin goals. Susceptibility to shocks have frustrated Somalia's poverty reduction efforts.

1.5 Climate Change Expresses Itself Through Water

Most of the climatic shocks in Somalia are water related. Water-related climate risks cascade throughout the food, urban and environmental systems. Water is a vital factor of production. Therefore, diminishing water supplies translates into slower growth. Research has shown that some regions could see their growth rates decline by as much as 6 percent of GDP by 2050 because of water-related losses in agriculture, health, incomes, and prosperity (World Bank 2016). Ensuring a sufficient and constant supply of water under increasing scarcity is essential to achieving global poverty alleviation goals. To achieve climate and development goals, water must be at the core of adaptation strategies. To guide effective climate change adaptation, activities should reflect the importance of water management for reducing vulnerability and building climate resilience.

Bad water-management policies can exacerbate climate change's shocks to the economy, whereas good policies can go a long way toward neutralizing them. The impacts of water mismanagement are felt disproportionately by the poor, who are more likely to rely on rain-fed agriculture to feed their families. They also live on the most marginal lands, which are more prone to floods. In addition, they are most at risk from contaminated water and inadequate sanitation. Therefore, ensuring a sufficient and constant supply of water under increasing scarcity will be essential to achieving global poverty alleviation goals.

Water scarcity, exacerbated by climate change, has hindered growth and development in Somalia, spurring migration to urban areas—and sparking conflict. Climate change is having a deleterious impact on Somalia's economic growth. The impacts of climate change are channeled primarily through the water cycle. Climate models project rainfall to become more variable and less predictable. At the same time, warmer seas will fuel more violent floods and storm surges. Climate change will also increase water-related shocks on top of already

[14] According to a study by the World Bank (2016), "High and Dry Climate Change, Water, and the Economy," diminishing water supplies can translate into slower growth. Some regions are seeing their growth rates decline by as much as 6 percent of GDP by 2050 as a result of water-related losses in agriculture, health, incomes, and property—sending them into sustained negative growth.

demanding trends in water use. Thus, water-related climate risks cascade through food, urban, and environmental systems.

Growing populations and expanding cities increase the demand for water exponentially, as supply becomes more erratic and uncertain. The combined effects of growing populations and expanding cities have increased demand for water exponentially. However, water supply has become more erratic and uncertain. Water scarcity could greatly worsen in Somalia, where water is already in short supply. Growth rates are also negatively affected due to water-related impacts on agriculture, health, and incomes. As a fragile country, water insecurity could multiply the risk of conflict. Food price spikes caused by droughts can inflame latent conflicts and drive migration. Regarding agriculture, both livestock and crop production are impacted by rainfall. Finally, episodes of droughts and floods have generated waves of migration and spikes in violence within countries.

Policy and investment choices also play an important role in mitigating risks from climate change on water. Good policy decisions stand to improve Somalia's growth rates with better water resource management. Improved water stewardship pays high economic dividends. As discussed in the next section, more far-reaching policies are needed to avoid inefficient water use. Stronger policies and reforms are also needed to cope with deepening climate stresses. Policies and investments that can help lead countries to more water-secure and climate-resilient economies include better planning for water resource allocation, adoption of incentives to increase water efficiency, and investments in infrastructure for more secure water supplies and availability.

SPECIAL FOCUS

INTEGRATING CLIMATE CHANGE WITH SOMALIA'S DEVELOPMENT: THE CASE FOR WATER

2. Integrating Climate Change with Somalia's Development: The Case for Water

2.1 Introduction

The relationship between water and the economy in Somalia is multifaceted. In fact, it is a two-way street. Water shapes the Somali economy as: (i) an ingredient of economic production, (ii) a source of variability and economic shock, (iii) an enabler of human development, and (iv) a provider of food security. If Somalia is to grow within sustainable hydrological boundaries, provide inclusive services, and build resilience, Somalia needs an integrated economic policy that places water at its center. Water is scarce in Somalia. However, provided that water is well governed and managed carefully, the country has sufficient water in its soils, rivers, reservoirs, and aquifers to meet core needs (that is, for WASH, and livestock watering, services as well as the broader needs of its economy well into the future).

Somalia's water is both blue and green

Somalia has a hyper-arid, arid, and semi-arid climate. Its inherent variabilities are expected to increase in the future due to climate change. Thus, it is essential to consider both of Somalia's waters—referred to as *blue* and *green* water (Box 2.1). Given Somalia's limited *blue* water, the collection and retention of *green* water in the soils is extremely important. This can be achieved through robust environmental catchment practices. Water absorbed into the soils is available for plant growth, and some may also percolate through into the groundwater. Land degradation, deforestation, and rising temperatures due to climate change mean that greater proportions of rainfall may be lost to unproductive evaporation, rather than being used by grasses, shrubs, trees and crops and contributing to ecosystem services. Thus, managing landscapes and watersheds to better absorb water is important. Integrated approaches to water resources need to consider both *blue* and *green* water in order to help Somalia build more sustainable and resilient growth paths. It is further important to ensure that the fraction of beneficial transpiration becomes larger and the best way to do this is through increasing the productivity of rangelands and arable agriculture.

Water as an ingredient of economic production

Somalia's waters are central to the country's resilience, prosperity and economic development. Indeed, the future prosperity of the country is determined by how well Somalia deals with its inherent water scarcity and climate variability, including droughts. It is also

>> Box 2.1: Green water and its importance in arid and semi-arid regions

Green water is found in the soil, typically accumulating as part of rainfall and infiltration. Green water is either consumed by plants and the ecosystem through transpiration or evaporation (Mao and others 2020). Green water is the basis for rainfed agriculture, and it plays a critical role in terrestrial ecosystems, especially in arid and semi-arid regions (Liu and others 2009a; Rockström and others 2007; Rost and others 2008; and Schyns and others 2015). Grasses also depend on green water, which Somalia's nomadic pastoralists use to feed their livestock. The accumulation of green water can be supported by collecting runoff and enabling it to infiltrate the soil.

Blue water is contained within rivers, aquifers, and dams. Irrigated agriculture uses blue water. Relatively small amounts of blue water are required for Water, Sanitation and Hygiene (WASH) and livestock drinking water. Irrigated agriculture uses significantly larger quantities of blue water as compared to the uses cited above.

determined by how well the country manages water (and land) resources and develops its water supply infrastructure. Water is inextricably linked to Somalia's economic outputs, including the goods and services traded with the rest of the world. However, it also affects human capital formation and poverty. Based on an analysis of rural water sector projects in Somalia, it has been estimated that US$1 million invested in infrastructure and livelihood development could generate a discounted return of US$7.2 million (World Bank 2022).

The *blue* water in Somalia's aquifers and rivers, and the *green* water in its soils, are arguably the most vital ingredients of Somalia's economic production. They will shape energy production, manufacturing, urban development, the services sector, livestock and more. Animal, agricultural, and forestry products—all of which rely heavily on Somalia's *blue* and *green* water resources—have dominated the recorded goods exports since independence. It is currently not possible to fully quantify the economic contributions of water, but it is possible to trace the channels through which water flows in the economy.

Water is a key source of economic shocks

Water availability and scarcity contribute to economic shocks, particularly through droughts and floods, which can have large economic impacts. Climate change is anticipated to increase rainfall variability and intensity, thus further impacting the economy. Droughts have negative (inter-generational) impacts on human development. It is anticipated that managing variability through droughts and floods will become more important in the coming decades than coping with climate change-induced, long-term trends in rainfall amounts. Building resilient systems that can deliver food and water services during difficult periods (like droughts) will become increasingly important. In addition, it will increasingly determine the long-term capacity of the land.

Water is an enabler of human development

Poverty rates in Somalia today are high. The lack of safe, affordable water for household use is one of deprivations faced; insufficient food is another. In both the rural and urban areas of Somalia, diseases are associated with poor water access. Water that is safe, reliable water and readily accessible—available for multi-use services and close to the home—is essential for human health, labor productivity and human capital development.

Water for food security

The relationship between food and water in Somalia is extremely important. Water—both *green* and *blue*—directly determines local food production. However, it also generates the export revenues that help to pay for today's food imports. Due to a significant increase in imported food, starting in the early 20th century—and despite stagnating domestic food production—food availability has increased in recent decades. In other words, there is more food consumed today in absolute terms as compared to the past. However, due to a population growing faster than the availability of food, many in the country face food shortages. Indeed, at times there is widespread hunger. Thus, food security has turned into food insecurity.

Given these strong interlinkages between water and economic growth in the Somali context, this Somalia Economic Update suggests a variety of ways that Somalia might better integrate water into its economic policy making, thereby helping to build a more sustainable, resilient and inclusive economy.

2.2 Context: Water and Development in Somalia

Freshwater in Somalia today

Water resources: Climate variability and rainfall In Somalia, climatic differences, seasonality, variable weather events and long-term climate change mean that groundwater and surface water resources are not distributed evenly over time and space. A hot, semi-arid climate and tropical savannah climate exist in the south and far northwest, (Rubel and Kottek 2010). Rainfall varies ranging from an average of 700 millimeters/year (mm/yr) in the south, to less than 100 mm/yr in the northeast, although variability is very important. Rains are mainly in the Gu season (monsoon-like rains from March to June) and the Deyr (late September to early December, again varying from place to place). Runoff in the wadis or toggas (seasonal rivers) persists for hours to several days after rainfall, with overland flow arising when soils are waterlogged or water-repellent, or when rains are intense (Basnyat 2007).

Somalia is subject to periodic droughts and years with high rainfall.[15] Seasonal rains, droughts and flooding determine water availability, especially in areas distant from Somalia's two perennial rivers. There is no consensus regarding whether the Horn of Africa will receive more, or less, rainfall as a result of climate change (FAO and World Bank 2018). However, rainfall is predicted to be heavier. Hence, floods are likely to become more frequent (Petersen and Gadain 2012). Droughts are also anticipated to become more frequent (FAO and World Bank 2018). In addition, climate change is likely to cause temperature increases, with increased evaporation, which is already exacerbated by land degradation. Reductions in vegetation cover have grave implications for livestock, livelihoods, and the economy.

