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Rapid Growth in Mobile Money: Stability or Vulnerability?



WORLD BANK GROUP
Macroeconomics, Trade & Investment

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SOMALIA ECONOMIC UPDATE

RAPID GROWTH IN MOBILE MONEY: STABILITY OR VULNERABILITY?

August, 2018

MACROECONOMICS, TRADE & INVESTMENT

AFRICA



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ABBREVIATIONS

AML/CFT	Anti-money Laundering and Combating the Financing of Terrorism
CBS	Central Bank of Somalia
CPI	Consumer Price Index
FDI	Foreign Direct Investment
FGS	Federal Government of Somalia
FMS	Federal Member States
HIPC	Heavily Indebted Poor Countries



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FOREWORD

It is my pleasure to present the third edition of the World Bank *Somalia Economic Update* series. These reports are prepared in close partnership with Somali stakeholders and aim to contribute to government policy-making and to a national conversation on topical economic matters. We are particularly grateful to our colleagues at the Ministry of Finance and Ministry of Planning, Investment and Economic Development who have contributed and provided guidance throughout the process.

This edition of the Somalia Economic Update is focused on mobile money – how it is used within the economy, how it is helping spur economic activity and how further innovation and stability can strengthen its impact on the economy. Mobile money is widespread in Somalia: almost three-quarters of the population aged 16 and older use it on a regular basis. Mobile money is now the main transaction instrument used by both individuals and businesses in Somalia: presenting an opportunity to increase access to finance, spur inclusive growth, and promote resilient communities. However, with increasing dependence on mobile money as a medium of exchange comes increased vulnerabilities. If Somalia is to ensure mobile money contributes positively to economic recovery, smart regulation will be needed to address the risk and vulnerabilities of the system and to promote competition and innovation.

This report comes at a time when Somalia is recovering from a devastating drought which plunged over half the population into extreme need. Inclusive access to finance is an essential element of Somalia's Recovery and Resilience Framework. The World Bank's hope is that this issue will be an important element of the forthcoming 4-year Country Partnership Framework for Somalia. I look forward to participating in the discussions on this edition of the Somalia Economic Update.



Bella Bird
World Bank Country Director
for Tanzania, Burundi, Malawi and Somalia



Waxaa ii farxad ah inaan soo bandhigo qoraalkii saddexaad ee warbixinaha isku xiga ee Baanka Aduunku ka soo saaray dhaqaalaha Somaaliya. warbixintaani waxaa wada diyaariyey la hawl galayaan Soomaaliyed, iyadoo ujeedadu tahay in wax lagu biiriyo dejinta siyaasadda dawladda eek u aadan dibu habaynta qaran ee la xiriirta arrimaha dhaqaalaha. waxaan si khaas ah ugu mahad celinaynaa axsaabteena qaaliga ah ee wasaaradda Maaliyadda iyo wasaaradda QOhsaynta, maal gashiga iyo horumarinta dhaqaalaha, kuywaasoo bixiyey h agis iyo wax ku kordhin muhiim ah hanaankii loo maray soo saarista warbixintaan.

Warbixintaan ugu danbaysay ee la xiriirta dhaqaalaha Soomaaliya waxay xoogga saaraysaa hanaanka lacagaha ee taleefoonada gacanta loo adeegsado, sida loogu isticmaalo dhaqaalaha, siday u caawiso adeegyada dhaqaalaha io dibu habaynta, saamaynta ay ku leedahay xasilinta dhaqaalaha. Lacagaha taleefonada gacanta lagu isticmaalo waa kuwo si balaaran uga jira guud ahaan Soomaaliya; qiyaasta saddex meelood dadka ay da'doodu ka weyntahay 16 sano si joogto ah ayey u isticmaalaan. adeegsiga lacagaha taleefoonada gacanta la isugu daro waa habka ugu wyn ee lacagaha la isugu gudbiyo markay noqoto mid qof loo dirayo ama wax is dhaafsigu ganacsiga Soomaaliya. wuxuu muujiyey fursado sii kordhaya oo lagu gaarayo dhaqaalaha, dariiq koboc iyo kor u qaadis uu ku sameeyey adkaysiga bulshada. Sidaa darted, iyadoo ay sii kordhayso ku tiirsanaanta lacagaha telefoonada gacanta la isugu diro uuna xudun u noqday habka dhexe ee isku bedelka iyo sarifka haddana waxay taasi kordhisay nuglaanshaha, haddii Soomaaliya ay xaqiijiso in hababka lacagaha taleefoonada la isugu diro noqdaan kuwo bed qaba, si wanaagsanna loo isticmaalo waxay talaabo wanaagsan u tahay soo kabashada dhaqaalaha wadanka, hab saxan oo loo adeegsado ayaana loo baahan yahay si loo xaliyo khataraha iyo dayaca adeegsiga habkaani leeyahay iyo kor u qaadista figrado cusub iyo tartan furan oo uu yeesho suuqaani.

Warbixintaani waxay soo baxday mar Soomaaliya ay ka soo kabanayso abaar si daran u burburisay, taasoo ku riixday kala bar dadka Soomaaliyeed inay noqdaan kuwo qaba baahi daran. waxaa intaas dheer in la maal geliyo waxay tahay arrin lagama maarmaan u ah soo kabashada iyo habka isku xiran ee soo kabashada iyo adkaysiga Soomaaliya. Baanka aduunku wuxuu rajaynayaa in arrintaai ay tahay mid lagama maarmaan u difcadda sanadka afraad ee habka isku xiran ee la hawl galayaasha Soomaaliya. waxaan rajaynayaa inaad ka soo qayb gashaan doodaha ku aadan qoraalka ugu danbeeyey ee looga waramayo dhaqaalaha Soomaaliya.



Bella Bird

*Agaasimah Bangiga Aduunka
ee wadamada Tansaaniya, Burundi, Malawi iyo Soomaaliya.*

EXECUTIVE SUMMARY

Part 1: Recent Economic Developments and Outlook:

Somalia's economy grew by an estimated 2.3 percent in 2017, reflecting the severe impact of the 2016/7 drought on agriculture. The drought caused enormous losses in livestock and crop production and led to food insecurity that affected more than 6 million people in 17 of 18 regions of Somalia. With the help of the international community, Somalia narrowly averted widespread famine in 2017. But economic losses are estimated at \$1.7 billion¹.

Modest economic growth in 2017 was supported by private consumption on the demand side and by the services sector on the supply side. Large remittance inflows facilitated private consumption. On the supply side, anecdotal evidence suggests that the main sources of growth were construction, telecommunications, and money transfer services. The services sector—particularly telecommunication and mobile money—has been a vibrant and vital enabler of economic growth in Somalia.

The manufacturing sector remains sluggish, as both the difficult security environment and the harsh business environment limit private investment in the sector. Somalia ranked last in the 2017 Doing Business ratings. A big part of the problem is related to electricity, which ranges between \$0.50 and \$1.00 per kilowatt hour depending on the city and area, is highly restrictive, leading to access at rates among the lowest in the world.

The drought led to an uptick in inflation. Average Consumer Price Index (CPI) inflation increased from -1.1 percent in 2016 to 3.4 percent in 2017. Food inflation was 6.8 percent in April 2018, up from -0.7 percent in 2016. Food price inflation accounted for 51 percent of the increase, followed by housing, water, and electricity, which together contributed another 38 percent.

Growth in recent years has not been sufficient to reduce poverty. Between 2013 and 2017, real GDP grew by an average of 2.5 percent while population grew by 2.9 percent a year. The result was a contraction of per capita GDP of 0.3 percent a year. This performance is significantly below the average for fragile countries, Sub-Saharan Africa, and low-income countries. Growth remains too low to provide enough jobs for the expanding labor force, particularly young people. In 2016 half of all Somalia lived in poverty, and almost a third lived in extreme poverty. In Somaliland, where comparable data are available, the incidence of poverty remained high between 2013 and 2016, falling only slightly, from 69 percent to 64 percent in rural areas and from 57 percent to 52 percent in urban areas.

Implementation of fiscal policy by the Federal Government of Somalia (FGS) improved markedly in 2017. Domestic revenue mobilization increased, budgets became more realistic, and execution of the budget improved. These developments should allow Somalia to build the fiscal buffers that allow the government to start providing meaningful service delivery to citizens. On the revenue side, the government, with support from the International Monetary Fund's Staff Monitored Program (SMP), continued efforts to broaden the tax base, enhance compliance, and reduce wasteful expenditures. As a result, revenues increased from \$113 million in 2016 to \$143 million in 2017 to \$42 million in the first quarter of 2018. On the expenditure side, improving the efficiency of public spending and service delivery is a priority.

Sustaining progress on both revenue collection and expenditure management is critical if the government is to expand the provision of public services and support inclusive growth. Priority policy areas to foster inclusive growth include programs financing essential services to reduce infant and



maternal mortality, initiatives to increase enrollment rates at all levels of education and close primary and secondary enrollment gaps, and efforts to increase the availability of clean water and sanitation. The financing of infrastructure and improvements in the business environment would also help support new firm entry and boost opportunities for employment. Monetary policy is limited, because the economy continues to be highly dollarized. The Somali shilling—which is used only for small, face-to-face transactions—has been relatively stable since 2012, exchanging at 23,539 to the U.S. dollar in December 2017. Multiple currencies, including airtime, are used as mediums of exchange. In addition to the Somali shilling and the U.S. dollar, Somalis regularly use the currencies of Djibouti, Ethiopia, and Kenya as mediums of exchange in border areas.

Somalia has been working on currency reform under the SMP. The authorities have set currency reform as one of their highest priorities. Phase 1 of the currency reform will involve the mopping up of existing small denomination Somali shillings in circulation with the new currency issued by the Central Bank of Somalia (CBS). After strengthening its institutional capacity and developing independent monetary policy instruments and reserve management guidelines, the CBS plans to introduce new Somali shilling banknotes, including larger denominations, as Phase 2. Introduction of the new banknotes will mark the first time the CBS will have issued currency since 1991. The move will help the authorities end counterfeiting. The authorities are also working on fostering financial development, inclusion, and stability while strengthening compliance with AML / CTF regulations: anti-money laundering and combating the financing of terrorism.

The 2017 drought deteriorated the trade balance by about 9 percent of GDP. It caused the trade

deficit to increase, as livestock exports declined and food imports increased. Exports decreased from 15.1 percent of GDP in 2016 to 14.5 percent in 2017; imports increased from 61.9 percent of GDP to 69.6 percent over the same period. The drought devastated livestock exports. The volume of live animal exports—Somalia’s largest export, accounting for more than 70 percent of export earnings—declined by 75 percent, from 5.3 million animals in 2015 to 1.3 million in 2017. Imports increased, driven partly by increases in food imports in response to the drought.

The current account deficit increased from 6.3 percent of GDP in 2016 to 7.4 percent of GDP in 2017. Remittances and official grants combined increased by 7.9 percent of GDP. The trade deficit increased by 9.0 percent, increasing the current account deficit by about 1 percentage point. Foreign direct investment (FDI) financed about 70 percent of the current account deficit, indicating an enormous potential in Somalia.

Economic Outlook:

GDP growth is projected at 3–4 percent over 2018–20. This outlook is predicated on the maintenance of the security gains achieved so far; recovery of agricultural output, as weather conditions improve; gradually improving private investment; continued support by development partners; and improved revenue collection. The outlook also presupposes that Somalia’s livestock sector continues to recover from the effects of the drought through restocking.

Achieving higher growth will require an acceleration of structural reforms, particularly in fiscal policy and public financial management, the provision of basic services to promote human development and inclusion, and improved agriculture sector resilience to weather shocks.

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Somalia needs to continue to build the fiscal buffers needed to provide basic services to its people.

Continued efforts to broaden the tax base, enhance compliance, and reduce wasteful expenditures would increase the resources available to help meet basic needs, including in health, sanitation and water delivery, and education (See Somalia Economic Update Volume 2: “Mobilizing Domestic Revenue to Rebuild Somalia”.) Improving the efficiency of public spending and service delivery is a priority on the expenditure side. More efficient spending could be achieved by containing the large public wage bills that crowd out other critical components of public expenditure.

Given the frequency of droughts and floods, improving agriculture sector resilience must remain a central element of Somalia’s growth and poverty reduction agenda.

Efforts must include irrigation; better water management, land management, and environmental protection; and improved agricultural technology and extension services (These issues among others are addressed in the Country Economic Memorandum – Agriculture Report – published in 2018).

Risks to the Outlook:

Key risks to medium-term growth prospects include security concerns, higher oil prices, delays in implementing structural reforms, and political and policy uncertainty. Insecurity in Mogadishu and southern Somalia continues to pose significant risks to economic activity in the medium term. The FGS is restructuring its security forces to improve security in Mogadishu and working with Federal Member States to enhance stability across the country. Al-Shabaab retains its ability to launch deadly strikes against the government and AMISOM, constraining donor activity, and diminishing prospects for FDI and other investment.

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Insecurity in Mogadishu and southern Somalia continues to pose significant risks to economic activity in the medium term.

Higher oil prices in 2018 and beyond could hurt Somalia’s economic prospects.

Oil prices could rise to more than \$60 a barrel in 2018–19, a 20 percent increase over 2017. Such increases could increase Somalia’s import bill, worsen its external imbalance, and weaken private consumption, darkening the growth outlook.

The risks associated with reforms delays are high.

The economic reforms to unlock inclusive growth may be delayed because of political contestation, mistrust among political leaders and fragmentation among different levels of government – each of which could undermine/distract reformers. Likewise, institutional capacity to implement reforms, and ensure compliance remains weak. These risks – which are manifested on a cyclical basis, but with varying degrees of severity – can undermine important gains, and at worst can destabilize Somalia’s fragile political settlement. In turn, a slowdown on the reform path could delay the normalization of Somalia’s relations with the International Financial Institutions (IFIs) through the Heavily Indebted Poor Countries (HIPC) process, which in turn would delay Somalia’s access to IDA and critical national investments.

Part 2: Mobile Money in Somalia:

Mobile money has become an essential and widespread part of Somalia’s economic eco-system.

Almost three-quarters of the population 16 and older (73 percent) use mobile money. Penetration rates are highest in urban areas (83 percent) and camps for internally displaced people (72 percent). But even in rural areas, 55 percent of the population uses mobile money². Mobile money is now the main transaction instrument used by both individuals and businesses in Somalia. About 36 percent of GDP flows through mobile money systems. Mobile money balances are arguably the main monetary asset in Somalia. The value of mobile money transactions in Somalia is estimated at \$2.7 billion a month.

Mobile money services occupy multiple roles within Somalia's financial ecosystem. Mobile money is the main channel for accessing financial services. The demand for digital money has arisen largely from lack of faith in the Somali shilling, the difficulty of using U.S. dollars for low-value transactions, and the low transaction costs and ease of use of mobile money services. In the streets of Mogadishu and elsewhere, the exchange of goods and services is done largely through mobile money, even for small transactions. Reducing the burden of cash provides freedom of movement and a sense of security while doing business or carrying out day-to-day transactions. Unlike elsewhere in Africa, balances on mobile money wallets tend to be held rather than cashed out, because mobile money substitutes for the lack of a formal banking sector. Mobile money is trusted despite the fragile status of the country and the nascent development of its institutions.

Somalia is ahead of many other developing countries in its use of mobile money.

In other African countries, mobile network operators are still thinking about how to incentivize customers to maintain balances in their mobile money wallets. In Somalia operators have already partnered with local retailers and merchants to ensure smooth digital exchanges, even for low-value transactions.

Mobile money presents a major opportunity to help increase access to finance, spur inclusive growth, and promote the resilience of communities. The use of digital payment also improves efficiency, by increasing the speed of transactions, lowering transaction costs, ensuring security of payments, and providing a safe way to save.

However, a high level of dependence on mobile money increases vulnerabilities in the absence of appropriate regulation. To maximize the opportunities for mobile money to contribute

to economic recovery, regulation is needed to address concerns and uncertainties about risk and vulnerabilities of the system and promote greater competition and innovation. Safeguarding the system's stability and tackling possible macroeconomic effects associated with disruption to mobile money platforms (such as sudden or unexpected contraction of the money supply) should be a major priority. A major concern for policymakers and regulators is how to introduce mobile money regulation in a smart way that removes the "cliff-edge" associated with new supervision and regulatory frameworks. Introducing regulation gradually would also strengthen compliance and reduce potential disruptions to mobile money services as better platforms and systems are implemented.

Innovation in mobile money services can be promoted most effectively through a "regulatory sandbox" approach linked to capacity development at the CBS.

The regulatory sandbox approach is where the regulator allows providers to ignore some or all legal requirements in order to experiment with and test new products and business models. The sandbox is a learning tool that informs the process of refining products or business models and crafting regulatory policy.

Capacity building includes increasing regulatory and analytical capacity to examine experiments and pilot programs associated with the regulatory sandbox. Lessons learned can be used to set the foundation for more sophisticated innovations that expand the base of digital financial products and attract new investors while safeguarding financial stability.

A phased-in approach to regulating mobile money would mitigate risks and give both the regulator and regulated time to implement policies and systems.

It would also strengthen compliance and financial inclusion, as mobile money service providers implement better platforms and systems. These

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systems cannot operate in a vacuum. For example, an effective identification system would help narrow the significant financing gap in Somalia and address de-risking issues. Better mobile money regulation and a robust identification system are closely connected and need to be developed in parallel.

Investments in better regulation can be effective only if they are tied with capacity development at the CBS and the National Communications Authority (which regulates the sector) and enabling

foundational infrastructure. Capacity building includes building regulatory and analytical capacity to examine the financial health of mobile network operators and perform risk-based supervision. Infrastructure improvements include putting in place a system that ensures parity between offline and online credit, as well as a core banking system, an interbank payment, and clearing and settlement system. These changes would set the foundation for more sophisticated innovations that would expand the base of digital financial products and attract new investors in Somalia.

SECTION ENDNOTES

¹ World, and FAO (Food and Agriculture Organization). 2018. Rebuilding Resilient and Sustainable Agriculture in Somalia. Washington, DC.

² World Bank. 2017a. Mobile Money Ecosystem in Somalia: Household Survey and Market Analysis. Washington, DC.



Qaybta 1: Muqaalka guud iyo kobaca dhaqaalaha ee wakhtiyadaan danbe

Qiyaasta la sameeyey, waxaa dhaqaalaha Soomaaliya kobcay 2.3% sanadkii 2017, iyadoo ay saamaysay dhinacyada beeraha iyo xoolaha abaartii darayd ee 2016 iyo 2017. Abaartu waxay keentay bur bur xoogan oo soo gaaray xoolaha nool iyo wax soo saarkii dalagyada, waxayna taasi sababtay cunno yaraan saamaysay dad ka badan 6 milyan oo qof oo ku nool 17 ka mid ah 18ka gobo lee wadanka Soomaaliya. Iyadoo gacan laga helayo bulshada caalamka, Soomaaliya waxay ka baaqsatay inay ku dhacdo macaluun daran sanadkii 2017. Laakiin burburka dhaqaale ee abaartaas ka dhashay waxaa lagu qiyaasay aduun gaaraya 1.7 bilyan oo dollar.

