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A Roadmap to Unlocking Private Sector Investment In Somalia's Energy Sector

February 2022

Somalia Investment Promotion Office

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Frequently Used Abbreviations

ADRA	Adventist Development and Relief Agency
ASP	Application and Services Provider
AU	African Union
BDS	Business Development Services
BEC	Berbera Electricity Company
BECO	Banadir Electric Company
BRA	Banadir Regional Authority
CBS	Central Bank of Somalia
CIP	Communications Infrastructure Provider
CISP	Communications Infrastructure and Services Provider
COMESA	Common Market for Eastern and Southern African Community
CRM	Customer Relationship Management
DAI	Development Alternatives International
DARE	Djibouti Africa Regional Express
DB	Doing Business report
DDI	Domestic/Diasporic Direct Investment
DFI	Development Finance Institution
FCDO	Foreign, Commonwealth and Development Office, United Kingdom
EAC	East African Community
EASSy	East African Submarine Cable System
ESPs	Electricity Service Providers
FDI	Foreign Direct Investment
FGD	Focus Group Discussions
FGS	Federal Government of Somalia
FIB	Foreign Investment Board
FIL	Foreign Investment Law
FIPO	Foreign Investment Promotion Office
FMSs	Federated Member States
GBN	Government Broadband Network
GHI	Global Horizontal Insolation
GT	Gas Turbines
HAP	High Altitude Platforms
HIPCs	Heavily Indebted Poor Countries
HSDGs	High-speed diesel generation sets
ICT	Information and Communications Technology
IDP	Internally Displaced Person
IG	Investment Generated
IIAs	International Investment Agreements
ILO	International Labour Organization
IMF	International Monetary Fund
IPPs	Independent Power Providers
IPR	Intellectual Property Rights
ISP	Internet Service Provider
ITU	International Telecommunications Union
KII	Key Informant Interviews
LDCs	Least developed countries
LLCs	Large Load Customers

LV	**L**ow **V**oltage
M&E	**M**onitoring **and** **E**valuation
MNO	**M**obile **N**etwork **O**perator
MoCI	**M**inistry **o**f **C**ommerce and **I**ndustry
MoEWR	**M**inistry **o**f **E**nergy and **W**ater **R**esources
MoICT	**M**inistry **o**f **I**nformation, **C**ulture and **T**ourism
MoPIED	**M**inistry **o**f **P**lanning, **I**nvestment and **E**conomic **D**evelopment
MoCT	**M**inistry of **C**ommunications and **T**echnology (previously MPTT)
MPPT	**M**inistry of P**o**st, **T**elecommunication and **T**echnology
MSDG	**M**edium-**s**peed **d**iesel **g**eneration sets
MTOs	**M**oney **T**ransfer **O**perators
MVNO	**M**obile **V**irtual **N**etwork **O**perator
NCA	**N**ational **C**ommunications **A**gency
NEC	**N**ational **E**conomic **C**ouncil
NFAT	**N**ational **F**requency **A**llocation **T**able
NGOs	**N**on-**G**overnmental **O**rganizations
NOC	**N**etwork **O**perating **C**enter
ODA	**O**fficial **D**evelopment **A**ssistance
OECD	**O**rganization for **E**conomic **C**ooperation and **D**evelopment
OPIC	**O**verseas **P**rivate **I**nvestment **C**orporation
PBS	**P**ublic **B**roadcasting **S**ervices
PIP	**P**roject **I**nitiation **P**lan
PPD	**P**ublic-**P**rivate **D**ialogue
PRC	**P**earson **R**esearch and **C**onsulting
PSAWEN	**P**untland **S**tate **A**gency for **W**ater, **E**nergy and **N**atural Resources
PSTN	**P**ublic **S**witched **T**elephone **N**etworks
PV	**P**hoto**v**oltaic sets
RIO	**R**eference **I**nterconnection **O**ffer
SCCI	**S**omalia **C**hamber of **C**ommerce and **I**ndustry
SEA	**S**omaliland **E**lectricity **A**ssociation
SHS	**S**mall **H**ome **S**olar
SICO	**S**omalia **I**nternet **Co**mpany
SICTDA	**S**omali **ICT** **D**evelopment **A**ssociation
SIDA	**S**wedish **I**nternational **D**evelopment Cooperation **A**gency
SMC	**S**omali **M**edia **C**ouncil
SMEs	**S**mall and **M**edium **E**nterprises
SMP	**S**ignificant **M**arket **P**ower
SMP	**S**taff **M**onitored **P**rogram
SoIXP	**So**mali **I**nternet E**x**change **P**oint
SOMINVEST	**Som**alia **Invest**ment Promotion Office
SSA	**S**ub-**S**aharan **A**frica
ULF	**U**nified **L**icensing **F**ramework
UNCTAD	**U**nited **N**ations **C**onference on **T**rade **a**nd **D**evelopment
UNDP	**U**nited **N**ations **D**evelopment **P**rogram
USAID	**U**nited **S**tates **A**gency for **I**nternational **D**evelopment
VoIP	**V**oice **o**ver **IP**
WIOCC	**W**est **I**ndian **O**cean **C**able **C**onsortium
WTO	**W**orld **T**rade **O**rganization

Foreword

It gives me great pleasure to present this Investment Generation Survey Report which captures our starting point in the journey to enhance Foreign Direct Investment to Somalia.

As a Government, we are proactively pursuing and engaging potential foreign investors including development financial institutions as well as the Somali private sector to promote investment. This survey will, therefore, be instrumental in shaping our investor service offering. It will also serve as a baseline for tracking investor perception of reforms being delivered.

There are two reports presenting perceptions of the investment climate with a special focus on infrastructure – one focussed on the Energy sector and one focussed on Information and Communications Technology (ICT). These are priority sectors in both the National Development Plan (NDP-9) and the National Investment Promotion Strategy (NIPS). The sectors are recognized as key enablers for sustainable economic growth, the flourishment of other industries, and productivity gains.

In addition, the Energy and ICT sectors in Somalia are attractive to investors. Unlike many countries in the region where government has a monopoly or national provider, Somalia's Energy and ICT sectors are open. Indeed, recent sector reforms already realized by mid this year (2021) are creating an even more enabling environment for investment.

I take this opportunity to commend the Somalia Investment Promotion Office – SOMINVEST – at the Ministry of Planning, Investment and Economic Development, for this report and for their pursuit to engage investors. I also wish to appreciate all the Federal Government agencies that were involved. Further, I extend my sincere appreciation to the International Finance Corporation who made the undertaking of this survey possible.

Finally, I wish to underscore the Government's commitment to addressing both the real and perceived challenges to foreign investment in Somalia. Already the Federal Government has ramped up its investor outreach engagement hosting an initial series of general and sector-specific investor platforms. The Federal Government has also embarked on a raft of reforms, ranging from streamlining business registration in Somalia to sector-specific endeavors such as development of the Electricity Energy law as well as reforms in the ICT sector regulatory framework.

The Government is primed to do more to deliver the required reforms and communicate the same to all stakeholders. We look forward to working with all our partners to realize this transformation.

Hon. Gamal M. Hassan

Minister of Planning, Investment and Economic Development,
Federal Government of Somalia

1.0

Executive Summary

Executive Summary

Disclaimer: The data for this baseline study were collected during the emergence of the COVID-19 pandemic. While the authors have provided a preliminary commentary on the impact of COVID-19 on investment generation in Somalia, robust study is necessary to confirm the real impact of this pandemic. In addition, while every attempt was made to represent data that are both factual and valid, part of the data used in this analysis reflect perceptions of the private sector players with respect to different elements of investment generation, which could be different from those of government agencies of the Federal Government of Somalia (FGS). Additionally, in accordance with international best practice, this report considers diasporic investment as part of foreign direct investment.

1.1 Purpose and scope

Somalia enjoys many natural advantages for private sector investment and growth: entrepreneurial ability, proximity to large and growing markets, the largest coastline in Africa (save Madagascar), hence its steady growth in Foreign Direct Investment (FDI). But its potential has been constrained by a number of factors including regional issues, security, lack of competitiveness, weak or absent regulatory frameworks, insufficient government efforts to promote investment, which has led to limited investment and poor infrastructure. Somalia is working to reverse this negative cycle, and has already put in place a number of critical laws and regulations (like the Companies Act, Communications Act) and established key regulatory and promotional authorities.

This study presents a) the status of the Investment Climate for the Somalia ICT and Energy sectors as of 2020, using a combination of desk research and key informant interviews[1] and B) presents a set of recommendations for changes to the investment climate. The purpose of the present study on investment promotion intervention is to understand the investment climate in the information and communication technology (ICT) and energy sectors, and determine investment prospects in Somalia.

The survey findings will be vital to enabling the FGS to further institutionalize reforms allowing Somalia to alleviate and adapt to its trade and investment barriers, as well as improve the country's prospects as an FDI destination.

The survey was undertaken and analysed between January and June 2020 by Pearson Research Consulting, a Washington DC based international development company. Pearson Research Consulting (PRC) is a technology and data-driven global consultancy based in Washington, D.C. and Nairobi, Kenya. The baseline study had a sample of fifteen ICT firms (75 percent of target population of twenty ICT firms) who are providers of fiber networks, mobile and internet services and fifteen Energy firms active in electricity generation, and distribution (50 percent of target population of 30 energy firms). In addition, officials from the Somalia Chamber of Commerce and Industry (SCCI) as representatives of the private sector were interviewed. Management employees from these companies participated in key informant interviews (KII). In addition, interviews were conducted with government officials from the Ministry of Commerce and Industry (MoCI), the Ministry of Planning, Investment and Economic Development (MoPIED), the Ministry of Energy and Water Resources (MoEWR), the Ministry of Post, Telecommunications and Technology (MPPT[1]), the national Communications Authority (NCA), the Somalia Investment Promotion Office (SOMINVEST) and the Banadir Regional Authority (BRA). The survey data were collected by trained enumerators using key informant interviews and focus group discussion (FGD) protocols.

1.2 Why Invest in Somalia

Somalia offers a number of natural advantages for investors: its location on the easternmost tip of the African continent, known as the "Horn of Africa", has long made it a dynamic international crossroads where East meets West. It has one of the longest coastlines of Africa (more than 3,300 kilometers) with a population of approximately 15 million people, as well as an additional of 2 million in the diaspora. In addition to its very long coastline, Somalia has a growing strategic ports infrastructure. As the country re-establishes stability, these ports will provide massive opportunities to boost the country's economic growth, including in the energy sector.

There is **strong demand for affordable electricity**: The need for cheaper and reliable electricity throughout Somalia is high and growing, as evidenced by the expansion of independent power providers and the establishment of microgrids in a growing number of towns and cities. As a largely agricultural economy, demand is high in the livestock and fisheries sectors. Somalia has the **highest renewable potential in Africa**: an average of 3,000 hours of sunlight per year, and one of the highest rates of irradiation in Africa (200 kW/m^2). Wind speeds are nearly 20 miles per hour on average, which makes Somalia the location of Africa's highest potential for wind energy, particularly along its coastline. Estimated generation potential in only four km^2 could produce as much as the entire diesel and hybrid generation presently operating in-country.

The economy is growing consistently (from 2.8 percent in 2018 to 2.9 percent), due to a recovery in agriculture and strong domestic consumer demand. Inflation decreased (from 5.1 percent in 2018 to 4.4 percent in 2019) leading to a decrease in food prices. An improvement in the current account deficit (from 9 percent in 2018 to 8.3 percent in 2019) has been reported due to an increase in exports and a decrease in imports.

Foreign Direct Investment has increased steadily in the past several years due to diaspora remittances (estimated to be 50 to 60 percent of total FDI[2]) and foreign investments in the telecommunications, financial and construction sectors. Somalia has substantial potential with respect to resource extraction: agriculture, livestock, fishing and hydrocarbons are all present in economically significant concentrations. If the stabilization of the country takes place, this wealth as well as the telecommunications sector could attract many investors. The capital, Mogadishu, is currently experiencing a construction boom, fuelled mostly by Turkish investment, signalling a cash-on-the-barrelhead optimism that Somalia's economic climate is improving. The sectors that attract the most FDI is food processing (primarily that of bananas and fish) and, more recently, the telecommunications sector. Germany and the United States are the majority investors in Somalia[3].

The investment survey found investors were persuaded to invest in Somalia by the following factors: access to Somalia's market (78 percent), ease of doing business (70 percent), political stability (68 percent), the competitive cost of doing business (64 percent), economic stability (60 percent), the presence of supply chains and networks (52 percent) and the quality of infrastructure (50 percent), respectively.

[2] Ibid 77

[3] UNCTAD's 2020 World Investment Report.

1.3 Opportunities in the Energy Sector

The provision of energy in Somalia is a key challenge over the near future but presents a wide set of opportunities to both domestic and foreign investors. Electricity penetration remains low but has been increasing over the last decade. Somalia's total electricity capacity in 2019 stood at 106 MW, of which 100 MW are diesel[4]. The sector has created about 2,052 direct jobs and 7,500 indirect jobs.

Renewable energies are also gaining momentum, with solar and wind increasing their shares of the generation mix up to 18 MW. The country has the greatest potential of all African nations for wind shore power, which could generate between 30 to 45 GW, and is also among the top countries in the continent with regards to solar potential: generation potential is estimated to be around 2,000 kWh/m2[5].

The energy sector in Somalia provides significant opportunities in Investment in generation, transmission, and distribution, improving service efficiency, and enabling local firms to become investment ready through the provision of training, and consulting services (technical business operations and financial management).

1.4 Challenges to Investment

The investment climate in Somalia is currently experiencing a paradox: there is a large stock of potential investments and investors, due to Somalia's large diaspora, but political and institutional barriers limit both feasibility and the impact of investments.

The investment survey[6] of investors in the Energy and ICT sectors found that **the regulatory and legal environment was a significant impediment to investment**. Other important impediments were the commercial and political risks associated with investing in Somalia, a lack of dependable market data and the unpreparedness of the private sector to engage with potential foreign investors.

Investors perceived that all these factors had improved over the last 5 years, albeit from a low base. The positive trends in the business and investment climate could be attributed to private investment and entrepreneurism among local Somalis and the ongoing investment and regulatory reforms for the last five years by different Government Agencies. These reforms include overarching investment legal frameworks, for example the Foreign Investment Law (2015) under MOPIED and the Company Law (2019) under MoCI and sectoral frameworks like the Communication Act (2017), under NCA, and the Electricity Act under MoEWR.

These findings imply that the future prospects for the business environment in Somalia are positive and improving, but that investors are monitoring the situation for potential weaknesses and threats to their investments, as they would in any context. The government is making progress toward political stability and should continue to communicate its vision and policy for investment; economic stability and infrastructure strength remain challenges moving forward.

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[4] (USAID, 2018)

[5] African Development Bank, 2015

[6]Note that the investment survey is based on participants only from the Energy and ICT sectors of the economy. Their priorities may not be consistent with investors in other sectors of the economy.

Firms reported skill deficits due to limited trained man-power which compromised the quality of technical training available in the local job-market. Technical and vocational training is needed to address these capacity gaps. This could take place via bespoke training programs and through the introduction of curricula in existing post-secondary institutions, along with job-placements.

The impact of COVID-19 on businesses is fourfold: (1) decay in demand for goods and services due to shutdown measures and travel restrictions: the WB pulse survey indicated 50% of firms in Somalia had experienced a decline in sales in November/December 2020 compared to the same period in 2019; (2) reduced supply as firms are hampered by worker absences, productivity declines, and the disruption of global supply chains; (3) tightening of credit conditions and a liquidity crunch, as a result of the increase in uncertainty and risk aversion (50% of firms reporting facing liquidity shortages and 80% of firms had delayed payments to service providers and tax authorities); (4) and a fall in investment as uncertainty about the length of the pandemic and the depth of its impact affects firms' plans.

In Somalia firms have suspended and trimmed operations (from February 2020 to January 2021, 62% have temporarily suspended operations and on average firms shed **37%** of their employees compared to level in February 2020, up from **32%**in June/July and extending the job loss. For Somalia, it is estimated that the pandemic will result in a **potential GDP contraction ranging between 35-45 percent**[7]. As in a majority of least-developed countries (**LDC**s), this will result in significant welfare deterioration for Somali citizens at large and cause a precipitous fall in domestic revenue mobilization potential. However, there is room for optimism: in Somalia, almost all firms expect to return to their normal levels of sales and workforce, even though the majority of the firms expect to fall in arrears in the immediate future.[8]

1.5 Momentum for Investment

The investor survey highlighted that the majority (56 percent) of the private sector indicated that it was less difficult to invest in Somalia with the **current legal framework for investment. Investor confidence** has improved from 2016, when the majority (84 percent) of investors rated the environment to be 'poor', compare with 2020, when they rated the environment to be average (50 percent) or good (50 percent).

Nearly 70 percent of foreign investors surveyed indicated that the **ease of doing business** is a critical factor for their decision to invest in Somalia, and 66 percent have seen a **general improvement** in the investment climate since then. Over 60 percent of investors have seen a general improvement in all the **main factors for their investment decision**.

Even since the survey the government has taken steps to improve the environment for business.

On the international front, the government have resolved a number of issues with international institutions which are opening up opportunities for investment and growth.

[7] Ministry of Finance, FGS Estimates June 2020

[8]From findings of round 2 survey of 500 firms in 5 cities in Somalia, conducted between December 15 2020 and January 2021 by World Bank, IFC and UNIDO

- In March 2020, Somalia restored the country's access to regular concessional financing and launched the process toward debt relief[9]. It cleared its arrears to the African Development Bank (**AfDB**), the International Monetary Fund and the International Development Association, and reduced its external debt to $3.9 billion (78 percent of the revised 2020 gross domestic product (**GDP**) from $5.3 billion. To get to this point the country has had to establish a track record of economic reforms and adopt a strategy for reducing poverty.

- Following this announcement, the Multilateral Investment Guarantee Agency (**MIGA**), a member of the World Bank Group, announced that the Federal Government of Somalia had become the 182nd member of the Agency. MIGA promotes foreign direct investment in emerging economies by helping mitigate the risks of restrictions on currency conversion and transfer, breach of contract by governments, expropriation, and war and civil disturbance; and offering credit enhancement to private investors and lenders.

Internally the government has taken tangible steps to improve government facilitation of investment through clarification of responsibilities and mandates of the Foreign Investment Board and SOMINVEST, now closely collaborating with all key Federal Government Institutions and has over the last year established a solid working relationship with Federal Member State Investment Coordination Offices. This has positively impacted the overall investment climate.

Establishing a business has become easier—just prior to the survey implementation the Government launched a raft of policy, regulatory, administrative and institutional reforms across key sectors of the economy, including the Companies Act.

- The Companies Act is the principal regulatory instrument that regulates companies and provides the legal basis of formalized businesses. The law also provides the necessary foundation for operationalization of the online business registration system and help establish the basic requirements for corporate governance, financial and operational reporting by companies, shareholder rights, responsibilities of directors and dissolution of firms. Until the passage of the Companies Act 2019, companies were regulated under the Somali Civil Code of 1974, augmented by the Italian Civil Code of 1942 and a number of ad-hoc decrees and directives.

- The Companies Act simplified business registration by reducing necessary steps, for example, the need to hire a notary to reserve a name and to draft a memorandum of association, whereas the Act eliminates this step and the Ministry has published an standard memorandum of association for each company. Other simplifications include the removal of mandatory requirements to have a Company Seal, and the registration of the company with the Somali Chamber of Commerce and industry.

- From January 2021, the Ministry of Commerce and Industry of the Federal Government of Somalia rolled out the online business registration and business licensing portal. The portal enables online incorporation of companies. Through this online system, between January 2021 to May 2021, two hundred and seventy-eight (278) certificates of incorporation have been issued (against a universe of 1,393 previously registered companies)

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[9] The International Monetary Fund (IMF) and the World Bank's International Development Association have determined that Somalia has taken the necessary steps to begin receiving debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Somalia is the 37th country to reach this milestone, known as the HIPC Decision Point

The business intelligence report generated by the system reveals that as of August 2021, it now takes an average of 23.78 hours for the issuance of the incorporation certificate, with most registrations taking place in fewer than 12 hours.

Within the energy sector, the Ministry of Energy and Water Resources has been able to finalise the draft Electricity Act which is now (August 2021) being deliberated in Parliament. This act will provide the regulatory framework for management and development of the sector.

The ICT sector, under the auspices of the newly formed National Communications Authority, has substantially strengthened governance of the sector, including establishing regulations for Spectrum management and allocation, development and implementation of a unified licencing framework and development of regulations for interconnection. NCA has successfully issued Licenses to the Major Telecom Operators (**Hormuud Telecom, Somtel Somalia, Golis Telecom, Telesom and Nationlink Telecom**). The process of Licensing Internet Services Providers and other network operators is still underway.

1.6 Recommendations: Investing in Somalia

a. Development partners should continue to support the Government to develop alternative avenues for commercial financing to provide options for firms without ownership linkages with financing companies. This will open up competition in Somalia.

b. Somalia has a limited supply of trained man-power due to the prolonged conflict, which compromised the quality of technical training available in the local job-market as well as provoking the flight of talent. Technical and vocational training is needed to address these capacity gaps. This could take place through bespoke training programs and through the introduction of curricula in existing post-secondary institutions, along with job-placements.

c. A PPP approach between private sector players (ESPs), development partners and FGS Government Agencies can be explored to foster to such training facilities. Linkages between Somali and international technical programs and establishing recognised third-party accreditation mechanisms should form an important part of the training program. There is need to incorporate the business training component to educate the Somali private sector about investment negotiations, technical documentation, power purchase agreements and so forth. Programs that offer technical handholding to improve the efficiency and operations of private sector companies will sustain the training undertaken.

d. The establishment of a shared vision of electricity and ICT service provision requires a continued, constructive engagement between private sector players and their Government counterparts. This will prioritize the needs of investment, legal clarification, and continued cooperation. Budgetary support by development partners and prudent use of these funds will ensure the Public-Private Dialogue (**PPD**) will achieve buy-in for the reform process. Successful collaboration between government and the private sector under a PPP and effective regulation of the sector will require capacity building. The PPD should also encourage collaboration between private sector players in areas such as energy consolidation initiatives, interconnection in ICT and infrastructure sharing and investment.

e. **To address the institutional gaps, a structured capacity building program operating across the relevant Government agencies is recommended.** This would require complementing capacity injection efforts including provision of embedded consultants by development partners with staff training and mentoring. The National Investment Promotion Strategy and SOMINVEST's 5-year Corporate Strategy provide a basis for a joined-up approach to developing capacity that delivers bankable projects, and eventually investment.

f. **Automate Government Agencies processes and workflow:** There is great need to automate the entire investment process and workflow to reduce the processing, labor time, and cost demanded of investors. Further, given its overarching role in investment promotion, SOMINVEST should invest in a modern and robust customer relationship management (**CRM**) system.

g. The MoEWR Power Masterplan[10] presents a set of recommendations **for strengthening the Energy Sector** including institutional capacity building, strengthening of the regulatory environment and undertaking a number of market studies. From the private sector's perspective, as well as these initiatives they recognise the need to strengthen their own capacity to attract investment and upgrade their services (through financing, training and the provision of technical advice and consulting services).