Groundwater

Groundwater is the primary source of Somalia's *blue* water (as defined in Box 2.1), with aquifers providing the main medium for water storage.[16]Although plentiful across most of Somalia, it can be a very expensive source to develop and the quality is often low, as it is affected by salinity (Said and others 2021) and bacteriological contamination.[17] High levels of fluoride also exist in some places. Springs are fairly common, but discharges are generally small and disappear downstream because of water withdrawals, infiltration, and evaporation. Three groundwater well fields supply the population of Mogadishu. However, they are subject to saltwater intrusion. Therefore, abstraction needs to be carefully controlled. Groundwater recharge from these wells is most likely from underground seepage from the Shabelle River (as described below).

In terms of resilience to changing climatic conditions, groundwater provides a reliable and extremely important source of water. As such, its use should focus on critical needs, such as WASH services, livestock watering, and high-value urban needs. If sufficient water remains, high-value cash crops for export should be a priority.

[15] Mild droughts are expected to occur every three and two years for the Gu and Deyr seasons, respectively; moderate droughts are expected every 11 and 12 years; severe droughts are expected every 28 years, for both seasons. Extreme droughts are expected once every 37 and 110 years for the Gu and Deyr seasons, respectively (Shilenje and Ongoma 2014).

[16] Groundwater at shallow depths (<15 meters) is present in alluvial fills, fan deposits, and alluvium along the wadis. There are alluvial fills in basins, such as the Nugaal valley, in the north of the Hargeisa depressions. There are fan deposits along mountain ranges, and alluvium along wadis and the Shabelle and Jubba rivers and coastal dunes. These are essentially perched aquifer systems overlying the deep regional aquifers. The combination of soft formation and shallow groundwater is ideal for low-cost, manual drilling and groundwater abstraction. The crystalline basement rocks in the Bay region in the South (far north) are not continuous aquifers. Shallow, machine-drilled boreholes (30 to 60 meters) drilled into the bedrock in these fracture zones may yield 0.25 to 1 litre/second (l/s). Clay, siltstone, and gypsum deposits cover large parts of Somalia, such as the Sool, Sanaag, and Toghdeer regions in the North where the Taleh Formation overlies the Auradu limestone. These are categorized as nonproductive formations; however, they could yield water (often brackish and exceeding the 3,500 micro siemens per centimetre [microS/cm] threshold). Large parts of Middle and Northern Somalia are underlain by low permeability sediments. Deeper aquifers (Auradu limestones in North Somalia or Quaternary sands) are within drilling reach at a depth of 100–400 meters) [Tuinhof and Groen 2021]).

[17] The few studies available report bacteriological contamination of dug wells, berkads, and hafirs (Berger 1985; EarthWater 1998; van Haren and others 2017; WASH cluster Somalia 2017).

Based on data from oil and gas exploration, a possibility exists that very deep (300–1,200 meters below ground level) groundwater could be developed. However, deep groundwater is comparatively expensive to develop. Thus, the economic case for doing so would need to be carefully considered. If large amounts of good quality water are found, and available at an acceptable cost, this may become an important future source of *blue* water for the country.

Surface water

More than half of Somalia's freshwater resources are produced from beyond its national borders.[18] The Shabelle and the Jubba Rivers are the only two perennial rivers, entering the country from Ethiopia. Flow in the Jubba reduces by less than 20 percent before it enters the ocean.[19] In 2022, however, it dried out in some lower reaches (Hassan 2021). The Jubba flow is estimated to be over double that of Shabelle. The Shabelle River flow ends in an area of alluvial deposits close to Mogadishu. There is anecdotal evidence that its hydrologic regime is altering, resulting in both an unprecedented dry river and floods (MoEWR 2021a). Upstream developments in Ethiopia that are planned for the Shabelle, including hydropower dams and irrigation systems, have not yet been implemented. However, the lack of a coordination mechanism with Ethiopia concerning equitable water use is cause for concern (MoEWR 2021a). The Shabelle River is currently the principal water source for an estimated 4 million people in Somalia, including Mogadishu. As such, it is critical to livelihoods and the economy (MoEWR 2021a). Rapid population growth and economic development alongside uncoordinated irrigation development is putting pressure on this scarce and finite resource (MoEWR 2021a). The resilience of undeveloped surface waters to climatic variability is low. However, with investments in basin infrastructure (dams, flood protection, and access to supplementary irrigation water) in both upstream Ethiopia and downstream Somalia, the resilience can radically increase.

Virtually all of Somalia's crop production takes place in the Shabelle (mainly) and Jubba basins. Although this only makes a small contribution to GDP, it is very important for food security and employment (MoPIED 2020). Projections show that long-term average runoff would deliver enough water in Shabelle to sustain people and livestock. However, water would only be available in the lower sections for a few months per year (World Bank 2021a). Water shortages in drought years seem to be inevitable (MoEWR 2021a). Unless measures are taken, the total acreage affected by drought will continue to grow. Looking into the future, some locations in the Shabelle river basin will likely become unavailable for growing cereals and perennials due to water shortages (World Bank 2021a). Shortages of *blue* water also affect irrigation and exacerbate water conflicts (as discussed below).

Water Scooping in Lower Shabelle

Photo courtesy: Local media in Jowhar.

[18] Somalia receives water from Ethiopia via transboundary aquifers, rivers and wadis amounting to an average of 8.2 cubic kilometers per year (km^3/yr). Internally produced renewable water is, on average, at 7.8 km^3/yr (FAO 2014).

[19] From evapotranspiration, groundwater recharge, and utilization.

Widespread spate irrigation and wadi cultivation provides water in all other parts of the country where cultivation is possible. Sand dams, sub-surface dams, large haffir dams and balleys catch and store rainwater effectively.

Green water

Currently, *green* water (defined in Box 2.1) is the basis for food production in Somalia (cereals, vegetables and fruit, milk and meat), sustaining most of the population (MoEWR 2021c). Given the limited and variable *blue* water resources, enhancing Somalia's *green* water use in rainfed agriculture and for pastoral livestock is essential to improve food production. Increasing *green* water productivity can reduce demands on *blue* water, making it more available for WASH, industry, manufacturing or services and other needs.

The productivity of *green* water varies enormously, and it is affected by human activity. In the 20 years to 2009, Somalia lost almost 1 percent of its forest cover annually.[20] Land degradation, coupled with invasive species, is also widespread (Tsegay and others 2015). Improving soil moisture and cutting unwanted evaporation losses and surface runoff[21] are key to enhancing its use. With improved infiltration capacity, more *green* water is stored in the soil for crops and grass growth. Land management, including soil health and vegetation cover, determines how much water from a rainfall event is lost to evaporation. A small reduction in the evaporation rates corresponds to a potentially large increase in transpiration (for example, for food production).

Greenhouse in Galmudug provided with water from a haffir dam constructed under the Biyoole project.

Photo courtesy: Abdallah Sulayman

Current land and water productivity levels are much too low. However, the potential to increase yields is great, turning today's yields of 0.5 ton/hectare (ha) into volumes three to four times higher.[22] Improved land management, in particular rangelands management, is an essential strategy for Somalia's naturally hyper-arid, arid and semi-arid areas, and variable climate. Notably, the entry point for enhanced *green* water use is not the water sector, but rather improved land management. For this reason, the Barwaaqo Project (the second phase of the Biyoole project) has introduced a component to focus on the development of environmental catchment services.

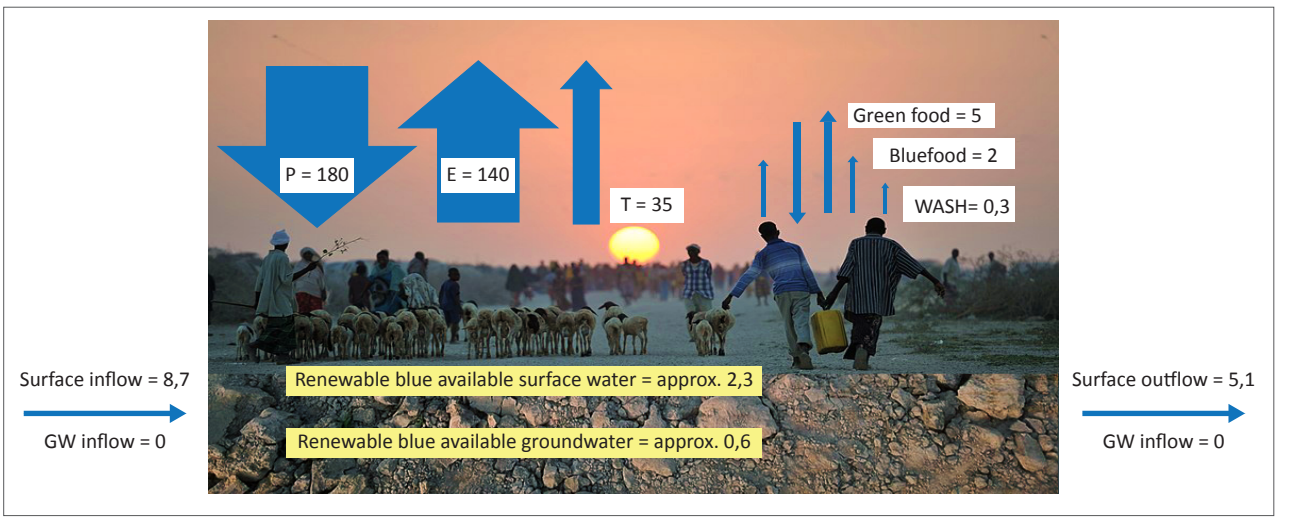
Figure 2.1 provides an estimated water balance of Somalia for the year 2020. Transpiration is water vapour released by plants as they grow. In the Somali context, this can be broadly considered to be productive—whether for agriculture, fodder, tree growth, or other natural processes. In contrast, evaporation, which occurs mainly from bare earth or water surfaces, is an unproductive use of water. The figure suggests that *blue* water used in food production (irrigated agriculture) utilizes almost all of today's available *blue* water. However, WASH

[20] The remaining forests, including juniper in the Golis mountains, tropical hardwoods along the southern rivers and adjacent floodplains and mangroves along its coast, are at risk from commercial pressures (MoLFR 2019).