Dhaqaale kororka ugu danbeeyey ee 2017 waxaa tageeray isticmaalka gaarka ah ee aadan dhinacyada baahiyaha, taasoo ay bixinayaan qaybaha wax soo diraya. Si balaaran dhaqaalaha ka soo gala adeegyada xawaaladaha oo si gaar ah dadku u isticmaalaan. Dhinaca bixinta, waxay warbixintu cadaynayso in isha ugu weyn ee kororka dhaqaaluhu galay ahayd qaybaha dhismaha, is gaarsiinta iyo adeegyada xawaaladaha lacagta. Adeegyada isgaarsiinta iyo lacagaha taleefonada gacanta ayaana ahaa kuwa sida rasmiga ah u fududeeyey kororka dhaqaalaha Soomaaliya.

Dhinaca warshadaha isagu weli waa mid aan jirin, iyadoo ay jiraan dhibaatooyin amaan iyo duruufo laba dible u xiray maal gashiga dhinaca ganacsiga gaarka loo leeyahay. Soomaaliya waxay kaalinta ugu danbaysa ka gashay dunida heerka ganacsiga marka loo eego dunida inteeda kale sanadkii 2017. Dhibaataada ugu weyn waxaa qayb ka ah arrimaha la xiriira korantada, taasoo qiimaheedu aad u sareyo iyadoo 1 kw uu yahay qiimahiisu 0.50 ilaa 1 dollar, iyadoona ay ku xiran tahay saacadda iyo magaalada aad joogo oo qiimo ahaan ay u kala duwan yihiin, arrintaani si weyn ayey ganacsigii inuu hormaro u xaniibtay,

waxayna keentay wadanka lagu tusmeeyo inuu yahay kan ugu hooseeya heerka ganacsiga dunida inteeda kale.

Abaartu waxay sababtay sicir barar. Cel celis ahaan qiimaha macsiha ascaarta waxay kor uga soo kacday 1.1 oo ay ahayd 2016, iyadoo korortay 3.4 % sanadkii 2017. qiimaha cuntada ayaa kor u kacay 6.8% bishii Abriil 2018, iyadoo qiimaha cuntada uu kor uga soo kacay 2016 oo uu ahaa 0.7%, isagoona gaaray 51% kor u kac, iyadoo ay raacaan sidoo kale qiimo koror ku yimid kirada geyaha, biyaha iyo korantada, oo ay ku kordheen iyana 38%

Kororka dhaqaalaha ee dhowanahan jiray ma ahan mid ku filan inuu yareeyo saboolnimada. Intii u dhaxaysay 2013 ilaa 2017, kororka dhaqaalaha wax soo saar ee wadanka cel celis ahaan wuxuu ahaa 2.5%, halka kororka tirade dadku sanadkii ahayd 2.9%. Tani waxay tilmaamaysa in qofkiiba kororka dhaqaalaha eek u aadayaa uu yahay 0.3 sanadkii. soo bandhigistaan waxay aad uga hoosaysa cel celiska wadamada ka hooseeya saxaaraha afrika ee iyagu aadka u nugul iyo wadamada kale ee dakhliga dadkooda soo gala hooseeyo. kororka dhaqaalaha ayaa weli ah mid aad u hooseeya si ay u abuurmaan shaqoyinka ay helaan xoogga shaqayn kara ee wadanka, gaar ahaan dhalinyarada. sanadkii 2016 kala bar dadka Soomaaliyeed waxay ahaayeen kuwo ku nool saboolnimo, iyadoo saddex meelood ay ahaayeen kuwo saboolnimadoodu sii daran tahay. Dhinaca Soomaaliland, oo xogta laga helay la is barbardhigi karo, heerka saboolnimadu waa weli waa mid aad u koraysa marka la eego xogta laga helayo intii u dhaxaysay 2013 ilaa 2016, iyadoo hoos u dhaceedu aad u yaryahay, waxayna ahayd 69% halka ay hoos ugu soo degtay 64% meelaha miyiga iyo 57% oo ay ahayd meelaha magaalooyinka hoosna ay ugu soo degtay 52%.

Fulinta siyaasad cad oo ay la timid Dawladda Federaalka Soomaaliya ayaa keenay waxoogaa hormar ah sanadkii 2017. Waxaa kordhay dhaqaalaha ka soo xerooda canshuuraha gudaha, miisaaniyaduna waxay noqotay mid xaqiiq ahaan la isku halayn karo, iyadoo sar goynta miisaaniyadda la hor mariyey. Horumaradaani waxay siinayaan Soomaaliya fursad ay ku dhisi karto hanaan wanaagsan oo u ogolaanayana dawladda inay bilowdo bixinta adeegyada muhiimka ah ee muwaadiniintu ay u bahan yihiin. dhinaca canshuuraha, dawladdu oo taageero ka helaya hay'adda lacagta aduunka ee IMF, barnaamijkeeda la socoshada barnaamijyada dhaqaalaha ee shaqaalaha (SMP), iyadoo ay sii socdaan dadaalada salka loogu dhigayo canshuuraha, fulinta hanaanka iyo yaraynta kharashaadka sida macno darada leh u baxa. Waxay keentay inay kordhaan dhaqaalaha ka soo xeroonaya canshuuraha, iyado dhaqaalaha la helayey markii hore ay ahayd \$113 milyan 2016, waxayna noqotay \$143 milyan 2017, iyadoo kor u sii kacday \$42 milyan rubacii hore ee sanadkaan 2018. dhinaca kharashaad, waxaa la hor mariyey in si wax tar leh loo kharash gareeyo dhaqaalaha ku baxaya dawladda iyo qoondaynta adeegyada la bixinayo.

Joogtaynta horumarka la gaaray ee dhinacyada canshuur ururinta iyo maamulka wax ku oolka ah ee lagu sameeyey kharashaadka baxaya, haddii dawladdu ay sii waddo waxay kordhinaysa wax qabadka ku aadan adeegyada ay bixinayso iyo taageero rasmiya oo dhinaca kororka dhaqaalaha ku yimaadda. Muhiimad siinta meelaha ay tahay in dhaqaalaha laga kobiciyo oo ay ku jiraan barnaamijyada u baahan maaliyadda si loo yareeyo dhimashada hooyada uurka leh iyo dhallaanka, kordhinta heerarka waxbarashada iyo yaraynta farqiga daran ee ka jira diwaan gelinta waxbarashada dugsiyada hoose iyo sare, sidoo kale dadaalada ku aadan sidii lagu heli lahaa biyo nadiif ah iyo wanaajinta saxada. Maal gelinta kaabayaasha dhaqaalaha iyo horumarinta

duruufo keeni kara in la ganacsado ayaa sidoo kale caawin kara in shirkado cusubi soo galaan iyo fursadaha kor u qaadaya shaqaalaynta.

Siyaasadaha ku aadan lacagta waa kuwo aad u xadidan, maxaa yeelay dhaqaalaha wadanku weli waa mid ku salaysan hanaanka dollarka oo ah lacagta la isticmalayo. Shillinka Soomaaliya ayaa isagu ah keliya mid si aad u yar oo xadidan loo isticmaalo, hanaanka isku bedelka shilinka iyo dollarkuna wuxuu ahaa mid ah cagajiid iska ahaa tan iyo 2012, waxbadanna aysan iska bedelin, heerka sarifku wuxuu ahaa halkii dollar in lagu sarifo 23,539 kun oo shilliin bishii Diiseembar 2017. sidoo kale waxaa jira lacago kale oo isticmaalo, waxaa ka mid ah lacagaha taleefonada ku hadal ahaan loogu shubto oo sarifka dollarka loo adeegsado. waxaa ka baxsan Shillin Soomaaliga iyo Dollar lacagaha kale ee kala ah Jabuutiyaanka, Itoobiyaanka iyo Kenyaanka oo iyagana si joogto ah loogu isticmaalo sarifka shillinka goobaha xuduudaha ee wadamadaani Soomaaliya kala leeyihiin.

Soomaaliya waxay ka shaqaynaysay dib u qaabaynta lacagta, barnaamijkaas oo hoos imanayayey barnaamijka Baanka Aduunku leeyahay ee SMP. Maamuladdu waxay siiyeen ahmiyad weyn sidii dib u habayn loogu samayn lahaa lacagtaa. Wejigii 1 ee dibu habaynta lacagta waxaa xoogga lagu saaray sidii loo hagaajin lahaa shillinka tirade yar ee duqoobay ee suuqa ku jira, kaasoo adeegsigiisa hab wareegna uu aad u yaryahay, iyadoo lagu bedelayo lacag cusub oo Baanka Dhexe ee Soomaaliya soo saaro. Marka la xoojiyo awoodda hay'adda maamula iyo horumarinta siyaasad madax banana oo lacagta ah iyo dejinta dariiqyo cad oo dhinaca maamulka ah, Qorshayaasha Baanka Dhexe ee Soomaaliya ee uu ku soo saarayo lacag cusub oo shillin Soomaali ah, wejiga 2aadna waxay noqonaysaa inuu si balaaran isagu u maamulo. Soo saarista lacago cusub waxay ka dhigaysaa in Baanka Dhexe ee Soomaaliya uu markii ugu horaysay lacag uu isagu maamul soo saaro tan iyo 1991.

Arrintaani waxay caawin doontaa dhamaynta iska hor imaadka maamula. Maamuladu sidoo kale waxaa u sahlaanaa doonta inay kuwada shaqeeyaan qorshe hrouamrinta dhaqaale, dejin iyo hanaan xoojinaya oo hagaya sharciyada AML/CTF; ka hortagga isdaba marinta dhinaca lacagta iyo soo afjaridda lacagaha loo isticmaalo argagixisanimada.

Abaartii 2017 waxay uga sii dartay isu miisaanka ganacsiga ee dhinaca dakhliga wax soo saarka guud ee wadanka 9%. Waxay keentay in ganacsigu uusan kordhina, iyadoo dhoofka xoolaha la joojiyey iyo iyadoo xadiga cunada la soo dejinayaa ay korortay. Waxaa yaraaday wax dhoofintii iyadoo ahayd 15.1 wax soo saarka guud ee wadanka sanadkii 2016, halka ay ka noqotay 14.5% sanadkii 2017, alaabooyinka wadanku dibadda ka soo dhoofsanayo ayaa kordhay, iyadoo horay uga ahayd wax soo saarka guud ee wadanka 61.9%, waxayna gartay 69.6% isla wakhtigaan aan kor ku soo sheegnay. Abaartu sidoo kale waxay baabi'isay dhoofkii xoolaha. Waxayna yaraysay tayadii xoolaha la dhoofin kari lahaa 75%, xoolaha ayaana ahaa udub dhexeedka iyo sheyga ugu balaaran ee Soomaaliya ay dibadda u dhoofiso, iyagoo ahaa 70% waxa soomaaliya dibadda u dhoofiso, waxayna hoos u dhaceen 75%, sanadkii 2015 Soomaaliya waxay dhoofin jirtay 5.3 milyan oo neef oo xoolo ah sanadkii, waxayna sanadkii 2017 hoos ugu soo dhaceen xoolaha wadanku dhoofiyo 1.3 milyan oo neef. Waxaa kordhay waxa la soo dejinayo, waxay kor u qaaday qayb ahaan cunooyinka la soo dejinayo si jawaab loogu helo abaarta.

Xaddiga wakhtigaan jira ee dhinaca kororka ah wuxuu ka soo kacay 6.3% dakhliga guud ee wadanka sanadkii 2016 isagoo gaaray 7.4% dakhliga guud ee wadanku sanadki 2017. Xawaaladaha iyo dhaqaalaha rasmiga ah ee loogu deeqay wadanka ayaana keenay kor u kaca dhaqaalaha waxsoosaarkaguud ee wadanka 7.9%. Ganacsiga ayaa isna kordhay 9.0%, tanoo ka dhigaysa in kororkiisu yahay 1%. Maal gashiga tooska ah ee

dibadda (FDI) ayaa keenay maaliyad dhan 70%, tanoo tilmaamaysa in Soomaaliya leedahay muhiimad dhaqaale.

Milicsiga Dhaqaalaha

Koroda dhaqaalaha wax soo saarka guud ee wadanka (GDP) wuxuu muujinayaa 3 ilaa 4 % cel celis ahaan sanahada 2018 ilaa 2020. Milicsigaani wuxuu tilmaamayaa in la gaaray xasilooni dhinaca amaanka ah. soo kabashada wax soo saarka beeraha, horumarinta xaaladaha cimilada, horumarinta maal gashiga gaarka loo leyahay; taageerada socota ee la hawl galayaasha dhinaca horumarinta iyo horumarinta ururinta canshuuraha gudaha. milicsigu wuxuu tilmaamayaa sidoo kale in xoolaha Soomaaliya ay noqonayaan kuwo ka soo kabta dhibaataadii abaartu ku reebtay, ayna markale noqonayaan kuwo la suuq geyn karo.

In la gaaro koror dhaqaale oo balaaran waxay u bahan doontaa in si baahsan loo sameeyo dibu qaabayn xoog leh, khaas ahaan siyaasadda lacagta iyo maamulka maaliyadeed ee dawladda, hanaan maamul wanaag oo sal u noqda adeegyada si kor loogu qaado horumarinta dadka iyo wax qabadka iyo in la horumariyo qaybaha xoolaha iyo beeraha si ay adkaysi ugu yeeshaan dhibaatooyinka uga imanaya dhinaca cimilada.

Soomaaliya waxay u bahan tahay inay sii waddo inay dhisto hanaan adkaysi dhaqaale si ay u bixiso adeegyada aasaasiga ah oo ay siiso dadkeeda. Dadaalada socoda ee ay salka u yihiin canshuuraha, u hogaansanka sharciga iyo yaraynta kharashaadka dawladda waxay kordhin karaa dakhliga la heli karo si loo helo gaaritaan dhab ah oo wax looga qabanayo baahiyaha aasaasiga ah ee dadka oo ay ka mid yihiin caafimaadka, saxada, biyaha iyo waxbarashada (fiiri Warbixintii ugu danbaysay ee dhaqaalaha Soomaaliya ee tirsigeedu yahay 2 oo sheegaysay “Hagaajintsa canshuuraha gudaha si dib loogu dhiso Soomaaliya”). Horumarinta kharashaadka ku baxa dawladda iyo adeegyada ay bixinayso

oo lagu jaan gooyo kharashaadka la bixinayo. Si balaaran oo loo adeegsado maaraynta kharashaadka la bixinayo waxaa lagu gaari karaa in lagu joogteeyo kharashaadka dawladda ku baxa qaybaha muhiimka ah ee u bahan kharashaadka dawladda.

Iyadoo wax laga qabanayo abaaraha iyo daadadka joogtada ah, horumarinta adkaysiga xoolaha iyo beeraha iyana inay ahaadaan qodobka udub dhexaadka u ah kororka dhaqaalaha iyo qorshaha lagu yaraynayo saboolnimada Soomaaliya.

Dadaalada waa inay ku jiraan hanaanka waraabka, hab wanaagsan oo maamulka biyaha, dhulka iyo ilaalinta deegaanka ah; iyo sidoo kale horumarinta farsamada casriga ah ee beeraha iyo xoolaha, iyo hanaanka fidinkta beeraha (Arrimahaan iyo kuwo kaleba waxaa lagu xalin karaa hanaanka qorshaysan ee dhaqaalaha wadanka ee ay tilmaantay warbixintii beeraha iyo xoolaha ee la daabacay 2018).

Milicsiga Khataraha

Khataraha wakhtiga dhexe ee ku hareeraysan kororka dhaqaalaha waxaa ugu weyn amaanka, qiimaha aadka u sareeya ee shigaalka, dib u dhaca ku imanaya fulinta dib u habaynta qaab dhismeedka, siyaasadda iyo hubanti la'aanta siyaasadda. Sii socosahda amaan daradda ka taagan Muqdisho iyo gobollada koonfurta waxay keenaysaa khataro waaweyn oo ku yimaadda talaabooyinka uu dhaqaaluhu ku kobcayo xilliga dhexe. Dawladda Federaalka Soomaaliya waa inay dib u dhista xoogageeda amaanka si loo wanaajiyo amaanka Muqdisho iyo wada shaqaynta Xubnaha Dawlad goboleedyada xubnaha ka ah Federaalka si loo helo deganaan siyaasadeed oo ka dhacda guud ahaan wadanka. Weli ururka Alshabaab waxay awood u leeyihiin inay qaadaan weeraro dhimasho badan geysta oo ay ku qaadaan dawladda iyo ciidamada nabad ilaalinta AMISOM, waxay xanibaan hawlaha deeq bixiyayaasha iyo rajadii laga qabay maal gashi ka yimaadda dibadda iyo maal gashi kale oo wadanku helaba.

Qiimaha shidaalka ee aadka u sareeya 2018 iyo ka horba wuxuu si xun u dhaawacay rajadii koror ee dhaqaalaha Soomaaliya. Qiimaha shidaalku waa la filayaa inuu kor uga sii kaco wax ka badan \$60 foosatadii inta u dhaxaysa 2018 ilaa 2019, wuxuuna kor u kacay 20% sanadkii 2017. Kororkaan wuxuu Soomaaliya ku sii kordhinayaa kharashaadka uga baxa wax soo dejinta, wuxuuna adkaynayaa isu miisaanka dibadda, wuxuu tamar tirayaa adeegyada gaarka loo leeyahay, isagoona mugdi ku sii ridaya muuqaalka guud ee kororka dhaqaalaha Soomaaliya.

Khataraha ku hareeraysan dibu qaabaynta waa kuwo iyana sareeya.

Dibu qaabaynta dhaqaalaha si dabarka looga furo xanibaadyada haysta kororka dhaqaalaha ayaa u muuqdo kuwo dibu dhac ku imanaya, sababo la xiriiira arrimaha siyaasadda, is aamin daridda ka dhex taagan hogaamiyayaasha siyaasadda iyo isku dhacyada ka dhex taagan heerarka kala duwan ee dawladda, midkasta oo arrimahaan ka mid ahi waxay laba dible u xiraysaa dadkii dibu habaynta samayn lahaa. Waxaa intaas dheer, tayada hay'addaha maamul si loo fuliyo dibu habaynta iyo in la xaqiijiyo u hogaansanka oo noqdo mid tamar daran. Khatarahaani, waa kuwo si joogto ah ugu xayndaaban, laakiin waxaa jiri karta fursado lagu goyn karo dabarkaas, waxaana lagu gaari karaa talaabooyin muhiim ah, waxayna sii jiritaankoodu noqonayaan kuwo sii kala fur fura Soomaliya, meeshana ka saara xasilinta siyaasadda haddaba cagaha badan aan ku taagnayn. Dibu dhaca ku imanaya dibu habaynta waxay dib u dhigayaan in ay sii murjiyaan in Soomaaliya markale caadi ku soo noqoto iyo xiriiradii ay la samayn lahayd hay'addaha lacagta aduunka, iyagoo hay'adahaasi ka shaqaynayo hanaan lagu caawinayo wadamada saboolka ah, Soomaaliyana ay dib uga dhici karto helista dhaqaalaha taakulaynta ah ee dibadda iyo maal gashiga qaran ee muhiimka ah.