[10]Unicon, Power Master Plan : Development of a Power Master Plan for Somalia, World Bank 2018

2.0

Investing in Somalia

2.1 Political and Economic Context

2.2 Investment Trends

2.3 Somalia's Business Enabling Environment

2.4 Effects of COVID-19 on Investment in Somalia

2.5 Developments Since the Survey

2.6 Key Findings and Recommendations

Investing in Somalia

2.1

Political and Economic Context

Investing In Somalia

2.1 Political and Economic Context

Somalia is a fragile state still emerging from more than 20 years of civil war and is continuing to rebuild its political institutions and improve the social landscape.

Deep cycles of internal political conflict fragmented the country, undermined legitimate institutions and destroyed the country's governance structures. In 1991, following the collapse of the Barre regime, clans in the north-west seceded from Somalia. The newly-formed, self-declared independent state of Somaliland has enjoyed relative stability but not received international recognition[11]. The legacy of conflict left Somalia low in rankings of key global social indices. For example, is estimated that 69 percent of Somalia's population lives below the poverty line and is most pronounced in the IDP camps (88 percent) and in the rural areas (75 percent). In 2011/12, Somalia began its transition with a Provisional Constitution and establishment of the Federal Government. The positive trajectory continues with successive peaceful transfers of power occurring in 2012 and again in 2017.

The protracted civil war caused a sharp decline of the Somalia economy, with a complete collapse prevented largely by private investment. The private sector stepped in during the period of international and regional isolation to provide critical services. While livestock accounts for about 60 percent of GDP and up to 93 percent of export earnings, generating an estimated $603 million annually, construction, telecommunications, and money transfer services have been the key growth sectors. In the absence of a formal banking sector, with 90 percent mobile penetration, money transfer services have flourished, handling up to $1.6 billion in annual remittances.

Generally, the government has a positive attitude toward foreign direct investment. However, the current investment climate must be improved before it will be ready for foreign investment. Formal economic activity is largely restricted to Mogadishu and the other regional capitals under the control of the Federal Government or Federal Member States.

Application of rules and regulations is unpredictable and civil courts are weak. In 2018 Somalia's outstanding total external debt was estimated at US$4.7 billion, of which US$4.5 billion were arrears [12].

Despite the challenges, there has been a positive economic trend over the past couple of years. According to the IMF, economic growth has rebounded, inflation has slowed and the trade deficit has narrowed. Accordingly, data through November 2018 show domestic revenue reaching $161 million, 31 percent higher than the same period in 2017, and the overall cash fiscal position showed a surplus of $8 million, according to the IMF. Economic sectors such as telecommunication, agriculture and construction have experienced steady growth in the recent years. Further, Somalia's government is inviting bids for an upcoming offshore hydrocarbon-licensing round. The IMF helped Somalia reach debt relief under the Heavily Indebted Poor Countries (**HIPC**) program in 2020 making the country eligible to obtain financing from international financial institutions and to avoid the country slipping back to arrears[13].

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[11] TeleGeography's GlobalComms, 2020.

[12] MoPIED, National Development Plan 2020- 2024.

[13] 2019 Investment Climate Statements: Somalia: USA Department Of State (https://www.state.gov/reports/2019-investment-climate-statements/somalia)

Investing in Somalia

2.2

Investment Trends

2.2 Investment Trends

During the past few years, Somalia has enjoyed a steady growth of foreign direct investments (FDI). However, despite steady growth between 2012 and 2018 Foreign direct investment in Somalia remains at 8.7 percent of GDP in 2018.

Somalia has a substantial potential with respect to natural resources: agriculture, livestock, fishing and hydrocarbons are all present in economically significant quantities. If the stabilization of the country takes place, this wealth as well as the telecommunications sector could attract many investors. Moreover, Somalia has a young population, a diaspora willing to invest in the country and, with the longest coastline in Africa, is strategically located to become a potential regional economic hub[14]. The investment climate in Somalia currently faces a paradox: there is a large stock of potential investments and investors due to Somalia's large diaspora, but political and institutional barriers limit the impact and feasibility of investments.

2.2.1 Investment Inflows

The baseline study sought to establish the amount of foreign direct/domestic direct investments in Somalia against the annual revenues obtained by the government from investments. According to the findings, it is evident that during the past few years, Somalia has enjoyed a steady growth of foreign direct investments (FDI). According to UNCTAD (2020), FDI inflows to Somalia reached $447 million in 2019, up from $408 million in 2018. FDI stock amounts to $3.15 billion in 2019, up from $2.7 billion in 2018 and $2.3 billion in 2017. FDI stocks have therefore increased significantly over the last 20 years, and inflows have been increasing year-over-year since 2013. (See Table 9).

[14] Ibid 59

Despite growth in FDI inflows in Somalia between 2012 and 2018, **the small size of Somalia's GDP, translates the total levels of investment to be incredibly small, at about $35 per person**[15]. This further implies that with enactment of the ongoing investment and business reforms, Somalia might even do better as both an FDI destination and at economic development with increased GDP in the region compared to its neighbours.

Over the last three decades, a lack of investment has worsened Somalia's precarious economic and social situation[16]. **In 2015, total investments represented only 8.2 percent of Somalia's GDP**[17]. This is less than half of the world median in the same year, and much lower than contemporary investments in neighbouring countries such as Djibouti at 50.8 percent, Kenya at 21.5 percent, and Ethiopia at 39.4 percent. In recent years, investment appears to be increasing domestic investment has been on the upward trend as most of the private sector-driven development has been largely driven by domestic investment. FDI inflows have increased at a fast rate than comparator countries both in absolute terms and as a percentage of GDP.

Foreign direct investment, net inflows (percent of GDP) in Somalia was reported at 8.2 percent in 2018, according to the World Bank collection of development indicators [18] and has increased by 16% between 2017 and 2019, which is above trend for most of its comparator countries as the graph below shows.

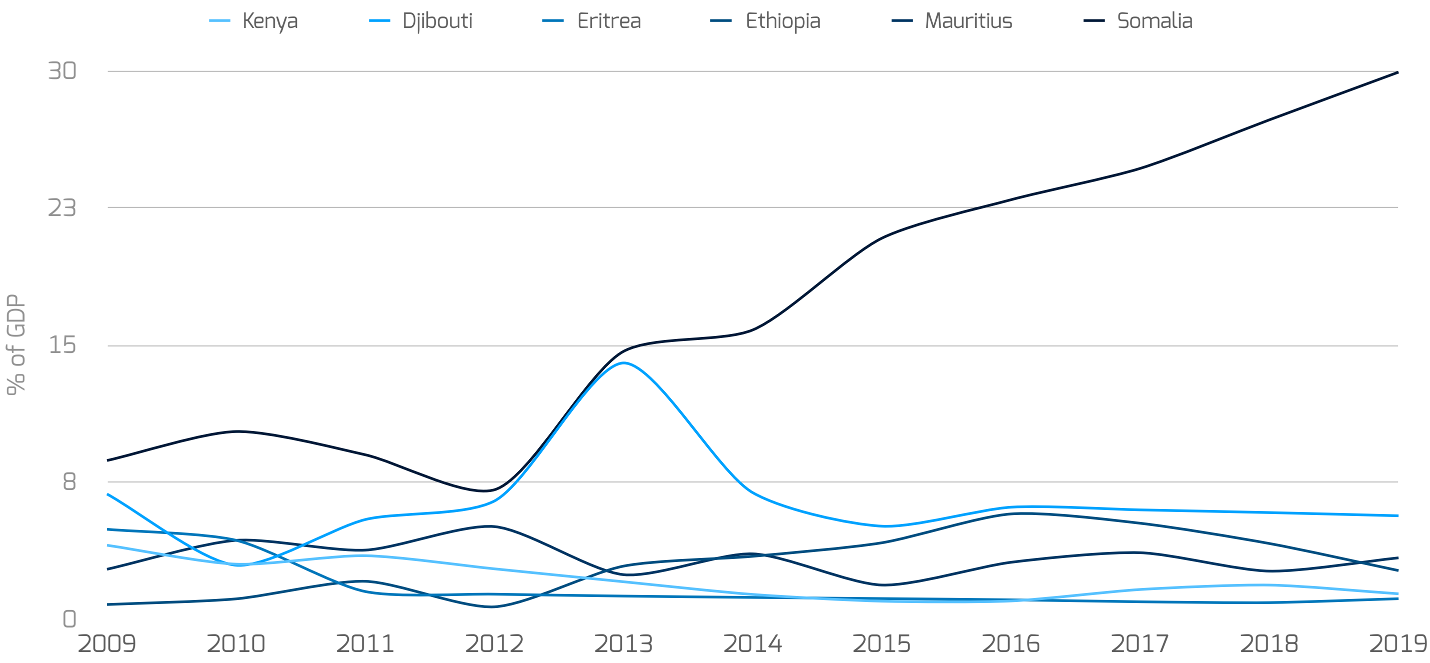


Figure 1 Total Inward FDI Inflows as percentage of GDP: Somalia vs. Comparators (2009-2019)[19]

[15] UNCTAD's 2020 World Investment Report

[16] Ibid.

[17] Ibid.

[18] https://data.worldbank.org/indicator/

[19] Source : UNCTAD : FDI flows are on a net basis (capital transactions' credits less debits between director investors and their foreign affiliates).

Table 1 FDI flows to Somalia and selected African countries, ($ millions UNCTAD, 2019)

Country	2017	2018	2019	Increase since 2017
Somalia	384	408	447	16%
Kenya	1,266	1,626	1,332	5%
Ethiopia	4,017	3,310	2,516	(18%)
Eritrea	55	61	67	21%
Djibouti	165	170	182	10%
Mauritius	5,221	5,292	5,765	10%

Total FDI stocks stood at $2.7 billion in 2018, up from $566 million in 2010 and a mere $4 million in 2000. FDI stocks have therefore increased significantly over the last 20 years, and inflows have been increasing year-over-year since 2013. There is a danger, however, that a global economic recession could cut off important FDI sources and endanger Somalia's economic growth. Strategic and sustained investments will be required to unlock the potential of Somalia's economy, and this is particularly true for the energy sector, which has long been neglected and now finds itself in a weaker state than before the collapse of the Barre regime in 1991.

The investment climate in Somalia currently faces a paradox: there is a large pool of potential investments and investors from Somalia's diaspora community, but political and institutional barriers limit the impact and feasibility of investments.

2.2.2 The role of the Diaspora

Most foreign investment in Somalia originates in the diaspora, which is estimated to be 50-60 percent of the total FDI received in 2020[20]. Many diasporic Somalis are eager to help their home country recover and see opportunities for impact investing. Organizations such as the Global Impact Investing Network, as well as the Federal Government of Somalia itself, consider the one million diasporic Somalis as key partners in Somalia's transition to development, due to their combination of local knowledge, foreign experience and hard capital[21].

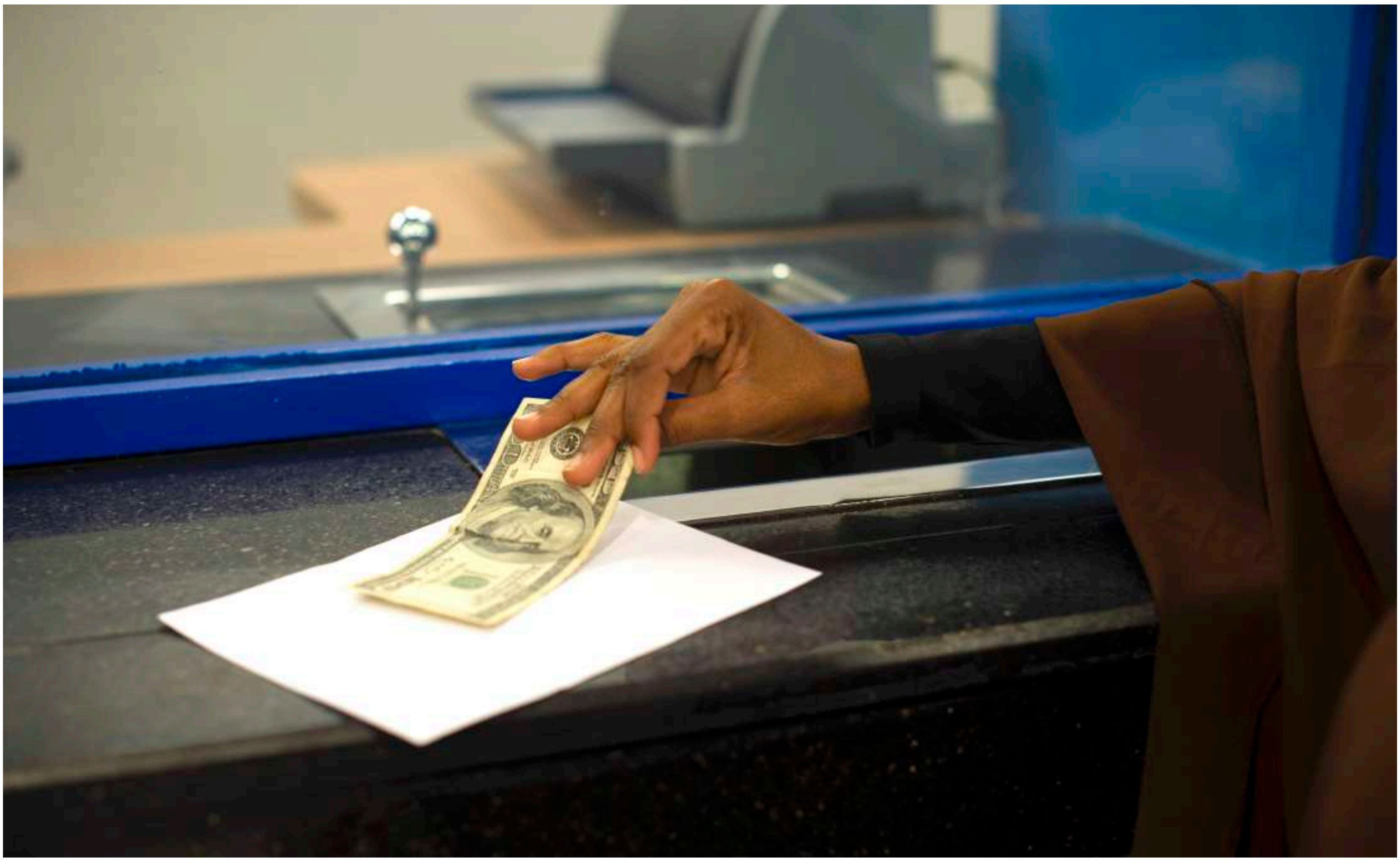
A survey of Diaspora investors by Shuraako[22] showed that diaspora investment tended to be modest, typically between US$5,000 and US$50,000, with the most popular investment sectors being Agriculture, Real Estate, Education and Fishing.

[20] Ibid 77

[21] (GIIN, 2015)

[22] Benson, J. *et al.* 2016. *Somali Diaspora Investment Survey Report: Typologies, Drivers, & Recommendations*, Shuraako

These investments are often channelled through remittances to family and community and may not be picked up on the data as diasporic investment: it is estimated US$1.3 billion flowed into the Somali regions from the worldwide diaspora in 2014, an amount twice the size of official development aid and five times the size of annual humanitarian aid, and equal to 24% of GDP.[23]



A recent study of transnational Somalia Investors distinguished between traditional remittances, and the social investment of diaspora communities (both of which are analysed by the Shuraako survey) and the transnational entrepreneur which dominate Somali business – these large scale enterprises are run by Somalis with dual or multiple nationalities, allowing them to move across multiple borders.24 This confusion of local, foreign, and diaspora investment complicates analysis and recommendations on FDI – investment can better be understood through the lens of Sector needs for investment and growth rather than distinguishing between FDI and local investment.

The definition of foreign investment under the Somalia foreign investment law of 2015 does not enable tracking or targeted treatment of diasporic investors. The report adopts the approach of considering diaspora investment as part of foreign direct investment as the international best practice. However, Somalia allows dual nationality which means investment diaspora can be considered a foreign investment or a domestic investor with foreign source of fund.25 In the future when constitutional reforms are carried out, including the registration of persons and citizenships (currently non-functional), more clarity on how to treat diasporic investment will be possible.

[23] ibid

[24]Meester J, Uzelac A., Elder C., 2019, Transnational Capital in Somalia, Netherlands Institute of International Relations 'Clingendael'

[25] The African Development Bank has identified investments in these businesses as potentially beneficial to Somalia.

2.2.3 Ownership of and Source of investment in Somali Firms[26]

The majority of the firms (78 percent) in the survey are locally owned (ICT: 75 percent, Energy: 80 percent). Joint ventures comprise 15 percent of the participants (ICT: 15 percent, Energy: 20 percent) and foreign owned, 8 percent (ICT: 10 percent, Energy: 15 percent), respectively.27 Therefore, most of the companies in Somalia were locally owned, with a small percentage joint venture, and a smaller percentage of wholly foreign-owned. Currently, Somalia lacks international companies in ICT and energy sectors.

ICT	ENERGY	AGGREGATE
[Local 75%]	[Local 80%]	[Local 78%]
[Foreign 10%]	[Foreign 5%]	[Foreign 8%]
[Joint Venture 15%]	[Joint Venture 15%]	[Joint Venture 15%]

Figure 2 Type and ownership of companies

The source of investment-financing used by the investors interviewed to kick-start their projects was nominated as local fundraising and was obtained from local shareholders (26.7 percent) and social networks (21.3 percent). Foreign investment from diasporic sources accounted for 29.3 percent of start-up capital for the firms surveyed with equity-raising mechanisms reported as 16 percent through commercial banks and 6.7 percent foreign investment. Cumulatively, local equity accounted for 64 percent while foreign investment accounted for 36 percent.

Therefore, development in the ICT and Energy sectors in Somalia has been predominantly achieved through private local investment and entrepreneurism, with limited foreign investment. Many of the telco's were either started by banks/remittance providers (such as Amtel, Somtel) or are very closely linked to banks/remittances providers (Hormuud and others). Lack of access to commercial bank financing still remains a barrier to entry and expansion of ICT firms, especially those without links to banks and money remittances organizations.

[26] Data from the baseline study were used to determine the structural characteristics of the firms, type of the firm, ownership (domestic, foreign, hybrid), investment sources, and multiple regions of operation, market share and turnover.

[27] See Figure 6, Annexes II and III provides details of respective firm ownership

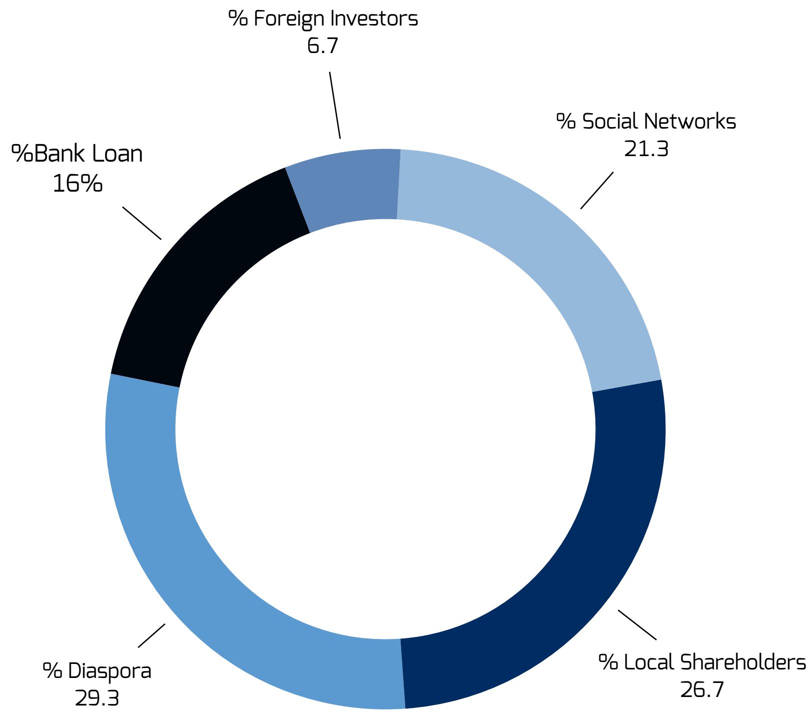


Figure 3 Source of investment financing

2.2.4 Types of Investment

In terms of specific areas of investment, procurement of machinery (42.5 percent) and procurement of land (17 percent) represented the largest outlays for firms. In the ICT sector, firms spent just over a third (35.9 percent) of their outlay on digital subscriber lines. Furniture (21.5 percent), procurement of inputs and equipment (18.7 percent) and intangibles (10.8 percent) formed the next most important categories of expenditure. In the energy sector, firms spent a third (33.2 percent) of their outlay on machinery. Land (13.3 percent), buildings (9.7 percent), equipment (6.3 percent) and furniture (3.0 percent) were the next most important outlays.

Table 2 Average investment expenditure by category, and percent[28]

Procurement of land	Procurement of Buildings (Energy only)	Procurement of machinery	Procurement of inputs and equipment	Input/raw (Energy only)	Hiring of staff	Furniture	Intangibles
Aggregate for both sectors							
$166,206	$136,667	$414,118	$81,882.40	$62,000	$12,705.90	$40,470.60	$11,294.10
17.0%	14.0%	42.5%	8.4%	6.4%	1.3%	4.1%	1.2%
Energy Sector							
$188,000	$136,666.70	$468,000	$893,33.30	$62,000	$136,66.70	$418,66.70	$10,800
18.6%	13.5%	46.3%	8.8%	6.1%	1.4%	4.1%	1.1%

[28] From field survey of Energy and ICT operators by Pearson Consulting

Total annual revenue earned from the investment –2017/18 fiscal year

In total, 60 percent of firms across both sectors indicated current revenue from their investments was $100,000 to $500,000, while 66.5 percent of firms (ICT: 80 percent; Energy: 53 percent) indicated that they would generate a projected $500,000 to $1.5 million in the future from these same investments. ICT firms (100 percent) indicated that their investments had generated between $100,000 and $500,000 in turnover in the 2017/18 fiscal year. A majority (80 percent) indicated that they projected $500,000 to $1.5 million in turnover in the future from their investment. Two-fifths (40 percent) of energy firms indicated that their investments had generated between $500,000 and $1.5 million in 2017/18, with the remainder 20 percent indicating that their investments had generated between $100,000 and $500,000.

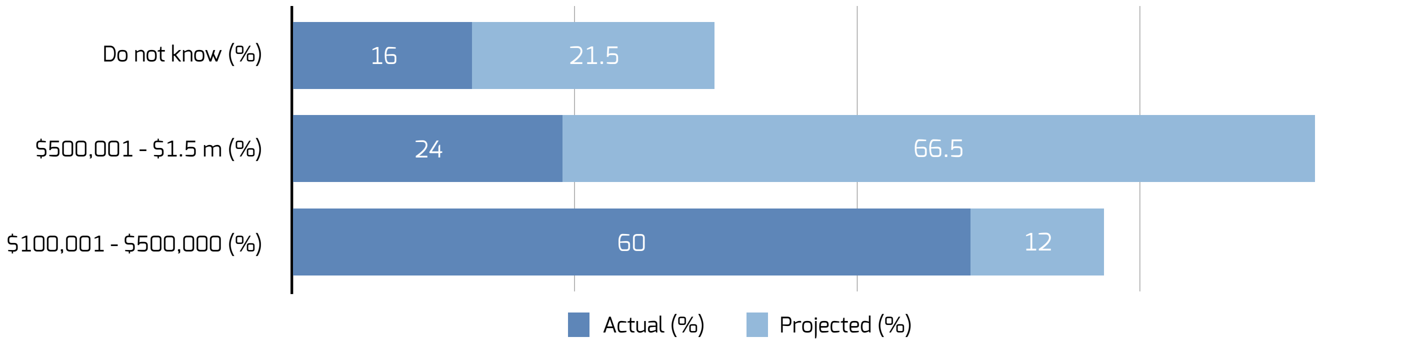


Figure 4 Total annual revenue earned from investment in 2017/18 fiscal year/projected annual revenue earned from investment

Need for additional operating financing/capital

All firms surveyed indicated that they require more operating financing/capital. Funding sources that the private sector players in both sectors would solicit equity for future investment include; donors (43%), investors (32%), commercial banks (19%) and local population (6%), respectively.