[21] This can be as high as 75 percent of incident rainfall in the first 48 hours (Rockström and others 2015).

[22] Among small-holder farmers, only a fraction of rainfall typically infiltrates, and only a small fraction of this water is taken up by the crop, thus resulting in low on-farm crop yields. Experimental yields in the same hydroclimate generate on the order of 4 t•ha−1= 4 tons per hectare, and commercial yields often exceed 5 t•ha−1 (Rockström and Falkenmark 2004).

Figure 2.1: Estimated water balance in Somalia (km³/yr) , 2020



Source: Sandstrom, 2023

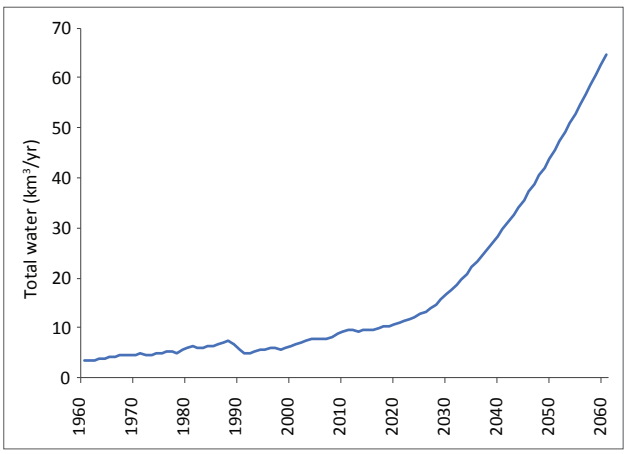
Notes: Data for the figure is based on FAO Aquastat (2014); Tuinhof and Groen (2021); MoEWR (2021a); and Basnyat (2007). The separation of actual evapotranspiration into transpiration and evaporation is 0,2 : 0,8, is an estimate shared by Prof Jacobus Groen, IHE Delft through personal communications. Available water is taken as 20 percent of renewable water, a rule of thumb stated by Basnyat (2007). Surface water outflow is from Michalscheck and others 2016). P = Precipitation; E = Evaporation, T = Transpiration; Green food = rainfed agriculture; blue food = irrigated agriculture; WASH also includes drinking water for livestock. The amount of virtual water export (mainly livestock) is a rough estimate.

and urban services require very little. "Available" surface and groundwater is estimated as 20 percent of renewable sources, since only a small share can be utilized due to costs, water quality, lack of infrastructure, and climate variability. In addition, surface inflow may change in the future due to river infrastructure development in upstream Ethiopia. It would change the status of the Shabelle basin as a potential breadbasket for Somalia. Groundwater inflow and outflow are marginal.

Figure 2.2 provides a perspective regarding the numbers found above. The total water consumed per year over time is presented. It is based on the UNDESA (2019) population numbers, estimated total water consumption between 1961 and 2020 (see section below on food and water security), and a 2061 scenario, which represents increasing wellbeing. It eventually corresponds with the per capita water consumption found in today's Kenya and Turkey (both representing a higher standard of living as compared to Somalia).

Comparing the water consumed in year 2020 (Figure 2.2, about 11 km³/yr) with that of future needs, as in 2033 (20 km³/yr), 2043 (33 km³/yr) and at the endpoint in 2061 (65 km³/yr), there is reason for worry about where the water will be found. There are also questions about how it will be turned into food. If provided domestically—even if all available surface and groundwater is utilized, plus that of all-natural transpiration and if much evaporation is converted into productive food transpiration (impossible at such a scale)—there is not enough water to feed Somalia at increased levels of wellbeing. This paradox is further discussed in the food and water security section. It is also the basis for an agenda of change and wellbeing (last section). The devastating famine that ravaged the country in the early 1990s is seen as a small "bump" in the curve. That bump should be compared with required future water needs entering the food production chain to feed a growing population with higher wellbeing.

Figure 2.2: Actual and predicted water consumption, 1961–2061



Source: Staff calculations using various data.

Water and water supply infrastructure

In rural areas, water sources tend to be used for multiple purposes (drinking, domestic use, and livestock watering). In towns and cities, piped networks, point-source vendors at boreholes and dug wells, as well as truckers and animals and human-drawn carters deliver water.

According to the latest data (National Bureau of Statistics 2023):

- Approximately 77.7 percent of the population have access to improved water services during the rainy season, and 74.7 percent during the dry season. More than half (60.1 percent) of the population has access to safely managed drinking water in the dry season. There are wide disparities across places of residence, with only 14.2 percent of nomads and 51.2 percent of rural residents having access to safely managed drinking water in the dry season. This compares with a figure of 71.9 percent of urban residents.
- About six in ten people use improved toilet facilities (60.7 percent). The usage of improved toilet facilities is common in urban areas (72.5 percent), and rare in nomadic areas (8.5 percent). It accounts for just over half of rural residents (54.7 percent).
- A number of households (29.2 percent) share their toilet facilities with other households, with slight variations across places of residence, ranging from 14.5 percent of nomadic households to 26.5 and 30.6 percent of rural and urban households, respectively.

Somalia has hardly any natural surface water storage. However, water is sometimes diverted from temporary streams into masonry reservoirs, such as berkads and haffirs.[23] Depending on rainfall, these structures can store

Sand Dam Water Storage in Debis and Dinqal in Somaliland

Photo courtesy: Chantal Richey.

[23] Berkads are open-plastered cisterns dug in unconsolidated soil or hewn in bedrock (storage capacities of 150 to 500 cubic meters [m³]). Hafirs are created behind dams on gently sloping terrain. They have storage capacities of 500 to 10,000 m³.

water for a few months after the end of the rainy season. Alternatively, water can be stored in wadi sediments behind sand or underground dams. Thus, it can be available for dry season use.[24] Hand-dug wells depend on shallow groundwater, but levels fluctuate seasonally and interannually, with wells often dry at the end of the dry season. Boreholes that tap deeper aquifers, large sand dams and underground dams can provide *blue* water during moderate and severe droughts.[25] Subsurface dams and wadis together make better use of groundwater. As such, they may be able to provide buffering capacity. However, water quality needs to be considered, particularly salinity, fluoride, and microbiological contamination.

Water for the rural, and export economy

Somalia livestock rearing has historically been the mainstay of the economy and source of wealth for most households. Less than 5 percent of land in Somalia is considered suitable for cultivation, of which over 75 percent is suitable for rainfed agriculture, and the remaining 25 percent has potential for irrigation (FAO and World Bank 2018). Boosting livestock production depends fundamentally on ensuring access to grazing areas, as well as the year-round availability of livestock feed for herds.

Somalia's cereal production peaked in 1989. Since then, it has been challenged by inadequate water and transport infrastructure, persistent insecurity, weak regulatory and enabling institutions, and severe environmental degradation of rangelands and forested areas (FAO and World Bank 2018). Considerable discussion has revolved around the demise of the Jubba and Shabelle riverine areas' irrigation infrastructure and potential rehabilitation. However, there are questions regarding the appropriateness or sustainability of large, centrally managed infrastructure. Further, the World Bank (2021a) indicates that, looking into the future, there will not be sufficient blue water to irrigate the land that is potentially available in the Shabelle basin.

Water contributes to Somalia's economy through forestry. However, deforestation has been significant over the past 50 years, with flood plain forests essentially gone. This is one of several factors contributing to the disruptions caused by flooding. The diversification into economic activities, such as charcoal burning, may have boosted some incomes in the short term, but such activities have degraded rangelands further. Given the ongoing unfortunate dependence on charcoal as a source of energy and export earnings, and importance of forests in soil conservation, agroforestry remains an important, and underexplored, subsector.

Livestock Watering at a Sand Dam in Debis, Somaliland

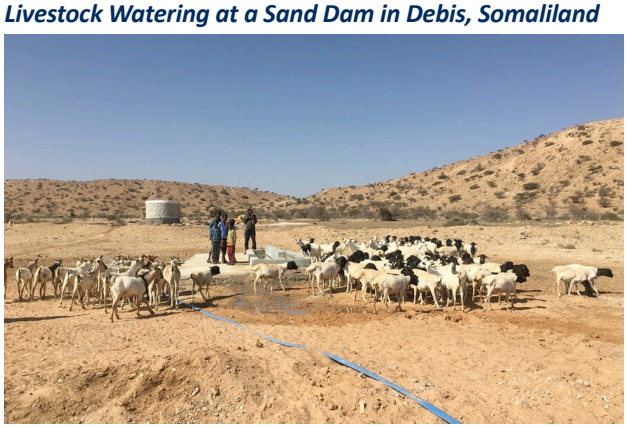


Photo courtesy: Stephen D'Alessandro.

[24] Sand dams are constructed in the alluvial beds of wadis, with storage capacities of between 5,000 and 40,000 m^3.

[25] Over the last century, boreholes (50 to 400 meters) have been drilled into limestone and sandstone aquifers and thick alluvial sand deposits. Generally, borehole depths increase from west to east.