Qaybta 2: Lacagaha taleefonada gacanta loo adeegsado ee Soomaaliya

Lacagaha taleefonada gacanta loo isticmaalo waxay noqdeen kuwo lagama maarmaan ah, kuna sii fidaya qaybaha Soomaaliya, udub dhexaadna u noqday hanaanka dhaqaale ee wadanka. Qiyaastii saddex meelood dadka da'doodu ka weyntahay 16 sano oo ah 73% ayaa adeegsada hanaanka taleefoonada lacagah ala isugu diro. Isticmaalku wuxuu ugu badan yahay meelaha magaalooyinka ah oo laga isticmaalo 836%, sidoo kale xeryaha gudaha ee lagu barakacay 72% ayaa dadka ku nooli isticmalaan adeeggaan. Laakiin dhulka miyiga ah xitaa dadka isticmaalaa waa 55%. Lacagaha taleefoonada la isugu diro waa kuwa ugu balaaran ee hadda habka kala gudbinta lacagta loo isticmaalo, iyadoo loo adeegsanayo qof qof iyo ganacsiba gudaha Soomaaliya. Qiyaasta 36% dakhliga guud ee wadanka ayaa mara hanaanka lacagaha la isugu diro taleefoonada. Wuxuuse hanaankaani su'aal ka keenay hanaanka isu dheeli tirka lacagaha iyo hantida ee Soomaaliya. Bishiina waxaa lagu qiimeeyey lacagaha taleefonada gacanta la isugu gudbiyo ee Soomaaliya \$2.7 bilyan bishiiba.

Adeegyada lacagaha taleefoonada la isugu diro ee Soomaaliya waxay qabsaden doorar kala duwan oo hanaanka dhaqaalaha Soomaaliya ah. Lacagaha taleefoonada la isugu diro waa kuwa ugu balaaran iyo adeegyada ugu weyn ee adeegyada lagu kala helo lacagta. Baahida loo qabo hanaan xawaare ah oobalaaran oo lacagaha ah ayaana sii kordhaya iyadoo ay dhinaca socoto hubanti la'aan iyo aamin darro ku timid shilinkii Soomaaliga, dhibaatooyinka ka imanaya isticmaalka lacagta Dollarka oo si heerkoodu hooseeyo isugu gudubta, iyo qiimaha lacag isu gudbinta oo yar iyo fududaynta adeegyada lacagaha taleefoonada la isugu diro. wadooyinka Muqdisho iyo meelaha kaleba waxaa isku bedelka badeecooyinka iyo adeegyada lagu qabtaa si balaaran oo dhaq dhaqaadoodu xor yahay, iyadoo ay jirto dareen amni daro ayaa haddana ay ganacsiga ama fulinta hawlaha

kala gudbinta lacagtu yihiin kuwo maalin kasta si caadi ah u socda. Si taas ka duwanse marka qaaradda Afrika la eego, isu dheeli tirka lacagaha taleefoonada waa kuwo yar marka loo eego lacagta gacanta lagu qaato, waayo lacagaha taleefoonadu waxay curyaamiyaan hawlihii caadi ahaa ee bangiyadu qabanayeen. Hanaanka isticmaalka lacagta ee taleefoonada lagu diro waa mid dadku aamineen iyadoo ay jirto xaalad aad u nugul oo wadanka ah iyo horumar la'aan haysata hay'adihii horumarinta ee maamulka.

Soomaaliya waxay hormuud ka tahay adeegsiga isticmaalka lacagaha taleefoonada marka loo eego wadamada kale ee dunida ee soo koraya. Marka la eego wadamada kale ee Afrika, shirkadaha taleefoonada gacantu weli waxay ka fekerayaan sidii ay dadka u hanaan lahaayeen si ay isugu dheeli tiraan lacagaha taleefoonada iyo kuwa gacanta lagu qaato. Soomaaliyase shirkadaha taleefoonadu waxay mar horeba qabsadeen dhamaan gudaha tafaariiqley iyo ganacsadeba si ay u xaqiijiyaan hanaan hufan oo isku bedelka lacagaha ah iyadoo la marayo hanaanka farsamada casriga ah, welibana qiimaha lacagaha la isugu dirayo waa kuwo aad u hooseeya.

Lacagaha taleefoonada gacantu waxay keeneen fursado waaweyn si ay gacan uga geystaan helitaanka maaliyadda, kor u qaadista kororka dhaqaalaha iyo kordhinta u adkaysiga dhibaatooyinka ee bulshadu u adkaysato. Isticmaalka hanaanka casriga ah ee lacag bixinta taleefoonadu waxay sidoo kale hormarisay waxtarka, iyadoo kor u qaaday degdegga lacag isu gudbinta, qiimaha lacagta la isugu gudbinayo oo yar, xaqiijinta bedqabta meesha lacagta lagu bixinayo, iyadoo bixisay dariiq bedqaba oo wax lagu dhigto.

Sidaa darted, ku tiirsanaanta saree e lacagaha taleefoonada la isugu diro waxay kordhisay dayacnaanta ku timid maqnaanshaha hanaan sharciyeed oo rasmiya. Si loo kordhiya habka ugu wanaagsan ee looga faa'iidayaan karo fursadaha ku duugan lacagaha taleefoonada

la isugu diro si ay wax ugu kordhiyaan soo kabashada dhaqaalaha, waxaa loo baahan yahay sharciyo si wax looga abta walaacyada jira iyo khataraha aan la xaqiijin eek u xeeran iyo dayacnaanta ka jirta nidaamkaa iyo kor u qaadista tartar sareeya oo furan iyo dibu habayntooda. Bedqabka nidaam degan oo hanaankaani yeesho iyo xalinta waxyeelada ku timaadda hanaanka dhaqaalaha ee ka imanaysa isticmaalka lacagaha taleefoonada gacantu geysanayaan (waxyeladaan ama dhibaato ku timaadda lacagaha la adeegsanayo) waa inay noqdaan muhiimadaha koowaad ee la siinayo arrintaan. Walaaca ugu weyn ee siyaasad dejiyayaasha iyo sharci dejiyayaasha waa sidii ay u soo bandhigi lahaayeen sharciyo lagu dhaqo isticmaalka lacagaha taleefoonada gacanta la isugu diro oo yeesha hanaan si hufan u socda si looga ilaaliyo dhibaato inay geystaan ama ay ku timaadd. iyadoo la fulinayo figrado cusub iyo qaab dhismeed sharciyeed oo lagu dhaqo. Soo saarista sharciyo waxay si hufan u xoojinaysaa adeegsiga iyo haraynta dhibaato ku timaadda adeegaan m uhiimka, loona isticmaalo hab ka wanaagsan kan hadda jira iyo nidaam degsan oo loo meeleeeyo.

Dibu habaynta adeegyada lacagaha taleefoonada gacanta la isugu diro waxay kor u qaadi karaan wax tarkooda “Sharciyada lagu haynayo” waxaa lagu gaari karaa awood horumarineed oo la siiyo Baanka Dhexe ee Soomaaliya. Sharciyada qaabkaan loo dejiyo waa kuwa u ogolanaya kuwa bixiya adeegyadaan inay iska indho tiraan, ayna buuxiyaan dhamaan sharciyada loo bahan yahay si ay ula jaan qaadaan hababka cusub ee soo baxa iyo qaybaha kale ee ganacsiga. Habkan shaxda sharci ee adeegaan lagu dhaqayo wuxuu wanaajinayaan, siinayaan barnaamij rasmiya oo u noqda sharciga lagu dhaqo. Casharada aan barangay ayaa loo isticmaali karaa in lagu dejiyo aas aas isku xiran oo dib loogu habeeyan si balaaran hanaan aas aas ah oo loo isticmaal farsamada casriga ah ee isticmaalka lacagaha taleefoonada iyo bed

qabkooda oo keenaya inay soo jiidato maal gashi cusub iyo bed qab dhaqaale.

Dariiqo lagu gaarayo in lagu sharciyeeyo lacagaha taleefoonada waxay yaraynaysaa khataraha ku meeran, waxayna siinaysaa sharciyo iyo nidaamka wakhtiyeysan si loo fuliyo siyaasado iyo nidaamyo lagu dabaqo. Sidoo kale waxay xoojin doonta adeegsiga iyo hanaanka dhaqaale, Shirkadaha bixiya adeegyada taleefonada lacagah ala isugu dirana ay fulin karaan nidaam qeexan iyo hanaan ay ku shaqeeyaan. Nidaamyadaan ma yeelanayaan dul duleelo. Tusaale ahaan, Hanaan cadayn ah oo wax tar leh wuxuu caawin karaa inuu meesha ka saaro farqiga dhaqaalaha ee ka jira Soomaaliya iyo xalinta yaraynta arrimaha khataraha. Hanaan wanaagsan oo ah sharciyada lacagaha taleefoonada iyo kor u qaadista nidaamka kala cadaynta oo la isku lifaaqay waxay xoojinayaan horumarinta habab is dhinac yaal oo hormarsan.

Maalingelin wanaagsan oo lagu sameeyo sharciyada waxay wax tar ka dhigaysaa isku xirka tayada horumarinteed ee Baanka Dhexe ee Soomaaliya iyo Hay’adda qaran ee isgaarsiinta (taasoo ah sharciyada lagu dhaqayo) iyo fududaynta aasaaska kaabayaasha. Tayada dhismaha waxaa ka mid ah dhismaha sharciyada iyo tayada qiimayn si loo fuliyo hanaan maaliyadeed oo fayd oo ay yeeshaan shirkadaha taleefoonada iyo wax qabad ku salaysan hanaan wax tar oo sal ay u tahay khatarta oo la yareeyo. Kaabayaasha dhaqaalaha oo la hormariyo oo ay ka mid yihiin in la meeleeeyo nidaam lagu maareeyo khatarta si loo xaqiijiyo farqiga ka imanaya marka aaladdu densantahay iyo markay shidan tahay, sidoo kale hanaanka nidaamka bangi, hanaanka isku xirka lacag bixinta bangiyada iyo nadiifinta iyo dejinta nidaamka. Isbedeladaani waxay keeni karaan aasaas lagu sameeyo dibu habayn, taasii sii balaaran karta aasaaska adeegsiga lacagaha telefonada lagu isticmaalo iyo inay soo jiitaan maal gashadayaal cusub oo ay hesho Soomaaliya.

RECENT ECONOMIC DEVELOPMENTS



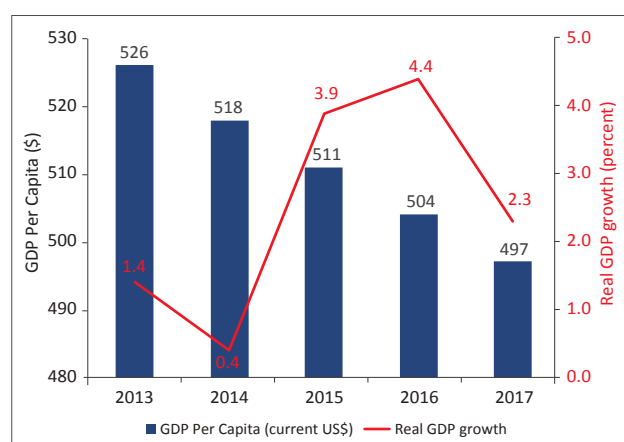
1. Recent Economic Developments

1.1 Growth is recovering modestly—but it has not dented poverty

Somalia's economy has grown modestly in recent years, and it remains vulnerable to recurrent shocks. Between 2013 and 2017, real annual GDP growth averaged 2.5 percent. Growth occurred despite adverse weather conditions that severely reduced agricultural output in late 2016 and early 2017. Weather-related shocks have led to land degradation, low agricultural productivity, livestock mortality, and forced displacement, which have affected poor communities and depleted their ability to cope. For Somalia to enhance and sustain economic growth and escape chronic poverty, it must increase its resilience to shocks (These issues among others are addressed in the Country Economic Memorandum – Agriculture Report published in 2018

Growth has not been sufficient to reduce poverty. Annual population growth of 2.9 percent in 2013–17 caused per capita GDP to shrink by 0.3 percent a year during this period (Figure 1.1). The contraction

Figure 1.1: Real GDP growth fell to just 2.3 percent in 2017



Source: Data from IMF and World Bank.

Note: Per capita GDP has been declining because of higher population growth rate and depreciation of the Somali shilling

is significantly below the 1.1 percent average per capita growth since 2010 in fragile countries and Sub-Saharan Africa countries. Not surprisingly given this contraction, the incidence of poverty has remained high. Half of all Somalis lived in poverty and almost a third lived in extreme poverty in 2016.¹ Regional disparities are large, with the highest incidence of poverty among internally displaced people living in settlements, people living in rural communities, and nomads.

1.2 Real GDP growth weakened in 2017

The GDP estimate was revised upward in 2017, based on new information (Table 1.1).² The new estimate puts GDP at \$6.8 billion in 2016 and \$7.0 billion in 2017 (in current U.S. dollars). GDP is dominated by private household consumption expenditure, which represents 132 percent of national income, followed by imports (62 percent), exports (15 percent), and gross capital formation (9 percent).

The economy grew 2.3 percent in 2017, despite the severe drought, down from 4.4 percent in 2016. The drought caused enormous economic losses of agricultural production (crops, livestock, and livestock-related products). With the help of international community, Somalia averted widespread famine in 2017, but losses caused large-scale food insecurity that affected more than 6 million people in 17 of 18 regions of Somalia and cost the economy an estimated \$3.2 billion in losses and damage¹. The crops and livestock subsectors accounted for 60 percent (\$1.9 billion) of this loss, with livestock the worst hit.

¹ Poverty is defined by having a total daily per capita consumption expenditure lower than the international poverty line of US\$ 1.90 at 2011 PPP. Extreme poverty is defined by having a total daily per capita consumption expenditure of less than US\$1.25, expressed at 2011 PPP.

² The re-estimation of Somalia's GDP was based on new, more reliable data. They include daily consumption per capita from the 2016 Somalia High Frequency Survey; estimates of government final consumption expenditure and public investment based on the fiscal accounts of the FGS and Federal Member States; import and export data from the IMF Direction of Trade Statistics; and private capital formation estimates based on imports of machinery and construction material from UN-COMTRADE mirror data. The new series are consistent with previous versions. They are presented in appendix A.

Table 1.1: GDP in Somalia, 2013–16 (millions of dollars)

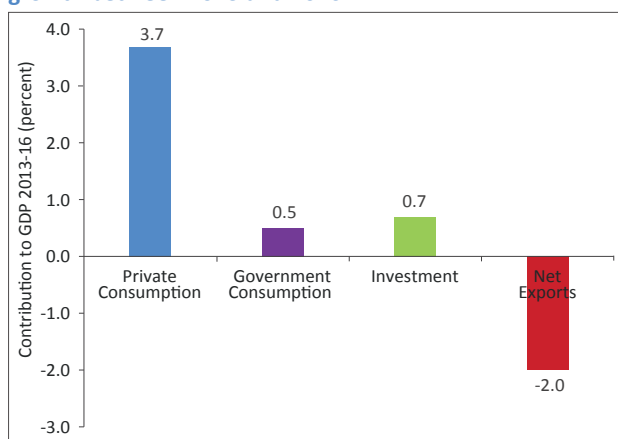
Item	GDP in current prices				GDP in constant prices (2012 = 100)			
	2013	2014	2015	2016	2013	2014	2015	2016
GDP (at market prices)	6,481	6,562	6,659	6,762	6,481	6,509	6,765	7,061
Consumption expenditure	8,545	8,940	9,093	9,287	8,545	8,828	9,086	9,386
Household + NPISH expenditure	8,273	8,621	8,773	8,926	8,273	8,513	8,766	9,021
Government expenditure	272	319	320	361	272	315	320	365
Gross capital formation	555	582	566	639	555	584	582	694
Net exports of goods & services	-2,618	-2,959	-3,000	-3,164	-2,618	-2,904	-2,904	-3,018
Exports of goods and services	943	945	1,038	1,020	943	932	1,021	996
Imports of goods and services	3,561	3,904	4,038	4,184	3,561	3,835	3,925	4,014

Source: Data from World Bank and IMF.

Demand side

On the demand side, private consumption has driven recent growth, financed by remittances from the diaspora (Figure 1.2). Real GDP growth grew by 2.9 percent year between 2013 and 2016. During the same period, private consumption expenditure grew by a weighted average of 3.7 percent a year, government consumption by 0.5 percent, and private investment by 0.7 percent; net exports contracted by 2.0 percent.

Figure 1.2: Private consumption was the main driver of growth between 2013 and 2016



Source: Data from IMF and World Bank.

For a country emerging from conflict, the investment contribution of 0.7 percent is too low, highlighting the challenge of improving the

business environment for private investment as well as revenue collection, in order to be able to finance public investment.

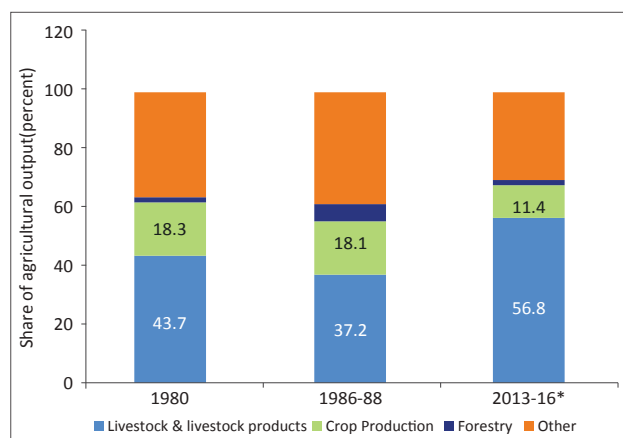
Supply side

On the supply side, services were the main contributor to growth. The lack of supply-side data makes it difficult to analyze the composition of growth in Somalia. However, it is generally acknowledged that services and agriculture are the main anchors. In the face of a severe drought and poor agricultural performance, services—particularly construction, telecommunications, and money transfer services—supported modest growth in 2017. Somalia's mobile money sector is vibrant. If supported by appropriate regulation, it has the potential to drive growth and increase resilience in Somalia. (Part 2 of this Update examines the opportunities and challenges of harnessing mobile money for financial inclusion and resilience in Somalia.)

Preliminary estimates indicate that agriculture's share of GDP is the largest it has been since before the war (Figure 1.3). Between 2013 and 2016, the sector accounted for an estimated 70 percent of GDP, up from 62 percent in 1986–88.³ Within agriculture, the share of the livestock subsector

³ All of the figures and data reported in this section are based on the new GDP estimates by the World Bank and IMF.