However, commercial banks were the most common source of funding to be solicited by ICT, at 42% while donors represented 32% of the total. This could be partly attributed to cross-ownership between operators and financial services providers. For instance, as mentioned above, some of the telco's were either started by banks and remittance providers (such as Amtel and Somtel) or are very closely linked with banks and remittances providers (such as Hormuud). For energy firms, 50% indicated that they would seek funding from donors, and investors (43.4%).

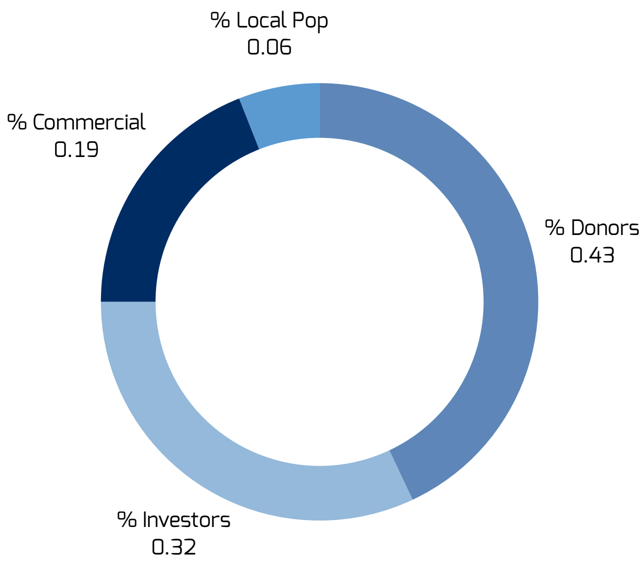


Figure 5 Funding sources for future investment

2.2.5 Regional Comparison

Somalia's historical circumstances and present challenges are unique, but the experience of other countries that have experienced rapid growth can nonetheless be helpful to Somalia's policymakers. The best points of comparison for Somalia are other coastal African countries, especially those that have recently undergone conflict and conflict de-escalation. Unlike many LDCs, Somalia has an extensive coastline (the longest of any African nation) and, at points in its history, had well-developed ports. As the country re-establishes stability, these ports will be the points of entry for massive opportunities to accelerate the country's growth, including in the energy and ICT fields, which rely heavily on imports and exports. Coastal African countries have, over the last 20 years, been measurably more economically successful than their landlocked counterparts.

Other African countries have recently suffered long or intermittent periods of strife. Upon emerging from these difficult periods, many of these nations have gone on to enjoy robust growth. One such nation is Côte d'Ivoire, which suffered a coup in 1999, two civil wars, from 2002-2007 and from 2010 to 2011, and an Al Qaeda attack in 2016[29]. The economy of Côte d'Ivoire recovered quickly after 2011, growing 10.7 percent in 2012 and at no less than 7 percent per year since[30]. The ICT sector in Côte d'Ivoire is significant, with 130 mobile phones per 100 inhabitants[31]. Three major international players operate in Côte d'Ivoire: Orange (France), MTN (South Africa) and MOOV/Morocco Telecom. Internet usage is near worldwide levels, at 43.8 percent versus 48.6 percent.

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[29] (BBC, 2019)

[30] (World Bank Group, 2019)

[31] (International Telecommunications Union, 2018)

Culturally, the sovereign nation most similar to Somalia may be Djibouti, with a 60 percent Somali population. However, it is only 36 percent the size of Somalia, 23,200 square kilometres compared with the 637,700 square kilometres of Somalia, and remains politically unified. Like Somalia, Djibouti is a coastal nation, with its national port, Djibouti City, being well-developed and strategically located at the mouth of the Red Sea and the Gulf of Aden.

Djibouti's ICT sector is less developed and service more expensive than in Somalia, due in large part to the fact that Djibouti Telecom maintains a government monopoly over the small nation[32]. Consequently, mobile penetration rates are lower, despite Djibouti's higher economic, political and social stability.

Somalia has a system of Islamic law and as a result its financial system has evolved to be compliant with Sharia principles, such as tighter controls on charging interest on loans and forbidding investment in haram activities like the production of alcohol, or pork husbandry. Islamic lending practices are widespread throughout Asia and Africa, and many economically successful countries, such as Malaysia and the United Arab Emirates, employ them, either partially or fully. The case of Malaysia is informative. While Malaysia does not mandate Islamic banking, the government promotes it heavily. According to Standard Chartered, the Malaysian government hopes to have 40 percent of its financial sector represented by Islamic banks by 2020. In 2016, the figure stood at 28 percent, up from just 7.1 percent in 2008[33].

[32] (International Telecommunications Union, 2018)

[33] (Allawala, 2018)

Islamic banks have been present in Malaysia since 1983 but have received renewed attention and support from the Central Bank and Government of Malaysia in the last decade. Regulatory gaps between Islamic and conventional gaps have additionally been closed, and Malaysia is currently a leading center for Islamic finance.

The geographical location of Somalia coupled with its long coastline presents Somalia with the advantage of easy access to the mentioned regional economies and further highlights the need to expedite reforms to benefit fully from international trade and attract FDI from these economies. In 2018, Somalia's FDI was valued at $0.41 billion, whereas Ethiopia's was $3.36 billion and Kenya's was $1.6 billion. Compared to Somalia, Kenya and Ethiopia are more attractive as FDI destinations. This is attributed to their relatively better investment environment and ease of doing business compared to Somalia.

Somalia's western neighbour, Ethiopia, is a landlocked nation with a large population, estimated at over 108 million in 2020[34], up from 73 million in 2007. According to the 2007 census[35], the most recent to cover population, nearly 4.6 million Ethiopian citizens were Somali, representing about 6.3 percent of the population. 4.4 million people lived in Ethiopia's Somali region, which borders Somalia to the east. Maintaining the same population ratios, Ethiopia's Somali population stands at 6.8 million Ethiopian nationals today. Further, over 200,000 Somali refugees reside in Ethiopia. While it has emerged from civic conflict and war with neighbours such as Eritrea, Ethiopia continues to struggle with ethnic conflict[36].

Nevertheless, the political situation in Ethiopia is more stable than in Somalia: the central government maintains authority, and transitions of power have been peaceful over the last 10 years[37]. The business environment in Ethiopia remains challenging: according to the 2020 World Bank Doing Business indicators, Ethiopia ranks relatively poorly, being ranked 159th out of 190[38].

Government-owned EthioTelecom is the sole provider of fixed-line, broadband and telecom services in Ethiopia. Mobile access is very restricted: there are 59.7 mobile phones in Ethiopia per 100 people (versus 74.4 across all of Sub-Saharan Africa), and only 49 percent of households have at least one mobile phone. The rural-urban divide is stark: 40 percent of rural households have mobiles, versus 84 percent of urban households[39]. While Ethiopia is landlocked, it is connected to undersea internet cables through Djibouti, Kenya and Sudan. Significant public resources have been devoted to the development of ICT in Ethiopia, but private investment has not been deployed, due at least partly to the presence of a government monopoly.

Relative to Somalia, Ethiopia has a large amount of installed generation capacity, with 4,206 MW of total capacity. 89 percent of this capacity is hydroelectric. Wind forms the second-largest portion of the electricity grid, at 8 percent of total capacity[40]. 40 percent of households have access to electricity, with large disparities between rural and urban households: 29 percent of rural households have access to power, versus 85 percent of urban households. In total, 12.6 million Ethiopian households lack power[41].

34 (CIA, 2020)

35 (Ethiopia Population Census Commission, 2007)

36 (Human Rights Watch, 2018)

37 (CIA, 2020)

38 (World Bank Group, 2020)

39 (ITU, 2017)

40 (USAID, 2020)

41 Ibid.

The Government of Ethiopia hopes to transition to a middle-income country by 2025, and aims to install 1 million connections per year, with the goal of achieving universal access by 2030. Ethiopia is also appealing to foreign investors due to the efficient business environment and the lure of a huge untapped domestic market. In addition, there is affordable electricity supply and an efficient airline. Furthermore, foreign investors see the huge domestic market with guaranteed access to external markets through the Special Economic Zones as a bonus. Ethiopia has committed to liberalizing foreign entrants into key sectors including financial services and telecoms. The political goodwill that has initiated economic reforms place Ethiopia in a position to gain from FDI.

Somalia's neighbour to the south and southwest, Kenya, is a middle-income country, and one of the most developed in east Africa. According to Kenya's 2019 census, it had a population of 47.5 million, of whom 5.8 percent (2.8 million) are Somali[42]. 300,000 Somali refugees live in Kenya as of 2017[43]. Since independence in 1963, Kenya has been one of the most stable countries in Eastern Africa. The business environment in Kenya is relatively good: it is ranked 56th in the World Bank's 2020 Doing Business rankings, with protections for minority investors and ease in getting credit specifically receiving praise[44]. Conversely, registering property and starting a business are particular points of weakness. Contract enforcement ranks around the world median, at 90th.

[42] (KNBS, 2019)

[43] (CIA, 2020)

[44] (World Bank Group, 2020)

Kenya has a high rate of mobile penetration, with 81.3 mobiles per 100 citizens, and 90 percent of homes have mobile phones, with the proportion rising to 97 percent in urban areas. Three mobile network operators and three MVNOs operate in Kenya. The leading MNO, Safaricom, is a publicly-traded joint venture partially owned by Vodafone (40 percent share) and the Kenyan Government (35 percent share)[45].

Mobile money is widespread, and Kenya was one of the first countries to develop mobile money. Over 85 percent of mobile subscriptions use some kind of mobile money service[46]. More than six thousand kilometres of fiber optic cable have been laid through all of Kenya's 47 counties, and several undersea cables link Kenya to the global internet, including the East African Marine Systems link with the UAE, the Eastern African Submarine System, Lion 2 and SEACOM. The Government of Kenya's development goals over the coming decades include widening access to broadband in Kenya and making Kenya into a regional tech hub[47].

Kenya has a total installed capacity of 2,351 MW, split three ways between hydroelectric (36 percent), thermal (33 percent) and geothermal (29 percent).

The cost of power is higher than in Ethiopia, at 21.7 cents per kWh[48]. Kenya's energy sector has been open to Independent Power Producers since the 1990s and has active private sector investments[49]. Power is relatively reliable and provision relatively transparent, although issues continue to exist, including ageing infrastructure. 64.5 percent of households have access to power, while a total of 3.5 million households have no power.

45 (ITU, 2017)

46 Ibid.

47 Ibid.

48 (World Bank Group, 2020)

49 (USAID, 2020)

The Kenyan government hopes to achieve universal access by 2022[50], although funding gaps, estimated at $14-18 billion, may complicate this. Kenya prides itself as a regional financial center and a hub for many multinationals doing business in the region, thus appealing to foreign investors. In addition, innovation and technology space is raising the attractiveness with the nation benefitting from consistently strong growth rates.[51]

[50] Ibid.

[51] https://kenyanwallstreet.com/ethiopia-and-kenya-ranked-regions-top-fdi-destinations

Investing in Somalia

2.3

Somalia's Business Enabling Environment

2.3 Somalia's Business Enabling Environment

According to a KII with prospective investors in the ICT and Energy Sectors, the main constraints to investing in Somalia include; a lack of regulatory frameworks, commercial and political risks associated with investing in Somalia, a lack of dependable market data and the unpreparedness of the private sector to engage with potential foreign investors[52].

This finding is consistent with Somalia's performance in the Doing Business survey. In its 2020 rankings, the World Bank ranked Somalia 190th out of 190 economies in its Doing Business index, with a score of 20 out of 100[53]. This metric captures numerous aspects, including regulations, trade across borders, and time required to set up a business. Somalia scored zeroes on measures for credit abstention, minority investor protection, tax payment and insolvency resolution. Credit abstention serves as a limit on domestic investment, while a lack of protection for minority investors and creditors hampers both domestic and foreign investment. Other challenges include a lack of uniform fees for procedures such as licensing. In practice, these fees are negotiable, which creates uncertainty for investors with poor negotiation skills or those naïve to an economy where mandated fees are open to modification at point of service.

There are additional barriers to international investment. For example, Somalia is still in the process of formalizing the foreign exchange process, which was historically controlled by the private-sector Hawala transfer services[54]. International NGOs often use investment-in-kind in order to bypass the resulting exchange rate uncertainty. Investments often rely on informal and clan networks and operate in a framework of sharia and customary laws, which hamper the FDI process as it disadvantages foreign investors[55]. On the other hand, these informal processes can make start-ups faster, as has been witnessed in the ICT sector.

As part of its 2017-2019 National Development Plan, the government of Somalia committed to identifying

[52] USAID—Power Africa in Somalia (https://www.usaid.gov/powerafrica/wherewework/somalia)

[53] (World Bank Group, 2020)

[54] (GIIN, 2015)

[55] (FGS, 2016)

and reducing regulatory, political and social barriers to investment, building investor confidence, supporting private sector investors and bolstering and regulating the financial sector[56]. It has additionally identified priority sectors for investments. These include the energy sector, which has been vastly underfunded, and which will need to be co-developed with the transportation sector in order to provide rural electrification and reduce reliance on charcoal, and the ICT sector, which is hampered by unreliable electricity and which has been developed through international investments in the absence of clear regulation.

The NDP emphasizes the need for labor-intensive investment to reduce the intertwined problems of unemployment and extremism[57], thus echoing NGO calls for impact investments which will offer social as well as pecuniary returns[58].

In addition to the NDP's goal of improving the domestic investment climate, the Federal Government of Somalia actively solicits international investments. In 2013, then-President Hassan Sheikh Mohamud declared Somalia "open for business" following the Federal Government of Somalia's consolidation of power over Mogadishu[59], and this stance has continued under the presidency of Mohamed Abdullahi Mohamed[60]. Some investments have materialized, including the EASSy connection as mentioned above in this report. Remittances from abroad mostly serve to finance Somalia's trade deficit but nonetheless represent a source of funding for investments[61].

56 (FGS, 2016)

57 Ibid.

58 (GIIN, 2015)

59 Ibid.

60 (Maruf, 2018)

61 (FGS, 2016)

2.3.1 Overall Legal Framework for Investment

The Foreign Investment Law (FIL) of the Federal Republic of Somalia, 2015 defines the institutional framework for investment registration, approval, facilitation and promotion. With the passage of the Foreign Investment Law, the Foreign Investment Board (FIB), chaired by the Director of the Ministry of Commerce and Industry (MoCI) and Somalia Investment Promotion Office (SOMINVEST) at the Ministry of Planning, Investment and Economic Development (MoPIED) were mandated to lead its operationalization.

The Ministry of Commerce and Industry (MoCI) and the Ministry of Planning, Investment and Economic Development (MoPIED) are the most actively engaged institutions on commerce and investment in Somalia MoPIED is mandated with the overall coordination of planning, investment and economic development in the country. The Investment Promotion Office, SOMINVEST, is currently a department of MoPIED (the Investment Directorate and also the interim Investment Promotion Agency) awaiting legislations in Parliament. Through the Foreign Investment law (FIL 2015, law No. 1005) and a recent Prime Minister's decree (Decree No: OPM/ 0235/06/2020), it is SOMINVEST that is mandated with all investment promotion functions in the country.

The FIL does not specify the list of sectors that are closed or restricted to FDI, hence Somalia does not have a negative list informing sectors that are prohibited to foreign investment (such as foreign ownership ceiling/ local equity requirement or special authorization processes).

According to the FIL, the oversight of the investment functions and reporting lines, involves two ministries as follows:

1. The Ministry of Planning, Investment and Economic Development (MoPIED):

- The Foreign Investment Board is established at MoPIED (FIL, Article 3),
- The Director General of MoPIED is a member of the Board (FIL, Article 3),
- The Foreign Investment Promotion Office located at MoPIED (FIL, Article 8)

2. The Ministry of Commerce and Industry (MoCI)

- The Director General of MoCI is the Chairman of the Foreign Investment Board (FIL, Article 3),

There is also a National Economic Council (**NEC**), which was established in July 2018 by presidential decree. It is chaired by the President, with the Ministries of Finance and Planning, the Central Bank Governor, and Federal Member states as Council members.

2.3.2 Investor Feedback on the Investment Climate

According to investor interviews, negative investment experience was attributed to hardships due to deficiencies in the legal framework such as bureaucracy, high legal fees, long and numerous processes, lack of transparency and poor access to investment information, inability to enforce a contract, corruption, and an inadequate governance system.

These challenges are mostly due to the de facto environment (implementation) and underscore the importance of implementing the current legal frameworks in the ICT and energy sectors by the Government Agencies, hence making it both difficult and risky to invest in Somalia. There is a need to fast-track the implementation of the sectoral legal frameworks to improve the investment environment.

As a result of the reforms in the policy and regulatory investment environment in Somalia, the respondents were asked to rate their **overall level of investor confidence in Somalia in 2020 compared to 2016.**

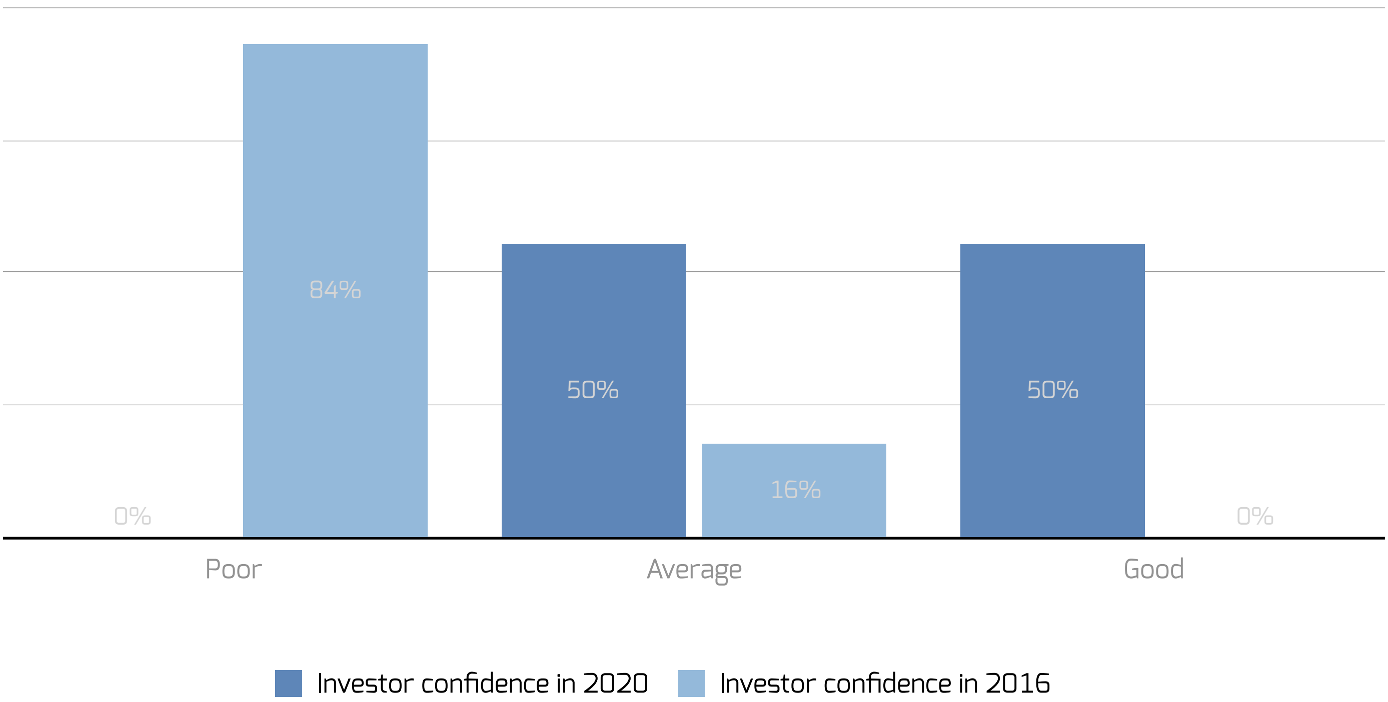


Figure 6 Investor confidence and predictability of the investment environment in Somalia

The confidence improved from 2016, when a majority (84 percent) of investors rated the environment to be 'poor', to 2020, when they rated the environment to be average (50 percent) or good (50 percent).

The new legal framework was universally (70 percent) judged to represent a strong positive signal of the government's desire to promote private investment by ICT and energy investors. However, 20 percent of the investors judged the new legal framework to be a negative signal with respect to the government's desire to promote private investment by ICT and energy investors.

2.3.3 Economy-wide Constraints to Investment in Somalia

Investor feedback on the factors stalling or blocking future investment provides useful insights for the government as all or most of these issues are directly under government control. Investors were asked questions with reference to 23 different barriers to investment in Somalia in order to understand their experience and the investment climate. They indicated whether these factors might represent complete hindrances, partial obstacles, or non-obstacles for current or future investment in Somalia.

Table 3 Factors stalling or blocking current or future investment from occurring in Somalia

Economy-wide constraints to investment in Somalia	Has hindered or even blocked my ability to invest/ operate	Very much an obstacle	Somewhat an obstacle	Not an obstacle
Political instability in Somalia	40%	60%	0%	0%
Economic instability	100%	0%	0%	0%
High inflation	0%	100%	0%	0%
Currency fluctuations	56%	44%	0%	0%
Lack of transparency / Informal/non-official payments	100%	0%	0%	0%
Lack of contract enforcement and rule of law in Somalia	0%	0%	40%	60%
Long and complicated registration process	0%	0%	40%	60%
Finding reliable information about investment opportunities inside Somalia	0%	100%	0%	0%
Inadequate banking system	0%	0%	44%	56%
Unavailability of skilled labor	0%	68%	32%	0%
High taxation regime	60%	40%	0%	0%
Complex and conflicting operations laws	40%	0%	60%	0%
Poor infrastructure	56%	44%	0%	0%
Cultural practices	0%	0%	0%	100%
Insecurity/high crime rate in Somalia	60%	40%	0%	0%
Unavailability of additional financial options/ Inadequate funds for investment	0%	0%	100%	0%
Lack of confidence surrounding money transfer process	0%	0%	0%	100%
Inadequate channels to send money	0%	4%	0%	96%
Cost of transfer fees	0%	0%	0%	100%
Government bureaucracy	40%	60%	0%	0%
Lack of connections in Somalia	40%	0%	60%	0%
High regulatory costs	68%	32%	0%	0%
Resistance from incumbent operators	0%	68%	32%	0%

Investors in the two surveyed sectors universally (100 percent) identified lack of transparency and economic instability as hindrances or blockages to their ability to operate. Both high inflation and a lack of information were universally (100 percent) described as very much being obstacles.