Water supply service delivery

Water supply services are delivered by public, private, and international institutions, as well as by households themselves. As such, they are largely unregulated. Private operators play a critical role in service delivery, as do aspiring water utilities in urban areas, as well as small-scale service providers in urban and peri-urban areas or private entities in areas under the control of Al-Shabaab.[26]

Village- and community-level water committees play a central role in water resource management, but projects often fail due to the inability of the hastily trained water committees to sustainably manage the operations of the respective water point(s). In 2019, of the more than 5,000 water points mapped across the country, fewer than half were functional (Valid Evaluations 2020). Rent-seeking behavior, the limited enforcement of the roles and responsibilities post-hand-over, and a lack of ongoing external support for water committees also leads to irregularities in the revenue collection process.

The effects of climate variability, poor land management and deforestation

The ecosystem services that benefit millions of Somalis daily are critical, but they can be difficult to measure and manage. Examples include providing fuel wood; groundwater recharge via vegetated landscapes; soil stabilization; reduced flooding via reduced runoff; and improved water quality. To protect and fully benefit from these services, policy makers will need to develop ways to measure and manage them. This requires innovation, knowledge, dialogue, and inclusive governance, but will in the end deliver resilience and higher wellbeing.

Climate change and variability will continue to affect daily life in Somalia. These realities are intertwined with land management challenges, deforestation, difficulties in accessing pasture and conflicts, among other issues. These challenges can exacerbate the situation even further. Recurrent drought and flood events, coupled with a lack of safeguards and coping mechanisms, have had severe humanitarian consequences.[27] Thus, it has proven to be difficult to develop resilience.

Extensive floods can make roads inaccessible, affecting the transport of agricultural outputs. On the positive side, floods contribute to groundwater recharge. Flooding is not only a result of the variable climate, or climate change, but is also driven by a loss of forest cover. However, poor land management practices worsen the effects of flooding and drought. Heavy rains, combined with existing land conditions, deforestation and urbanization can generate floods, resulting in damage and forcing people to leave their land. Dealing effectively with Somalia's challenges—including inherent variable rainfall and associated surface water, harnessing groundwater and managing land—will determine the future of the country, and associated wellbeing of its people. These are reflected in the opportunities and recommendations in the final chapter of this report.

Over centuries, pastoral movement has been a livelihood system which has been adapted to harness the temporal and spatial variability of food and water availability for livestock. Traditionally, livestock has been moved to access year-round pastures and water sources. Although this remains the case for some, migration to internally displaced person

[26] Large operators include: nine in Hirshabele, three in Jubaland (excluding an undefined number in Lower Jubba and Gedo regions), and three in Puntland. Galmudug records having 31 operators, but these are unlikely to all be large.

[27] In the early 1990s, 300,000 people died from hunger because of multiannual droughts. During the floods in 1997 and 1998, there was improved action and support by the diaspora and international community. However, the situation in the early 1990s led to an estimated 1,400 casualties, with another 1 million indirectly affected; in addition, more than 60,000 ha of crops and farmland were lost.

(IDP) settlements has become another coping strategy, as has family splitting.

Climatic variability manifests itself through movement, migration, and the displacement of people, whether as nomadic pastoralists, IDPs or migrants abroad. Over one million agro-pastoral and nomadic households rely on farming and livestock for their livelihoods (FGS 2018). The movement of rural people to IDP settlements tends to be a response to flood and drought events, but some IDPs remain there. Shocks to the rural economy can push people into poverty in peri-urban areas and IDP settlements. Large cities close to drought-prone areas have also received IDPs, with attendant pressure on land and water resources.

People, Growth, and Urbanization

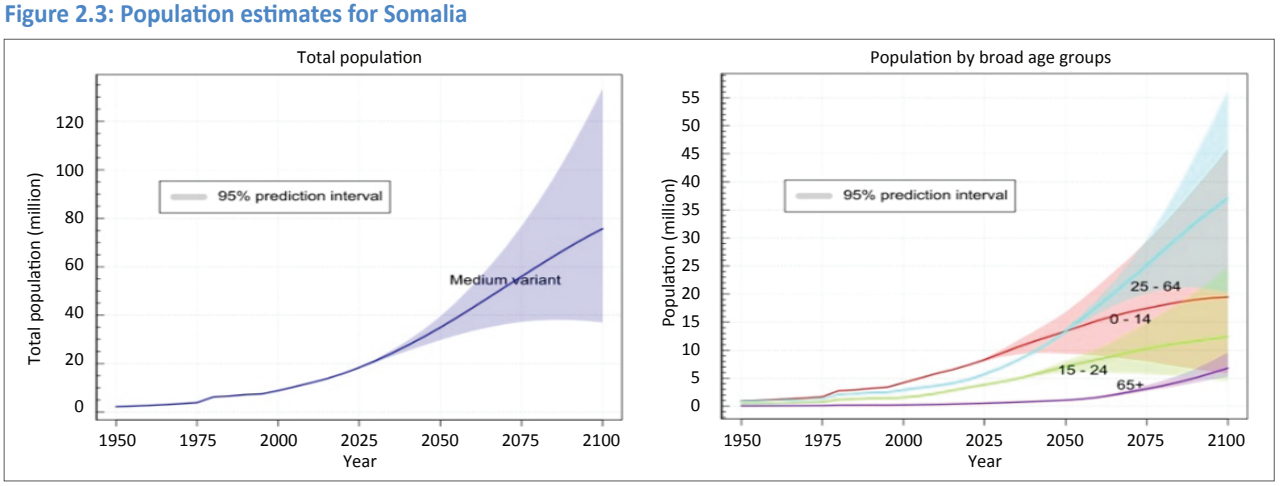
Population and population growth

In 2022, Somalia's population was estimated at 17 million, with annual population growth of 550,000 or 2.9 percent (UNDESA 2019). In absolute terms, a peak increase will occur in 2055 (UNDESA 2019). The population could reach over 35 million by 2050. By the end of the century, it would be much higher (Figure 2.3), with associated increased demands for water and food. These trends are recognized by the government as they are putting unprecedented pressure on land and water resources (MoEWR 2021a).

Rural and urban populations

Somalia's livelihood systems comprise four broad categories: pastoralists, agro-pastoralists, fishing and coastal communities and urban populations. Internally displaced persons are considered to be a fifth category (MoEWR 2021a). An estimated 26 percent of Somalis follow a nomadic way of life as pastoralists (see above), with another 23 percent living in rural areas. Health impacts for rural households due to inadequate water supplies are significant. An estimated 2 million people, or 22 percent, of the rural population currently rely on water from unimproved sources. Inequalities in access to water supplies and sanitation between rural and urban populations, between IDP and non-IDP populations, and between men and women, are significant. Somalia is the only country in the world with a rural-urban gap of more than 50 percentage points in terms of access to a basic water supply (WHO and UNICEF 2019).

Figure 2.3: Population estimates for Somalia



Source: UNDESA (2019).
Note: Medium-variant projections for 2020–2100 are shown as the thin, colored lines, and uncertainty is shown in lighter shades for 95 percent prediction intervals.

An estimated 30 percent of Somalia's population lived in urban areas in 1990. That has risen to about 54 percent today (World Bank 2021b). Unfortunately, urbanization and the disposal of garbage in river and canal systems in the Shabelle Basin are having an adverse effect on water quality. Furthermore, wastewater treatment in Mogadishu is inadequate (MoEWR 2021a). If well managed, urbanization is considered to be a help to Somalia's development. However, the failure to meet the needs of growing urban populations threatens to undermine Somalia's modest successes and wider stability (Danert 2021).

Inadequate, distant, and costly water supplies undermine animal health and survival, the delivery of high-quality animals to markets, and other aspects of the value chain of livestock and dairy production and processing. Water sources are also needed on livestock migratory routes. However, the lack of water supply sources may also have a role in safeguarding rangelands from settlement. Disputes and conflicts occur between pastoralists and farmers, as well as between pastoralists themselves.

Gender

Though women in Somalia are often consulted about the management of water resources, they have traditionally been excluded from the final decision-making process.[28] Although data concerning women's participation in Somalia's water sector institutions are not available, anecdotal evidence indicates that most decision makers are men. Thus, women rarely play a central role in defining water policies, programs, and laws. If women's concerns are to be considered, they need to be included in the planning process. Also, as women have important roles to play in water management, they need to be well supported.

At the national level, gender inequality is also evident in women's low participation in leadership and decision-making roles. Gender disparities weaken effective water governance in Somalia. Therefore, it is essential that reforms to water governance, as well as investment planning, include women.

Water contributes significantly to education, improving access to education for girls and keeping them in school. Ensuring secondary school education for girls enhances their opportunities to join the labour market and contribute to economic development. It may also reduce fertility rates (Danert 2021). The water sector has an extremely important role to play in keeping girls in school by ensuring that suitable WASH facilities are available, and that menstrual hygiene management is considered.

Cooperation, Disputes, and Conflicts

Traditionally, communities have collectively used and shared rangelands and forests. Grazing disputes, leading to fighting between neighbouring pastoral clans, have become more common throughout Somalia, including at the Ethiopia and Kenya borders. "A study in three pastoral districts of Gedo region … documents the rise in communal conflicts, including livestock thefts and violent clashes between clans, as a result of intensified competition over the use of shared resources, such as water, pasture lands, and humanitarian aid" (FAO 2016).

In general, clashes involving rival clan militias that start from communal disputes remain the single most common form of armed conflicts, comprising about 35–40 percent of total security occurrences per month (MoLFR 2019). These conflicts are often resolved by local clan elders and religious leaders, with local district or regional authorities intervening only in the case

[28] At the community level, one or two positions are reserved for women in village water committees. However, customary law and cultural norms undermine women's input into management and decision making.

of major interclan fighting (World Bank and FAO 2018). Mediation by elders and religious leaders is essential (World Bank and FAO 2018).

Conflict over access to natural resources undermines human and economic development.

Localized conflicts between farmers and herders, and between different pastoralist groups, frequently revolve around issues of contested land use, grazing rights, and insecure access to water and pasture. Expansion of private enclosures on traditionally open communal rangelands, especially along livestock migration routes, jeopardizes the mobility of pastoralist communities, weakening their capacity to cope with adverse climate conditions. Existing tensions and conflict risks are amplified during extended dry periods, when pastoralist livelihoods become particularly precarious (World Bank 2019b).