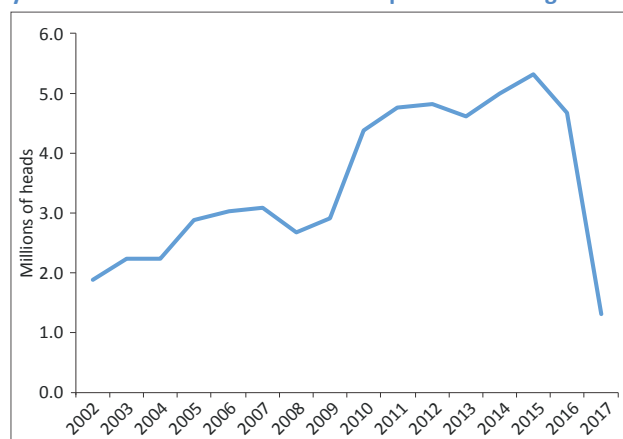
Figure 1.3: The share of livestock in agricultural output increased



Source: IMF, World Bank, and FAO 2018.

rose from 37 percent in the prewar period to about 57 percent in recent years. Dependence on agriculture which is susceptible to climatic shocks has increased output variability. Livestock exports and GDP shrink during drought and recover when the country receives sufficient rainfall. This increases Somalia's vulnerability. Crop production declined, to about 11 percent (down from 18 percent in the pre-war period), as result of the reduction in cereal production and the collapse of some key export products, such as bananas which was hit hard by several factors including prolonged civil war; adverse weather conditions; and loss of preferential access to European markets, among other factors.

Figure 1.4: Livestock exports declined sharply in recent years due to Saudi ban on Somali exports and drought



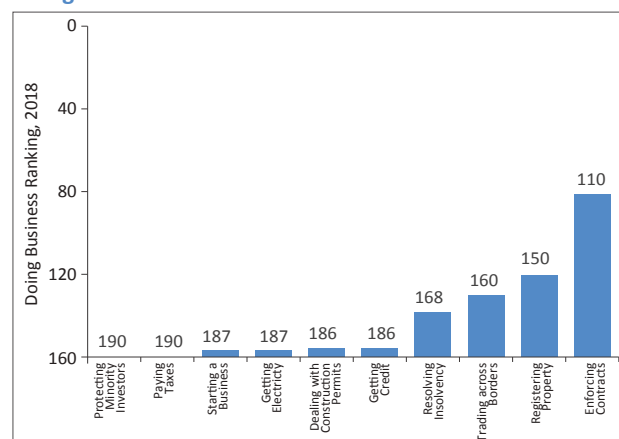
Source: Food Security and Nutrition Analysis Unit database.
Note: The linear trend growth in livestock exports continued till 2015. However, the Saudi Ban in 2016 and drought in 2017 precipitated a significant drop in live animal exports.

With favorable climatic conditions in 2018, the recovery in the livestock sector has begun. This is key as the livestock subsector is the largest employer of rural people and the most important source of export earnings. Export earnings from livestock fell, as a result of both the 2016–17 drought and the December 2016 Saudi ban on imports (Figure 1.4). Total animal exports dropped by more than 70 percent in 2017. The April – June 2018 Gu rainfall was significantly above average but with substantial crop losses due to flooding in riverine areas hence overall July harvest is expected to be average. September off-season Gu harvest is however expected to be above average due to increased recession cultivation opportunities created because of flooding. Livestock exports are expected to pick up with Saudi ban lifted in July 2018.

The manufacturing sector remains sluggish.

Private investment is limited by insecurity and poor business conditions. Somalia ranked last in the 2018 Doing Business ratings (Figure 1.5). It has one of the lowest access and most expensive electricity rates in the world (between \$0.50 and \$1 per kilowatt hour). These circumstances, coupled with security threats, have made it difficult to attract private investment or the technology needed for modern manufacturing.

Figure 1.5: Somalia is at the bottom of the World Bank's Doing Business Indicators

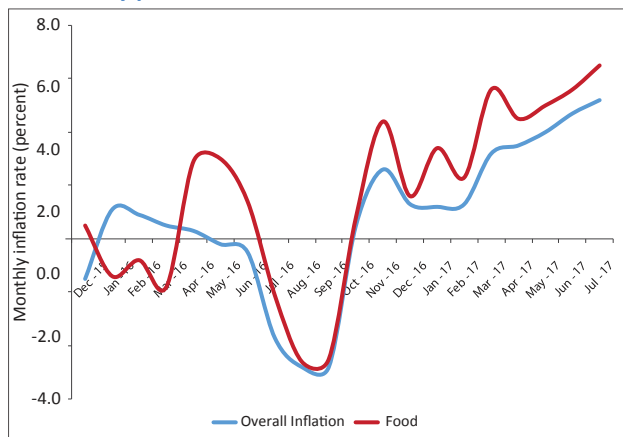


Source: World Bank and IFC 2017.

1.3 Drought led to an uptick in inflation

The average Consumer Price Index (CPI) inflation increased from –1.1 percent in 2016 to 3.4 percent in 2017. Food inflation was 6.8 percent in April 2018, up from –0.7 percent in 2016. The main driver was food prices, which accounted for 51 percent of the increase, followed by housing, water, and electricity, which together contributed another 38 percent.

Figure 1.6: Food prices were the main source of inflationary pressure in 2016 and 2017



Source: IMF 2018.

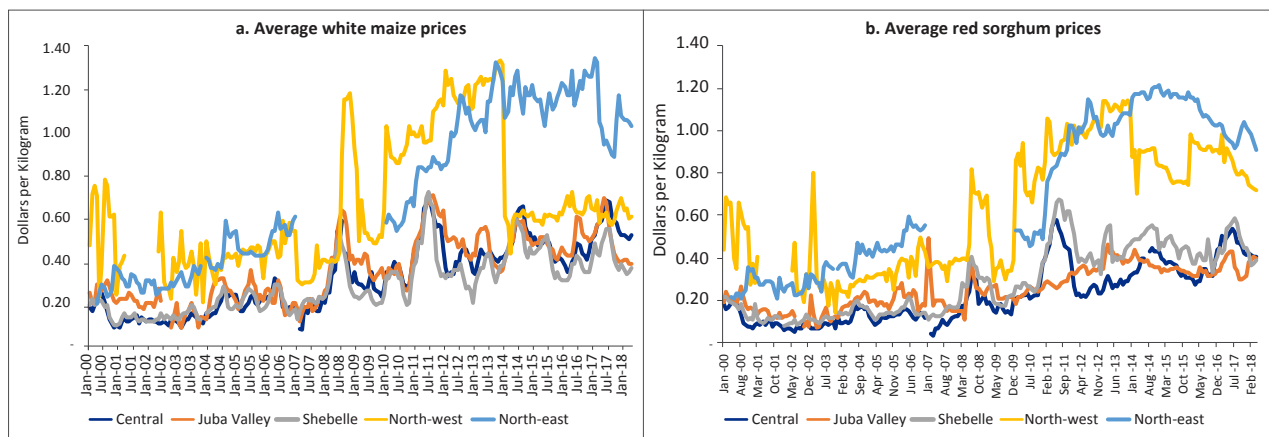
Cereal prices rose significantly during the drought. Increased demand and low availability of cereals led to increased prices. Locally produced sorghum and maize prices rose by different margins across

Somalia, with the northern regions hit worst. In the first quarter of 2017, maize prices in the Central region rose 20 percent and sorghum prices 10 percent over the level during the 2011 drought; in the Juba Valley these prices rose 9 percent and 30 percent, respectively (Figure 1.7). Prices were high in Shebelle and the North-west regions, though they did not reach 2011 levels. In the North-east regions, mainly Bari, maize and sorghum prices rose more than 50 percent. The Deyr rainy season in the fourth quarter of 2017 brought much needed relief with lower cereal prices recorded in most regions due to increased supply as a result of improved cereal production. This trend is expected to continue throughout 2018. April to June 2018 Gu rainfall was significantly above average though flooding caused substantial crop losses in riverine areas.

1.4 Fiscal policy improved—but challenges remain

Implementation of fiscal policy improved markedly in 2017. Domestic revenue mobilization increased, the budget was more realistic, and budget execution improved. These changes should allow Somalia to build the fiscal buffers that will allow the government to start delivering services to citizens.

Figure 1.7: Cereal prices increased during 2016–17, with the northern regions hit worst



Source: IMF 2018 and Food Security and Nutrition Analysis Unit 2018.

Revenue performance

The government continued its efforts to broaden the tax base, enhance compliance, and improve collection. FGS revenue collection improved steadily in the last five years, with remarkable gains in 2017. Total revenue (domestic revenue plus donor grants) more than doubled between 2013 and 2017, rising from \$117.4 million to \$246.5 million (Figure 1.8, panel a). Domestic revenues have driven increases in total revenues. The increase in domestic revenues was driven by implementation of new revenue measures, including a sales tax on telecommunications and hotels, the removal of income tax exemptions for parliamentarians, and the payment of sales tax and landing fees arrears by Turkish Airlines. As a result, domestic revenue grew 26.5 percent in a single year, soaring from \$112.7 million in 2016 to \$142.6 million in 2017 (Figure 1.8, panel a).

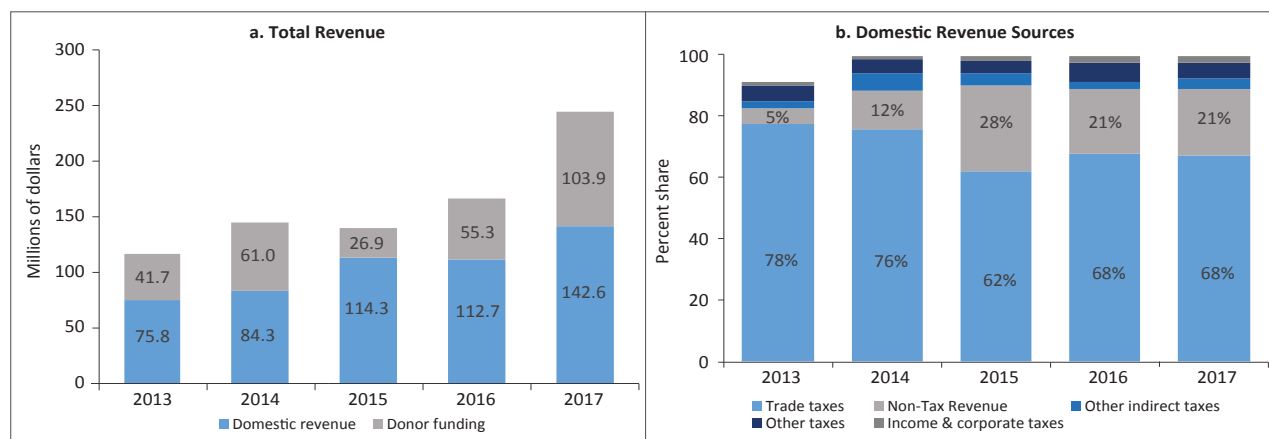
The good revenue performance extended into the first quarter of 2018, when the FGS exceeded its target. Domestic revenue in the first quarter of 2018 was \$42.3 million, up 47 percent over the \$28.8 million in same period in 2017. Taxes on goods and services as well as sustained performance in trade taxes, drove the improvement. The authorities introduced a sales tax on imports (collected at the port) and a sales tax on the telecommunication

sector, which are expected to increase revenue collection in 2018. The authorities took to a bold and justified move to collect sales tax at source (Mogadishu port). This faced stiff resistance from tax-payers who refused to comply because of a lack of satisfactory consultation and concerns at inequitable implementation, targeting one port over others. A number of consultative meetings with Ministry of Finance officials and the Prime Minister's Office were required to lift the stalemate. Key lessons of this reform include the importance of tax harmonization across regions of Somalia, as well as early consultations.

Trade taxes accounted for 68 percent of domestic revenue in 2017 (Figure 1.8, panel b). The second-largest category is administrative charges and fees, which accounted for 21 percent of domestic revenue. Income and corporate taxes contributed just 2 percent. The government will need to undertake legal reforms and develop the capacity to exploit inland revenue, the potential for which is great.

Despite progress in revenue collection, FGS revenue remains very low (2 percent of GDP), making it difficult to provide services. Domestic revenue stood at 58 percent of total revenue and covered only 60 percent of recurrent

Figure 1.8: Revenue collection by the Federal Government of Somalia improved steadily between 2013 and 2017



Source: Data from the Ministry of Finance of the Federal Government of Somalia.

expenditure in 2017. Given the enormous social and infrastructural gaps in Somalia resulting from years of conflict, a significant increase in government revenue is critical.

The challenge of revenue mobilization in Somalia is closely linked to issues of fiscal federalism. FMS collect and retain all taxes within their jurisdictions; the FGS collects revenues in Mogadishu only. This political context makes it difficult to create a harmonized system of taxation across the country. Without a mechanism to address imbalances across states, fiscal autonomy will exacerbate economic inequities across Somalia. Revenue and functional assignment are key to achieving meaningful revenue mobilization and service delivery across the country.

Expenditure performance

FGS Expenditures grew significantly in recent years, rising from \$117 million in 2013 to \$244 million in 2017 (Figure 1.9, panel a). Recurrent expenditures account for almost all expenditure; capital spending accounted for just 3 percent of total spending in 2016 and 2017, the highest level since 2013. Most expenditure goes to compensation of employees and purchases of goods and services, which together accounted for 87 percent of expenditure in 2017.

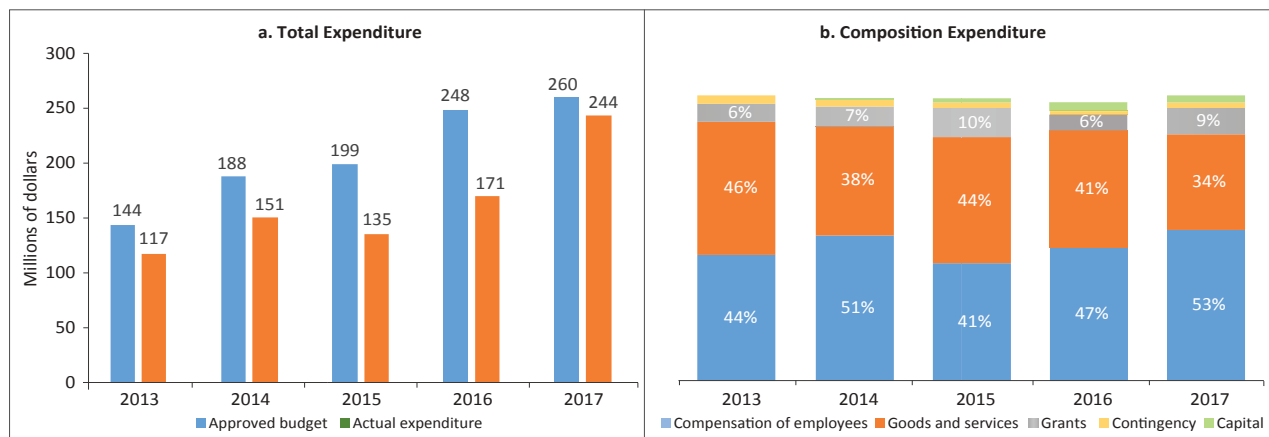
The FGS wage bill rose by a factor of 2.5 between 2013 and 2017, from 44 percent of total expenditure to 53 percent. The number of civil servants increased by 72 percent between 2013 and 2017, rising from 2,849 to 4,908. More than half of them (56 percent) work in the administration sector while the remainder is distributed among social, economic and security sectors. The number of civil servants is projected to increase 13 percent to 5,558 in 2018. Provision of goods and services rose by a factor of 1.5 during this period, but its share of total spending fell, from 46 percent to 34 percent.

Spending priorities remained largely unchanged over the past five years. In 2017 about 90 percent of spending went to security and administrative services; 8 percent went to economic services and Just 3 percent went to social services. Improved service delivery will require a gradual shift in spending to economic and social services, particularly as the government improves revenue collection.

Public debt

Somalia's outstanding public debt in 2017 is estimated at \$4.5 billion, equivalent to 65 percent of GDP. Based on reports from more than two-thirds of Somalia's creditors, \$2.7 billion of the external debt (equivalent to 60 percent of GDP) is in arrears. The debt is owed to multilateral creditors (\$1.5

Figure 1.9: Expenditure by the FGS has soared since 2013—and almost all of it is recurrent



Source: Data from the Ministry of Finance of the Federal Government of Somalia.

billion [33 percent of GDP]), Paris Club creditors (\$2.4 billion [53 percent of GDP]), and non-Paris Club creditors (\$0.6 billion [14 percent of GDP]). Arrears to international financial institutions have limited the scale of their financial assistance in the short run as well as their full reengagement with Somalia.

1.5 A foundation is being laid for monetary policy and financial sector regulation

Monetary policy is limited, as the economy continues to be highly dollarized. The Somali shilling (So. Sh.)—which is used only for small, face-to-face transactions—has been relatively stable since 2012, exchanging at 23,539 to the U.S. dollar in December 2017. Multiple currencies, including airtime, are used as mediums of exchange. In addition to the Somali shilling and the U.S. dollar, Somalis regularly use the currencies of Djibouti, Ethiopia, and Kenya in border areas.

Somalia has been working on currency reform under the IMF Staff Monitored Program. The authorities have set currency reform as one of their highest priorities. Reform involves two phases. In the first, the Central Bank of Somalia (CBS) will replace the existing Somali shillings in circulation with the new currency issued in small denominations (1,000, 2,000, 5,000, and 10,000). In the second phase, after strengthening its institutional capacity and developing independent monetary policy instruments and reserve management guidelines, the CBS will inject larger denominations of Somali shilling banknotes. Introduction of the new banknotes will mark the first time the CBS will have issued currency since 1991. The new notes will help the authorities end widespread counterfeiting, but will require increased capacity in the CBS to manage.

Limited financial intermediation constrains business growth. To expand, businesses must use their own funds or borrow from friends or family members. The lack of credit facilities perpetuates

elite capture, as people with resources or access to resources remain in a better position to invest. The gap between the demand for and the supply of financial services is estimated at about \$2.2 billion (equivalent to 30 percent of GDP)³. The family and friends dominate financial intermediation. Businesses and individuals largely bypass the financial sector, because of unfavorable lending terms and conditions (partly a reflection of lack of competition) and institutions' limited understanding of customer needs.

The CBS is implementing much-needed reforms in order to be able to execute its supervisory, regulatory, and licensing roles. It is working to reestablish the functions of core economic institutions and foster financial development, inclusion, and stability while strengthening compliance with anti-money laundering and combating the financing of terrorism (AML/CFT) standards. Efforts to lay the foundation for sustainable financial sector development and strengthen compliance with AML/CFT standards are underway, and preparatory work to undertake Phase 1 of a currency reform is complete. According to the IMF, if Somalia fails to comply with AML/CFT standards, correspondent banking relationships with Somali institutions (especially with the Central Bank of Somalia) will be at risk, potentially reducing remittance inflows—Somalia's lifeline—and making them more volatile.