Inadequate funds (100 percent) were universally recognized as only somewhat being an obstacle, while ICT and energy investors both agreed (100 percent) that money transfers and their associated fees were not obstacles.

These findings are helpful in determining specific points that the government should prioritize, if possible: Lack of transparency and economic instability are the most agreed-upon hindrances, followed by currency fluctuations, high taxes, political instability, poor infrastructure, insecurity, bureaucracy and high regulatory costs. High inflation and a lack of information are also important obstacles for both ICT and energy investors. Many of these factors are related to regulatory implementation rather than regulatory development. Despite their feedback on their need for investment, availability of funds was not rated as a significant obstacle for their investment.

2.3.4 Main Reason for Investing in Somalia

The firms were asked the extent to which key factors had influenced their decision and also how these factors had changed since their decisions were taken.

Table 4 Investors' ranking of main reasons for investing in the sector (percentages)

Reason for investing in Somalia	Importance of each factor in your location decision		How have these factors changed since your decision?		
	Not important	Important	Same	Better	Worse
Access to Somalia market	22	78	32	68	0
Ease of doing business	30	70	34	66	0
Political stability	32	68	30	70	0
Competitive cost of doing business	36	64	40	60	0
Economic stability	40	60	24	76	0
Presence of supply chains and networks	48	52	42	58	0
Acquisition of strategic assets	44	56	40	60	0
Quality of infrastructure	50	50	50	50	0
Availability of skilled labor	54	46	36	64	0
Access to regional markets	68	32	44	56	0
Preferential access to global markets	70	30	40	60	0
Quality of life	70	30	34	66	0
Level of government support	72	28	40	60	0
Availability of raw materials	78	22	70	30	0
Availability of incentives (Fiscal and non-fiscal)	80	20	90	10	0
Presence of joint venture partner	88	12	50	50	0

Investors were primarily influenced to invest in Somalia by the following factors, which had also improved for the better since they made their decision to invest: access to Somalia's market (78 percent), ease of doing business (70 percent), political stability (68 percent), the competitive cost of doing business (64 percent), economic stability (60 percent), the presence of supply chains and networks (52 percent) and the quality of infrastructure (50 percent), respectively. Whilst incentives were seen as unimportant this is possibly because they were not available or offered.

A majority (80 percent) of investors indicated that access to global markets was not an important factor in deciding whether or not to invest in Somalia. ICT investors noted improvements in political stability (100 percent), the cost of doing business (100 percent), the availability of skilled labor (80 percent), and the level of support received from the government since they chose to invest (80 percent). Quality of life and availability of JV partners were judged to be the same (100 percent) since the investment decision was taken.

These findings imply that the future prospects for the business environment in Somalia are positive and improving, but that investors are monitoring the situation for potential weaknesses and threats to their investments, as they would in any country. The government is making progress in improving political stability, but economic stability and infrastructure strength remain challenges moving forwardThis will lead to a multiplier effect in the form of increased private sector investment, which will lead both to improvements in Somalia's fiscal situation and to the well-known cascade of positive socio-economic impacts afforded a prospering economy.

2.3.5 Factors Influencing Investment Decisions

Investors were asked about how a set of ten different factors would encourage their current or future investment in Somalia.

Table 5 Factors encouraging current or future investment from occurring in Somalia

No	Factors	A highly encouraging factor	An encouraging factor	A somewhat encouraging factor	Not an encouraging factor
1.	Improving political stability	100%	0%	0%	0%
2	Legal reforms in the ICT sector (implementation of the Communication Act)	100%	0%	0%	0%
3.	Improving security situation	100%	0%	0%	0%
4.	Robust telecommunication sector (ICT only)	100%	0%	0%	0%
5.	Reliable banking system	40%	0%	0%	60%
6.	Availability of skilled labor	40%	0%	60%	0%
7.	Improving economic stability	32%	8%	0%	60%
8.	Legal reforms in the energy sector	0%	7%	0%	93%
9.	Infrastructure	8%	92%	0%	0%
10.	Entrepreneurial culture of Somalis	0%	96%	4%	20%
11.	Geographical location	0%	40%	0%	60%

Investors universally (100 percent) agreed that improving political stability and an improving security situation were highly encouraging factors.

The overwhelming majority noted improvement of the various factors in 2020 compared to 2016 or when they started their companies. The reforms influencing these factors included Foreign Investment Law (2015), Company Law (2019), Communication Act (2017) and the Electricity Act. For instance, clarity and quality of Somalia's investment vision and policy was worse in 2016 as indicated by 90 percent of the respondents compared to 2020 which was rated 'poor' by 56 percent of investors. The same was the case for transparency and predictability in the conduct of public agencies, which was rated by majority investors (60 percent) as 'poor' in 2020 compared to worse (79 percent) in 2016.

2.3.6 Private Sector Capacity

The survey sought to establish the technical and non-technical challenges that the surveyed firms face in their operations, to support future private sector development programs.

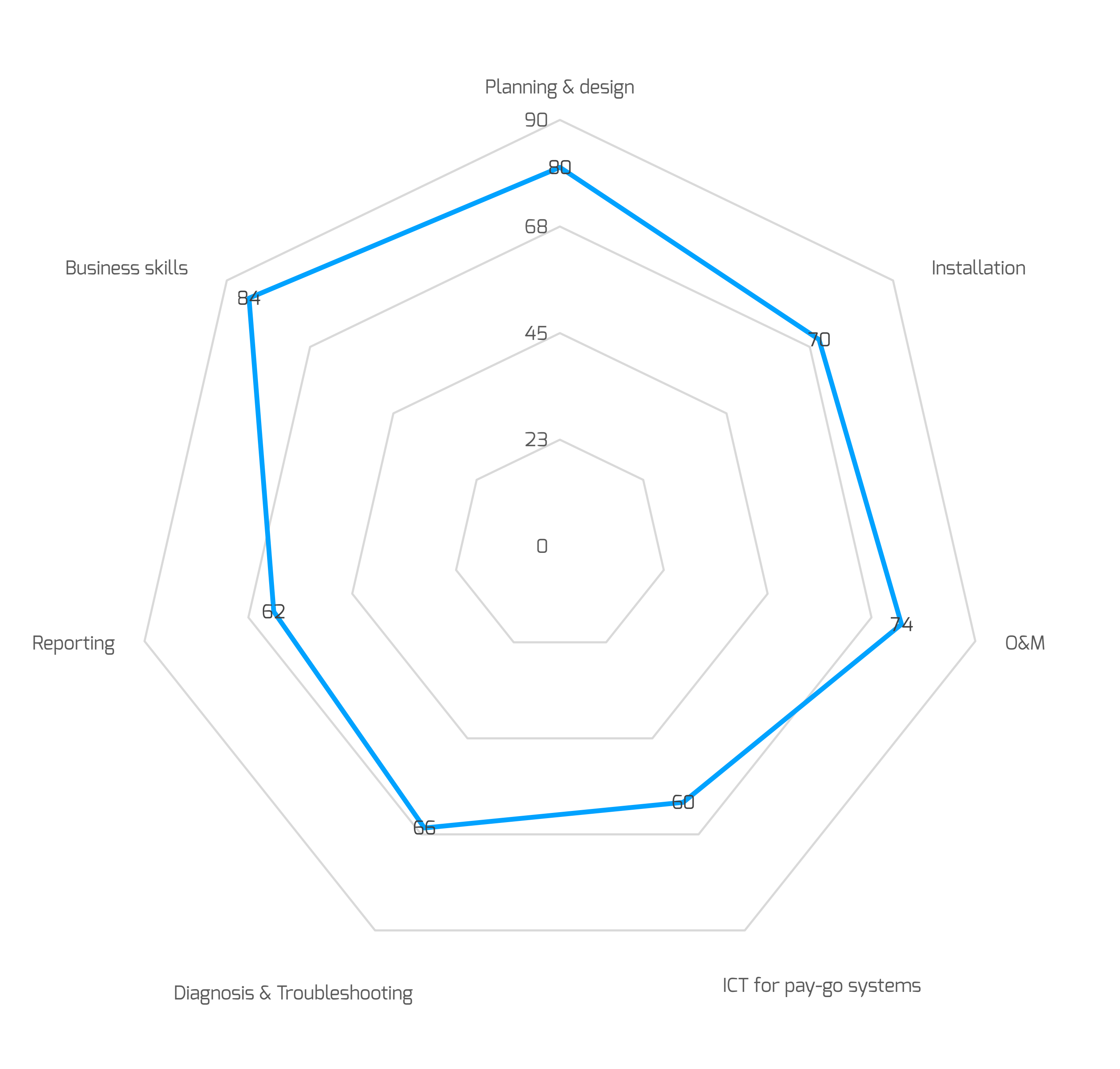


Figure 7 Technical and non-technical challenges (ICT and Energy firms)

The technical challenges faced by ICT and energy firms surveyed included: planning and design (80 percent), O&M (74 percent), installation (70 percent), diagnosis and troubleshooting (66 percent), reporting (62 percent) and ICT for pay-go systems (60 percent). A lack of business skills (84 percent) was the non-technical challenge that they reported.

These technical and non-technical challenges led to financial losses among the firms.

Somalia has limited trained man-power due to its prolonged internal conflict, which compromised the quality of technical training available in the local job-market.

Technical and vocational training is needed to address these capacity gaps. This could take place through bespoke training program and through the introduction of curricula in existing post-secondary institutions, along with job-placements. The entrepreneurial spirit of Somalis implies a ready up-take of new skills that will unlock success in the burgeoning recovery economy.

To become investment ready entities, both energy and ICT firms surveyed indicated that they would require technical training support in; network standardization (82 percent), losses reduction (78 percent), and equipment standardization (74 percent), respectively. In addition, they also would require non-technical training support in business development services (**BDS**) (76 percent), investment training (70 percent), financial and prudential reporting (68 percent), risk management (66 percent), environmental and social standards (64 percent), and corporate governance (60 percent), respectively. More specific to their sector, energy firms further indicated that they would require technical training support on the following off grid systems value chain areas; unmetered supplies (70 percent), electricity thefts (66 percent), incorrect billing (62 percent), defective electricity meters (60 percent) and wrong tariffs (56 percent), respectively. For on-grid-tied systems technical training sought included: planning and design for grid systems (80 percent) and system operation software (74 percent), respectively. Given the lack of available skilled workers in Somalia, rigorous in-house capacity building would enable the firms to modernize their operations and operate as world-class entities, thereby attracting more investment in the future.

Figure 8 Training needs : Non Technical

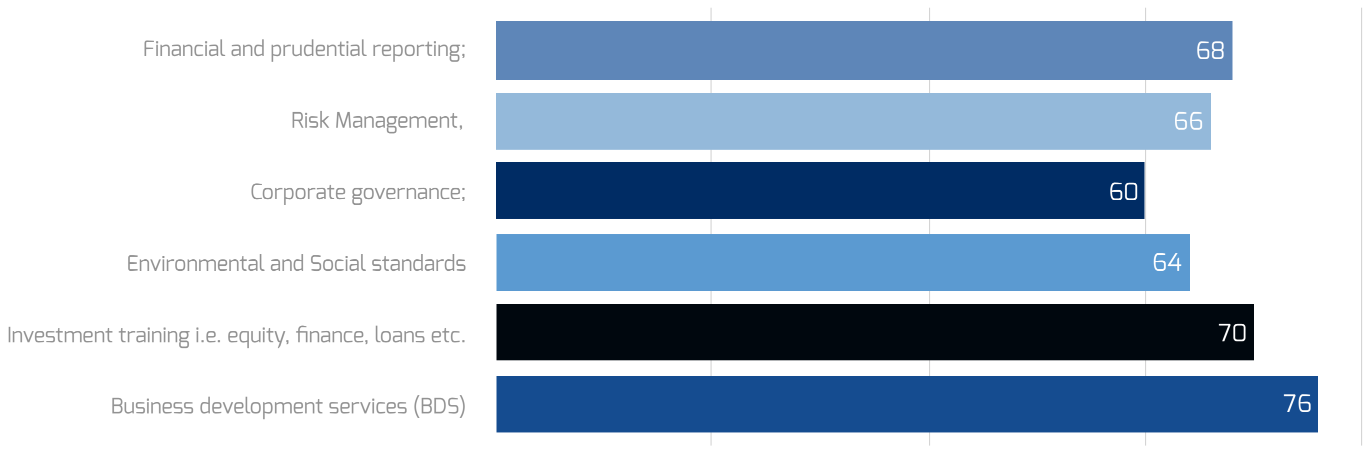


Figure 9 Off-grid systems training needs

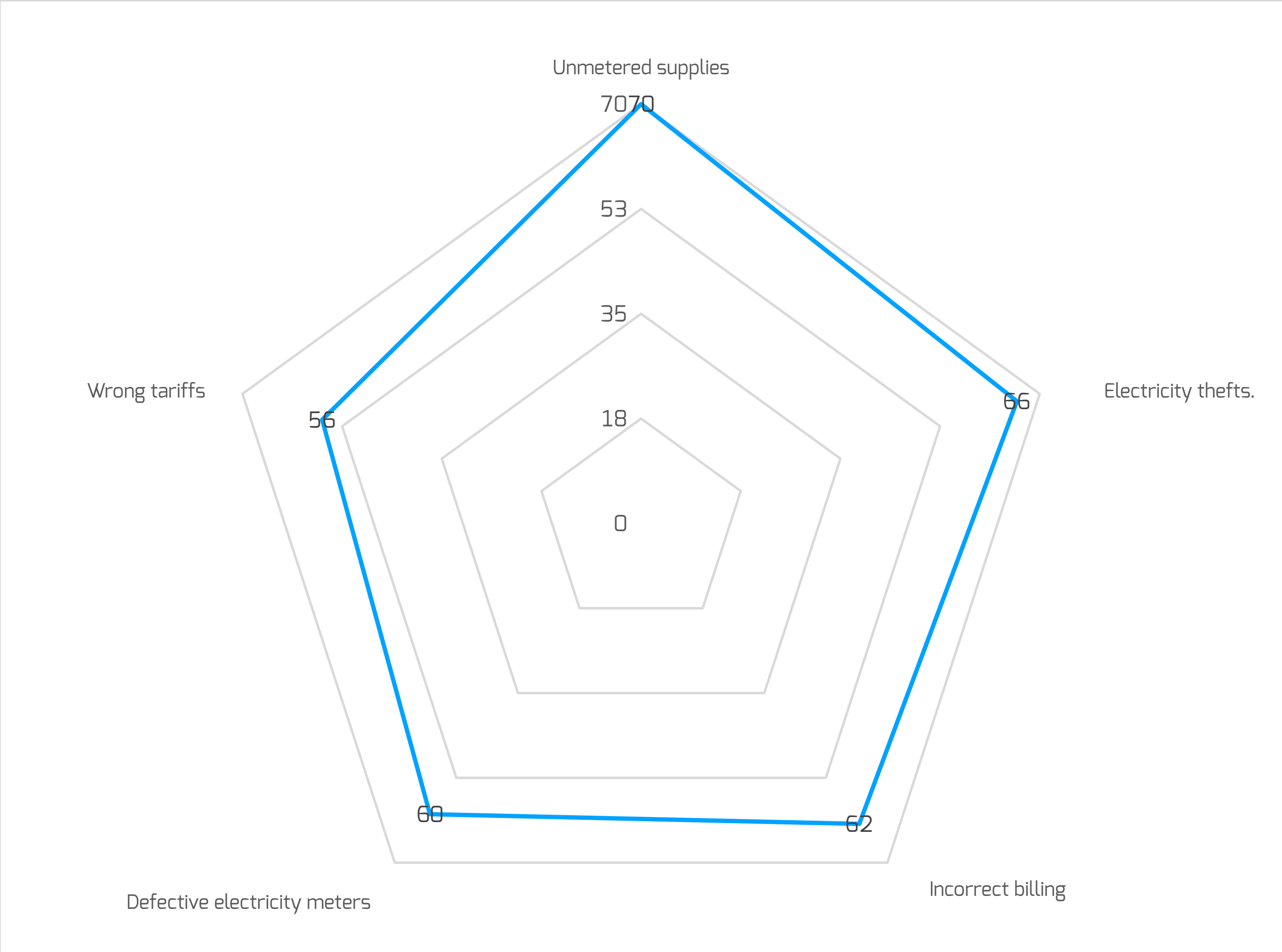


Figure 10 On grid-tied systems training needs

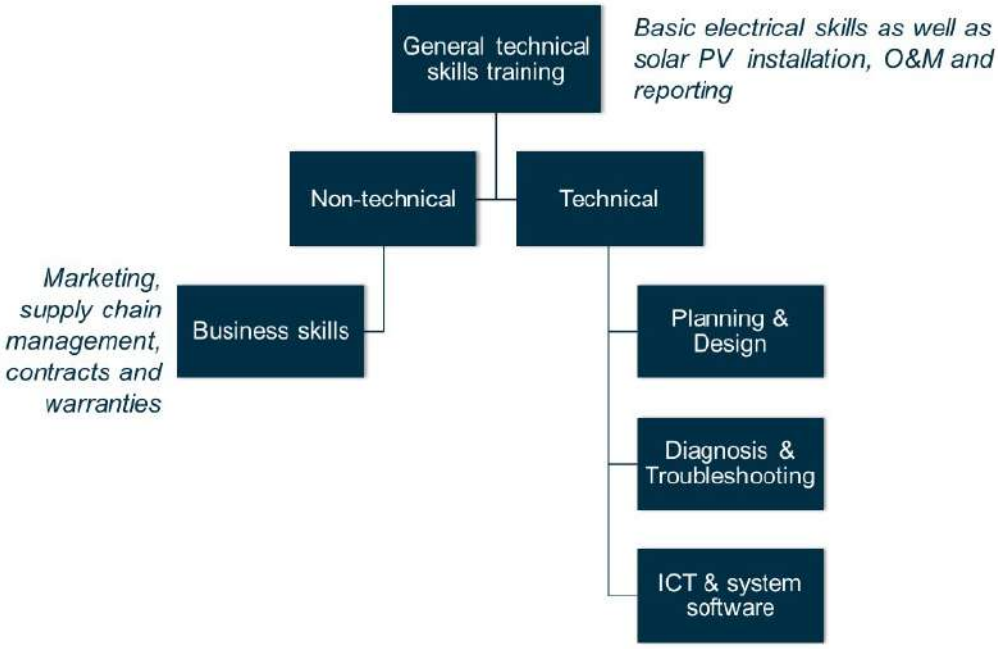


Figure 11 Proposed private sector development curriculum

According to FGD with Energy sector players, the training needs to cover the value chain for off grid systems. This includes the Planning and design, Installation, O&M, diagnosis and troubleshooting, ICT for pay-go system, reporting and business skills. In addition, grid-tied systems require the following technical skills: planning and design for grid systems and system operation software.

It will be useful to build the training program up from basic to more complex tasks. The respondents suggested that installation and O&M are straightforward tasks to train. Training on diagnosis and troubleshooting, ICT and planning and design of systems will take additional focused training.

One highlighted requirement was training on reporting, especially for more complex grid-tied installations as keeping track of installation and O&M data is essential to support any subsequent issues and repairs. After a general technical skills training focused on installation and O&M, the option to choose a technical and non-technical specialization should be offered to the trainees. The technical specialization would focus on the above-mentioned more-technical training components in the off-grid space for diagnosis and troubleshooting, ICT and planning and design of systems for those trainees that show interest in and aptitude for progression to more complex tasks.

Establishing a training facility can be more than an important place for teaching technical and business skills, indeed learning in such a facility may also confer general life skills[62]. In terms of technological focus, the technical training should impart basic electrical skills such as the wiring of systems in buildings, solar PV for power generation, basic hydraulics for water pumping systems, micro-grids, diesel generators and batteries. The establishment of the facility should be a co-creation process between public and private actors. Although donors are key stakeholders in the establishment of the skills facility, it is the private sector that remains the most important actor. This is particularly relevant in Somalia, where the private sector runs the energy sector with little to no government involvement. Therefore, as many participants emphasised, to ensure the sustainability of the training facility, and to ensure that the skills training translates into jobs it is crucial that the training facility is led by an interested private sector[63].

[62] Figure 45 Curriculum

[63] International Labour Organization (2016)

Investing in Somalia

2.4

Effects of COVID-19 on Investment in Somalia

2.4 Effects of COVID-19 on Investment in Somalia

The COVID-19 pandemic represents a serious risk to the Somali economy and consequently to the Government's fiscal policy priorities for FY2020 and beyond. With countries around the world attempting to enforce strict screening and social distancing measures to 'flatten the curve' in hopes of not overwhelming healthcare systems, more than two-thirds of multinational investors in developing countries are reporting disruptions in supply chains, declines in revenues, and drops in production within months of COVID-19 first emerging[64].

The impacts are likely to intensify over time. Developing economies must strive to restore and increase capital inflows, particularly in the form of domestic direct investment (DDI) and FDI. Particularly, FDI inflows have long been a key building block for these, providing the largest source of external finance—more than official development assistance, or portfolio investment flows. Hence, they will be crucial for a COVID-19 recovery. These were already slowing before the COVID-19 outbreak, amid rising protectionism and other uncertainties that eroded investor confidence. The pandemic added a new—and unprecedented—risk to the mix, sending business confidence to historic lows, and resulting in an expected decline of 40 percent in global FDI flows[65].

The impact of the COVID-19 pandemic on businesses is four-fold: (1) decay in demand for goods and services due to shutdown measures and travel restrictions the WB pulse survey indicated 50% of firms in Somalia had experienced a decline in sales in November/December 2020 compared to the same period in 2019; (2) reduced supply as firms are hampered by worker absences, productivity declines, and the disruption of global supply chains; (3) tightening of credit conditions and a liquidity crunch, as a result of the increase in uncertainty and risk aversion (50% of firms reporting facing liquidity shortages and 80% of firms had delayed payments to service providers and tax authorities);; (4) and a fall in investment as uncertainty about the length of the outbreak and the depth of its impact affects firms' plans. In Somalia firms have suspended and trimmed operations (from February 2020 to January 2021, 62% have temporarily suspended operations and on average firms shed 37% of their employees compared to level in February 2020, up from 32% in June/July and extending the job loss.

Specifically, for Somalia, it is estimated that the pandemic will result in a **potential GDP contraction of 35 to 45 percent[66]**. As in majority of LDCs, this will result in significant welfare deterioration for Somali citizens at large and cause a concerning fall in domestic revenue mobilization potential. However, there is room for optimism: in Somalia, almost all firms expect to return to their normal levels of sales and workforce, even though the majority of the firms expect to fall in arrears in the immediate future[67]

[64] World Bank, Global Investment Competitiveness Report 2019-2020.