There is no simple solution, but conflicts over natural resources are an issue of immense strategic importance for the country.

Al-Shabaab-controlled area communities are affected, as their lives are threatened and assets confiscated. In addition, people face abductions, forced marriages, and a culture of fear and mistrust. There is also an undermining of community participation in peace initiatives (UNSOM n.d.).

The conflicts affecting the society in Somalia cannot be ignored, and there is much need for dialogue. Water and natural resource management—which affect the livelihoods and wellbeing of all Somalis—provides an ideal entry point for dialogue. This is reflected in the final chapter of the report as an opportunity—calling for Somalia to deliver a whole-of-society water dialogue.

Legal, policy and institutional frameworks

Xeer

The Xeer, Somalia's customary law system, is an unwritten code of conduct that has governed its clan-based society over the centuries. It includes provisions that deal with the management of water, pastoral land, forests, frankincense, and marine activity. The Xeer has specific rules for water sharing and queuing, especially during times of water scarcity. It also has rules for settling water-sharing disputes between clans in conflict (Puntland Development Research Center 2003).

Livestock in Somalia are the major repository of individual and national wealth. They are vital for food and for the economy. However, Somalia's pastoralism and livestock are constrained by land degradation, a loss of communal grazing land, and expansion of enclosures. These are all underpinned by weaknesses in the traditional and formal governance of rangelands. Empowering customary pastoral institutions is a key route to addressing the fragmentation of the rangelands.

One of the key challenges facing Somalia is how to build on the strengths of customary governance systems, while also supplementing them with more contemporary governance systems where they are required.

Formal governance

Somalia has started to develop a formal legal framework to anchor water sector institutions, thus establishing a nascent multilevel water governance framework. Key legislation includes Somalia's Provisional Constitution (2012) and the Water Act of 2011, which is due for significant revision. The National Water Resources Strategy (NWRS) for 2021–2025 includes directives to operationalize the water sector's governance framework, as laid out in the Water Act. This includes assigning public sector responsibilities

for the federal, state, and local governments. The Livestock Sector Development Strategy, the National Climate Change Policy, and the National Adaptation Programme of Action all have a bearing on water issues.

Current relevant public sector institutions that directly concern water include the Ministry of Energy and Water Resources (MoEWR) at the federal government level, including the Department of Water. Each FMS (Puntland, Galmudug, Hirshabele, South West State, and Jubaland) also has a Ministry of Energy and Water Resources. They perform a range of de facto functions related to the implementation of water infrastructure development and rehabilitation projects. In Somaliland, the Ministry of Water Resources discharges functions similar to those of the MoEWR. Progress has been made in aligning the federal and state level ministries.

Fragmentation and coordination

Water service provision is minimally regulated and highly fragmented. This is coupled with a lack of distinction of roles and responsibilities, as well as human resource capacity constraints. The water sector is dominated by non-state actors and the private sector, alongside households taking their own initiatives. Gaps include a lack of regulation of the quality of services, tariff setting, the collection of revenues, operations and maintenance and ensuring equity. Though constitutional provisions mandate regular meetings between federal and state-level ministries to coordinate water management issues, most interactions are conducted on an ad hoc basis. This contributes to the misalignment of priorities between different levels of government. Regular coordination, which extends beyond what is currently considered as the water sector, is urgently required. This is an issue that is reflected in the recommendations of this report.

2.3 Food and Water Security

Food security

Food insecurity is a major concern in Somalia. According to the last household survey (National Bureau of Statistics 2023), over half of households (52.2 percent) were unable to afford healthy and nutritious food in the month preceding the survey. Over a third of households (34.9 percent) experienced hunger, and more than a quarter (27.1 percent) went without eating for a whole day at least once. The prevalence of "moderate or severe" food insecurity according to the Food Insecurity Experience Scale (FIES) is 44.3 percent in the overall population and 62.9 percent in the nomadic population.

Water for Food

About 90 percent of the daily water needs of Somalia are linked to growing and consuming food.[29] Understanding the water footprints of different products and services can help to build an understanding of where water is used and where trade-offs will need to be made. A water footprint is the water required in the process of producing foods, goods, and services. Water is no longer physically found within a product itself, but it was used or consumed during production. Table 2.1 provides examples of the amount of water required to produce some products. In low-income countries, where consumption of services and manufactured goods is low, most water (often over 90 percent) is usually used for the production of food.[30] Generally, water consumption varies between 1,700 and 8,000 litre(l)/person/day. Higher per capita water consumption is often associated

[29] Blue and green water for in-country production of food for human consumption and export includes cereals, vegetables, fruits, milk, and meat, plus the water used in the production of food that is imported into Somalia.

[30] In contrast, in high-income countries, where the consumption of manufactured goods and services is high, the food share of virtual water consumption is about 50 percent. The percentage of virtual water also represents the food diet, where a meat-based diet requires much more water in the production compared to a vegetarian diet.

Table 2.1: Embedded water content of key food and other products

Product	Water requirement (litres)
1 kilogram (kg) beef	15,000
1 kg cereals	1,500
1 kg of milk	1,000
1 pair of shoes (leather)	8,000
WASH needs / per person	20-200
1 smartphone	1,000

Sources: Hoekstra and Chapagain (2007); data for smartphones from InnovEnergy (https://www.innov.energy/en/salt-blog/virtual-water-production)

with higher levels of wellbeing. There is also a clear correlation between per capita virtual water consumption and GDP.

Average water consumption in Somalia is about 1,800 l/person/day and varies between different population groups and over time (Chapagain and Hoekstra 2004).[31] Given the current food conditions found in Somalia, long-term consumption below this level would probably be associated with severe and recurrent food shortages, frequently turning into famines.

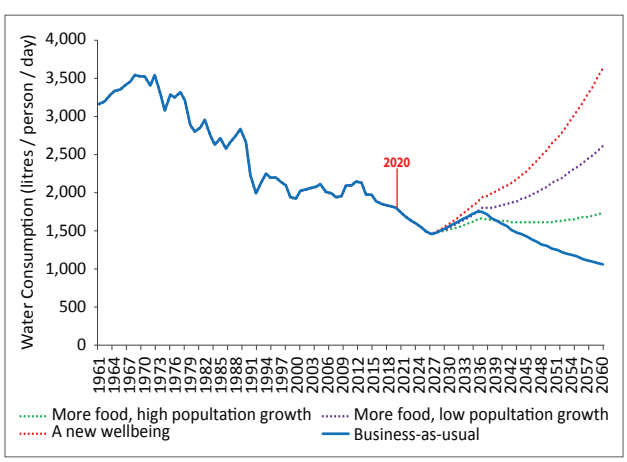
History of food and water in Somalia

Food imports to Somalia are not a new phenomenon, but the scale changed significantly from the early 2000's. This probably reflects a stagnating domestic agriculture sector, unable to produce and transport the food needed by a growing population. The situation has been further exacerbated by water scarcity and conflicts. Studies provide evidence of an agriculture sector unable to produce more food under current production conditions (World Bank 2018), as well as a livestock sector facing growth constraints due to land conflicts, limited grazing rights, and weaknesses in production (Danert 2021).

By linking (i) a food production index (1961–2020),[32] (ii) recent data concerning food imports (FAOSTAT), and (iii) the value of 1,800 litres/person/day of water consumed in 2020, a virtual water consumption history of Somalia has been developed, alongside a set of future scenarios (Figure 2.4).

Looking at the past, Figure 2.4 shows that in the 1960s, the daily agricultural water consumption per capita was much higher compared to 2020. The peak occurred in 1970 at a rate of 3,500 litres/person/day. This exceeded that of Kenya and approached that of Turkey today. From then on, food production per capita stagnated, due to issues such as conflicts, increasing water scarcity, degrading water infrastructure, and environmental degradation. Thus, Somalia was unable to match and meet the needs of a

Figure 2.4: Per capita water consumption in Somalia



Source: Staff calculations using various data.
Notes: The solid medium blue line from 1961-2020 (litres/person/day) shows a virtual water consumption history of Somalia, with a 2021 to 2061 projected "business-as-usual" scenario added (see below).

[31] Although calculated for 2004, the estimate of 1,800 l/person/day likely remains valid for 2020. For comparison, countries with higher virtual water consumption per day and person than Somalia include Kenya (3,000 litres); Ethiopia (3,200 litres); South Africa (3,400 litres); Turkey (4,500 litres); and Egypt (3,700 litres) (MoEWR 2021c).

[32] The food production index for 1961 to 2020 for Somalia is provided by the Food and Agricultural Organization, and it is presented at the World Bank Open Data Source at: (https://data.worldbank.org/indicator/AG.PRD.FOOD.XD?end=2020&locations=SO&start=1961&view=chart).

Displacement of the rural population to the cities and the destruction of irrigation systems caused by civil war

rapidly growing population. The famine of the early 1990s is reflected in a rapid drop in water consumption. By 2020, it had reached the level of 1,800 l/person/day, as discussed above.

Future food and virtual water needs

Today, Somalia depends on the importation of food to sustain its population.[33] The model used to develop Figure 2.4 uses four potential future scenarios. These all have the same starting point in 2020, that is, a virtual water consumption of 1,800 litres/person/day and a combination of four food sources:

- meat and milk (from in-country livestock rearing)—30 percent;
- rainfed crops—15 percent;
- irrigated crops—15 percent;
- imported food—40 percent.[34]

Underlying assumptions (further detailed in Box 2.2) are that scenario 1, a business-as-usual approach, is likely to develop if water remains a water sector issue only, managed by a cadre of professionals and developed within its respective line ministries and engaged organizations. Scenarios 2 and 3, both of which pertain to more food, require that water becomes more than a water sector concern. This requires changes in culture, norms and values, with a focus on improving national food self-sufficiency. Scenario 4 adds another dimension, namely a massive increase in food imports. With this scenario, self-sufficiency is complemented by trade-based food security. Figure 2.4 presents projections of these four scenarios.