1.6 The drought increased Somalia's trade deficit

The 2017 drought increased Somalia's trade deficit by 9 percent, as exports fell and imports rose. The share of exports in GDP fell from 15.1 percent of GDP in 2016 to 14.5 percent in 2017; the share of imports increased from 61.9 percent to 69.6 percent. The drought devastated livestock exports. Exports of live animals—which account for more than 70 percent of export earnings—declined by 75 percent, from 5.3 million animals in 2015 to 1.3 million in 2017. The contribution of other exports—

hides and skins, oil seeds, fruits, vegetables, and gums and raisins—remained small. These products are sold in a few traditional markets, mainly in the United Arab Emirates, Saudi Arabia, and Oman. Food imports rose in response to the drought.

Reflecting the deterioration in the trade balance, the current account deficit increased from 6.3 percent of GDP in 2016 to 7.4 percent of GDP in 2017. The large deterioration in trade balance was substantially offset by increases in current transfers, mainly remittances and official transfers, which together increased by 7.9 percent of GDP. However, as deterioration in the trade balance was larger than the increase in remittances and official grants, the current account deficit increased by about 1 percentage point in 2017 (Table 1.2).

The current account deficit was financed by increased capital inflows (FDI and other flows).

FDI covered about 70 percent of the financing of the current account deficit in 2017; other flows financed the rest. The growth in FDI since 2013 has been in double digits signaling an enormous

potential in Somalia. Improvements in the security and the business environment could increase FDI.

1.7 The growth outlook for 2018–20 is positive amidst significant risks

The World Bank projects Somalia's GDP to grow by about 3.2 percent in 2018 and 3–4 percent in 2019–20. This growth outlook is more modest than performance of other fragile state emerging from conflict but still better than the 2.3 percent growth performance of 2017. The outlook for 2018 is predicated on maintenance and extension of the security gains achieved, improvements in weather and agricultural production, a gradual increase in private investment, continued support to the government by development partners, and improved revenue collection. It also assumes that Somalia's livestock sector continues to recover from the effects of the drought, through a program of restocking. Revitalization of the sector is important not only because rural livelihoods depend on it but also because livestock exports are an important source of foreign exchange.

Table 1.2: Balance of payments in Somalia, 2013–17 (percent of GDP)

Item	2013	2014	2015	2016	2017
	Preliminary			Estimate	
Current account balance	−3.4	−5.2	−4.7	−6.3	−7.4
Trade balance	−40.4	−45.1	−45.0	−46.8	−55.1
Exports of goods and services	14.5	14.4	15.6	15.1	14.5
Imports of goods and services	54.9	59.5	60.6	61.9	69.6
Current transfers (net)	37.5	40.3	40.8	40.9	48.2
Private (net), including remittances ^a	20.1	20.1	19.5	19.8	21.9
Official (including direct budget support)	17.4	20.3	21.2	21.2	26.3
Capital account and financial account	3.4	5.2	4.7	6.3	7.4
Of which foreign direct investment	3.5	4.0	4.5	4.9	5.3
Other capital flows (net)	−2.4	−1.1	−2.0	−0.8	−0.3
Overall balance	0.0	0.0	0.0	0.0	0.0

Source: World Bank and IMF estimates.
Note: ^a. 2013 data from Barclays Bank, PLC.

The growth recovery is set to continue beyond 2018, lifted by gains from ongoing reforms as well as improved security. Rising domestic demand, remittances, and donor inflows and consolidation of peace and security are expected to drive growth in 2019–20.

Achieving higher growth will require acceleration of structural reforms, particularly in three areas: fiscal policy and public financial management, provision of basic services (to promote human development and inclusion), and improved resilience to weather shocks in the agriculture sector:

- Somalia needs to continue to build the fiscal buffers needed to provide basic services to its people. Broadening the tax base, enhancing compliance, and reducing wasteful expenditures would provide resources that could be used to meet critical social and developmental needs, including in health, sanitation and water delivery, and education. Improving the efficiency of public spending and service delivery is also a priority. More efficient spending could be achieved by containing the large public wage bills, which crowd out other critical components of public expenditure and service delivery.
- Human development programs need to reduce infant and maternal mortality, increase enrollment rates at all levels of education, close primary and secondary enrollment gaps, and increase the availability of clean water and sanitation. Better infrastructure—coupled with improvements in the business environment—would also help support the entry of new firms and boost employment.
- Improving the resilience of the agriculture sector—through irrigation and better water management, land management and environmental protection, improved agricultural technology and extension

services, and other means—remains a central element of the growth and poverty reduction agenda in Somalia.

Various risks could derail growth

Although it is improving, growth in Somalia remains fragile, as ongoing security challenges continue to impede economic activity. Risks that may weigh on growth prospects include security concerns, higher oil prices, delays in implementing structural reforms, and political and policy uncertainty.

Insecurity in Mogadishu and southern Somalia continues to pose significant risks to economic activity in the medium term. The FGS is restructuring its security forces to improve security in Mogadishu and working with Federal Member States to enhance stability across the country. Al-Shabaab remains a resilient force, diminishing prospects for investment.

Higher oil prices in 2018 and beyond may dim economic prospects. The outlook for oil prices anticipates a rise to more than \$60 a barrel in 2018–19, a 20 percent increase over 2017. A larger increase in oil prices could undermine consumption and Somalia’s growth prospects.

The 2018 floods might diminish recovery from 2017 drought. Rainfall totals during the first half of the April to June Gu season in 2018 were some of the highest on the 1981–2017 record, equivalent to between 130 and over 200 percent of average. The heavy rainfall marked the end of prolonged drought which started in late 2016 across much of the country and supported crop development and the regeneration of pasture and water resources. However, the heavy rainfall and subsequent flooding has also led to fatalities, massive displacement, and damage to infrastructure and cropland. Needs were expected to increase in displacement sites and riverine areas in the

near term. FEWS NET and FSNAU estimated 700,000 people in flood-affected areas needed livelihoods support through September 2018, roughly 300,000 of whom are likely to need emergency food assistance.

The risks associated with reforms delays are high. The economic reforms to unlock inclusive growth may be delayed because of political contestation, mistrust among political leaders and fragmentation among different levels of government – each of which could undermine/distract reformers.

Likewise, institutional capacity to implement reforms, and ensure compliance remains weak. These risks – which are manifested on a cyclical basis, but with varying degrees of severity – can undermine important gains, and at worst can destabilize Somalia’s fragile political settlement. In turn, a slowdown on the reform path could delay the normalization of Somalia’s relations with the International Financial Institutions (IFIs) through the Heavily Indebted Poor Countries (HIPC) process, which in turn would delay Somalia’s access to IDA and critical national investments.

SECTION ENDNOTES

¹ World Bank and Others. 2018. Somalia Drought Impact & Needs Assessment (DINA). Washington DC.

² World, and FAO (Food and Agriculture Organization). 2018. Rebuilding Resilient and Sustainable Agriculture in Somalia. Washington, DC.

³ Ernst & Young. 2018. Expanding the Circles of Trust: Unleashing the Power of Financial Intermediation and Global Connectedness for Somalia.



SPECIAL FOCUS



2. Growth in Mobile Money: Stability or Vulnerability?

2.0 Key messages

- **Despite its fragility and underdeveloped financial institutions, Somalia has one of the most active mobile money markets in the world.** With an estimated 155 million transactions—worth about \$2.7 billion—a month, mobile money is a source of strength and resilience.
- **Mobile money has superseded the use of cash in Somalia.** Even though a new phenomenon, about 7 out of 10 Somalis regularly use mobile money services, as the number of mobile money subscriptions has grown at an average rate of about 20 percent a year since 2014. In addition to retail payments, mobile money is used for salary transfers, bill payments, remittances and cash transfers, and savings in mobile wallets.
- **Mobile money has improved financial inclusion.** About 70 percent of women have mobile money accounts—just 5 percentage points fewer than men.
- **The mobile money sector is also vulnerable.** In addition to the absence of consumer protections, lack of systematic know-your-customer requirements, and lack of monitoring of mobile money services by the central bank of Somalia—the mass adoption of services itself raises concerns about the magnitude of system vulnerabilities, and potential macroeconomic effects in cases of disruptions. Unmitigated disruption in service delivery including transient outages caused by technical glitches could be devastating for the livelihoods of the Somali population that depend on mobile money services to meet their daily needs.
- **The challenge for policymakers and regulators is to introduce mobile money regulation while avoiding a “cliff-edge” in the transition from a mobile money market that has operated without supervision and regulation.** Stability of the overall financial system is a priority. A phased approach to regulation is recommended to mitigate risks and allow time for implementation for both the regulator and the sector. The regulatory policy stance should also permit greater innovation, by allowing experimentation in pilots without the need to fully comply with regulatory requirements (an approach known as the regulatory “sandbox” approach). This approach is likely to help refine the regulatory framework.
- **This note provides concrete recommendations on how to introduce mobile money regulation in Somalia, based on best practices and examples from around the world.** These recommendations can be summarized as follows:
 - Create safeguards for consumers’ funds, and ensure the safety and reliability of services.
 - Adopt the regulatory sandbox approach, in order to encourage innovation, improve compliance and risk management, and reduce opportunities for agent fraud and other harmful conduct and hold providers liable for agents.
 - Protect data and consumer information, and ensure that consumers have access to effective redress and complaint-handling mechanisms.
 - Strengthen regulatory reporting and public disclosures, minimizing disruption of mobile money services at each stage of implementation.

This part of the Somalia Economic Update is organized as follows. Section 2.1 examines the critical role mobile money plays. Section 2.2 describes the players in Somalia’s financial sector. Section 2.3 discusses the risks associated with Somalia’s mobile money system. Section 2.4 discusses the gaps mobile money services has left in the economy. Section 2.5 examines regulation in the sector. Section 2.6 summarizes the main conclusions and recommendations.

2.1 Mobile money plays a critical role in Somalia

Size and benefits of the mobile money market

Mobile money represents one of the main transaction instruments used by both individuals and businesses in Somalia. The official currency is the Somali shilling, but its use is limited in what is mostly a dollarized economy. According to IMF estimates, almost all current shilling notes in circulation are counterfeit, as no banknotes have officially been issued by the CBS since 1991. Lack of faith in the Somali shilling and the difficulty of using dollars for low-value transactions has increased demand for mobile money as a mechanism to cope with a volatile domestic economy. In the streets of Mogadishu, the exchange of goods and services is done largely through mobile money, even for small transactions. Reducing the burden of cash provides freedom of movement and a sense of security while doing business or carrying out day-to-day transactions¹.

About 7 out of 10 Somalis regularly use mobile money services, thanks to average annual growth in the number of mobile money subscriptions of about 20 percent since 2014 (World Bank 2017b). Usage is highest in urban areas (83 percent), but 72

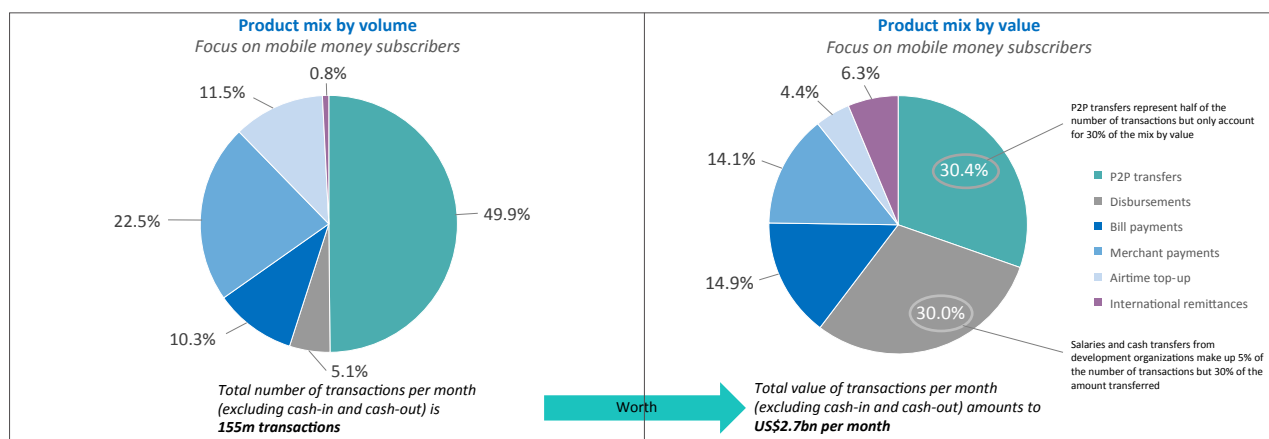
percent of people in displaced persons camps and 55 percent of rural residents also use mobile money.

An estimated 155 million mobile money transactions a month are made in Somalia (World Bank 2017b). The value of these transactions is estimated at about \$2.7 billion a month (about 36 percent of GDP) (Figure 2.1).⁴ As mobile money represents a large share of the money supply, the domestic economy is highly dependent on the stability and continued operation of mobile money platforms. Monthly cash in exceeds cash out which results in an ever-increasing cache of money available to mobile network operators.

Half of all transactions are person to person transfers, mostly day-to-day transactions. They account for 30 percent of the value of all transactions.

The second-highest volume of transactions are merchant/retail payments, which account for almost a quarter of all transactions and about 14 percent of the value of transactions. Other uses for mobile money include salary transfers, bill payments, remittances, and cash transfers from development organizations.

Figure 2.1: The volume of mobile money transactions in Somalia topped \$2.7 billion a month in 2017



Source: World Bank 2017b.

⁴ Nominal 2017 GDP of \$7.0 billion comes from the IMF's Somalia Country Report (IMF 2018).

Mobile money is critical in a country in which remittances are a greater source of income than official development assistance (Figure 2.2).

Official remittances from the diaspora are estimated at about \$1.4 billion a year, equivalent to about 23 percent of Somalia's GDP (IMF 2017). About 3.4 million people—roughly 40 percent of the population—depend on remittances for their daily needs, and about 80 percent of all new business ventures are funded by remittances². Remittances account for about 6 percent of the value of all mobile money transfers.

Mobile money is helping close the gender gap in financial inclusion. In 2017 about 73 percent of the population had access to a mobile money account, with only a 5 percent gap between men (75 percent) and women (70 percent).

Mobile money wallets are also used for savings.

Only about a quarter of the population engages in savings activities, only about 15 percent of the population (and just 7 percent of women) has a bank account, and less than 5 percent of people with bank accounts are active users. More than half of people who save do so with a mobile money account³.

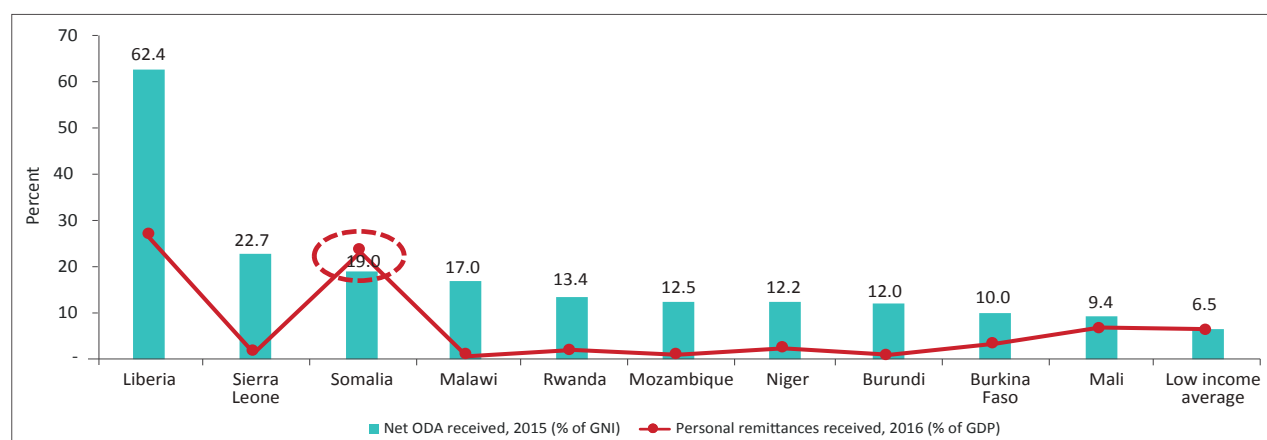
Having an account is associated with a variety of positive outcomes.

Research suggests that access to a savings account can help people accumulate savings and smooth household spending on necessities. In Kenya, for example, market vendors (primarily women) saved at a higher rate and invested 60 percent more in their businesses after being provided with a savings account. In Nepal households headed by women spent 15 percent more on nutritious food and 20 percent more on education after receiving free savings accounts. In Malawi farmers who opted to receive their earnings in a savings account spent 13 percent more on farming equipment and increased their crop values by 15 percent⁴.

Mobile money helps households manage financial risk.

When hit with an unexpected drop in income, mobile money users in Kenya did not reduce household spending. In contrast, households without a mobile money account or with poor access to a mobile money network reduced their consumption of food and other items by 7–10 percent.

Figure 2.2: Remittances are a more important source of income than official development assistance in Somalia



Source: World Development Indicators (World Bank 2017c).

Note: Figures show latest data available for each set of indicators. Data for Somalia on remittances were not available from the World Development Indicators database. Instead, the estimate from IMF (2017) was used. GNI = Gross National Income.

⁵ Formal banking is not common in Somalia partly because anyone under the age of 40 was not old enough to hold a bank account before the start of the two-decade long war. Most people are accustomed to alternative forms of finance to meet individual and business needs.

2.2 Mobile money providers are key players in Somalia's financial sector

A sound financial sector can underpin economic growth and development and provide pathways toward financial inclusion and poverty reduction.

The financial health and vulnerability of Somalia's financial sector cannot be assessed using traditional tools, because data are not available. A series of World Bank studies and other reports on the Somalia financial sector provide insights into supply and demand conditions. A picture is beginning to emerge of the sector, including opportunities and challenges for its main participants (Table 2.1).

A complex web of ownership interconnections exists between leading mobile network operators and some financial service providers. Somalia's leading money transfer business and mobile network operators have always been connected, but with the growth of mobile money, the connections between banks and mobile network operators have increased as actors seek to expand their range of services. Services include innovations to facilitate direct transfers between mobile money wallets and bank accounts, which allow financial service providers to capture different segments of the market.

Table 2.1: Players in Somalia's financial sector

<i>Player</i>	<i>Description</i>
Central Bank of Somalia	<ul style="list-style-type: none"> • Main regulator of financial institutions. • Licenses and supervises banks and money transfer businesses under the Financial Institutions Law (FIL) of 2012. Currently developing regulation for mobile money services.
Commercial banks	<ul style="list-style-type: none"> • Six banks operate in Somalia. • Bank branches are in urban areas only. • Commercial banks function mainly as trade financing institutions; some are part of larger conglomerates with overlapping financial and nonfinancial sector interests, resulting in large conglomerates and the crowding out of smaller money transfer businesses.
Money transfer businesses	<ul style="list-style-type: none"> • Fourteen licensed money transfer businesses operate across Somalia. • International remittances constitute their core business. • Some are part of widely diversified enterprises with overlapping financial and nonfinancial sector interests.
Mobile network operators	<ul style="list-style-type: none"> • All mobile network operators provide mobile money services. • The networks are consolidated into three large conglomerates, divided by region. • Leading mobile network operators are part of widely diversified enterprises and are developing partnerships with money transfer businesses to facilitate international transfers.