[65] UNCTAD, September 2020

[66] Ministry of Finance, FGS Estimates June 2020

[67]From findings of round 2 survey of 500 firms in 5 cities in Somalia, conducted between December 15 2020 and January 2021 by World Bank, IFC and UNIDO

However, there is room for optimism: in Somalia, almost all firms expect to return to their normal levels of sales and workforce, even though the majority of the firms expect to fall in arrears in the immediate future[68]. The specific likely impacts of COVID-19, which creates a need for a more robust study to unravel the real impact and its magnitude include:

1. **Private consumption expenditure**: Somalia's economic growth is largely driven by private consumption expenditure that is primarily financed by remittance inflows from the Somali diaspora. Given that Somalia's diaspora predominantly lives in economies already experiencing significant contraction in economic activity driven by government-mandated epidemiological containment directives, their own income is highly likely to be negatively affected, resulting in an overall drop in their ability to remit funds home to their families in Somalia. With remittances estimated to account for around 29 percent of GDP in 2018, this could lead to up to a **15** to **25 percent reduction in GDP** if remittances fall commensurately with the contraction in Western economies.

2. **Exports**: Somalia's export income is heavily reliant on livestock sales, and in particular on camel sales to the Middle East. Saudi Arabia has previously instituted livestock import bans on Somali goods, but moreover the recent ban on pilgrims travelling to Mecca and Medina on Hajj poses a serious threat to exports, given that Hajj-period demand accounts for most Somalia's sales to the Gulf. Furthermore, the inability to issue Phytosanitary certificates across fisheries and livestock sectors, coupled with the increased fear of zoonotic diseases, is likely to lead to further losses of exports. Assuming a blanket ban on Somali live animal exports this could lead to a **15** to **25 percent reduction in GDP**.

3. **Imports**: With China accounting for over 17 percent of Somalia's imports in 2017, disruptions in China's manufacturing sector are likely to result in fewer goods being shipped to Somalia as larger economies are prioritized by China for its exports. Furthermore, given the ban on flights instituted by the government, Khat imports from Kenya are also likely to decrease, as evidenced by the desolate Bakara market in Mogadishu. Reductions in imports have a favorable impact on GDP; assuming a blanket ban on imports from China and khat imports from Kenya, this could result in **a 10** to **20 percent increase in GDP**. While GDP may increase, it is important to note that government revenue is likely to fall commensurately with declines in imports, given the country's reliance on customs duties as a key source of own-source revenue. Moreover, imports pose a serious health risk for the country, as limited capability exists to screen and sanitize imported products and, perhaps more critically, ensure that sailors transporting imported goods are not themselves carriers of the virus.

4. **Foreign aid flows**: The global economic contraction is likely to impact the availability of foreign aid funds for Somalia, particularly for countries with explicit ODA targets set against their GDP (for example,, the UK which allocated 0.7 percent of its GNI to ODA expenditure). While donors have historically come to Somalia in its time of need (during droughts, floods, and more recently during locust swarms), it is highly likely that this assistance will be humanitarian in nature; as humanitarian aid flows have typically bypassed government systems, this could lead to a reversal in recent trends for increased developmental ODA expenditure being passed through country systems. Assuming western economies contract to the same extent as their stock markets are falling, this could translate to a **10** to **15 percent GDP loss** for Somalia (MoF, 2020)[69].

[68]From findings of round 2 survey of 500 firms in 5 cities in Somalia, conducted between December 15 2020 and January 2021 by World Bank, IFC and UNIDO

[69] Ministry of Finance, FGS Estimates June 2020

According to the updated IMF forecasts from April 14 2020, due to the outbreak of COVID-19, GDP growth is expected to fall to -2.5 percent in 2020 and pick up to 2.9 percent in 2021, while the African Development Bank (AfDB) predicts a worst-case scenario of -5.4 and 1.1 percent, respectively[70], subject to the post-pandemic global economic recovery and provided there is support from development and humanitarian partners and improved rainfall.

In the energy sector, the main impact the sector players are concerned with is at the macroeconomic level where a sudden drop in remittances may affect consumers' ability to pay. In addition, due to the overall economic slowdown, industrial demand has dropped significantly.

70 AfDB, African Economic Outlook 2020 amid COVID-19 Supplement

Investing in Somalia

2.5

Developments Since the Survey

2.5 Developments Since the Survey

Since the survey was undertaken, the environment has changed. The government is moving to address the challenges highlighted in the survey and progress has already been made.

On the international front, the government have resolved a number of issues with international institutions which are opening up opportunities for investment and growth. In March 2020, Somalia restored the country's access to regular concessional financing and launched the process toward debt relief[71].

The country cleared its arrears to the African Development Bank (**AfDB**), the International Monetary Fund and the International Development Association, and reduced its external debt to $3.9 billion (78 percent of the revised 2020 gross domestic product (**GDP**) from $5.3 billion. To get to this point, Somalia as a country has had to establish a track record of economic reforms and adopt a strategy for reducing poverty.

Following this announcement, the Multilateral Investment Guarantee Agency (**MIGA**), a member of the World Bank Group, announced that the Federal Government of Somalia had become the 182nd member of the Agency. MIGA promotes foreign direct investment in emerging economies by helping mitigate the risks of restrictions on currency conversion and transfer, breach of contract by governments, expropriation, and war and civil disturbance; and offering credit enhancement to private investors and lenders.

[71] The International Monetary Fund (IMF) and the World Bank's International Development Association have determined that Somalia has taken the necessary steps to begin receiving debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. Somalia is the 37th country to reach this milestone, known as the HIPC Decision Point

Internally the government has taken tangible steps to improve government facilitation of investment through clarification of responsibilities and mandates of the Foreign Investment Board and SOMINVEST. SOMINVEST now closely collaborates with all key Federal Government Institutions and has over the last year established a solid working relationship with Federal Member State Investment Coordination Offices. This has positively impacted the overall investment climate. Their staffing has increased from 6 to 20 staff and they now have a website providing information to investors [www.sominvest.gov.so.](http://www.sominvest.gov.so)

Establishing a business has become easier – just prior to the survey implementation, the Government launched a raft of policy, regulatory, administrative and institutional reforms across key sectors of the economy., including the Companies Act.

The Companies Act is the principal regulatory instrument that regulates companies and provides the legal basis to formalize businesses. The law also provides the necessary foundation for operationalization of the online business registration system and help establish the basic requirements for corporate governance, financial and operational reporting by companies, shareholder rights, responsibilities of directors and dissolution of firms. Until the passage of the Companies Act 2019, companies were regulated under the Somali Civil Code of 1974, augmented by the Italian Civil Code of 1942 and a number of decrees and directives.

The Companies Act simplified business registration by reducing steps for example hiring a notary to reserve a name and to draft a memorandum of association, whilst now the Act eliminates this step and the Ministry has published an standard memorandum of association for each company. Other simplifications include the removal of mandatory requirements to have a Company Seal, and register the company with the Chamber of Commerce.

From January 2021, the Ministry of Commerce and Industry in the Federal Government of Somalia rolled out the online business registration and business licensing portal. The portal enables online incorporation of companies. Through this online system, between January 2021 to May 2021, two hundred and seventy-eight (278) certificates of incorporation have been issued (against a universe of 1393 previously registered companies)

The business intelligence report generated by the system reveals that as of August 2021, it now takes an average of 23.78 hours for the issuance of the incorporation certificate, with most registrations taking less than 12hours other than a few instances during the pilot period.

Since 2019, SOMINVEST has been dedicated to investment promotions in the attraction, facilitation, and investor outreach as well as advancing policy reforms through the Ministry and generally the cabinet. It should be noted that while there were ambiguities that may have presented uncertainty in the functions of policy, regulation, and promotion, the Prime Minister's decree in June 2020 made strong clarifications and the work of investment promotions has continued to be a priority in Somalia. **The Investment Climate is far different than three years ago as the policy reforms, institutional developments and capacities have progressed well.**

Investing in Somalia

2.6

Key Findings and Recommendations

2.6 Key Findings and Recommendations

During the past few years, Somalia has enjoyed a steady growth of foreign direct investments (FDI), albeit remaining a small percent of GDP (8.7% in 2018). This stands as a testament to the willingness of diasporic Somalis to help their country recover and to engage in impact investing. Barring any disruptions, investments in energy and ICT can therefore be expected to continue their growth, especially if institutional roadblocks are removed and investor rights strengthened. Many of these investments are complements to each other: a stronger and more reliable transportation network will facilitate the build-up of the energy sector, while a reliable grid will help ICT companies to expand their services. Identifying such complementarities will be key for investors seeking to maximize their impact, and Somalia's various stakeholders therefore have the potential to link investors across sectors and realize important economies of scope and help investors to internalize positive externalities.

The new legal framework was universally (70 percent) judged to represent a strong positive signal of the government's desire to promote private investment by ICT and energy investors. However, 20 percent of the investors construed the new legal framework negatively, seeing it as a signal of the government's desire to promote private investment by ICT and energy investors.

Our investment survey found that the regulatory and legal environments formed part of the impediments to investment after security and political stability. Much progress has been made on both fronts since the initial report. There is less government bureaucracy as SOMINVEST and other institutions work together to respond to investor inquiries and undertake facilitations and after-care support. Other impediments such as reliable information on investment have been changing as investor guides and outreach document have been continuously updated over the last year.

The investment survey found that the regulatory and legal environment was a significant impediment to investment, influencing a number of factors cited as significant obstacles: non-transparent processes and Government bureaucracy, high regulatory costs, complex and conflicting operations laws, anti-competitive behaviour. Other important impediments were economic and political instability, currency fluctuations, reliable information on investment and insecurity. With respect to the energy sector, the most notable challenges inhibiting investment included; a weak regulatory environment, high investment costs, scarcity of energy production supplies, poor infrastructure, monopoly distribution control in some areas, acute shortage of qualified staff, generation and distribution losses (up to 40 percent) due to poor infrastructure and collection, high electricity tariffs due in part to energy company inefficiencies, insecurity and political instability[72]

The positive news is that the investors saw all these factors as improved since their start-up (or 2016, whichever came later). The positive trends in the business and investment climate could be attributed to private investment and entrepreneurism among local Somalis and the ongoing investment and regulatory reforms for the last five years by various Government Agencies. These reforms included overarching investment legal frameworks, for example, the Foreign Investment Law (2015) under MoPIED and the Company Law (2019) under MoCI and sectoral frameworks, for example, the Communication Act (2017) under NCA and the Electricity Act under MoEWR.

Recommendation: Development partners should seek to support the government's work to improve the investment climate through their support to reforming laws and regulations, strengthening implementation of regulation and providing additional support to improve information on investor firms. By strengthening the energy sector, they can help the government improve the provision of much-needed electricity infrastructure. There is strong appetite to strengthen the regulatory framework of the ICT sector.

All (100 percent) firms surveyed indicated that they require more operating financing/capital. According to the survey, the funding sources that the private sector players in both sectors would solicit equity from for future investment include: donors (43 percent), investors (32 percent), commercial banks (19 percent) and local population (6 percent), respectively. However, commercial banks were the most common source of funding to be solicited by ICT, at 42 percent while donors represented 32 percent of the total. This could be partly attributed to cross-ownership between operators and financial services providers.

RecommendationDevelopment partners should continue to support the Government in developing alternative avenues for commercial financing to provide options for firms without ownership linkages to financing companies. This will open up competition in Somalia.

The survey found investors were primarily influenced to invest in Somalia by the following factors: access to Somalia's market (78 percent), ease of doing business (70 percent), political stability (68 percent), the competitive cost of doing business (64 percent), economic stability (60 percent), the presence of supply chains and networks (52 percent) and the quality of infrastructure (50 percent), respectively. Most respondents indicated that all these factors had improved since they had made the decision to invest.

These findings imply that the future prospects for the business environment in Somalia are positive and improving, but that investors are monitoring the situation for potential weaknesses and threats to their investments (an activity expected of any investor in any country). The government is making progress in improving political stability, but economic stability and infrastructure strength remain challenges moving forward.

The main constraints to investing in Somalia include; a lack of regulatory frameworks, commercial and political risks associated with investing in Somalia, a lack of dependable market data and the unpreparedness of the private sector to engage with potential foreign investors. With respect to the energy sector, the most notable challenges inhibiting investment included; a weak regulatory environment, high investment costs, scarcity of energy production supplies, poor infrastructure, monopoly distribution control in some areas, acute shortage of qualified staff, generation and distribution losses (up to 40 percent) due to poor infrastructure and collection, high electricity tariffs due in part to energy company inefficiencies, insecurity and political instability[72].

Recommendation: ToImproving the banking system, reforming laws and heightening Somalia's trade network with the outside world will encourage investments in the energy sector, and development agencies should assist the Federal Government of Somalia in its efforts to improve these factors.

** USAID–Power Africa in Somalia (https://www.usaid.gov/powerafrica/wherewework/somalia)

The firms interviewed rated the regulatory environment as improving (compared to previous years) but still poor. The reforms influencing these factors included**:** The Foreign Investment Law (2015), the Company Law (2019), the Communication Act (2017) and the Electricity Act. For instance, clarity and quality of Somalia's investment vision and policy was perceived as worse in 2016 (more respondents rated it poor in 2016: 90 percent, compared to 2020: 56 percent). The same was the case for transparency and predictability in the conduct of public agencies, which was rated by a majority of investors (60 percent) as 'poor' in 2020 compared to worse (79 percent) in 2016. Similarly, the ease of investment entry into Somali markets was rated as poor by majority (52 percent) of investors in 2020 whereas it was reported as worse in 2016 by 75 percent of the investors. A similar picture of improvement from a low base was shown in all the other aspects of the regulation framework.

Recommendation: At the time of the survey, lack of implementation of the various legal reforms by the mandated Government Agencies meant that there was minimal improvement on the regulatory front with respect to the investment climate. Efforts should therefore be made toward the implementation and enforcement of the various legal frameworks in place to improve the investment climate and continue the upward trajectory of Somalia's recent progress.

The technical challenges faced by ICT and energy firms surveyed included: planning and design (80 percent), O&M (74 percent), installation (70 percent), diagnosis and troubleshooting (66 percent), reporting (62 percent) and ICT for pay-go systems (60 percent). A lack of business skills (84 percent) was the non-technical challenge that they reported. These technical and non-technical challenges led to financial losses among the firms. Somalia has a limited supply of trained man-power due to its prolonged internal conflict, which compromised the quality of technical training available in the local job-market.

Recommendation: Technical and vocational training is needed to address these capacity gaps. This could take place through a bespoke training program and through the introduction of curricula in existing post-secondary institutions, along with job-placements.

Recommendation: A PPP approach between private sector players (ESPs), development partners and FGS Government Agencies can be explored to foster such training facilities. Linkages between Somali and international technical programs and establishing recognised third-party accreditation mechanisms should form an important part of the training program. There is a need to incorporate the business training component to educate Somalia's private sector about investment negotiations, technical documentation, power purchase agreements and the other activities serving as the foundation of a thriving business. Programs that offer technical handholding support to improve efficiency and operations of private sector companies will sustain the training undertaken.

Recommendation: To cope with the profound technical and non-technical challenges facing the energy sector, there is a need to build the technical (renewable energy technologies, engineering, project design and management, installation, and maintenance) and business skills of the energy sector staff. Business training needs include education investment negotiations, technical documentation, power purchase agreements and so forth. Programs that offer technical handholding support to improve efficiency and operations of private sector companies will sustain the training undertaken. As a separate element of private sector development support, The private sector could develop and implement an investment readiness capacity building program with key private sector operators in the Energy and ICT sectors.

Together with relevant development actors, they can identify gaps for immediate engagement and mobilize coordinated technical assistance support actions toward private sector investment readiness, such as building capacity for corporate governance, accounting standards, market assessment, project formulation, and so on.

Recommendation: MoEWR and private sector players can focus on laying the foundations for broad-based development that reach the most people, and eventually paving the way for investment in large infrastructure projects that are not currently feasible. This can be achieved through identifying and incrementally addressing underlying issues such as governance, developing a skilled workforce, and increasing cooperation among stakeholders.

Recommendation: The establishment of a shared vision of the electricity and ICT services requires a continued, constructive engagement between private sector players and their government counterparts. This will help in outlining the priority needs for investment, legal clarification, and continued cooperation. Budgetary support by development partners and prudent use of these funds will ensure the Public-Private Dialogue (PPD) will achieve buy-in to the reform process.

Capacity building will be required to ensure successful collaboration between government and the private sector under a PPP. The PPD should also encourage collaboration between private sector players in areas such as energy consolidation initiatives, interconnection in ICT and infrastructure sharing and investment.

The impact of COVID-19 on businesses is four-fold: (1) decay in demand for goods and services due to shutdown measures and travel restrictions; (2) reduced supply as firms are hampered by worker absences, productivity declines, and the disruption of global supply chains; (3) tightening of credit conditions and a liquidity crunch, as a result of the increase in uncertainty and concomitant rise in aversion to risk; (4) and a fall in investment as uncertainty about the length of the pandemic and the depth of its impact affects firms' plans. In response, governments around the world have launched an extensive array of measures to support firms and jobs, many of them targeted specifically to small and medium-sized enterprises (**SME**s).

In the specific instance of Somalia, it is estimated that the pandemic will result in a **potential GDP contraction of between 35 to 45 percent**[73]. As in a majority of LDCs, this will result in significant welfare deterioration for Somali citizens at large and cause a concerning fall in domestic revenue mobilization potential.

[73] Ministry of Finance, FGS Estimates June 2020

3.0

Government Services for Investors

Government Services for Investors

3.1

Business Registration

Government Services for Investors

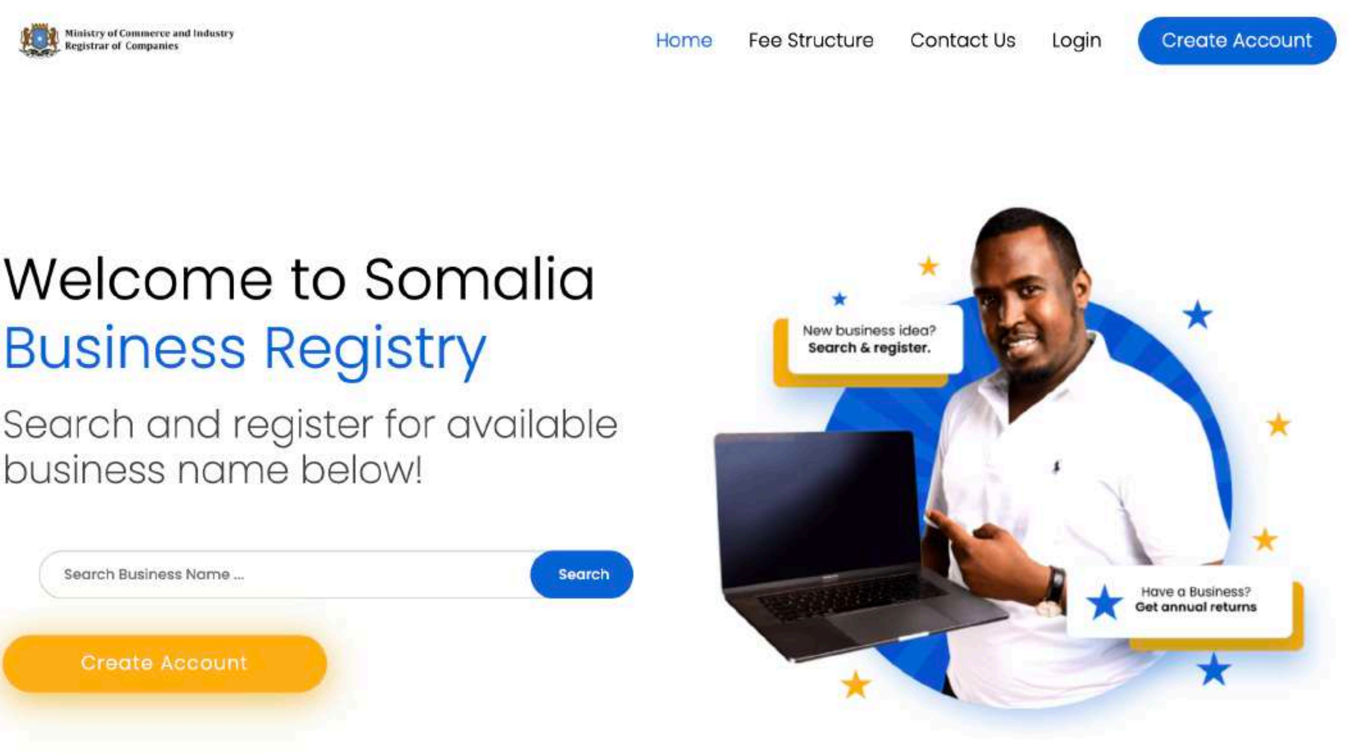
3.1 Business Registration

The implementation of the 2019 Company's act has significantly simplified the business registration process, addressing many of the challenges addressed in the Investor Survey. Acquisition of the operating license from MoCI is mandatory to engage in investment in Somalia. Additionally, businesses must renew their licenses on an annual basis.

The Federal Government of Somalia recognizes the importance of trade and investment for socio-economic growth; and thus, launched a raft of policy, regulatory, administrative and institutional reforms across key sectors of the economy including the Companies Act. The Companies Act is the principal regulatory instrument that regulates companies and provides the legal basis to formalize businesses, help establish the Office of the Company Registrar and streamline the rules for starting a company in Somalia.

The law also provides the necessary foundation for operationalization of the online business registration system and help establish the basic requirements for corporate governance, financial and operational reporting by companies, shareholder rights, responsibilities of directors and dissolution of firms. Until the passage of the Companies Act 2019, companies were regulated under the Somali Civil Code of 1974, augmented by the Italian Civil Code of 1942 and a number of decrees and directives. This Act has simplified the steps to register a company for example: the requirement 1) to hire a notary to reserve a name and 2) to draft a memorandum of association as the Ministry has published a standard memorandum of association 3) to have a company seal and 4) has removed the requirement for Chamber of Commerce registration making it a choice rather than a legal requirement.

Beginning January 2021, the Ministry of Commerce and Industry in the Federal Government of Somalia rolled out the online business registration and business licensing portal. The portal enables online incorporation of companies. Through this online system, between January 2021 to May 2021, two hundred and seventy-eight (278) certificates of incorporation have been issued (against a universe of 1393 previously registered companies)



The business intelligence report generated by the system reveals that it now takes an average of 23.78hours for the issuance of the incorporation certificate. Mode time taken is less than 12hours other than a few instances during the pilot period.

For a small and big firms with no additional operating licenses, the minimum cost of registration for the Incorporation Certificate is $100 for both local and foreign companies; to obtain a license will cost a minimum of $300.

Entrepreneurs also face additional costs if their business is larger, and if they must apply for special ICT and Energy operating licenses/permits from MoCI and the relevant Ministry.

Renewal costs depend on the size of the company: larger enterprises can expect to incur several thousand dollars in annual registration and licensing fees and smaller business pay just $300. Foreign investors pay more: $3000.

Since the Investor survey the MoCI has introduced an Online Business Registration System and BRA implemented a Local Area Network (LAN). In most cases, the foreign investors don't have to physically go to Somalia to undertake the process as they can use agents to handle the process. Since the Company Law (December 2019) became operationalized, the registration process improved significantly for local and foreign investors in terms of cost and time.

Figure 12 MoCI License Fee Schedule for ICT and Energy Firms in Somalia

No	MoCI License	Fee USD
1.	Electricity Generating Companies	$3,000
2	Telecommunication Companies	$3,000
3.	Internet Service Providers	$300
4.	Oil and Gas Exploration and Production	$300
5.	ICT Technology	$500

Government Services for Investors

3.2

Government Agencies and Investment Promotion in Somalia

3.2 Government Agencies and Investment Promotion in Somalia

The FGS is pushing forward to attract foreign investment as part of its National Development Plan (NDP-9) strategy. The Foreign Investment Law of 2015 (FIL) is the principal legal document establishing the institutions responsible for FDI in Somalia. FIL defines the institutional framework for investment registration, approval, facilitation and promotion in the country.