All four scenarios are projected to start in a similar manner. After a five-year period (2023–2028), where no changes in food and water production and management take place compared to today, a ten-year period (2028–2038) is followed, whereby many large project-based investments are made in food and water development and food imports accelerate. It is a successful period when people are faring better. However, as climate change persists, conflicts and diversions remain. Also, productivity remains low. Therefore, this period of growth and increasing wellbeing cannot be sustained. As a result, in scenario 1, population growth exceeds the growth of food availability, and food insecurity once again proliferates.

The outcomes of the four scenarios, as presented by the projections in Figure 2.4, are quite different:

1. **Business-as-usual** (solid, medium blue line): *Virtual water* consumption decreases to about 1,000 l/person/day in 2061. This a level that is unprecedented. It will most likely cause widespread endemic food shortages, with recurrent famines and extremely low GDP. Such a future would be catastrophic for Somalia. Given current food and water difficulties, at 1,800 l/person/day, already by 2030—and with about three million more people in demand of food and water—the current situation is likely to be much more damaging to people in Somalia.
2. **More food, lower population growth** (dashed violet line): Increased use of *green water* in rainfed agriculture, and higher levels of imported food means that *virtual water* consumption rises to about 2,700 litres/person/day, which is comparable to Kenya of today. By 2061, this is estimated to reflect a GDP of about US$5/person/day.
3. **More food, high population growth** (dashed green line): Successful investments have been made in the agriculture sector, promoting more food production in rainfed systems, as well as livestock exports, thus

[33] Displacement of the rural population to the cities and the destruction of irrigation systems caused by civil war, state fragmentation, and climatic shocks transformed the commodity composition of imports. Somalia's large trade deficit is financed largely by private remittances and official grants.

[34] The percentage separation into different sources does not have a strong basis in past studies. Rather, it represents data from reports (Basnyat 2007; ICPALD 2016; and MoEWR 2021b), alongside personal communications with Somali experts in water and food development.

enabling more food imports due to export earnings. However, compared to 2020, these gains need to be shared by a larger population. *Virtual water* consumption remains under 2,000 l/person/day. By 2061, GDP amounts to about US$1.5/person/day.

4. **A new wellbeing** (dashed red line): Due to a new reality of norms and conditions, the Somali population is growing much slower, and the economy has shifted to higher export earnings, including as an international quality-meat producing hub and exporter. In addition, by massive land use improvements, including the collection of runoff (rainfall harvesting, damming ephemeral streams) and improved soil moisture, both food for people (rainfed agriculture) and food for cattle (grass and fodder) is produced at much larger scales. *Virtual water* consumption approaches 4,000 l/person and day, similar to that of Turkey today. The GDP is about US$25/person/day. People are food secure and enjoy high levels of wellbeing.

In conclusion, Somalia's critical situation faces both supply and demand side issues, which require careful consideration if the country is to achieve food and water security. It is not enough to only reduce population growth or increase food availability. Rather, *both* must be addressed simultaneously.

>> Box 2.2: Assumptions of the four scenarios for virtual water consumption in Figure 2.4

1. **Business-as-usual.** No major changes in water and food production management over a five-year period (2023–2028). This period is followed by ten years when all four sources of food supply increase by 5 percent per year. Given the agricultural stagnation Somalia has experienced in recent decades, this actually represents a significant increase in domestic agriculture production. This ten-year period is followed by a period of no further growth from 2039 up to 2061, due to climate change, conflicts that block new opportunities, and a lack of training and extension. Population growth throughout the period is based on the UN Population Division's predictions, with an endpoint of 46 million in 2061. Blue water resources are limited, and green water resources are not unlocked and utilized.
2. **More food, lower population growth.** A deliberate improvement to put water (and food) at the center of national development. This scenario is similar to scenario 1 but adds a continuous 5 percent annual increase in rainfed food production and a 3 percent annual increase in food importation for the full period (2028–2061). Population growth follows a reduced rate, with an endpoint of 30 million in 2061. The opportunities for increased rainfed agriculture come from improved land, water and agriculture management. As a result of enabling pastoralist production systems to further adapt to climate change variability, export earnings increase, thereby enabling more food to be imported. Meat and milk stagnate due to urbanization, and a lack of blue water limits irrigated crop production. Blue water resources remain the same as in scenarios 1 and 2, and green water resources are increasingly utilized as an outcome of improved security, knowledge, and more export and diaspora transfers
3. **More food, high population growth.** This scenario reflects a future where many technical issues linked to food and water have been achieved (including improved land management, security, enhanced rainfed agriculture, and increased food importation). However, the norms determining population growth have not changed. The scenario mirrors scenario 2 on the supply side of food availability, but the demand side also increases strongly. Population growth has an endpoint of 46 million in 2061. This scenario highlights the importance of how many people the limited food and water resources are shared between.
4. **A new wellbeing.** The fourth scenario resembles scenario 2 in terms of food and water supply and the demand sides. However, a major food import boost is added, increasing importation by 6 percent each year, starting in 2028 and ending by 2061. By the end of the period, about 60 percent of all food needs are met by importation. This represents a percent-wise doubling from today.

Horticulture, Farmer-led Irrigation Development and Greenhouse Training Produce Significant Results in Galmudug

Photos courtesy: Abdallah Sulayman.

The supply side emphasises *green* water food production, the careful allocation of scarce *blue* water resources, and the promotion of appropriate land management systems to collect rainfall, reduce evaporation and improve soil moisture and soil health. It also requires ensuring flexible and open grazing rights for pastoralists. All of these will serve to increase climate resilience. Demand-side issues are also closely linked to the number and wellbeing of people requiring food and water.

Although an uncomfortable issue, population growth—generally considered as part of social and health sectors—is a major concern for achieving adequate water and food services. Thus, family planning is part of water resource management, requiring new norms and values, as well as more gender equality to adapt to a critical context.

The allocation of *blue* water is also contentious. Even assuming that WASH needs are considered first, subsequent decisions are challenging, including redistribution of existing water (and land) rights, access and uses. These can have immediate negative effects, despite ultimately being of benefit to the country. Decisions to allocate water, for example, to high-value cash crops for export, an IT-sector and for livestock and meat export, and away from other, less productive, or less sustainable uses need to be fully considered.

2.4 An Agenda for Change and Wellbeing

To support the transition from fragility, reduce poverty, and promote shared prosperity, improved access to, and quality of services through better economic governance are high level outcomes of the World Banks Systematic Country Diagnostic Update (2023).

Improved household resilience to shocks is a foundational high-level outcome and this report draws to a close by presenting an agenda for change and wellbeing in Somalia framed around water. The agenda draws on both supply and demand issues. It provides an alternative to a future potentially characterized by severe food and water scarcity, endemic conflicts, and rapid population growth, resulting in recurrent food insecurity and societal disintegration.

The agenda presents a series of positive drivers for change, alongside constraints and opportunities for economic development. The drivers comprise Somalia's rich cultural identity, including Islamic water heritage, very strong support from the diaspora, entrepreneurship, the increasingly skilled and experienced government, a vibrant livestock and livestock export sector, and considerable international support.[35]

[35] The Islamic water heritage is the spiritual philosophy of water appearing as a symbol of divine generosity, without which the earth would not be able to provide food and drink for people and animals.

To bring wellbeing to Somalia, a number of constraints need to be overcome, including conflict and division, rapid population growth, capacity and knowledge gaps, and access to adequate funds to pay for imported food.

The agenda highlights five opportunities, all of which are aligned with key national policies and strategies.[36] Each opportunity can be realized through a number of specific recommendations:

1. **Ensure coordination and deliver a whole-of-society water dialogue**. This would help to overcome conflict and division and find solutions to sensitive issues linked to culture, norms and faith.

   Coordination must be regular, rather than ad-hoc. Dialogue needs to bring together faith, community, clan, and private sector leaders, as well as academia and civil society with water supply and water resource professionals and government authorities.

   Coordination and dialogue need to support the positioning of water at the center of Somalia's development process, exploring how to balance the demand and supply of food and water. The dialogue needs to explore the contentious issue of how to slow population growth—as other countries with similar contexts of faith, culture, socioeconomic conditions, and politics have done. Attention should be given to issues linked to improper financial management, partiality, as well as equity issues and equal opportunities. The dialogue should be enshrined in the *Xeer* tradition, and the rich water knowledge found in Islam. At the same time, women and men need to be equally engaged in these issues. Finally, international support should be enabled to address root causes of problems, rather than emergency needs.

   This is a complex, sensitive and long-term process, which must be fully defined, owned, and managed by Somali society. However, it can be achieved. Four specific recommendations include:

   a) Incentivize regular coordination between federal and state levels as envisaged by national policy.
   b) Commence transboundary coordination, particularly with Ethiopia.[37]
   c) Establish a small management team comprised of very senior clan, faith, private sector and government staff. The group is to be capacitated to manage water, economics and development.
   d) Produce a series of short, attractive and professional videos that outline the current situation and scenarios for future development, including well-known senior leaders participating in their development. The preparation of the videos provides a vehicle for dialogue, and the videos themselves will provide starting points for further reflection among stakeholders.
   e) Develop and undertake a series whole-of-society dialogue. Define objectives, activities, processes and outputs. Determine who to engage and how to disseminate and share the results.

2. **Establish a *blue* and *green* water-centered national economy.** With its arid and semi-arid conditions, the fate of Somalia's population and economy is intertwined with how the country learns, adapts and changes the way that *blue* and *green* water are managed alongside its land.