Source: World Bank 2018a.

Mobile money is one of the main channels used to access financial services in Somalia. A World Bank survey finds that about 73 percent of the population uses mobile money. In contrast, just 15 percent have access to formal banking services. About two-thirds of users keep funds in their mobile accounts rather than cash them out⁵. Demand for digital money has risen largely from the absence of large-scale Somali shilling currency operations (although the official currency of Somalia is the Somali shilling, its use is limited in an otherwise dollar-dependent economy), as well as relatively low transaction costs and ease of use of mobile money services.

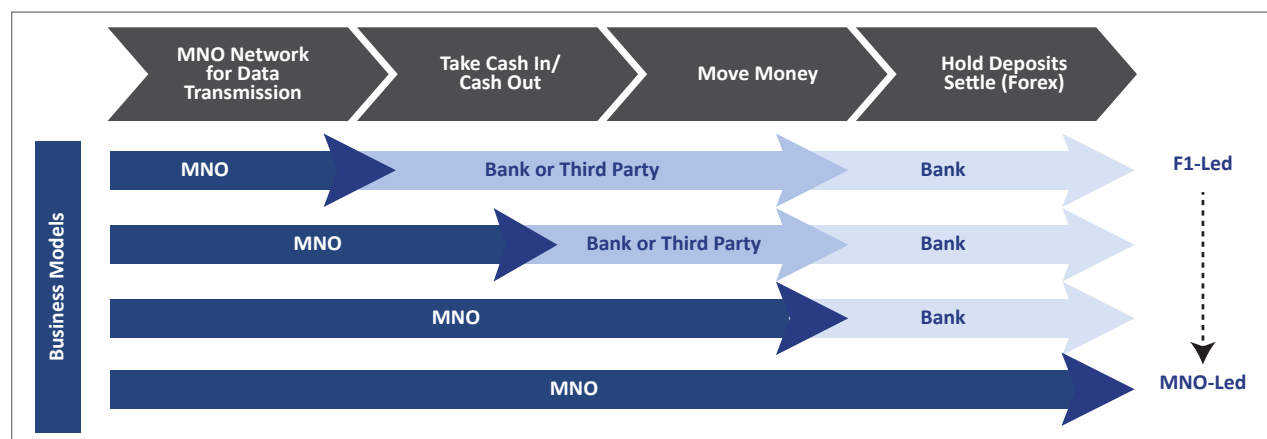
Mobile network operators have been transitioning toward the provision of financial services (Figure 2.2). This evolution of business models from telecommunications toward banking functions offers different opportunities for mobile network operators, banks, and third parties to play roles in the mobile money value chain. These evolving business models require agile regulatory approaches that can adapt toward shifting business models. If well implemented, regulation can bolster financial stability, access, and consumer protection for both individuals and businesses and strengthen the competitiveness of the financial services market.

Money transfer businesses are increasingly partnering with mobile network operators to use mobile money channels for international remittances. Mobile money channels, which are popular for domestic transactions, are increasingly challenging the dominance of money transfer businesses for international remittances. Money transfer businesses emerged organically as an alternative to the traditional banking system after the collapse of the government and economy in 1991. Although they mostly facilitate international remittances, a few have adapted their business model to include banking, microfinance, and mobile money. The current use of mobile money as a channel to receive international remittances reflects the strong links that exist between mobile network operators and money transfer businesses.

2.3 Risks of mobile money system and the need for regulation

The mobile money system is vulnerable—with potentially serious implications on the wider economy. Consumer protection, systematic know-your-customer requirements, and monitoring of mobile money services by the CBS are lacking (Box 2.1)—and outright failure (from outages on any major mobile money platform) could result in significant macroeconomic effects, including the contraction of the money supply.

Figure 2.3: Mobile money business models are moving toward financial service provisions



Source: mPay Connect Consulting, MMT APAC presentation 2009.

>> Box 2.1: Risks related to Somalia's mobile money system

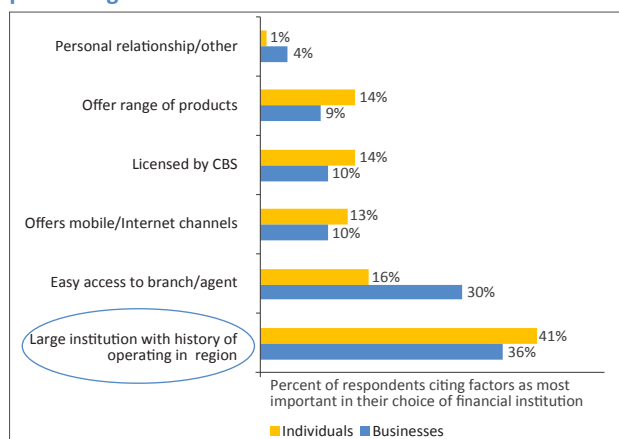
Somalia's mobile money system faces three main sources of risk:

1. *Lack of customer protection:* Customers have no guarantee that their e-money can be redeemed for cash, as there is no parity between virtual and real funds. As the float held on the phones of mobile money users grows ever larger, the temptation is for the mobile network operators to use those funds in in risky investments or overseas transactions, as there is no requirement for them to hold funds in a trust fund or bank account.
2. *Lack of systematic know-your-customer requirements:* Personal data are not systemically registered for mobile money accounts (especially in southern Somalia), and there is no formal agreement to protect consumers in case of disputes. The ease of opening multiple mobile money accounts without identification makes AML/CFT efforts difficult. Links to global financial markets could be impeded by the absence of strong practice related to customer due diligence.
3. *Lack of monitoring of mobile money services by the CBS:* The lack of monitoring of mobile money services means that consumers have little protection against malfeasance by mobile money operators. The uncontrolled and unregulated issuance of e-money could put inflationary pressure on consumer prices, particularly when parity is not maintained between balances in trust accounts by financial institutions and e-float managed by the mobile network operator held on mobile wallets.

Source: World Bank 2017a.

Businesses and individuals have a preference for large companies undermining competition. Based on recent surveys, businesses and individuals in Somalia appear to have a strong preference for large and consolidated institutions that are part of large conglomerates, which they perceive as more resilient and stable (Figure 2.4). The largest conglomerates do not interconnect with smaller players. Their large market shares make it difficult for smaller players to compete and discourage entry.

Figure 2.4: Both businesses and individuals in Somalia prefer large financial institutions



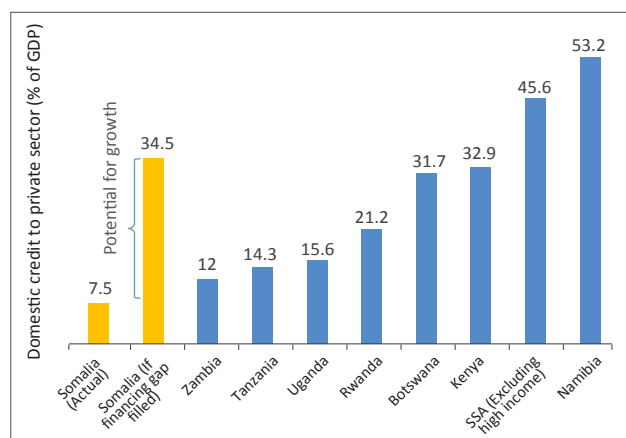
Source: Ernst & Young 2018.

2.4 Mobile money services do not meet all financial services needs

Despite the growth and popularity of mobile money services in Somalia, the uses of mobile money beyond payments remain limited. Much remains to be done to increase the depth and breadth of uses.

The financing gap in Somalia is significant and cannot not be filled by mobile money service providers alone. A 2018 market study by Ernst & Young (based on data on 456 businesses and 433 individuals in Bosaso, Hargeisa, and Mogadishu) suggests that the gap between the supply of and demand for finance by both businesses and individuals is about \$2 billion. If Somalia's financing gap were met, domestic credit to private sector in Somalia would surpass that of Kenya and be just three quarters with the average for Sub-Saharan Africa (Figure 2.5).

Figure 2.5: Domestic credit to the private sector is lower in Somalia than in other countries in Sub-Saharan Africa



Source: Estimated 2017 nominal GDP of \$7.4 billion is from IMF (2018). Supply of and demand for finance are from Ernst & Young (2018). Comparative country data are from World Development Indicators (World Bank 2017c).

This financing gap can be explained mainly by lack of innovative, accessible, and affordable products (Ernst & Young 2018). Both individuals and businesses still rely on informal traditional networks, including business connections, family, and friends, to raise finance. Evidence from countries with innovation-led economies suggests that a fine balance needs to be achieved between advancing regulation and innovation⁶. Too much regulation can hamper innovation, but too little provides a fragile and unstable environment for competition and innovation. Achieving a sustainable increase in financial deepening while strengthening financial system regulation and supervision remains a goal of Somalia's financial sector development agenda. According to Ernst & Young (2018), about two-thirds of businesses depend on friends or family to cover financial needs. Most find the terms and conditions of financial institutions unfavorable. More than half of businesses that applied but were unsuccessful in securing funds from a financial institution cited lack of collateral as a key reason. Because they lack accurate information with which to assess customer risk profiles, financial institutions tend to overcollateralize loans, leaving Somalis to search for other ways to meet financial needs.

There is a significant opportunity for financial service providers to use modern credit risk

assessment approaches to serve the needs of economically active low-income individuals and businesses on a sustainable basis. Modern techniques rely on computing power and alternative sources of transaction data (including mobile phone use patterns, bill payments, and remittance receipts) to build credit risk profiles of individuals and businesses.

2.5 Regulation of mobile money should be phased in, in a way that ensures the stability of the system

Regulation and stable institutions are key to increasing resilience and competitiveness and reducing both actual and perceived risks. Better regulation would allow for more innovative activities, particularly with mobile money services.

Somalia needs a framework that will help it avert a potential financial sector crisis and protect consumers. The roles and responsibilities of the various actors that are part of the mobile money system need to be clarified to ensure the accountability, transparency, and integrity of the financial sector. Introduction of a mobile money regulatory regime should aim to manage financial stability risks; encourage innovation; and bolster the contribution of mobile money to inclusive growth, resilience, and poverty reduction.

Somalia's mobile money services need to be adequately regulated before serving as a critical enabler for innovation and anchor of financial sector development. Under the Financial Institutions Law of 2012, CBS is responsible for licensing and supervising only banking and money transfer business; it has no jurisdiction over other financial services. This law could be revised to also address the management of risks posed by different types of financial services, products and other business arrangements related to the provision of modern financial services, including opportunities for driving financial inclusion in marginalized segments of the population.

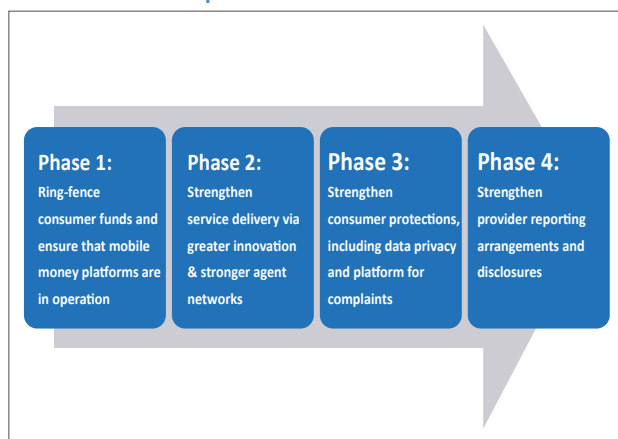
Mobile money services that are recognized and regulated provide legitimacy and consumer protection, as well as opportunities for financial inclusion. Experimental evidence from Senegal suggests that people directed to regulated agent banking options are much more likely to increase the number of deposits and withdrawals than are people directed to traditional bank branches⁷. These results suggest opportunities for bringing unbanked people into the formal financial system through this alternative mode of banking.

Regulation of mobile money services should adhere to two main principles: proportionality and effectiveness. A well-balanced approach addresses the trade-offs between protecting consumers and fostering access. It is designed in a way that considers the limits of supervisory capacity and leverages other market monitoring tools that can help ensure regulatory compliance⁸. Providers of services should also face business-related incentives to adhere to regulation.

For Somalia, a phased-in approach is suggested for the regulation of mobile money services. This approach is adapted to ease the transition from a market that has not been previously supervised and regulated. Regulation of mobile money services should be phased in, in order to avoid the “cliff-edge” in the transition to regulation (Table 2.2 and Figure 2.6). The top priority must be to safeguard consumer funds and ensure continued and undisrupted service delivery. The second priority should be to strengthen service delivery via greater innovation, including stronger agent networks, internal controls, and holding providers responsible for agents. Once the protection of consumer funds and service delivery are guaranteed, it will be important to strengthen consumer protections, including data privacy and protection, and create platforms for complaints and access to redress

mechanisms. Regulation could then address the requirement for clear, consistent, and effective reporting and disclosures from providers. The phasing-in approach of these key regulatory principles is explained further in Table 2.2

Figure 2.6: Regulation of mobile money should be introduced in four phases



Source: Dias and McKee 2010.

Regulation of mobile money is likely to increase stability, level the playing field, and boost the system’s usefulness for more advanced financial technology applications. It requires solid foundations and institutional capacity from the regulatory authorities. In 47 of 89 global markets in which mobile money services are available, regulation allows both banks and nonbanks to provide mobile money services in a sustainable way⁹. Pakistan’s regulatory framework for agency banking and microfinance banks permits mobile network operators to offer mobile money services and be integrated into the broader financial system (Box 2.2). A prerequisite is well-established central banking operations and already regulated financial institutions (commercial banks and microfinance institutions). Mobile money is regulated like branchless banking, in which mobile money institutions were required to partner with microfinance institutions to deliver mobile money services.

Table 2.2: Phased-in approach to regulation of mobile money

Phase	Regulatory options	Recommended Actions
1: Ring-fence consumer funds, and ensure that mobile money platforms are in operation.	Create safeguards for consumer funds.	<ul style="list-style-type: none"> • Create basic regulation with simple and clear rules, to ensure liquidity and ownership of funds collected against electronic value issued. • Define initial minimum capital requirements and ongoing capital requirements for providers. • Define permissible activities and restrictions (for example, deposit taking, on-lending of deposits).
	Ensure the safety and reliability of services.	<ul style="list-style-type: none"> • Define and test technology and security arrangements (for example, regulation relating to system interoperability with other payments systems in the country). • Monitor emerging issues to decide when and what type of regulatory action is necessary.
2: Strengthen service delivery via greater innovations and stronger agent networks.	Reduce opportunities for agent fraud and other harmful conduct.	<ul style="list-style-type: none"> • Hold providers liable for agents' regulatory compliance. • Review providers' internal controls and processes to make sure that appropriate security policies—including business continuity plan, sound accounting procedures, and effective audit function—are in place.
	Allow product experimentation and testing of business models.	<ul style="list-style-type: none"> • Review new products and business models in a “regulatory sandbox,” permitting innovators to test their products or business models without complying with all legal requirements. • Work with the financial service provider to create regulation around the product before it is released or scaled up.
	Hold providers liable for agents regulatory compliance	<ul style="list-style-type: none"> • Focus provider liability on agent actions related to delivery of branchless banking services. • Require notification of contractual agreements and plans for oversight of agents/outsourcers.
3: Strengthen consumer protections, including platform for complaints and access to redress mechanisms.	Protect private data/ consumer information.	<ul style="list-style-type: none"> • Hold providers responsible for compliance with data privacy and bank secrecy regulations, even when using agents.
	Ensure that consumers have access to redress and complaint procedures.	<ul style="list-style-type: none"> • Ensure that relevant information (for example, terms and conditions; customer service agreement, including a description of services; information on charges, transaction records, and confidentiality) is disclosed to customers.
4: Strengthen reporting arrangements and disclosures.	Ensure clear and effective disclosure.	<ul style="list-style-type: none"> • Require notification to the regulatory authorities of any changes (for example, material changes to the business/ shareholders). • Require that fees and price disclosures be transparent and easy to access.

>> Box 2.2: Regulating mobile money services in Pakistan

In Pakistan only regulated financial institutions (commercial banks and microfinance banks) are eligible to be licensed by the State Bank of Pakistan (SBP) to offer branchless banking services or mobile money services. Financial institutions with branchless banking licenses are subject to all aspects of oversight by SBP, including registering individual mobile money account holders and ensuring compliance with know-your-customer regulation. Pakistan's mobile money market is open to entry by both conventional banks and mobile money operators working in association with microfinance institutions.

To comply with branchless banking regulations, three mobile network operators have taken up ownership of and controlling interests in three microfinance banks. They provide a banking platform for the mobile money services of their parent mobile network operators in compliance with central bank regulations. This structure allows the SBP to supervise and regulate the provision of branchless banking services in Pakistan.

Source: Fuchs, Musuku, and Symington 2016.

A phased-in approach to regulating mobile money would strengthen compliance as new policies and systems are implemented. In Somalia this approach would involve several foundational activities, including implementation of systems to support the strengthening of the operational capacity of the CBS (Box 2.3) and, in parallel, improvements to the legal and regulatory environment.

Experience from other countries suggests that three best practices need to be adopted when developing regulation:

- Spend enough time planning with stakeholders and on consultations, in order to adopt a strategic approach.
- Ensure that regulation is supportive of sustainable business models and inclusion.
- Build in mechanisms for a regulatory sandbox approach to promoting greater innovation.

Financial service providers in Somalia have expressed the need for more and better regulation. Financial services providers view better regulation as a path to greater profitability: a lack of regulation hinders the expansion of financial services and gaps in the licensing and regulation of the sector

limit cooperation with global entities for funding or investments. Providers express the need for consultation and participation in regulatory design processes: greater efforts need to be made to reach out to market players, to increase buy-in and compliance with an evolving regulatory system.

Balancing the regulatory objectives of ensuring the stability of the system and increasing financial inclusion

The development path of mobile money services in Kenya can serve as a useful example for Somalia.

Kenya's financial sector was hampered by missing markets and institutions. Box 2.4 describes how the Central Bank of Kenya introduced regulation to promote mobile money services without hampering innovative ideas.

Regulation of mobile financial services in Kenya was successful partly because it adopted the regulatory sandbox approach. In this approach, the regulator allows innovators to test their products or business models without following some or all legal requirements, and then works in partnership with the financial service provider to create regulation around the product before it is released in the market or scaled up. The Bank of Sierra Leone has also used a regulatory sandbox (Box 2.5).



>> Box 2.3: Strengthening institutional capacity at the Central Bank of Somalia

The CBS is at the center of regulatory policy creation, supervision, and enforcement for Somalia's financial services sector. Several foundational investments and activities are needed to modernize payment systems, including investments in key functions at the central bank to strengthening stakeholder consultation and engagement.