Both FIB and SOMINVEST are currently involved in leading the operationalization of the FIL and the investment promotion function, with SOMINVEST currently a department within MoPIED, operating based on the legal provisions establishing the Foreign Investment Promotion Office (FIPO), which is established through the Article 6 of the FIL. This may mean that amending any aspect of the agency's structure may require an amendment in the Investment Law, which covers issues such as market access, investment entry, protections and incentives.

In addition, individual ministries, such as Ministry of Energy and Water Resources (MoEWR) responsible for Energy, and the Ministry of Communications and Technology (MoCT) responsible for the ICT sector, are also doing investment promotion on their own, with little collaboration between their efforts and those of SOMINVEST. The FIL provides that the SOMINVEST will act as the secretariat to support and implement the decisions taken by the board. However, at present, the FIB does not carry out this function.

The current institutional framework in Somalia is not consistent with FIL and is duplicative, creating uncertainty for investors, and leaves the all functions of policy, regulation and promotion ineffective. Both MoCI and MoPIED have issued ministerial decisions in 2018, further expanding their respective mandates and creating additional investment promotion units whose efforts will doubtless exacerbate the interministerial conflict and consequent ambiguity for investors[74].

On June 2020 the Office of the Prime Minister of Somalia (OPM) issued an executive decree clarifying the provisions of FIL, including organisational mandates for support to foreign investment.

This decree clarifies that the Foreign Investment Board, chaired by the MoCI, will focus on the neglected role of policy making while the FIPO (currently SOMINVEST) undertakes investment promotion. SOMINVEST is planned to have its own legislation in the future, establishing it as an autonomous Investment Promotion agency.

SOMINVEST´s mandate, as laid out in the Law, entails providing services to investors along all stages of an investment's lifecycle[75]. The services provided by SOMINVEST, as stated in Article 6 of the Law include; marketing, information sharing, assistance, and advocacy services. SOMINVEST participates in international and local investment promotion events and forums, responds to investor enquiries, and helps investors explore their opportunities in Somalia by arranging and accompanying them on site visits. It includes, however, some regulatory aspects, as it proposes the administrative and regulatory procedures required for the implementation of the Investment Law (Article 6) and plays a role in the receipt and deliverance of foreign investment applications (Articles 8 and 9). It is important to ensure that SOMINVEST´s regulatory role does not usurp its promotion mandate. This is especially true in that SOMINVEST is the "administrative and promotional office responsible for assisting The [Foreign Investment] Board in the performance of its functions" (Foreign Investment Law, Article 1), and the Board has mostly regulatory functions. There is always the risk that a given institution may eventually be tasked with more functions than are stipulated in its mandate (the so-called mission creep). It is equally important that SOMINVEST´s mandate stays firmly within what is stipulated by law and does not creep into offering regulatory services to investors, which could dilute its promotional functions.

As a nascent entity, many structural, strategic and operational aspects of SOMINVEST are still in flux; it will need support and strengthening to perform its function of attracting and retaining quality investments in Somalia successfully. In terms of staffing, SOMINVEST had Just 6 staff at the time of the survey which has now increased to 20. It is important that it hire the necessary human resources with the proper experience, background and skills; based on international HR practices and with clear job descriptions and performance indicators. This however requires budgetary support from MoPIED. Currently the budgetary allocations are very low and not always availed of in time, compromising operations (KII, SOMINVEST Director). It was further established that SOMINVEST uses the tools available to the ministry and that these do not include those necessary to mount effective IPA at this moment.

[74] The documents that act as a point of contention are: a) Press statement issued on May 30, 2018 by the Foreign Investment Board and b) the investment function directive issued by the MoPIED on 30 May 2018.

75 The investment lifecycle entails the stages of, Attraction, Entry & Establishment, Retention & Expansion, and Linkages & Spillovers.

SOMINVEST´s partners include public sector entities such as the Offices of the President and PM; other relevant ministries such as MoCI, Ministry of Finance, and other line ministries of priority sectors; other entities dealing with investment procedures, such as Immigration and Tax department, regional governments; entities dealing with economic policy formulation such as the National Economic Council (NEC)[76]; the Economic Policy Analysis Unit (EPAU); and the Foreign Investment Board. Private sector partners include the Somali Chamber of Commerce and Industry (SCCI), which also entails the Enterprise Development Unit (EDU), trade associations, diaspora associations, and so on.

SOMINVEST should map its network of partners and develop a plan to strengthen and formalize its various relationships as needed, through its affiliation with MoPIED.

Further, SOMINVEST´s is supporting the design options for the establishment of a legal advisory unit within SCCI. The chamber strengthening work is closely coordinated with the EDU and this in turn is supported by the United Nations Industrial Development Organization (UNIDO).

[76] http://mop.gov.so/index.php/2018/08/12/prime-minister-kheire-inaugurates-national-economic-council/

Government Services for Investors

3.3

Key Findings and Recommendations

3.3 Key Findings and Recommendations

3.3.1 Government Services Findings

The Government is beginning to strengthen its offerings to investors at all stages of the investment life cycle– attraction, entry and establishment, retention and expansions, as well as linkages and spill overs.

The 2015 law had mandated the Foreign Investment Office to undertake the role of investment promotion and the subsidiary legislation clarifies that this refers to SOMINVEST. Prior to the subsidiary legislation, investor targeting and attraction in Government was undertaken independently by the Ministries of Commerce & Industry and of Planning, Investment and Economic Development. Compounding the challenge of an uncoordinated and therefore ineffective approach was the lack of substantial linkages with promotion efforts at the sectoral level. However, after the executive order, respondents indicated that SOMINVEST is starting to play a greater role in coordinating efforts. For example, implementation of the National Investment Promotion Strategy (NIPS) adopted by the Council of Ministers is being spearheaded by SOMINVEST.

Registration of foreign investors is required by the Foreign Investment Law of 2015. Foreign investors seeking entry in Somalia are required to complete forms for approval pursuant to Article 6 of the law. Once the application is received, the board will make decision of approval within 60 days, provided the application is complete.

Energy and ICT investors engage with three key Government agencies at establishment. Firms in both sectors register their businesses with the Ministry of Commerce and Industry as well as engage with the Benadir Regional Administration for the municipal permit. At the sector level, entry is then regulated by the Ministry of Energy and Water Resources for Energy firms while the National Communications Authority regulates ICT sector firms.

Engagement with the Foreign Investment Promotion Office – SOMINVEST – was found to be absent, especially prior to the Executive Order clarifying mandates. Firms also engage with the Somali Chamber of Commerce and Industry and the Ministry of Post, Technology and Telecommunication, now the Ministry of Communications and Technology.

Compliance was reported by the firms as being difficult. The three Government agencies were reported to operate independently. This means that investors must physically appear at each of the three agencies. Foreign investors indicated that this condition made the use of a local proxy a necessary prerequisite to investment entry.

At the time of the survey business registration at the Ministry of Commerce and Industry was reported by respondents to be costly, complex, and annual[77]. During the period before the development and adoption of regulations to implement the December 2019 Companies law (effective as of December 2020), firms were subjected to annual licensing as outlined in the 1974 Civil Code. It was found that businesses required on average 10 days of dedicated staff time every year with a lead time of 17 days in order to register and re-register their business.

[77] From field work by Pearson Consulting, based on a sample of Energy and ICT investors

The implementation of the Companies Act in 2020 has simplified business registration significantly since the investor survey by reducing steps and facilitating online registration for example hiring a notary to reserve a name and to draft a memorandum of association, whilst now the Act eliminates this step and the Ministry has published a standard memorandum of association for each company. Other simplifications include the removal of mandatory requirements to have a Company Seal, and register the company with the Chamber of Commerce. The business intelligence report generated by the system reveals that as of August 2021, it now takes an average of 23.78 hours for the issuance of the incorporation certificate, with most registrations taking less than 12hours other than a few instances during the pilot period.

Obtaining a permit from the local municipality was found to be expensive and lengthy. The baseline established that small-scale, local business pay $500, medium-sized companies pay $1,000 and large companies pay $1,500. While there have been improvements since 2019, when the process took 12 days, it still takes 6 business days for the mandatory permit to be issued.

Somalia's legacy of civil war has eroded its Government's capacity. The Government Agencies that are the subject of this study grapple with infrastructural gaps and institutional capacity deficits.

Institutional capacity across all government agencies was found to be low, with gaps in staffing and systems. Only approximately 30 percent of full-time civil service employees have attained post-secondary level education (that is obtained a degree, diploma or certificate from a post-secondary institution) while 55 percent have attained secondary school level education. The staff reported the need to improve their capacities across the investment policy and promotion service offering. Finally, the study observed that to mitigate against the emerging knowledge gap, agencies relied heavily on development partner-funded advisors at the expense of their own civil servants.

The significant infrastructural gaps were reported to be due to the low availability of capital expenditure as the Government struggles to meet recurring costs. This has translated to low levels of investment in ICT as Government Agencies cannot meet the minimum hardware and software requirements for installing and operating web-based IT solutions. First, power supply across Government Agencies remains a challenge as it is being provided by private companies that charge a very high-power tariff against limited budgetary allocations.

Second, internet connectivity challenges and frequent downtimes, partly due to poor network designs across Government Agencies as well as the limited internet bandwidth supplied through the FGS-owned and operated Network Operating Center (NOC). In addition, there is limited use of cloud hosting capabilities due to its high cost.

3.3.2 Government Services Recommendations

To address the significant gaps in government service delivery to investors, a comprehensive reform program is proposed. This will entail strengthening the legal framework, developing institutional mechanisms and strengthening capacity. It will also require addressing the infrastructural gaps that impede service delivery.

Strengthen Somalia's legal framework to attract investors and eliminate investor registration: While the Foreign Investment Law of 2015 and the Executive Order clarifying mandates set the scene for an offer that is attractive to investors, there is a need to address three other primary areas:

- Providing for an institutional arrangement that gives greater predictability to the establishment of the Foreign Investment Office. In this regard, there is opportunity to contribute to the enactment and operationalization of the Investment Promotion Agency law being spearheaded by the Ministry of Planning, Investment and Economic Deveopment. The law is part of the commitments in the International Monetary Fund Staff Monitored Program (IMF, SMP).
- Enhancing investor protection provisions in line with international good practice as identified in Chapter 2 of the report. This would be achieved through support for enactment and operationalization of the Investors and investments Protection Law, presently being spearheaded by the Ministry of Planning, Investment and Economic Deveopment. The law is part of the benchmarksin the International Monetary Fund Staff Monitored Program (IMF, SMP).
- Rationalizing the provisions relating to investment entry and in particular eliminating the requirement of investment approval other than for 'sensitive' sectors as designated in a negative list.

Streamline service delivery through administrative reforms: while the Study identified several ongoing reforms with regards to investor attraction, entry and establishment, none were fully implemented. For example, while SOMINVEST has developed a standard operating procedure relating to investor targeting and outreach, there is a need to support its implementation. Opportunities include engaging in the targeted ICT and Energy sectors to identify and target potential investors. Additionally, there is scope to enhance the targeted outreach by developing sector value prepositions.

To address the institutional gaps, a structured capacity building program that links the relevant Government agencies is recommended. This would require complementing capacity-injection efforts including provision of embedded consultants by development partners with staff training and mentoring. The current initiatives such as the Investment Promotion Certification Program and support to development of an M&E framework should be completed in order to deliver the necessary foundation. There is also need for additional support beyond this in order to ensure sustainability of improved government service delivery. It will require "hand holding" of staff to attain discrete deliverables, thus creating confidence and demonstrating practice. The National Investment Promotion Strategy and SOMINVEST's 5-year Corporate Strategy provide a basis for a joined-up approach to developing capacity that delivers bankable projects and eventually investment.

Automate Government Agencies processes and workflow: There is need to automate the entire investment process and workflow to reduce processing, labor time and cost incurred by investors. This would also mitigate potential rent seeking through increased transparency across Government Agencies. Process automation will need to be coupled with investment in electronic data management systems. Further, given its overarching role in investment promotion, SOMINVEST should invest in a modern robust CRM system.

Government Services for Investors

3.4

Developments since the Survey

3.4 Developments Since the Survey

Ministry of Commerce and Industry advises that improving the ease of doing business plays a crucial role in the SME development, entrepreneurship and the overall economic growth for Somalia. The Federal Government of Somalia recognizes the importance of trade and investment for its socio-economic growth.

Just prior to the survey implementation, the Government launched a raft of policy, regulatory, administrative and institutional reforms across key sectors of the economy., including the Companies Act. The Companies Act is the principal regulatory instrument that regulates companies and provides the legal basis to formalize businesses.

The law also provides the necessary foundation for operationalization of the online business registration system and help establish the basic requirements for corporate governance, financial and operational reporting by companies, shareholder rights, responsibilities of directors and dissolution of firms. Until the passage of the Companies Act 2019, companies were regulated under the Somalia Civil Code of 1974, augmented by the Italian Civil Code of 1942 and a number of decrees and directives.

The Companies Act simplified business registration by reducing steps for example hiring a notary to reserve a name and to draft a memorandum of association, whilst now the Act eliminates this step and the Ministry has published a standard memorandum of association for each company. Other simplifications include the removal of mandatory requirements to have a Company Seal, and register the company with the Chamber of Commerce.

From January 2021, the Ministry of Commerce and Industry in the Federal Government of Somalia rolled out the online business registration and business licensing portal. The portal enables online incorporation of companies. Through this online system, between January 2021 to May 2021, two hundred and seventy-eight (278) certificates of incorporation have been issued (against a universe of 1393 previously registered companies)

The business intelligence report generated by the system reveals that it now takes an average of 23.78 hours for the issuance of the incorporation certificate, with most registrations taking less than 12hours other than a few instances during the pilot period.

4.0

The Energy Sector

The Energy Sector

4.1

The Somalia Context

The Energy Sector

4.1 The Somalia Context

The baseline study seeks to describe the current state of the Energy sector, sectoral regulations, gaps and opportunities. It also aims to provide key information for the development of the Energy sector investment profile and value proposition. According to the findings, the provision of energy in Somalia is a key challenge, as well as an activity promising significant opportunities over the near-term. In addressing the many urgent needs of the Somali people, energy access in general and electricity access in particular will play a major role to drive economic growth. Public provision of electricity collapsed in 1991 alongside the Barre regime, and over the next two decades, looting and neglect destroyed much of the remaining infrastructure[78].

Energy suppliers have struggled to meet growth in established demand in recent decades. Through the years of instability, the energy sector has been unable to meet latent demand and provide for stable and affordable access for most of the population, which has contributed to inadequate social indicators and hobbled economic growth. At present, although significant improvements have been made in recent years, Somalia still faces a situation where energy access is severely limited for a majority of the population. This includes both access to electricity and other sources of energy like biomass and fossil fuels.

[78] (African Development Bank, 2015)

The Energy Sector

4.2

Energy Generation in Somalia

4.2 Energy Generation in Somalia

4.2.1 Generation Capacity

Despite recent growth in the sector, rates of electricity penetration remain low, even by LDC standards. In 2018, only around 35 percent of Somalis had access to electricity, with the proportion dropping to 14.6 percent in rural areas (see Figure 24). Somalia's total generation capacity in 2019 stood at 130 MW, of which 112 MW are diesel[79]. The remaining 18 MW are provided by solar and wind.

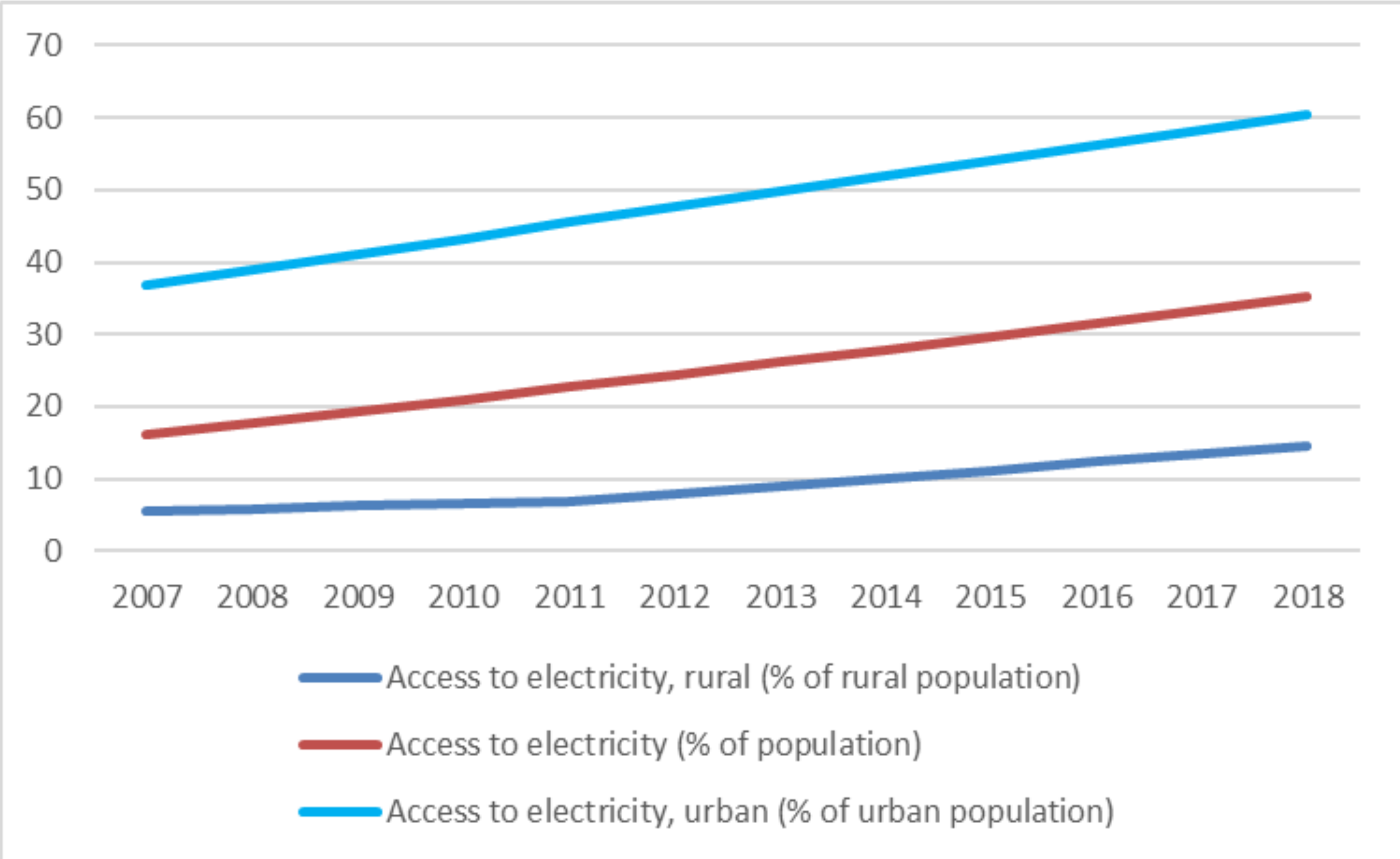


Figure 13 Access to electricity in Somalia, 2002-2017

By 2020, the total installed generation capacity in Somalia and Somaliland is estimated to be around 130 MW (>90 percent based on small diesel gensets), which leads to significant unmet demand. New projects are arising, for instance the 8 MW photovoltaic solar power plant in Mogadishu, now operational. The impact of the solar power plant is already being felt, especially on the cost per kWh of electricity, which has fallen from $0.49 to $0.36, and this despite the fact that the plant provides electricity for an average of only 240 minutes per day.

The owner, Banadir Electric Company (BECO), has the ambition to increase the plant's capacity to 100 MW, with an investment of $40 million[80].

The Electricity Supply Providers (ESPs)—private enterprises—each of which is a vertically integrated, autonomous parallel electricity provider, have a minimum standing generation capacity of between 42.6 MW and 67.6 MW, which is between 50 and 81 percent of the estimated total 83.4 MW for the Somali regions.

[79] MoEWR

[80] https://www.afrik21.africa/en/somalia-beco-builds-8-mwp-solar-power-plant-in-mogadishu/

ESPs actors hold numerous advantages over larger, centrally planned power providers that make them adaptable to different contexts, including times of conflict. They are resilient because they are local, enabling them to navigate local dynamics and risks fluidly. They can also mobilize quickly, drawing on private funding such as diasporic support. Conversely, larger utilities are vulnerable during times of conflict.

These systems are usually public and suffer from the diversion of public funds to military spending, and large power plants and unified grids are easy targets for conflict actors. Small, private energy providers like these have thrived in Lebanon, Cambodia, and Sri Lanka where the supply of electricity is decentralized, relying on relatively small generators. However, these firms are already building economies of scale in the Somali region, preparing the way for larger-scale industrial development. This is manifested at the moment through the consolidation of ESPs in larger markets.

4.4.4 On-Grid/Off-Grid Generation and Distribution

Currently, there is no physical national grid in Somalia. The system of delivering electrical energy to users is composed of a patchwork of island distribution grids with isolated generation providers.

These island networks are anchored to specific urban centers with dedicated ESPs. Each ESP owns and operates their complete generation-distribution-customer-revenue chain using a radial distribution island network. Generation is primarily, close to 100 percent, by high-speed diesel fuel powered generators (>1,000 rpm).

Most ESPs are unique to particular urban centers, yet some ESPs have operations established in several urban centers, notably BECO, ENEE, DAYAH, SOMPOWER and TELESOM. All the ESPs distribute electricity to their comparatively close customer base via low-voltage (**LV**) feeders. In some cases, there are distribution lines utilising 11 kV and small amounts of 33 kV, enabling longer distribution distances, which are then stepped down by conventional transformers to supply LV feeders. However, many ESPs use a significant amount of island radial LV distribution.

Rural communities and, particularly, very rural region populations, consist of very mobile pastoralists. As a natural consequence of their lifestyle, shepherds do not have a fixed location to which electrical energy may be delivered, metered and made available for their use. In fact, they operate in a constant state of flux, adapting to the local climate, and currently have access to at best telephone communications and types of Pico solar devices.

On the other hand, communities within the large urban centers like Mogadishu, Hargeisa, Garowe, Burao, Bosaso, Kismayo, Baidoa, Erigavo and others, are stationary and obtain electricity from an existing electrical energy network—a grid—and are therefore on-grid.

The traditional consensus is that "off-grid" resources, loads and generation will be gradually phased out as owners of self-generation adopt integrated connections to access cheaper electrical power at a lower cost from a transformer-based, high-voltage distribution grid. However, through advances in generation and flexible load management the cost of reliable, small solar PV generation and wind generation have seen precipitous declines. generation, distributed generation, stand-alone systems and mini-grids (see Figure).