[36] This includes the National Water Resources Strategy (MoEWR 2022); the Economics of Water (World Bank, 2021); the Shabelle Basin Diagnosis and Strategic Action Plan 2021 (MoEWR 2021a); Rebuilding Resilient and Sustainable Agriculture in Somalia (World Bank, 2020); and the Livestock Sector Development Strategy (MoLFR 2019).

[37] This is vital given that the watershed for Somalia's only two perennial rivers lies primarily in Ethiopia, which also has plans to develop the water resources of the Shabelle, thereby affecting downstream Somalia.

It is imperative that Somalia explicitly recognizes both *blue* and *green* water. As such it should establish policies for their respective conservation, allocation and use according to relevant social, economic, and environmental criteria. In this way, Somalia can maximize the collective benefits that it can obtain from its waters, while also optimizing wellbeing for every drop of water used.

Further, given climate variabilities, it is essential that the country invests in land management, including in soil health, as well as vegetation cover and forests. This will have a positive impact on flooding and help to temper the effects of droughts.

A strategic high-level prioritization is required to shape policies and approaches to more practical and local (re)allocation processes. Most likely, *blue* water will need to be allocated to: (i) priority uses, including household WASH needs; (ii) livestock and meat exports; (iii) high-value urban uses (industry, services); and (iv) valuable and high value cash crop production for export.

Unlike *blue* water, which is increasingly scarce, *green* water is relatively abundant, and can be harnessed more productively by smart land use, improving soil health, rainfall harvesting and (mobile) livestock grazing. Allocation principles are useful to guide more dynamic approaches, including flexible reallocation that may be necessary in an era of climate change (that is, avoiding fixed allocations that become hydrological impossibilities in certain years).

To attain a *blue* and *green* water-based economy, it is recommended to:

a) Invest in research and capacity development. This includes academic education, professional on-going capacitation, and technical training, plus research in climate smart agriculture, small-scale rainfall harvesting, ephemeral stream utilization, production of livestock fodder and stall feeding, improved land use, allocation criteria, and urban distribution.

b) Develop climate-resilient and productive farming systems.

c) Invest in farmer and livestock owner extension services. New systems, knowledge, and services must reach rural farmers and livestock owners. A mobile information service should be developed, providing rural communities with early warning systems, weather information and news.

d) Develop management tools, systems, and principles to support the allocation and use of *blue* and *green* water. Also, link supply and demand water management, and optimize the wellbeing delivered per unit of water used.

3. **Boost export revenues, and convert Somalia's livestock sector into a world-class, high-quality animal and meat export entity.** Livestock and meat are currently Somalia's main export commodity. As such, they provide the country with critical earnings to pay for imported food. However, the earnings from these commodity exports could be much higher in the near future. Generating more revenue is essential to pay for the anticipated increase in food imports. Mobile livestock-keeping has adapted to climate variabilities for centuries. Given Somalia's hyper-arid and semi-arid climate, as well as climate variability, pastoral livestock rearing is an ideal economic activity. However, it is facing constraints.

To generate the required future foreign earnings, the following is recommended:

a) Provide dedicated support to the livestock sector through research, capacity development, and veterinary services.

b) Establish shared, supported, and regulated land routes for livestock, as well as feedlots near abattoirs in departure locations.

c) Reinforce good pastoral practices, including the protection of core breeding animals through mobility.

d) Support the sustainable use of rangeland resources, with access to water supplies as required by livestock-keepers. Explore fodder production and stall-feeding opportunities, where appropriate,

e) Invest in conflict resolution.

4. **Enter into a circular economy and an ecology based on resilience, innovation and integrated systems.** Somalia should promote resilience, innovation, and adaptation to water scarce conditions. This should be a norm for development and economic growth.[38] The extensive new investments needed in Somalia, such as water supply and sanitation services in rural and urban areas, provide an opportunity for the country to leapfrog into a circular economy. As such, it will invest in re-use and re-cycling technologies and approaches. Examples include: (i) dry sanitation rather than wasteful and costly sewerage systems based on scarce water resources; (ii) decentralized, highly efficient and cost-effective water treatment and supply technologies; (iii) innovative water pricing and payment systems; (iv) the use of digital technologies in regulating private sector operators; and (v) urban development that harnesses flood water (such as sponge cities). By integrating the systems, it is possible to optimize the use and benefits derived from water and deliver more benefits to people, as well as increasing the resilience of big systems.

To enter into a circular economy and ecology, the following is recommended:

a) Develop policies, regulations, principles and approaches to move to and enter into a circular economy.

b) Identify resilience as a game-changer for Somalia's future, where ecosystem services are recognized, assessed, and integrated into rural and urban livelihood systems alike.

c) Promote, capacitate, and support the gradual transformation of sectors from open-ended into a circular economy involving ecology practices.

d) Give the urban sector particular attention in moving toward circular principles and practices. This includes water reuse, dry sanitation, solar and wind-powered desalinization of seawater. Redefine, plan and implement a new urban environment. Move from densely populated areas to outspread green areas, adapted to floods, and partly self-fed from urban agriculture. Such an environment would be managed by community leadership.

5. **Establish robust, inclusive, and transparent governance systems.** Given the massive challenges that Somalia faces in the coming years, the governance system should be *inclusive*. Inclusivity effectively serves and engages all people and takes into consideration gender and other facets of

[38] Much can be learned from Namibia about how to adapt to very water scarce conditions and still maintain a high level of wellbeing. The examples are many, including a reuse of sewage for drinking water services; strict building codes to avoid water losses; an extremely water-efficient industry; and inter-connected dams to reduce evaporation losses.

personal identity, such as clan. Also, all institutions, policies, processes and services are accessible, accountable, transparent, and responsive to all members of society.

In order to achieve food and water security, the governance system should match the challenges linked to allocating *blue* and *green* water alongside support and regulation of WASH services, environmental security, and the productive uses of water in rainfed and irrigated crop production, as well as for livestock, manufacturing and services. Public support for new laws and policies is essential if Somalia is to become a circular, water-wise economy.

To establish an inclusive governance system, the following is recommended:

a) Elevate the categorization of the Ministry of Energy and Water Resources to a Category A Ministry.
b) Link with the whole-of-society dialogue process and identify and develop priority actions for improved governance.
c) Identify priority needs for inclusive governance. This may focus on urban water and sanitation services, livestock water needs, and/or land and water ownership concerns.

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Progress in Estimating Somalia GDP

Somalia continues to make progress in producing socioeconomic data needed for policy making. The Somalia National Bureau of Statistics (SNBS) with support from international partners have made significant progress in rebuilding the national statistical system and undertaking key surveys to close the huge data gaps across the country as a result of over two decades of civil war. Some of the key surveys that have supported the production and compilation of Somalia GDP estimates in recent years include Somalia High Frequency Surveys (SHFS) Wave 1 (2016) and 2 (2017), the 2014 Population Estimation Survey of Somalia (PESS) by UNFPA, and the 2022 Somalia Integrated Household Budget Survey (SIHBS).

While significant progress has been made in collecting key socioeconomic indicators, computing GDP by production or income approaches remains a challenge as production-side indicators remain unavailable. In this regard, the government with support from development partners, has been using the expenditure approach to compute GDP estimates for Somalia from 2013 to date using the available information. The SNBS published the first GDP series for the period 2013-20 in June 2021.[39] This series incorporated several improvements mainly in computing final household consumption; a new average daily per capita consumption of $1.61 compared to $1.26 used in the old estimates mainly through the inclusion of consumption estimates of areas not covered by the 2017 SHFS, 2.8 percent annual population growth rate from the 2014 PESS compared to 2.9 percent used previously, and average CPI used was a weighted average of FGS and Somaliland CPIs rather than FGS only CPI.[40]

SNBS published its second GDP report in June 2022 for the period 2013-21. This incorporated minor improvements on government consumption expenditure with improved coverage of Federal Member States and revised gross capital formation to reflect updated source data from the UN Comtrade database.

The third GDP report published in June 2023, covered the period 2016–2022.[41] It rebased the previous series to 2022 current prices from 2017 following the production of 2022 Somalia Integrated Household Budget Survey (SIHBS). The SIHBS provided a much more comprehensive measure of household consumption compared to previous estimates. The daily consumption per capita from 2022 SIHBS was estimated at $2.34 compared to the previous $1.61 using the 2017 SHFS Wave 2. In addition, the rebased GDP series included revised gross capital formation which incorporating Central Bank of Somalia (CBS) import data.[42]

[39] https://www.nbs.gov.so/gross-domestic-productgdp/

[40] Exchange rate adjustments to the US$ are done as both FGS and Somaliland CPI data is collected in local currency.

[41] https://nbs.gov.so/wp-content/uploads/2023/07/Somalia-Gross-Domestic-Product-Report-2022-1.pdf

[42] A detailed methodology on the compilation of Somalia GDP estimates as well as progress in the series' revisions is provided in the World Bank Somalia Economic Update, editions 4 (August 2019) and 7 (June 2022).

Recent Improvements on Somalia GDP Series

The SNBS rebased the previous GDP series for the period 2016-22 and published the report in June 2023.[43] The rebased series incorporates several improvements mainly in computing final household consumption based on the new 2022 SIHBS as well as economic developments in 2022. The publication of the 2022 SIHBS was significant as it not only addressed the existing data gaps by providing key socioeconomic indicators to monitor household welfare and measure poverty but also, provided better estimates of household consumption, a key input for GDP estimation. Like other standard countries, for the first time, Somalia used a household budget survey to estimate household consumption, moving away from the high frequency household budget surveys (HFHBS) used in the previous estimates.[44] The 2022 SIHBS incorporated improved coverage with detailed consumption patterns data collected from over 7,000 households and provided a much more comprehensive measure of household consumption. The resulting daily consumption per capita of $2.34 was higher compared to the $1.61 from the 2017 SHFS Wave 2 used in the previous estimates. The improvements in the rebased GDP estimates include:

- A new average daily per capita consumption of $2.34 compared to $1.61 used in the previous estimates. This was mainly from the 2022 SIHBS covering over 7,000 households. As a result, the base year changed from 2017 to 2022 for the real GDP estimates.
- Gross fixed capital formation estimates incorporated imports' data, particularly construction and machinery, produced by the Central Bank of Somalia as well as updated UN COMTRADE data.
- Average CPI used is a weighted average of the Somaliland and Mogadishu CPI and is a deflator for many variables across GDP components. However, the CPI weights used are based on the 2017 Somalia High Frequency Survey as an update using the 2022 SIHBS is yet to be undertaken.