As part of the financial sector reform agenda, the World Bank supported activities to improve the legal and regulatory environment, institutional capacity, and market infrastructure needed to improve institutional effectiveness of the central bank and facilitate efficient financial intermediation. Several layers of foundational investments were made, in sequence:

- The first layer involved implementation of a core banking and accounting system. It focused on strengthening the organizational capacity of the CBS to deliver banking services to government and banks. Support was provided to reorganize and create in-house expertise in banking operations, accounting, and information and communications technology (ICT). Once the core banking system is stabilized, plans are to extend this functionality to CBS regional branches, initially in Jubaland, as well as to the State Bank of Puntland.
- The second layer created an interbank payment, clearing, and settlement system. It focused on modernizing Somalia's payments system, including through an Automated Transfer System (ATS) and Switch. This layer followed the first one because CBS will participate in the payment system and needs strong internal systems, processes, and procedures to do so. Sections 5(d) and (e) and Section 45 of the Central Bank of Somalia Law, which address payment and clearing and settlement systems, provide an opportunity for the CBS to formulate and implement payment systems–related regulations
- Parallel to making investments in technology platforms, the Bank also provided support for legal and regulatory diagnostics to identify gaps and weaknesses in the legal architecture related to provision of financial services in Somalia. Initial findings from the diagnostic study were disseminated at a roundtable consultative forum attended by representatives of the CBS, the Ministry of Finance, the World Bank, and financial service providers. The study identified short-term interventions that are needed to close regulatory gaps while long-term improvements are being made to the Financial Institutions Law and other missing pieces of legislation (such as laws on digital transactions, payment systems, insurance, movable collateral registry, and many other issues) are developed. The idea is to gradually build the rulebook as the financial system develops and the foundational capacity of public institutions grows.

Somalia's mobile money sector has grown in the absence of regulatory clarity. The challenge is to remove the cliff-edge and secure financial stability while also encouraging innovation and competition in the market. The Philippines has been successful in doing so (Box 2.6)

Collaborating to meet know-your-customer requirements

Complying with accepted practice on customer due diligence requirements is necessary, but it

comes at a high cost in Somalia. The current process of opening up a mobile money account generally involves providing one's name, mother's name, date and place of birth, residence, and some form of photo ID (such as a passport or driver's license). In lieu of such identification, a letter from a local clan elder, politician, or well-known businessperson is required to confirm proof of identity. In many cases, information with which to verify identities and assess the risk of crime is often

>> Box 2.4: Kenya's "test and learn" approach to regulation of mobile money

To encourage sustainable growth of the financial sector, the Central Bank of Kenya (CBK) took a regulatory approach that included lowering barriers to entry, allowing space for innovation, strengthening regulatory capabilities, and supporting the development of a complete financial infrastructure. The approach has led to the growing prominence of financial inclusion as an important complement to financial stability.

The CBK worked in partnership with the Kenyan government, market players, and development partners. It adopted a pragmatic approach to the mobile money transfer services offered by Safaricom through M-PESA, offering a no-objection letter that allowed the company to innovate and pilot test services outside the confines of strict regulation. Through this process, the CBK identified risk factors and ensured their mitigation before the service was launched. This approach allowed it to bring more participants into the formal financial sector and to develop a supporting financial infrastructure (such as credit reference institutions and agents).

Kenya's experience suggests four lessons for regulators:

- A "test and learn" approach allows regulation to follow innovation while ensuring sufficient safeguards.
- Innovators need space to showcase their products early.
- Tools such as the Deposit Protection Fund and risk-based supervision protect consumers while strengthening banks and deposit-taking microfinance institutions. Partnerships between regulators and financial service providers are key to establishing such mechanisms.
- Regulation needs to evolve as financial institutions develop new products and expand into new markets. This requires the creation of regional supervisory networks.

Source: Ndungu 2012.

unavailable, and the process entails additional time and costs for the financial service providers. Paradoxically, efforts to comply with global requirements make it more difficult for financial service providers to reach underserved populations, and may even increase the risk of transacting in an

untraceable world of cash. However, the costs of compliance can be reduced by pooling resources and digitizing processes through know-your-customer utilities. Examples of collaborative approaches to customer due diligence are shown in Box 2.7.

>> Box 2.5: Lessons from Sierra Leone's regulatory sandbox

Sierra Leone has one of the lowest financial inclusion rates in the world. It is not an obvious place to find experimentation with new regulatory approaches to financial technology.

Despite the low rates of financial inclusion and other challenges, the Bank of Sierra Leone dedicated resources and governor-level supervision to a pilot regulatory initiative with the following features:

- The program is linked to the national financial inclusion strategy and financial inclusion objectives. All new projects must explicitly link their business models to financial inclusion objectives.
- The Bank of Sierra Leone used the FinTech Challenge and engagement with the Sierra Leone FinTech Association to confirm market demand for a regulatory sandbox.
- The Office of the Governor is directly involved, and a dedicated cross-functional team is dedicated to all sandbox-related activities, from market outreach to participant selection and supervision.
- The program requires review and reauthorization after the initial one-year pilot term.

Source: Massally and Schan 2018.



>> Box 2.6: Regulation as a driver of innovation in the Philippines

More than a third of municipalities in the Philippines operate without a banking office. But mobile phones have an 80 percent penetration rate, with most customers active users. The central bank saw this as an opportunity to enact regulation that has opened the opportunity for telecommunication companies to compete with banks to deliver mobile money services through a dedicated subsidiary.

The competitive environment has increased the variety of services available and lowered the prices of sending or receiving remittances. The central bank set up a dedicated unit that specializes in new technologies, staying close to innovators for better oversight as well as quick adaptation of regulation.

Regulations have allowed banks to perform know-your-customer verification through third-parties. They have liberalized identification requirements, allowing certification from local chieftains.

One of the outcomes is that BanKo, the first mobile bank in the Philippines, allows people to open full service bank accounts through local agents, such as local convenience (sari-sari) stores and pharmacies. BanKo began operations in January 2012; only eight months later it had opened 200,000 mobile money accounts. Large segments of the population can be reached, as regulators work closely with the mainstream financial systems to deliver services.

Source: Thomas 2012.

Somalia faces barriers to adopting know-your-customer utilities model or blockchain technology, which are helping other countries identify customers (Box 2.7). In countries with more developed financial institutions, country-level regulations often hinder the ability of financial institutions to share information. This is not the case for Somalia where regulation is simply under developed or missing, and there isn't enough information about whether it would hinder or

encourage such innovative approaches to achieving customer due diligence compliance. A concern is the lack of infrastructure to collect and protect customer information. Financial service providers could collaborate with the authorities to define identification infrastructure requirements. There are incentives to share the risk and cost of such a system, which would result in cost-effective provision of shared ID and know-your-customer verification services.

>> Box 2.7: Collaborating to perform customer due diligence and identity verification

In the know-your-customer utilities model, commercial providers store customer identity data in a single repository for use by multiple financial service providers. By pooling resources, reducing duplicative efforts, and digitizing processes, this model reduces the time required for identity checks and verification.

An example is India's Aadhaar ID system, which provides a unique biometric identifier. When the identity of a potential customer is verified, the account opening form is automatically filled with the client's Aadhaar-registered biographical data. The fact that the authority vouches for the data means that financial service providers can identify and verify customers by simply checking the Aadhaar database.

The private sector is pioneering new technologies to address challenging ID issues, such as identifying displaced persons. Blockchain startups such as Taqanu and EverID are creating digital identity "containers" that allow an individual to manage his or her own data. They could make information on refugee status, vaccinations, and other important indicators available in one digital location that is continuously updated and accessible globally, potentially facilitating access to both social and financial services.

Source: Lyman and de Koker 2018.

Innovating beyond payments

In many countries, including Somalia, nonbanks have driven gains in financial inclusion, filling the gap left by banks, which have little interest in low-income customers. Mobile network operators typically are not licensed to offer credit, savings, or insurance services, however. As a result, they are not in a position to innovate beyond payments.

The growth of the mobile money ecosystem provides opportunities to expand the base of digital financial products and attract new investors. There is potential to innovate beyond basic payment systems. Somalia's neighbors offer examples of the what the future of mobile-led innovations for financial inclusion can look like.

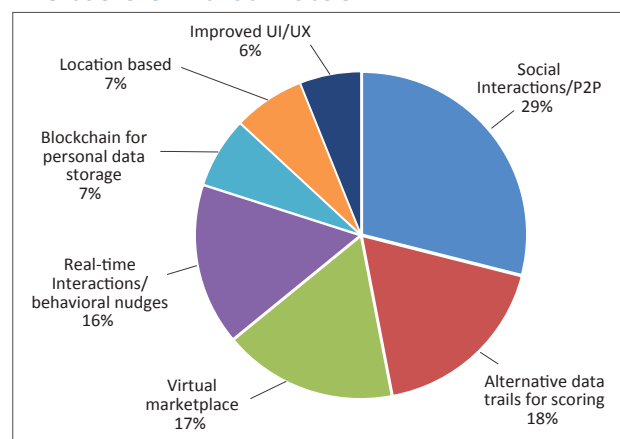
Digital innovations for financial inclusion are linked to well-developed mobile money markets.

A 2017 competition led by the Consultative Group to Assist the Poor (CGAP) invited firms to submit proposals for using digital finance to increase financial inclusion. The largest number of proposals came from Kenya, which has a mature mobile money ecosystem that enables innovations to leverage digital payments platforms. Other African countries with developed money markets (and large numbers of proposal submissions) include Ghana, Nigeria, Tanzania and Uganda¹⁰.

About half the innovations proposed sought to develop retail financial products for low-income people; the other half focused on tailoring products for specific sectors, including small and medium-size enterprises, farmers, health, energy, education, and housing. The most popular products proposed were credit solutions (access to credit to meet financing gaps, address financial shocks, or increase future income through investments) and payment solutions as a building block for other digital financial services, such as credit, savings, and insurance. The main digital attributes the innovative solutions sought to leverage included

social connections and person-to-person payments platforms, followed by the use of alternative data for credit scoring, which is of increasing interest to providers (Figure 2.7). Table 2.3 provides examples of digital innovations for financial inclusion that are being tested in the region¹¹.

Figure 2.7: Main digital attributes leveraged in digital innovations for financial inclusion



Source: Vidal 2017.

2.6 Conclusion and recommendations

Mobile money has become central to the people and economy of Somalia. It is one of the main transaction instruments used by both individuals and businesses.

Weak regulation combined with a lack of capacity for oversight stands in the way of ensuring continued and undisrupted service delivery.

It also prevents the growth of more innovative digital finance services. The complete absence of consumer protection for mobile money service users disproportionately affects the most vulnerable segments of the population (including women and low-income people), who are often financially inexperienced.

Given the mass adoption of mobile money services in Somalia, the macroeconomic effects of a possible disruption of mobile money platforms cannot be underestimated. Disruption in service delivery could make it difficult for Somalis to

Table 2.3: Digital innovations for financial inclusion being tested in Africa

Country	Organization	Idea
Ghana	InvestED	<ul style="list-style-type: none"> Start-up provides educational videos and quizzes for microentrepreneurs and tests the predictive power of data on courses taken and quiz results for credit scoring by multinational financial institutions.
Kenya	Apollo	<ul style="list-style-type: none"> Company is testing the ability of satellite images and GPS to assess farmers' loan repayment capacity and cashflow timing, with aim to increase cost-effectiveness of lending to smallholders.
Kenya	BioLite	<ul style="list-style-type: none"> Social enterprise is partnering with Juhudi Kilimo (a multinational financial institution) to test the effectiveness of credit underwriting based only on the psychometric scoring tool of the Entrepreneurial Finance Lab. The aim is to help rural populations in Kenya without lending histories or formal income finance necessities.
Nigeria	Social Lender	<ul style="list-style-type: none"> Company is partnering with Sterling Bank to test the usefulness of social reputation and social network guarantors in informing lending decisions for low-income customers.
Senegal	MaTontine	<ul style="list-style-type: none"> Company is testing a digital tontine that incorporates a credit-scoring system to offer access to small loans and other financial services. Will partner with two regional multinational financial institutions that will offer loans and other financial products to tontine members, and Orange Money, which will handle all payments transactions.
Tanzania	Hover	<ul style="list-style-type: none"> Company plans to introduce a mobile wallet app that works with mobile money systems in Tanzania and can run on USSD without a data connection. Aim is to evaluate how improved interface affects customers' behavior and use of mobile money.
Uganda	Patasente	<ul style="list-style-type: none"> Company is testing an online supply chain financing platform through which small businesses can receive financing against approved purchase orders or invoices. Investors earn returns by guaranteeing or lending to small and growing enterprises.

Source: Vidal 2017.

purchase goods and services and lead to contraction in the money supply because of the inability to access funds held in mobile money wallets.

A phased-in approach towards regulating mobile money would mitigate the risks associated with regulation. It would provide time for new policies and systems to be implemented and compliance strengthened. It would encourage greater innovation, as mobile money service providers implement better platforms and systems.

Investments in better regulation will be effective only if they are tied to capacity development at the CBS, particularly the capacity to determine the financial health of mobile money service providers and perform risk-based supervision. The results from experimenting with a regulatory sandbox approach will be important in setting the foundation for more sophisticated innovations that expand the base of digital financial products and attract new investors in Somalia.

SECTION ENDNOTES

- ¹ IMF (International Money Fund). 2017. 2016 IMF Somalia Country Report 17/61. Washington, DC.
- ² Watkins, K., and M. Quattri. 2014. Lost in intermediation: How Excessive Charges Undermine the Benefits of Remittances for Africa. Overseas Development Institute, London.
- ³ World Bank. 2017a. Mobile Money Ecosystem in Somalia: Household Survey and Market Analysis. Washington, DC.
- ⁴ ———. 2018b. World Bank Global Findex Report 2017. Development Research Group, Washington, DC.
- ⁵ ———. 2017b. Mobile Money in Somali Ecosystem Mapping: Stakeholder Mapping Report. Washington, DC.
- ⁶ Cirera, X., and W. Maloney. 2017. The Innovation Paradox: Developing Country Capabilities and the Unrealized Promise of Technological Catch-Up. Washington, DC: World Bank.
- ⁷ Buri, S., Cull, R., Giné, X., Harten, S., and Soren Heitmann. 2018. Banking with Agents: Experimental Evidence from Senegal. World Bank, Development Research Group, Washington, DC.
- ⁸ Waldron, D., and A.M. Swinderen. 2018. “Remote Lockouts: The Dark Side of Pay-as-You-Go Solar?” CGAP Blog Post, May 9. Consultative Group to Assist the Poor, Washington, DC. <http://www.cgap.org/blog/remote-lockouts-dark-side-pay-you-go-solar>.
- ⁹ Scharwatt, C. and others. 2014. 2014 State of the Industry: Mobile Financial Services for the Unbanked. GSMA, London.
- ¹⁰ Waldron, D., and A.M. Swinderen. 2018. “Remote Lockouts: The Dark Side of Pay-as-You-Go Solar?” CGAP Blog Post, May 9. Consultative Group to Assist the Poor, Washington, DC. <http://www.cgap.org/blog/remote-lockouts-dark-side-pay-you-go-solar>.
- ¹¹ Vidal, M. 2017. Mapping Africa’s Latest Innovations in Digital Finance. CGAP Blog Post, September 13, Consultative Group to Assist the Poor, Washington, DC. <http://www.cgap.org/blog/mapping-africa%E2%80%99s-latest-innovations-digital-finance>

APPENDICES

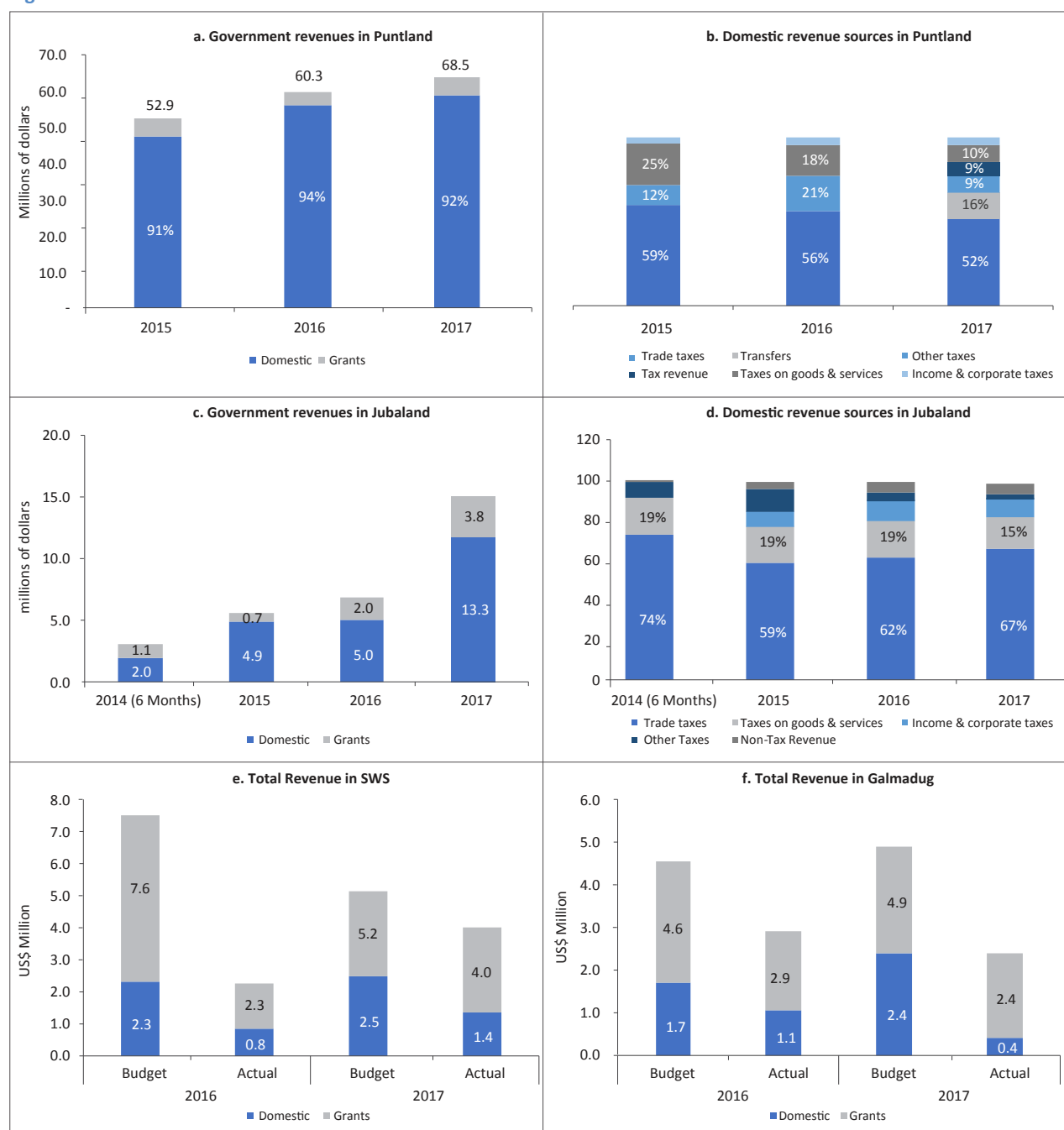


APPENDICES: REGIONAL REVENUE AND EXPENDITURE PERFORMANCE

Regional Revenue Performance

Federal Member States (FMS) are increasing their revenue collection (Figure A.1). Between 2015 and 2016, revenues rose by 28 percent (from \$47 million to \$60 million) in Puntland and by 167 percent in Jubaland (from \$4.9 million to \$13.3 million). Grants are the main source of revenues in South West State and Galmudug.