This trend, along with the growing availability of economical electricity storage is driving growing markets for various forms of off-grid captive

Currently, many urban-based HSDGs are operating well below their expected and designed performance criteria. This kind of operation results in significant amounts of so-called "wet stacking", the term of art for the consequences of running a diesel engine on light loads for extended periods. Wet stacking refers to the expulsion of unburnt diesel fuel into the engine's exhaust and lubrication systems, due to incomplete combustion and the generator's consequent failure to reach operational temperatures. The condition is ultimately caused by operator decisions resulting in light load. This causes environmental pollution, in the form of uncombusted and partially combusted hydrocarbons, and significantly shortens the intervals between necessary major engine overhauls. If this problem is properly addressed through the introduction of synchronization between generating units and, ideally, supplemented by a renewable source, the immediate effectiveness gain could be a substantial contributor to electricity price reduction, up to 25 percent compared to single until operation.

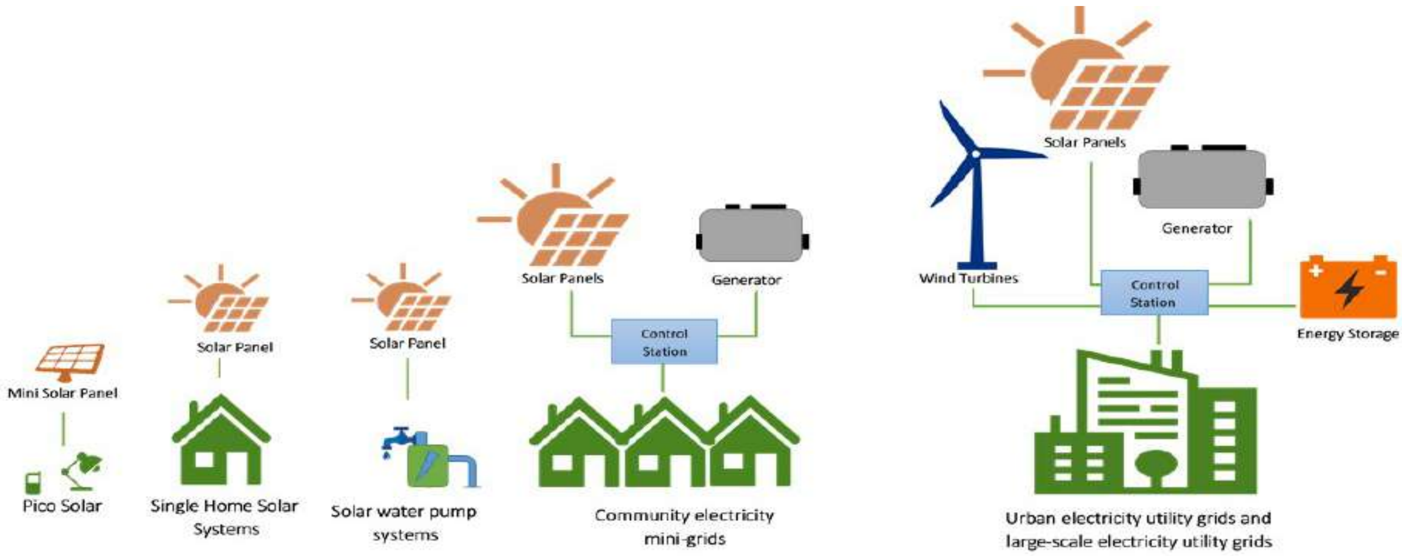


Figure 14 Electrification hierarchy

4.2.3 Generation Patterns

The costs of generation and electricity losses are high mostly due to inefficient and expensive diesel-fired generation that is estimated to cost around $0.30/kWh, making some ESPs lose money on low industrial consumer tariffs.

The electricity losses average around 40 percent (20 percent technical due to low voltage transmission networks and 20 percent on account of non-collection and theft. Until recently, the renovation or upgrading of generation sites by ESPs, generally involved either replacements or additions, using similar or larger HSDGs.

According to MoEWR, electricity distribution networks losses mainly stem from: the use of a low voltage (415/240V) with distribution lines extending over long distances, poor construction standards, and aged equipment. In addition, there is lack of adequate metering systems with is no adequate monitoring of the electricity generation to ultimate consumption.

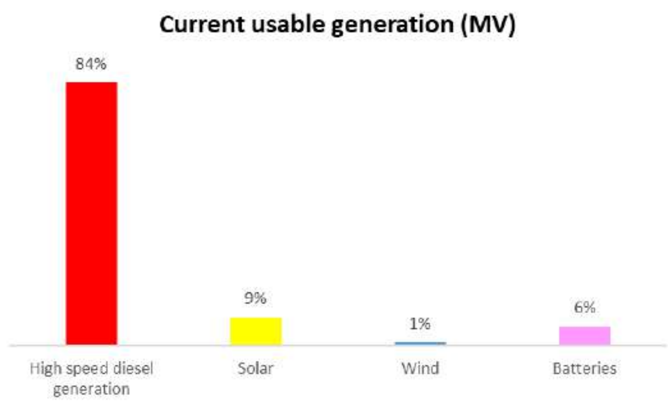


Figure 15 Current usable generation (MV)

Very few of the urban ESPs and captive generators have implemented synchronization and automation as part of their generation processes. As a consequence, dedicated generators are allocated to exclusive feeder lines, which leads to inefficient generation use.

All of the ESPs operate independently and, as a consequence, there is significant duplication of generation, distribution, technical services, maintenance, human resources, and infrastructure.

This duplication hobbles the upscaling of electricity generation in Somalia and, moreover, hampers delivery and servicing of larger customer loads. Duplication is especially acute for ESPs within cities that have multiple ESPs. Currently, no ESPs share distribution networks, and these combined ESP electricity delivery limitations within the urban parallel island networks, have resulted in large load customers (**LLC**s) opting for:

1. Utilising two different ESPs, such that multiple networks will supply one customer;
2. Creating their own on-site, captive generation stand-alone "mini-grids".

There is a significant limitation on the amount of electrical energy any one, vertically integrated ESP can deliver when the ESP is not able to provide parallel (synchronised) interdependent generation and distribution to their user loads. This—along with the impact of multiple radial island network duplication by ESPs—constrains the amount of electrical energy any one ESP can deliver to load users, especially for LLCs. The reasons for the energy deficit in Somalia (insufficient generation capacity to meet the current loads) are;

1. Insufficient investment in generation;
2. Inability to operate the existing generation in a synchronous manner.

Current generation capacity is not being used efficiently due to lack of investment in the equipment required to synchronise the operation of existing units as well as shortage of operations and maintenance staff trained in the use of the equipment required for synchronous operation of generating units. There are high technical and commercial losses in most systems.

Significant improvements can be made to the operation of the power sector throughout the country by increased cooperation between ESPs under some supervision from one or more regulatory authorities.

This is especially true in the areas of duplication of distribution investments in order to compete for customers in the same tight geographical areas (that is, on the same street) and the inability of firms to benefit from the economies of scale in the purchase and installation of small units to serve a large market.

The current and expected development of the power sector of Somalia suggest that all presently electrified communities are isolated from each other. Fossil fuelled generation is a mix of high-speed generation for smaller centers and a combination of medium-speed diesel generating units and combustion turbines using diesel as a fuel. It is recognised that these amounts represent a heavy burden on the ESPs and it is assumed that these investments will be a combination of private equity financing, private borrowings and perhaps support from international donors.

The state of affairs in Somalia calls for a significant departure from the established norms of electrical generation and distribution. These departures may require technical assistance from international development partners to assist the sector in absorbing these changes effectively. The departure should be through;

1. Synchronization of generation to provide more efficient use of existing and new generation;
2. Increased effectiveness of the power supply through the synchronization of generating units, which will allow firms to connect more customers to the generation plant via sub-transmission networks;
3. The introduction of new (for Somalia) generation technologies such as:
   a. medium-speed reciprocating engines (or diesel engines—MSDG);
   b. combustion turbines (or Gas Turbines using diesel as a fuel—**GT**);
   c. Generation from municipal waste.
4. Mobile hybrid (photovoltaic plus batteries) for nomadic populations.

MoEWR advise that hybridization, and optimization of existing minigrids through the installation of BESS and SPV systems, will further contribute to generation cost reduction.

The Energy Sector

4.3

Social and Environmental Aspects

4.3 Social and Environmental Aspects

The primary sources of electricity in Somalia are high-speed diesel generation sets (HSDGs) with limited use of grid-tied solar photovoltaic (PV) and very limited use of grid-tied asynchronous wind power turbines. To support the installed generation capacity, Somalia currently consumes in excess of 121,000 liters of diesel fuel per day and this consumption is expected to grow to 694,000 liters in the medium term, following the curve of increasing demand[81]. Much of this is occurring amid the suboptimal and wasteful conditions that cause wet stacking. There is also quite significant interest in, as well as utilization of Pico PV and Small Home Solar (**SHS**) PV electricity systems for residential lighting in both urban and remote areas.

Cheaper and cleaner alternatives in the form of abundant renewable energy resources (solar and wind) are available and most ESPs are increasingly planning to adopt renewable energy, particularly solar to diversify their generation mix away from diesel fuel based generation, while maintaining baseload generation on a mix of diesel fired generation to create hybrid generation systems.

Only NECSOM has a functioning wind power generation plant (0.75 MW), which integrates solar battery and storage and diesel fired gensets to serve as a hybrid generation system. The initial capital costs for diesel generators continue to be lower than wind- or solar-powered systems in the Somali region, but considering a longer-term investment horizon makes renewable energy options far more competitive. These comparisons make a strong case for wind and solar energy and most experts suggest that the best use of renewables is in combination with diesel or other carbon-based fuel sources (for example,, hybrid systems).

In hybrid systems, diesel can offset the fluctuations in power supply that characterize renewable sources, while wind and solar can significantly reduce exposure to fuel-price instability, thereby increasing energy security.

The use of biomass for fuel is widespread, with between 80 and 90 percent of Somalia's population using charcoal and about 4 million tons of charcoal consumed per year[82]. This creates both environmental and health risks. Somalia has little remaining natural forest, which now cover only 10 percent of the country, down from 13 percent in the early 1990s[83].

The wealthiest Somalis use liquefied petroleum gas (LPG) to cook, while the poorest households in Mogadishu, unable even to afford charcoal, rely on wastepaper or plastic, causing chronic respiratory issues. Household air pollution (HAP) is responsible for more than 7,500 deaths per year in Somalia[84][85][86]. The African Development Bank has therefore identified reducing reliance on biomass for cooking in Somalia as a key priority[87].

[81] Unicorn, 2018

[82] African Development Bank 2015

[83] Index Mundi

[84] World Health Organisation 20189

[85] African Development Bank 2015

[86] Clean Cooking Alliance

[87] African Development Bank 2015

Supplemental social effects will also accompany the extension of electricity to peri-urban and rural areas. Although efforts are being taken to introduce the rural and much of the poor urban population to solar power (for example, rechargeable lanterns), in many cases such an offer comes at a cost unaffordable to potential consumers.

Many businesses have either purchased their own generator or moved to another locale, in search of better and more affordable electricity. Many households have to limit themselves to a certain level of consumption even at times when the supply is there, representing suppressed demand ready to surface as soon as the household can afford it.

Reforestation efforts will be part and parcel of a reduction in biofuel use in order to reverse the damage done by overexploitation of forest resources. A regulatory body, the Ministry of Energy and Water Resources (**MEWR**), was established by the Federal Government of Somalia in 2014, but so far it has limited powers, staff, and funding[88]. Proper regulation and support of the energy sector by the Federal Government of Somalia will therefore represent an important challenge going forward. Additionally, development of hydrocarbon resources could, potentially, lead to conflict[89].

Mitigating conflict risk and appropriately managing non-renewable resource extraction should be key foci for the MEWR moving forward. Over the short-term, the Somali government has prioritized the drafting of an energy policy, strategy, and regulatory framework to facilitate more private sector investment in alternative renewable energy, and also prioritized the exploration of technically viable cross-border energy trade with neighbouring countries.

According to the World Bank, only 2.34 percent of Somalia's population had access to clean cooking fuels and technology in 2016, the lowest rate in the region. While this represents an improvement from the less than 1 percent that had access to clean fuel and technology in 2005, it is still far below the already-low levels in Djibouti and Kenya. In emerging middle-income countries such as Malaysia, more than 95 percent of the population has access to clean fuel.[90]

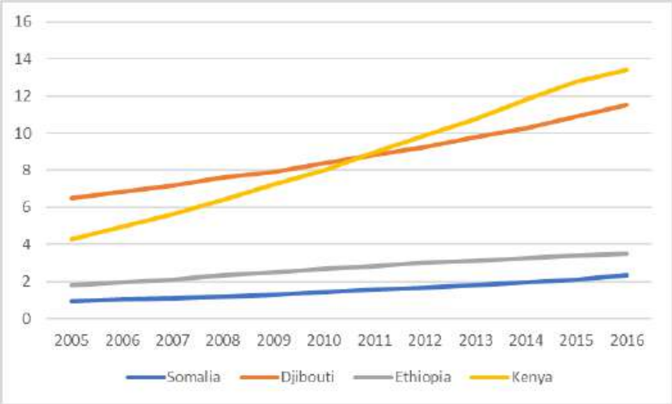


Figure 16 Access to clean cooking fuels and technology

Over 90 percent of the population of the country relies on charcoal for cooking and heating needs. Electricity access, even when it is available, is only affordable for certain limited needs of the households (lighting, TV, and refrigeration for wealthier households). Therefore, providing affordable and accessible electricity is one of the highest priorities for the Government.

[88] African Development Bank 2015

[89] African Development Bank 2015

[90] World Bank Development Indicators

The Energy Sector

4.4

The Energy Market

4.4 The Energy Market

4.4.1 Market Structure

The electricity Market has evolved over time in line with prevailing market conditions in Somalia. ESPs are structured and organized on an integrated basis, owning electricity generation, distribution, and transmission networks. They operate older and refurbished diesel generators, which are fairly inefficient and can be difficult to repair, especially if operated improperly. BECO, which supplies most of Mogadishu, is reportedly using heavy fuel oil (**HFO**), a cheaper though usually dirtier and less efficient oil more generally used as a maritime bunker fuel. Such a move is intended to bring down the costs of generation in order to pass those savings on to consumers. Such innovations among EPSs are important because carbon-based fuels are likely to remain the dominant energy source in the horn of Africa for the foreseeable future.

The Somali energy market has entered an important phase in which the consolidation of IPPs is clearing the field of some actors and creating conglomerates sufficiently large to deserve the name 'utilities'. This phenomenon could make distribution more efficient and achieve better economies of scale but it also invokes the spectre of monopolization of market space by one or two large firms in each market, which could have the opposite effect on efficiency and drive up costs. There are four major consolidated ESPs of which we are aware. The grid in Hargeisa is now largely controlled by two consolidated energy entities: GE and Alel Power Company. Burao's EPSs recently merged into HECO Electric Supply Company. For instance, BECO is a corporation formed in 2014 from the merger of an astounding seventy different Independent Power Providers (IPPs).

The majority (90 percent) of the IPPs are operating in several regions as part of their expansion strategy, as power generation is decentralized and they therefore operate various power generation sites within Somalia.

The consolidation of IPPs could pave the way for more economies of scale and should be encouraged. The risk of consolidation, however, is downward pressure on competition as control of electricity provision is concentrated in the hands of a few powerful players. Some are already voicing concerns that IPPs might begin to behave as cartels, stifling the development of new energy projects and stalling the implementation of policies out of a self-serving economic lethargy. While consolidation is naturally occurring, the uncertainty about market share in the future shapes investment decisions today.

Two other interrelated developments that would have a multiplier effect on the economy are increased interoperability and cooperation between IPPs and, the introduction of high-voltage (>200 kV) power lines in interconnected grids. In most Somali cities, multiple distribution lines for different providers hang haphazardly from electrical poles, multiplying inefficiencies and the danger of electrocution. Most IPPs who responded to the survey expressed interest in increasing cooperation and some have even begun installing higher voltage power lines that can reach more customers with more power at further distances from the generation point.

Large companies are also able to retain a power sector work force that is more skilled, enabling them to operate more efficiently. This, in turn, allows them to lower tariffs for businesses and the population, making electricity more affordable, which, in turn, leads to increased consumption and the need for more generation, stimulating further growth of the sector. They have also adopted a practice of importing their own fuel to further cut costs. The general understanding gained from sector discussions is that power producers typically supply about 3 percent of their power at no charge to schools, hospitals, and mosques, thus fulfilling a social role.

In addition to the power generation and sale-oriented companies described above, growing demand and inability of the power generators to meet it have created a market for power generation as a secondary business for those who purchase power generators for their own use[91]. Examples of this are mobile telephone networks that must power their cell towers and which allow the neighbouring settlements to purchase the excess power. Another example would be a shop that also sells power to the immediate neighbourhood.

Most ESPs are funded entirely with equity financing with very limited commercial financing from local banks. In addition, some of these ESPs have common ownership with a few Somali banks, which have developed and grown primarily on the back of remittance and money transfer business. Starting with a large number of small and fragmented players (estimated to be >100), the market has since consolidated through mergers and acquisitions to about 15-20 players, totalling an estimated 130 MW of generation capacity by the end of this year. In Mogadishu, three ESPs operate, comprising BECO, with the largest market share followed by Mogadishu Power Supply, which has an estimated 40 percent market share and a new entrant—Blue Sky with a small balance share of the market. In Somaliland, SomPower remains the largest with an estimated 80 percent market share while the total number of operators has decreased from 50 (in 2016) to about 12, all organized under the Somaliland Electricity Association (SEA). Other urban centers are typically served by one or two ESPs, for example, Tayo Energy in Berbera and NECSOM in Puntland.

The addition of sizeable grid-tied solar PV generation to the HSDG-based systems of some of the various ESPs electricity generation and distribution networks has resulted in some synchronized hybrid diesel-solar PV electricity generation systems across Somalia. A significant benefit of using multiple renewable energy sources is that electricity generation is derived from diverse sources and can be situated in a distributed manner around urban centers. This contrasts with centralized thermal generation sites, which require specific nodes for fuel delivery.

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Table 6 The Current ESPs in Major Urban Centres

Urban Center	Population	ESP	Generation Type	Synchro	Distribution Type	Surveyed
Mogadishu	3,000,000	BECO	HSDG SPV	NO	Radial 11KV	YES
		Blue Sky	HSDG	NO	Radial 11KV	YES
		Mogadishu Power Supply	HSDG	NO	Radial LV	YES
Boosaaso	627,399	ENEE	HSDG	NO	Radial 16KV,15KV	YES
		Golis	HSDG	NO	Radial LV	YES
		Sometel	HSDG	NO	Radial LV	YES
Marka	200,000	Marka Electric	HSDG	NO	Radial LV	YES
Garoowe	131,577	NESCOM	HSDG, Wind, SPV, Batt	YES	Radial 11KV	YES
Qardho	89,176	ENEE	HSDG	NO	Radial 15KV	YES
Afgooye	80,635	Hisra Electric	HSDG	NO	Radial LV	YES
Baletwenye	80,000	DAYAH Electric Company	HSDG	NO	Radial LV	YES
Balad	180,253	BECO	HSDG	NO	Radial LV	YES

Table 7 Generation Capacity

Regions	Type of Generation (kW) and Renewables Penetration via kWh					
	HSDG kW	Solar kW	Solar %	Wind kW	Wind %	Battery kWh
Combined Regions	43,517.7	4,584.5	2.6%	793.8	1.8%	3,100
Puntland	6,439.5	1,000.0	4.9%	657.0	15.7%	1,800
Somaliland	24,356.7	3,535.0	3.1%	118.8	0%	1,300
Somalia Excluding Somaliland	19,161.0	1,049.5	1.7%	675.0	5.3%	1,800

4.4.2 Electricity Supply Tariffs

Retail power prices in Somalia average $0.79 per kWh, considerably higher not only than the regional averages (around 4 times higher than in Ethiopia), but also high by world standards.

This is because electricity service providers primarily still rely on inefficient high-speed diesel-fuelled generators (HSDGs) hobbled by high fuel costs. While distribution networks composed of medium voltage distribution lines (11 kV and 33 kV lines). Distribution infrastructure is fragmented and unreliable, and losses are quite high at around 40 percent, compared with the sub-Saharan Africa average of 11 percent. Somalia is in the top 5 percent for cost of power, and Somalis are in the top 15 percent for GNI expenditures on power, globally[92].

By way of comparison, neighbouring Kenya and Ethiopia are far less expensive, enjoying average rates of $0.15 and $0.06 per kWh, respectively. Not only are Somalis paying substantially higher tariffs for electricity, but they are also earning substantially less. Consumers in locations far from urban centers typically pay the most in energy costs, with rates ranging from $0.50 and $1 per kWh. Within urban areas, tariffs vary between providers and most use tiered rates among their own customers.

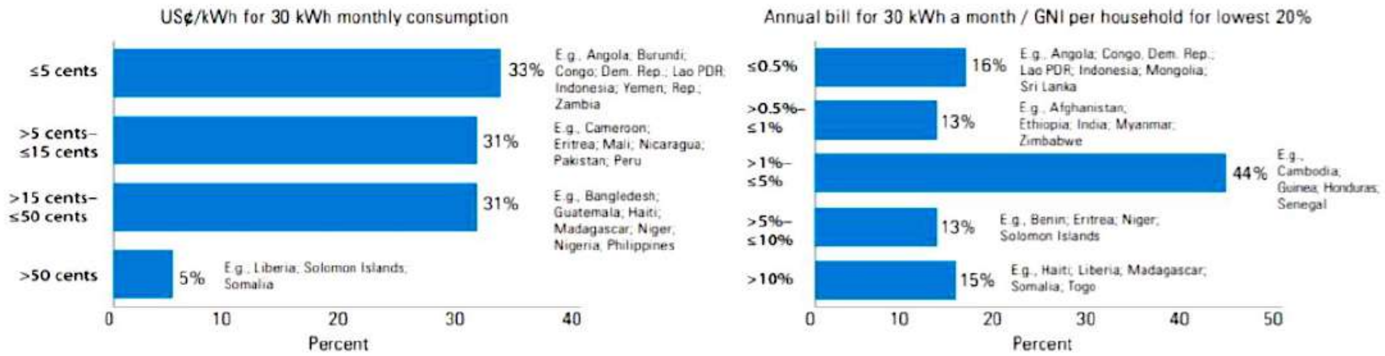

Figure 17 Cost of power and power expenditures/GNI per household in Somalia

Source: World Bank Group 2018

There is a recent trend across Somalia for the consolidation of smaller ESPs and IEPs into larger ESP firms, especially in the larger cities. Mergers and acquisitions are taking place initially at the ownership level and then, gradually, at operational levels. The resultant pooling of these firms' technical and human capability infrastructure, has apparently benefited these consolidated firm's financial and technical bottom lines, but the degree to which this has occurred is not known. The large company then moves this equipment to more remote areas, providing the 'spider web' effect of the grid. These companies have also been investing in renewable energy, the main benefit of which has been fuel displacement. Another consequence of these combinations of duplication and electrical energy losses is that electricity prices are generally high: the cost per kWh of electricity in the six regions of Somalia excluding Somaliland, ranges from $0.25 to $1 per kWh with a weighted average of $0.61 per kWh across all load users/consumers. In the urban centers, such as Mogadishu, tariffs range from $0.25 per kWh for industrial and large bulk customers to $0.25 to $0.55/kWh for commercial and residential segments. In Somaliland, the tariffs range from $0.50/kWh to $0.79/kWh across various segments. The Berbera region in Somaliland has one of the lowest tariffs of about $0.39/kWh for residential customers and $0.20/kWh for industries and commercials.