These new improvements, particularly the daily per capita consumption increased the size of rebased nominal GDP and real GDP by an average of 39 percent and 67 percent respectively in the period 2017-21, compared to the previous estimates. Figure A1.1, panel a, shows the nominal GDP changes while panel b shows annual GDP growth rate changes. Other expenditure GDP components are based on actual data observed and updated each year. Consequently, changing the level of GDP naturally changes the value of other key indicators in policy making. For example, the new higher GDP estimates result to lower shares (as a ratio to GDP) in government revenue and spending, while improving the debt burden compared to the previous estimates (see Figure A1.2, panel a-d).

[43] https://nbs.gov.so/wp-content/uploads/2023/07/Somalia-Gross-Domestic-Product-Report-2022-1.pdf

[44] The HFHBS surveys posed critical challenges including data depth, geographical coverage, sampling techniques, and comparability. Moreover, the surveys provided a point estimate for the daily per capita consumption which was then extrapolated using annual CPI and population to compute values for the other years.

Figure A1.1: GDP estimates changes due to higher per capita daily consumption estimate

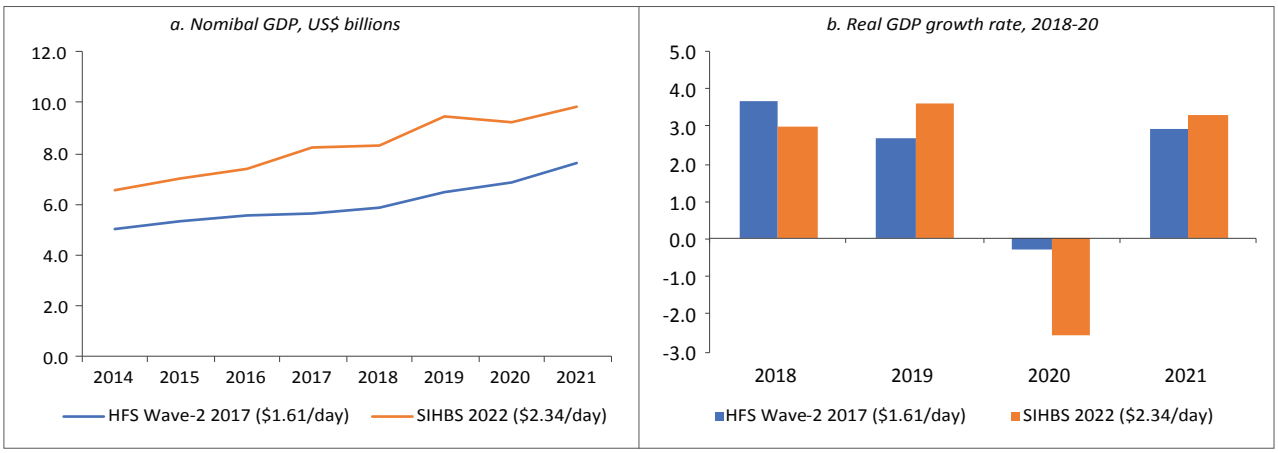
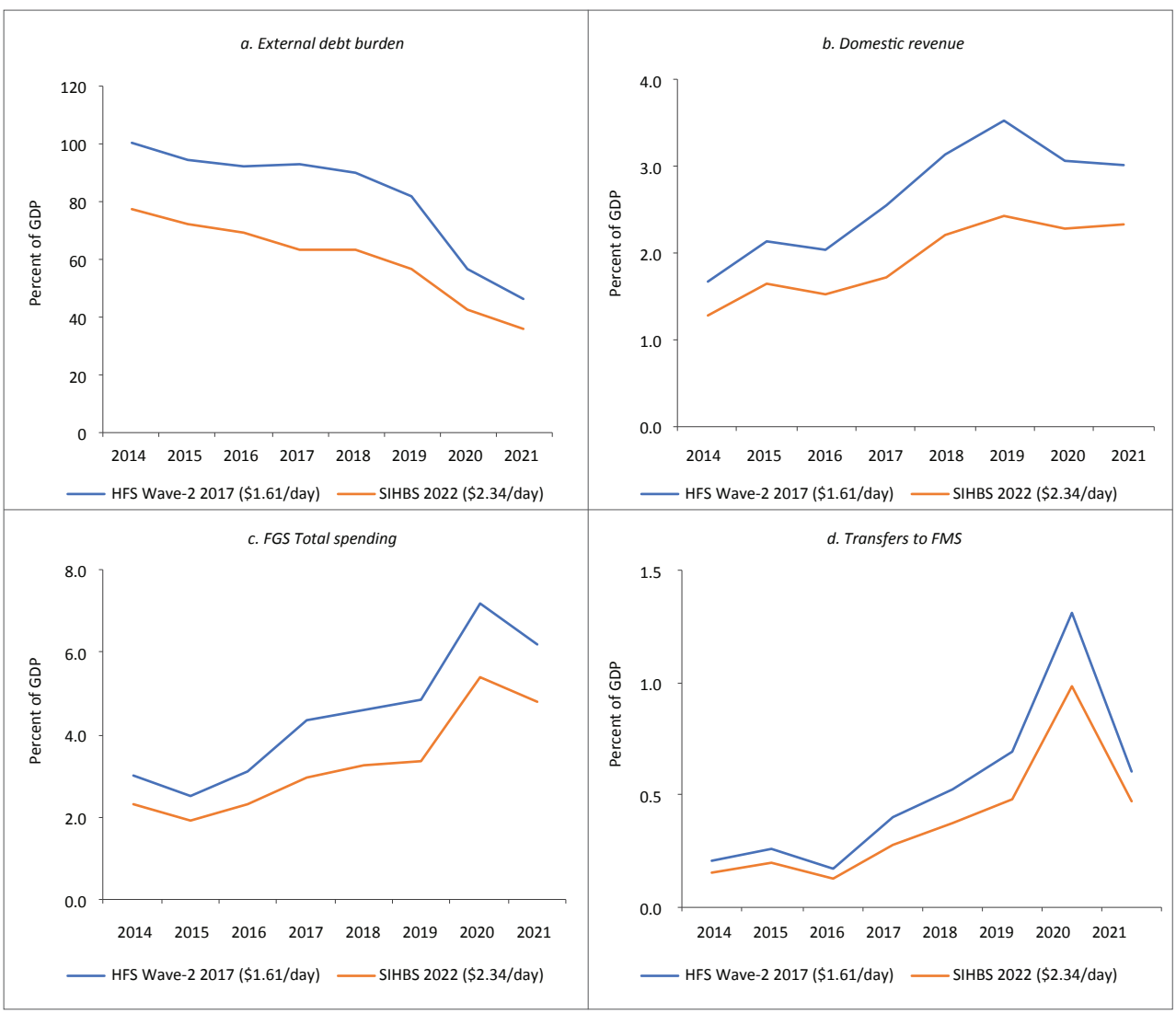


Figure A1.2: Resulting changes in other key indicators, percent of GDP



Source: World Bank staff calculations

Towards a Production Approach GDP estimates in 2024

To address existing data gaps and rebuild the national statistical system, the SNBS continues to undertake critical surveys including the recently published Somalia Integrated Household Survey in February 2023. Preparation for an Integrated Business Establishment Census (IBEC) is at an advanced stage and field work is expected to start in November 2023 and be completed by December 2023. This will be followed by a business establishment survey of which the preparation process is underway. Furthermore, the SNBS is upgrading its CPI calculation and price data processing system to accommodate data from other cities across FMSs (the current official CPI is based only on price data from Mogadishu) and will use the 2022 SIHBS data to update the CPI basket.[45] Once completed, these surveys will not only fill critical data gaps but also will enable compilation of new GDP estimates by production approach hence a more accurate estimate of GDP than is possible using the currently available data. As a result, the SNBS will be able to begin following the conventional standards of annual revision of GDP statistics (with periodic national accounts rebasing) to reflect long-term structural changes in the economy.

[45] These surveys are supported through the Somali Integrated Statistics and Economic Planning Capacity Building project, a World Bank IDA project.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Integrating Climate Change with Somalia's Development: The Case for Water

Somalia has remained on a strong economic reform path despite the various global and exogenous shocks that have continued to buffet the economy. Recurrent climate-related shocks, such as cycles of droughts, floods, locusts' infestation, higher international commodity prices, as well as increased insecurity and conflict, have interrupted the country's growth trajectory. However, this has not deterred the country's commitment to continue advancing reforms to strengthen key economic institutions and promote macroeconomic stability and recovery.

As Somalia reaches the HIPC Completion Point, it is important that it continues its reform path to achieve an inclusive economic growth and prosperity. While the reforms are numerous and cut across many sectors, this report highlights macroeconomic policies and reforms that promote inclusive growth and institutional building to avoid sinking into future unsustainable debt. These include enhancing fiscal space for development priorities while strengthening expenditure controls; strengthening financial integrity; integrating Somalia in the global financial system; and improving debt management.

Similarly, water remains at the center of achieving sustained economic growth and building resilience to shocks. It is a central enabler of human development, urban development, job creation, and a driver of long-term economic growth. Better water management is also critical for helping Somalia cope with climate variability and climate change and for smoothening out economic shocks, particularly from floods and droughts. Somalia's waters are a vital ingredient in building resilience, improving prosperity, and developing the economy.

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