Figure A.1: Government revenues in most Federal Member States have increased



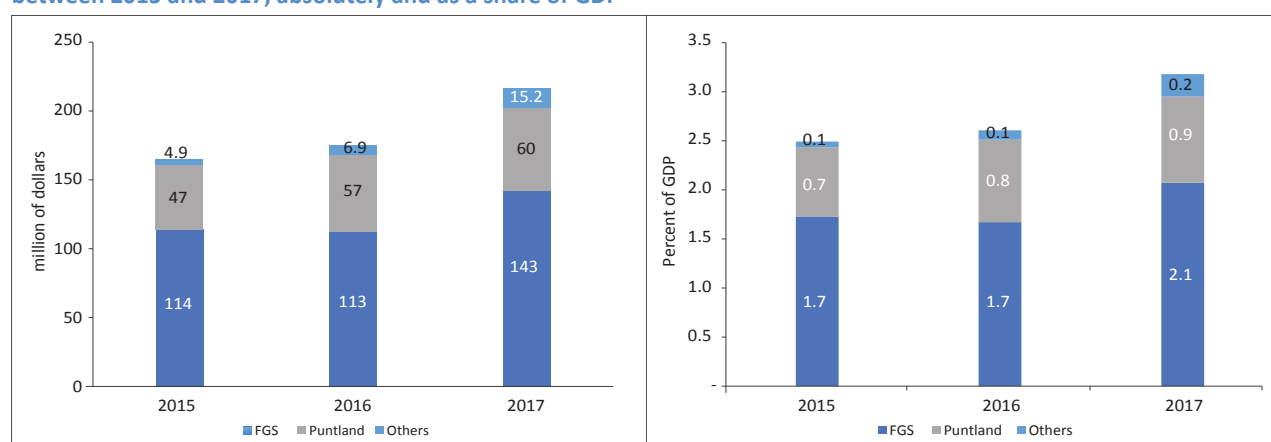
Source: Ministries of finance of Federal Member States.

As in the FGS, trade taxes, mainly generated from ports, drive domestic revenues in the FMS. States with no ports collect minimal revenue and are highly dependent on grants. In all of the FMS, revenue forecasts are unrealistic.

The consolidated domestic revenue of the FGS and the FMS reached \$217 million in 2017, equivalent to 3 percent of GDP (Figure A.2). The FGS accounted for 66 percent, Puntland 27 percent, Jubaland 6 percent, and South West and Galmudug together 0.8 percent of all revenue.

Across Somalia challenges underlying low domestic revenue collection include the narrow tax base, the absence of necessary legal and regulatory frameworks, poor collection and administration capacity, and the absence of a fiscal agreement FGS and FMSs.

Figure A.2: The consolidated domestic revenues of the Federal Government of Somalia and Federal Member States rose between 2015 and 2017, absolutely and as a share of GDP

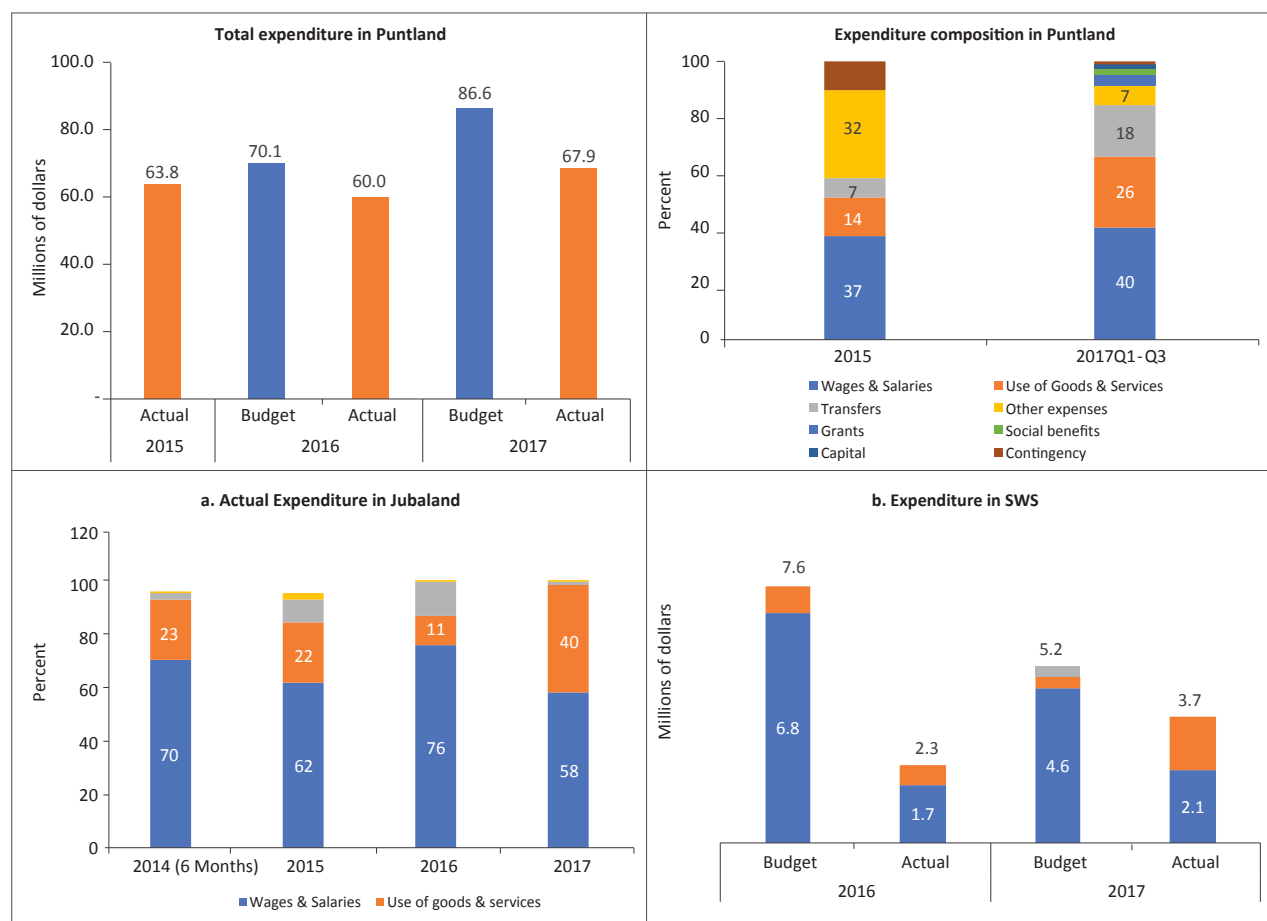


Source: Ministries of finance of the Federal Government of Somalia and Federal Member States.

Regional Expenditure Performance

Wages and salaries and use of goods and services account for almost all expenditures by FMS; there is no capital spending (Figure A.3). Puntland's spending expanded by 7.8 percent between 2015 and 2017, from \$63.8 million to \$68.7 million. Just 79 percent of the budget was executed in 2017. Expenditure was mainly on wages and salaries and use of goods and services. In Jubaland spending almost tripled between 2015 and 2017. In 2017, 58 percent of it went to the wage bill and 40 percent to the purchase of goods and services. Wages and salaries and goods and services accounted for all expenditure in South West State and Galmudug.

Figure A.3: Expenditure trends in the Federal Member States



Source: Ministries of Finance of Federal Member States.

GDP in Somalia, 2013–16 (millions of dollars)

	GDP in current prices				GDP in constant prices (2012 = 100)			
Item	2013	2014	2015	2016	2013	2014	2015	2016
GDP (at market prices)	6,481	6,562	6,659	6,762	6,481	6,509	6,765	7,061
Consumption expenditure	8,545	8,940	9,093	9,287	8,545	8,828	9,086	9,386
Household + NPISH expenditure	8,273	8,621	8,773	8,926	8,273	8,513	8,766	9,021
Government expenditure	272	319	320	361	272	315	320	365
Gross capital formation	555	582	566	639	555	584	582	694
Net exports of goods & services	-2,618	-2,959	-3,000	-3,164	-2,618	-2,904	-2,904	-3,018
Exports of goods and services	943	945	1,038	1,020	943	932	1,021	996
Imports of goods and services	3,561	3,904	4,038	4,184	3,561	3,835	3,925	4,014

Source: World Bank and IMF estimates, 2018.

External Sector

Item	2013	2014	2015	2016	2017
	Preliminary			Estimate	
Current account balance	-3.4	-5.2	-4.7	-6.3	-6.6
Trade balance	-40.4	-45.1	-45.0	-46.8	-55.2
Exports of goods and services	14.5	14.4	15.6	15.1	11.5
Imports of goods and services	-54.9	-59.5	-60.6	-61.9	-66.7
Current transfers (net)	37.5	40.3	40.8	40.9	48.2
Private (net), including remittances	20.1	20.1	19.5	19.8	21.9
Official (including direct budget support)	17.4	20.3	21.2	21.2	26.3
Capital account and financial account	3.4	5.2	4.7	6.3	7.4
Of which foreign direct investment	3.5	4	4.5	4.9	5.3
Other capital flows (net)	-2.4	-1.1	-2.0	-0.8	-0.3
Overall balance	-	-	-	-	-

Source: World Bank and IMF estimates, 2018.

Exchange Rate (Somali Shillings per US\$)

Year/Month	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Jan	31,765.00	31,557.69	30,522.22	22,207.41	20,334.62	19,674.04	22,285.20	22,687.69	23,994.07	23,566.11
Feb	28,123.96	30,527.08	29,953.13	24,600.00	17,569.57	18,570.83	22,196.46	22,736.38	21,525.83	23,546.67
Mar	28,942.59	30,183.33	30,311.11	22,843.27	16,216.00	19,189.81	22,211.11	22,751.00	21,197.12	23,306.92
Apr	31,210.58	30,912.00	31,739.00	22,268.00	17,746.15	20,455.00	22,231.54	22,940.42	23,436.92	23,405.03
May	31,809.62	31,737.04	33,025.93	22,267.59	18,334.62	20,767.31	22,264.62	23,016.67	23,621.67	23,581.00
Jun	32,880.77	32,983.65	33,593.27	22,334.00	19,207.69	20,775.00	22,211.73	22,993.08	23,245.00	23,581.00
Jul	33,431.73	32,129.81	31,446.15	22,199.07	19,370.37	21,086.54	22,263.00	23,036.58	23,258.70	24,417.96
Aug	32,447.22	30,202.41	30,396.30	22,261.54	19,720.19	20,814.00	22,272.59	23,043.33	23,197.41	-
Sep	32,121.35	30,196.73	30,228.00	22,386.54	20,183.65	20,470.19	22,269.04	22,990.40	23,202.60	-
Oct	32,540.38	31,701.54	28,196.30	22,275.93	21,246.30	20,234.62	22,284.04	23,057.41	23,365.37	-
Nov	31,776.92	31,796.15	25,153.85	22,344.00	21,032.00	20,466.15	22,275.40	23,527.69	23,600.38	-
Dec	31,817.59	31,312.50	25,062.50	22,207.41	20,444.44	20,267.96	22,286.30	23,960.77	23,538.85	-
Year Average	31,572.31	31,269.99	29,968.98	22,516.23	19,283.80	20,230.95	22,254.25	23,061.79	23,098.66	13,783.72

Source: Central Bank of Somalia

FGS Fiscal Outturn, Million US\$

	2012	2013	2014	2015	2016	2017
1. TOTAL REVENUE	35.1	117.4	145.3	141.2	168.0	246.5
(A) DOMESTIC REVENUE	30.2	75.8	84.3	114.3	112.7	142.6
Tax Revenue	25.3	65.1	73.8	82.4	88.6	112.0
Income and corporate taxes		0.7	1.1	1.9	2.4	3.4
Taxes on international trade	24.0	58.7	64.3	71.1	76.3	96.4
Other domestic indirect taxes		1.6	4.8	4.8	2.9	5.3
Other taxes	1.3	4.0	3.6	4.5	7.0	6.9
Domestic Loan and Grants	0.0	6.6	-	-	-	-
Non-Tax Revenue		4.1	10.5	31.9	24.1	30.6
(B) DONOR FUNDING	4.9	41.7	61.0	26.9	55.3	103.9
Bilateral	4.9	41.7	59.03	2.87	31.3	61.8
Multilateral		0	1.93	24	24.0	42.0
EXPENDITURE	35.1	117.4	151.1	135.4	170.4	243.7
(A) RECURRENT EXPENDITURE	35.1	117.4	150.9	133.1	165.1	237.3
Compensation of employees	13.5	51.9	77.2	55.4	79.3	128.9
Use of goods and services	18.9	54.5	57.6	60.0	70.2	82.1
Grants	2.7	7.5	10.1	13.8	9.4	22.4
Contingency	0.0	3.5	3.8	2.6	2.1	4.0
Repayment of arrears and advances	0.0	0.0	2.2	1.3	4.1	
(B) CAPITAL EXPENDITURE	0.0	0.0	0.2	2.3	5.3	6.3
Capital	0.0	0.0	0.2	2.3	5.3	6.3

Source: Ministry of Finance, FGS.

Puntland Fiscal Outturn, Million US\$

	2015	2016	2017
Total Revenue	52.9	60.3	68.5
Tax Revenue	48.1	56.6	55.0
Income and corporate taxes	1.6	2.7	3.0
Other taxes	5.8	11.8	1.2
Taxes on goods & services	12.1	10.2	7.8
Trade taxes	28.5	31.9	31.2
Other revenue	-	-	0.1
Transfers	-	-	11.6
Non-tax revenue	-	-	5.2
Grants	4.9	3.7	8.4
Total Expenditure	63.8	70.1	67.9
Operations	63.8	70.1	65.6
Wages & Salaries	23.8	31.3	29.8
Use of Goods & Services	8.8	32.5	17.3
Transfers	4.5	6.1	11.7
Other expenses	20.2	0.3	6.0
Social benefits	-	-	-
Contingency	6.5	-	0.9
Grants	-	-	-
Capital	-	-	2.3

Source: Ministry of Finance, Puntland.

Jubbaland Fiscal Outturn, Million US\$

	2014 (6 months)	2015	2016	2017
Total Revenue	3.1	5.6	7.0	17.1
Taxes	2.0	4.7	4.7	12.5
Taxes on International Trade & Transactions	1.5	2.9	3.1	8.9
Taxes on goods and services	0.4	0.9	0.9	2.1
Taxes on Payroll and Workforce	-	-	-	0.2
Total Taxes on Income, Profits & Capital Gains	-	0.4	0.5	1.0
Property Income	0.1	0.2	-	0.0
Other Taxes	0.1	0.3	0.2	0.3
Other revenue	0.0	0.2	0.2	0.8
Sale of Goods & Services	0.0	0.2	-	-
Fines, penalties and forfeits	-	0.0	0.0	0.0
Rental income	-	-	0.2	0.0
Administrative Fees	-	-	0.1	0.7
Grants	1.1	0.7	2.0	3.8
Other General Government Units	1.1	0.0	0.5	0.0
International Organizations	0.0	0.3	1.1	2.0
Foreign governments	-	0.4	-	0.2
Grants from FGS	-	-	0.4	1.5
Total Expenditure	2.9	5.8	6.8	17.0
Operations	2.8	5.4	6.4	17.0
Wages & Salaries	2.0	3.6	5.1	9.7
Use of goods and services	0.7	1.3	0.7	6.8
Social Benefits	0.1	0.1	0.2	-
Conflict Resolution Expenses	-	0.4	0.3	0.1
State Formation	-	-	-	0.2
Contingency	-	-	-	0.2
Other Expenses	-	-	0.4	-
Grants To Other General Government Units	0.0	0.1	0.0	0.1
Grants from FGS	-	-	-	-
Capital Expenditure	0.1	0.3	-	-
	-	-	-	-
Deficit/Surplus	0.2	(0.2)	0.2	0.0

Source: Ministry of Finance, Jubbaland.

South West State Fiscal Outturn, Million US\$

	2016	2017
Total Revenue	2.3	4.0
Tax Revenue	0.8	1.4
Tax on Goods & Services	0.7	0.9
Trade Taxes	-	0.4
Taxes on income, profits, & capital gains	-	0.1
Tax on Payroll & workforce	-	0.0
Other Taxes	0.1	0.0
Non-Tax Revenue	0.0	0.0
Grants	1.4	2.7
Expenditure		
Total Expenditure	2.3	3.7
Compensation of employees	1.7	2.1
Use of goods & Services	0.6	1.6
Grants	-	-

Source: Ministry of Finance, South West State.

Galmudug Fiscal Outturn, Million US\$

	2016	2017
Total Revenue	2.9	2.4
Tax revenue	1.1	0.4
Tax on payroll & workforce	-	-
Tax on goods and services	-	0.3
Trade taxes	1.1	0.1
Other taxes	-	-
Grants	1.9	2.0
Current Grants From International Organizations	1.1	0.3
Grants from Federal Government of Somalia	0.7	1.7
Total Expenditure	2.9	1.1
Recurrent expenditure	2.9	1.1
Compensation of employees	1.5	0.9
Use of goods & Services	1.1	0.0
State Formation	0.3	0.1
Grants	-	-

Source: Ministry of Finance, Galmudug.

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Rapid Growth in Mobile Money: Stability or Vulnerability?

Somalia's economy has grown modestly in recent years, and it remains vulnerable to recurrent shocks. Between 2013 and 2017, real annual GDP growth averaged 2.5 percent. Growth occurred despite adverse weather conditions that severely reduced agricultural output in late 2016 and early 2017. Weather-related shocks have led to land degradation, low agricultural productivity, livestock mortality, and forced displacement, which have affected poor communities and depleted their ability to cope. For Somalia to enhance and sustain economic growth and escape chronic poverty, it must increase its resilience to shocks.

The growth recovery is set to continue beyond 2018, lifted by gains from ongoing reforms as well as improved security. Rising domestic demand, remittances, and donor inflows and consolidation of peace and security are expected to drive growth in 2019–20. Achieving higher growth will require acceleration of structural reforms, particularly in three areas: fiscal policy and public financial management, provision of basic services (to promote human development and inclusion), and improved resilience to weather shocks particularly in the agriculture sector.

Mobile money is an essential and widespread part of Somalia's economic eco-system. Almost three-quarters of the population aged 16 and above use mobile money on a regular basis. It is now the main transaction instrument used by both individuals and businesses across the country: presenting an opportunity to increase access to finance, spur inclusive growth, and promote resilient communities. However, with increasing dependence on mobile money as a medium of exchange comes increased vulnerabilities. If Somalia is to ensure mobile money contributes positively to economic recovery, smart regulation will be needed to address the risk and vulnerabilities of the system and to promote competition and innovation.

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