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[92] World Bank's Regulatory Indicators for Sustainable Energy report (2016)

4.4.3 Major Players in the Energy Sector

In Mogadishu, the leading company is BECO, which controls of 85 percent of the market with an installed capacity of about 40 MW, of which 2.5 MW are solar. Their tariffs range from $0.25 to $0.55, depending on consumption. The first 1000 kWh is metered at $0.55 per kWh, falling to $0.30 per kWh above 5000 kWh with anything beyond this metered at $0.25 per kWh. BECO is currently investing in medium voltage transmission lines within the city (11kV) and in a 25 MW generating station at Jabad Gelle. The key class for identifying general population energy and electricity use is Household-Residential. It was also observed that large businesses tend toward using their own captive generation and only use the ESPs for limited services.

Berbera is served by the Berbera Electricity Company (**BEC**), which recently became entirely private after a period of private-public partnership with the state, its previous owner. Dahabshiil Bank and Tayo Energy have invested in BEC and are currently running it.

At the time of their original investment, the tariff was $1 per kWh. The investors committed to lowering the tariff to $0.30 by 2019, presently their tariff is $0.50 per kWh. They are running about 7 MW of installed capacity. One of the generators is newly installed. They have also installed three wind turbines that have yet to be commissioned.

In Puntland, NECSOM, is running about 10 MW of installed capacity, including a 1 MW solar station (a $2 million investment). They have recently installed three Italian-made wind turbines,. The current tariff is $0.79 per kWh with certain discounts to bulk users.The situation is similar in Bosaso—where the main player (ENEE) has an 85 percent share of the market and is running 12 MW of capacity at $0.80 per kWh tariff. Somalia has significant potential for using renewable energy for electricity generation. This mainly refers to solar and wind energy, but there is also some hydro potential that is currently being investigated by several international agencies.

The sector has created about 2,052 direct jobs and 7,500 indirect jobs. However, gender equality in employment within the sector is very low as only about 5 percent of the jobs created for women while 95 percent are male jobs. The job equity divide could be explained partly by cultural norms wherein Somali women mainly stay home to care for their households while male counterparts seek employment and training to earn for their households.

Therefore, perception plays a major role in access to jobs where women are less attracted to male dominated fields like electrical and business management jobs. The higher proportion of formally educated men, compared to female educational attainment, also contributes to low access to jobs for women. Therefore, access to training opportunities and job market present an area that reforms should address.

Table 8 Energy sector players[93]

Name	Year established	Coverage	Business type	Generation capacity (2015)	Annual output (2015)	No of Customers	Type
ALEL	2013	Hargeisa and Gabiliay, Somaliland	Sole owner with over 300 employees	3.850 MW	17,520,000 kWh	32,429	Diesel
Aloog Electricity	2004	Borama, Somaliland	Partnership, Corporation with 93 employees	2.4 MW	2,650,800 kWh	6,750	Diesel
Baidoa Electric Co	2012	Baidoa, Bay Region, South Central	Partnership with 102 employees	3.05 MW	1,045,000 kWh	5,175	Diesel
Badhan Electricity Company	–	Sanaag Badhan	Corporation with 30 employees	–	–	–	Diesel
Banaadir Electric Co (BECO),	2014	Mogadishu, Banaadir and Lower Shabelle Regions, South and Central Somalia	Cooperative with 1,074 employees	40 MW	–	210,000	Diesel but have installed 18 MW of solar
Beder Electricity Company	1991	Sahel, Saraar, Sool, Erigavo, Sanaag Region, Somaliland/ Puntland	Sole Owner with 70 employees	1.316 MW		4,000	Diesel
Dayax Power Supply	2013	Hiiraan, Hirshabeelle	Corporation with 75 employees	2MW		15,000	Diesel/Solar
Dayax Electric Power Co (DEPCO),	2015	Cabudwaaq, Galgaduud Region	Cooperative with 50 employees	2 MW		20,000	Diesel

93 Poplack David A & Coolidge K, "POWERING PROGRESS 2 Realizing the Potential of Renewable Energy in Somaliland, Puntland, and South Central Somalia" Shuraako, 2015

Name	Year established	Coverage	Business type	Generation capacity (2015)	Annual output (2015)	No of Customers	Type
Enersom Ltd	2014	Hargeisa, Somaliland	Partnership with 5 permanent employees		-	-	Distributes off-grid solar products
Golden Power Co	2010	Bosaso, Bari Region, Puntland State	Corporation with 10 employees	60 kW	20,888 kWh	350	Diesel
Golis Energy Company	2007	Hargeisa, Somaliland	Corporation with 19 employees	500 kW	180,000 kWh	2102	Install solar and wind units in homes, communities, and facilities;
Horn Electricity Co (HECO)	2014	Burao, Somaliland	Partnership with 150 employees	6 MW	7,500 kWh	22,200	Diesel and installed 1MW solar and 450 kW wind hybrid with gensets in Burao
Kaafi Horn Renewable Energy Co	2012	Hargeisa and Borama, Somaliland	Partnership with 7 employees	15.665 kW	—	11,305	100 percent solar; implementing partner for the Business Opportunities for Solar Systems (BOSS) project
Leading Energy Solutions Co (LESCO)	—	Lascanod City, Sool Region	Corporation with 55 employees	2.44 MW	273.75 MW	10,000	Hybrid diesel/ renewable energy system
National Electric Power Co (NEPCO)	2009	Galkayo, Galdogob, and Burtinle, Mudug region	Corporation	3 MW	5,103,000 kWh	14,730	Diesel
Solar Energy Consulting & Construction Co (SECCCO),	2011	Garowe, Puntland but operates in Bosaso, Hargeisa, Mogadishu	Sole owner with 10 employees	1 MW		20,050	100 percent solar with 600 batteries (1200 Ah 2v)
Solargen Technologies	2012	Mogadishu, Kismayo, Hargeisa, Dolo, Baidoa, Dusmareeb, Beledweyne	Corporation with 30 employees	—	—	—	Distributes solar pumps, streetlights, & off-grid solar power, and solar Pico systems.

Name	Year established	Coverage	Business type	Generation capacity (2015)	Annual output (2015)	No of Customers	Type
Telesom Electric Company (TEC)	2014	Hargeisa, Somaliland	Corporation with 47 employees	3 MW	4,000,000 kWh	–	Diesel
Blue Sky Energy	2015	Mogadishu	Corporation with 40-50 employees	2 MW	–	–	Diesel
Mogadishu Power Supply	1994	Mogadishu	Corporation with 100	5 MW	–	–	Diesel and solar
NECSOM	2003	Garowe, Puntland, Kismayo, Bosaso,	Corporation with 50-70 employees	4 MW	–	25,200	Diesel

In terms of financing, nearly all the ESPs have been underwritten by equity with minimal debt financing. Ownership is typically structured around shareholders comprising some large local conglomerates and a large number of small individual shareholders. Loans from commercial banks are scantly available at high interest rates of about 15 percent and up, with shorter repayment periods of between 1-2 years. However, some ESPs have secured 3-5 year loans from Shuraako on preferential terms. Going forward, most ESPs are looking for structured debt financing, with longer tenors and blended with concessional financing in order to lower capital costs, leading to reduction in overall cost of service. Some ESPs are also open for equity investments and partnerships with financial and strategic international investors.

4.4.4 Implementation of Renewables

Over the years there have been assorted attempts to introduce renewable energy-based generation to Somalia's electricity marketplaces, especially in solar. According to the UNDP's 'Renewables Readiness Assessment', insolation in Somalia ranges from 5 to 7 kWh/m2/day with over an average of 310 sunny days per year. This is sufficient for power generation provided the right technology is employed.

The Global Horizontal Insolation (GHI) across the country is generally over 200 W/m2 with several locations in the north having GHI of 250-300 W/m2. The wind potential in Somalia is also suitable for generation with the annual average wind speeds ranging from 1.5 to about 11.4 m/s.

These endeavours have been carried out with solar PV, wind power and limited hydro-electric generation—all with mixed results. These results were driven by a combination of well-meaning technology parachuting and the combined facts that:

a) Significant amounts of solar radiation are incident upon the Northern and Central areas of the region;
b) The coastal and northern regions are endowed with significant and reliable wind activity;
c) These technologies are modular and scalable and therefore theoretically amenable to both small and large systems.

For ESPs already using diesel gensets, the gradual incorporation of renewables technology into their operations is likely the best approach for them and their customers. Hybridization promises lower costs in the long term and improved reliability in the near term by allowing IPPs to hold diesel in reserve to meet increased demand. For example, Beder in Erigavo utilizes up to 30 percent wind in two locations, and LESCO in Lasanod has 12 percent renewable energy output at their largest generation site. Additionally, nearly every IPP has plans to incorporate renewables into a hybrid system. For the most part this has been achieved through solar PV. These PV systems are all grid-tied and synchronised to a particular ESP's HSDG generation system and connected to that same ESP's local distribution network. While there are some wind power generators installed in Somalia, all of these, bar one, do not presently provide electricity to their local ESP distribution network. The sole exception is NECSOM, which has an integrated state of the art wind power-solar PV-battery management and storage-HSDG generation system.

The Energy Sector

4.5

Legal Framework for the Energy Sector

4.5 Legal Framework for the Energy Sector

Currently Somalia does not have an individual legislation governing electricity generation, transmission, and distribution. Absent a regulation governing the electricity sector, the Ministry of Energy and Water Resources of Somalia (MoEWR) has the mandate to oversee operations in the sector. The MoEWR has introduced a system where participants in the electricity market must register and obtain a certificate. Having said that, there is currently no information about the number of companies that obtained the certificate from the Ministry, especially at the state or regional level.

The MoEWR maintains direct relations with the state-level governments and the authorities that are mandated with overseeing the electricity sector. In Puntland, the Puntland State Agency for Water, Energy and Natural Resources (**PSAWEN**) is responsible for energy-related matters but has limited ability to pass new regulations and laws. The other states deal with energy-related matters on an ad-hoc basis through the state governments and appointed representatives.

At the time of the survey, the MoEWR planned consultations with key stakeholders on the draft electricity Act – as of August 2021, these have been completed and the Act is now being deliberated in Parliament. The stakeholder consultation process had been delayed due to the ongoing COVID-19 global pandemic. Based on the request from the public and private sector stakeholders, a Public-Private Dialogue energy working group was established. This platform brings together local stakeholders to prioritize energy interventions, discuss policy issues, address specific problems and recommend consensus-based solutions.

If adopted the draft electricity Act will act as an appropriate regulatory framework to moderate the sector and provide common standards for successful electricity sector development. The draft electricity Act is expected to bring stakeholders to agreement on generation, transmission, and distribution standards in Somalia. However, there are a few shortcomings in the current draft. The draft does not specifically address the issues that exist in the renewable energy sector. The renewable energy sector is also in need of standards. There have been cases of both governments and private businesses spending heavily on renewable technologies, which turned out to be obsolete, incomplete, or of inadequate quality. Since renewable technology is relatively expensive, further development would also include the need for standards for the renewable energy sector, covering issues such as licensing, regulation, rules, standards and incentive schemes to integrate rural electrification, tariffs and Power Purchase Agreement. In the absence of regulation and industry standards and codes, shortages and outages have become common in the existing systems, because they often comprised of obsolete infrastructure using inadequate equipment managed by operators with limited professional capacity.

The Energy Sector

4.6

Challenges Facing the Energy Sector

4.6 Challenges Facing the Energy Sector

4.6.1 Technical and Non Technical Challenges

According to the MEWR staff KII, the main challenges to local and foreign investors in the Energy sector in Somalia include: limited access to business and consumer finance, political and commercial risk, a lack of reliable market data and insufficient capacity of the local partners. Bottlenecks to the effective development of energy resources include the current lack of physical infrastructure that facilitates and supports the implementation and maintenance of distributed and decentralized electricity generation. The present lack of technical capability also limits the current and future operation and maintenance of decentralized distributed hybrid electricity generation and energy utilization.

There is also a lack of clear regulations and standards for the electricity sector, which make it very difficult to create the crucial financial investments and partnerships required for the expansion of electrical generation, discouraged by unknowns and liabilities. As mentioned, a consequence of these multiple entrepreneurial vertically integrated ESPs has been that there are significant electrical losses, reportedly up to 40 percent, within the urban island radial distribution networks. Moreover, there are no regulations or standards for electrical wiring done on customer premises. A direct consequence of these regulatory lacunae is that some 60 percent of fires in urban communities are begun by electrical wiring faults.

The range of HSDGs used in Somalia's urban areas are all under 2,000 kW in generation capacity. When operated for 12 hours a day, correctly loaded and maintained, these systems have major overhaul intervals of 3.42 years (15,000 hours). After this period the generator must either be replaced or completely disassembled and all of its bearing surfaces (that is, those experiencing heat and/or friction during normal operation) refinished or replaced.

Apart from regular maintenance, HSDGs require major scheduled filter and oil changes every six months and "Top End" overhauls (that is, those requiring only partial disassembly) every 13-14 months during a 3-4 year major overhaul interval. In addition, there is an increase in unscheduled downtime and labor when HSDGs are run so as to produce wet stacking, along with poor maintenance and service. Many ESPs are operating HSDGs significantly below their rated performance.

A direct consequence of running light loads is insufficient operating temperatures, producing incomplete combustion of the diesel fuel and consequent emission of unburned hydrocarbons into the atmosphere and the generator's lubrication system, resulting in the symptoms and negative consequences of wet stacking.

All of these combine to reduce maximum generation power, shrink major overhaul intervals, elevate maintenance costs, and increase unscheduled generation downtime. Losses due to wet stacking produce significantly higher overall operation costs, which are in turn passed on to consumers ill-situated to absorb provider inefficiencies.

Any state of affairs in which large urban centers have multiple ESPs, each with their own island radial distribution networks limits the development of larger electricity generation. The creation of urban distribution rings will permit better use of existing generation resources. It will permit larger and less expensive generation expansion, based on electricity providers utilising their competencies to synchronise their generation to an urban distribution network and collaboratively assure the network's stability.

The key element required to capitalize on the benefits of renewable resources for electricity generation is a mastery of the necessary skills to synchronise the blending and management of hybrid electricity reserves to produce continuous and reliable power for end consumers.

4.6.2 Network Technical Challenges

A. Wiring practices

All urban centers and small towns visited revealed that distribution is primarily through overhead wiring, with varying degrees of order and disorderliness. Wiring within distribution, residential and business structures is currently carried out in a regulation-free environment. In so much as there are no current national standards, regulations or codes in place, nor are any codes being presently enforced, all electrical wiring safety and quality and assurance (Q&A) for distribution and buildings is self-regulated and evaluated only by the installer and their customer. Within the vertically integrated autonomous parallel electricity providers (ESPs), all electrical wiring safety and Quality and Assurance (Q&A) for distribution is self-regulated and not independently evaluated.

B. Losses in the electricity distribution networks

All the ESPs report that they have significant losses within their island distribution networks. The reasons for these losses are both technical and commercial. Reportedly, these electricity distribution losses are the largest power (instantaneous energy) losses within any of the individual ESP island electricity networks. These electrical energy losses occur within both the primary and secondary distribution lines, and encompass both technical losses and commercial (non-technical) losses. While some losses can be easily corrected, others require equipment changes, and some are inevitable as they are caused by the physics of electricity generation and transport. For example, current flowing through any conductor will generate electric and magnetic fields that divert and dissipate some of the generated energy.

The resistance to electricity of the conductor used in a power line, and the energy this dissipates as heat, is also impossible to reduce for a given conductor and a given current. Only raising the voltage of transmitted electricity permits a decrease in current, and decrease in current is the only means to reduce resistive losses. This is the reason long-distance electrical transport uses voltages in the 200 kV to 800 kV range. Total losses simply reflect the difference between the generated kWh and the load used and billed kWh. This value is generally referred to as T&D losses (Transmission and Distribution) is the electricity amount not paid for by load users.

Nevertheless, ESP generators must account for these in order to optimise their financial soundness. Commercial losses, are losses unaccounted for within energy use bills, and they relate to:

- Unmetered supplies;
- Incorrect billing;
- Wrong tariffs;
- Defective electricity meters; and
- Electricity theft.

In Somalia, both the ESPs and government officials collectively assert, that load users tamper with their electricity meters to lower the measured electricity consumption. Moreover, electricity theft and illegal connections are frequently reported. Causes of variable technical losses include:

- Inadequate conductor gauge in the distribution lines;
- Long distribution lines;
- Load imbalance between phases of alternating current;
- Low power factor coefficient in the network;
- Overloading of lines;
- Transformers distant from load centers;
- Haphazard installation of distribution systems to cope with demands to new areas.

C. Multiple ESPs Servicing One Client

There is a significant limitation to the amount of electrical energy any one vertically integrated ESP can deliver when the ESP is not able to provide parallel (synchronised) interdependent generation and distribution to their user loads. This along with the impact of multiple radial island network duplication by ESPs constrains the amount of electrical energy any one ESP can deliver to load users, especially for LLCs. Consequently, large firms and institutions having large electricity requirements face several options:

1. Contract with 2 or more separate ESPs for parallel electricity delivery by multiple separate radial feeder lines;
2. Opt for their own captive HSDG electric generation;
3. Upgrade by adding captive solar PV grid-tied generation to their stand-alone diesel-electric based mini-grid systems (this is an off-grid generation solution); or
4. Implement a combination of utilising an ESP for powering certain selected business-related tasks and utilising captive generation for other core business activities

D. Operations and Maintenance Challenges

One observed consequence of the current ESP size limitations combined with their obligation to create duplicate radial distribution networks is that duplicating ESP firms cannot establish the sufficiently large technical and financial resources. This is crucial to operating the cost-beneficial activities of effective maintenance programs in support of the divergent demands of dispersed and focused distribution against targeted generation operations. This can be seen in the reports from numerous ESPs of multiple generators in poor condition, or inoperative, and also in their reports of significant technical and commercial losses in their captive radial distribution networks.

Another challenge is the vulnerability of site-dependent electricity generation and its infrastructure to insurgencies and protracted civil strife. The O&M of centralized generation can be simplified because of consolidation, but it is also an easy target for hostility and insurgents disenfranchising civil society through a combination of abandoned O&M and infrastructure destruction. These losses are more expensive to remedy because of their site-specific qualities and requirements.

4.7

Donor Support to the Energy Sector

4.7 Donor Support to the Energy Sector

Donor-backed hybrid mini-grid systems mixing solar and diesel power have been proposed by the African Development Bank as a solution to infrastructure challenges both in rural areas and in cities[94].

Small-scale providers in Somalia are currently combining their efforts in order to increase the reliability of their grids by forming co-operatives, which would allow them to make the large capital outlays necessary for a grid. Some projects are being led by and developed for the highest level of government: the Federal Government of Somalia, in conjunction with the UNDP and the OPEC Fund for International Development, installed a 298 solar panel, 76 kVA hybrid system at Villa Somalia in 2017[95]. In addition to private-sector investments, there are currently numerous NGO- and development agency-supported initiatives in Somalia. USAID's Power Africa initiative, which is providing technical assistance to improve efficiency and operations of private sector energy companies, has set a target of increasing Somalia's generating capacity to 500 MW by 2030[96], while smaller NGOs such as the Adventist Development and Relief Agency have supported the purchase of more efficient stoves.

USAID currently supports the Somali government and private sector to increase the availability of quality energy and to reduce tariffs, through the provision of a wide range of technical assistance to develop their electricity supply industry[97]. Efforts include:

i. Providing institutional capacity building for Somali public energy agencies;
ii. Providing technical assistance to private sector companies to improve the capacity and efficiency of operations;
iii. Improving collaboration between private sector entities throughout Somalia, including the country's energy association, in order to increase technical capacity within the energy sector;
iv. Undertaking targeted energy demand/generation studies; and
v. For targeted industries, such as fisheries and dairy, improving access to renewable energy solutions.

Other donors' projects focused exclusively on energy and those that plan to incorporate renewable energy include; Adventist Development and Relief Agency (ADRA), Development Alternatives International (DAI), the UK Department for International Development (DFID), and the Swedish International Development Cooperation Agency (SIDA). Program outputs range from small-scale solar lighting to large-scale infrastructure and development projects. The project details are as indicated below.

Table 9 Donor-Energy projects in Somalia

Project	Donor & Funders	Budget	Period	Location	Beneficiaries
Energy Security and Resource Efficiency—ESRES	DFID	$29,368,000	2014-2018	Somaliland	Undetermined
Growth, Enterprise, Employment, and Livelihoods—GEEL	USAID	$74,000,000	2015–2020	Somaliland, Puntland, South Central	create 5,000 new jobs
Promoting Inclusive Markets in Somalia—PIMS	DAI/DFID	$15,956,000	2015–2018	Somaliland, Puntland, South Central	9,000 long-term jobs
Somali Energy Transformation—SET	ADRA/DFID	$3,250,000	2015–2018	Somaliland, Puntland, South Central	3,900 households/ approx. 238,000 direct beneficiaries
Somalia Power Sector Development Support	World Bank/ Multi Partner Fund	$18,000,000	2015–2018	Mogadishu, Hargeisa, Garowe	Government ministries, identified private sector actors

Source: Shuraako (2015). Powering progress Report.

Additionally, recent support from USAID, the UK's Department for International Development, and the European Union has allowed the development of Somalia's National Energy Policy and Electrical Energy Act, while the World Bank Group completed a power master plan study in August 2018, which details a 20 year least-cost plan, gap analysis of regulations, laws, standards, and the institutional and human resource cultivation needed to develop the sector.

According to the FGD participants, the local investors stood to benefit from their engagement with Development Financing Institutions (DFI)'s in various ways including access to foreign investors, technology and knowledge transfer, increased access to global markets, and institutional strengthening.

Given the increasing number of DFIs showing interest in Somalia due to the ongoing reforms, the Somali investors indicated their openness to more constructive engagement with DFIs to better compete in global markets. They further noted that they required technical support from the government and other bodies like chambers of commerce to ensure they were protected from non-value adding engagement, given that most of the firms were not investment-ready for interested foreign parties.

The same sentiments were attested to by a majority (80 percent) (ICT 78 percent, Energy 82 percent) of the investors interviewed, who indicated that engagement with DFI's would be beneficial to their firms.

4.8

Opportunities in the Energy Sector

4.8 Opportunities in the Energy Sector

4.8.1 Investment Potential

Despite these numerous challenges, the energy sector in Somalia has high potential, both in terms of renewable and non-renewable resources. Solar power is growing rapidly, especially in rural areas, and has the potential to increase the reliability of rural distribution networks. Solar installations are potentially cheaper than diesel power: one pilot project in the town of Warsheikh has a cost per kWh of 50 cents, half of the average tariff in Somalia[98].

Also, interest and investment is growing in hybrid systems that draw on solar and wind energy resources. **Thanks to its extensive coastline, Somalia has the highest resource potential of any African nation for onshore wind power**: it stands at 30,000 to 45,000 MWs[99]. Additionally, solar power could potentially generate in excess of 2,000 kWh/m^2 [100] as the country has an average of 310 days/ 3,000 hours of sunshine.

Further, Somalia's fossil fuel potential is not fully understood due to a lack of geological surveys but is thought to be high due to its location on the Red Sea and Indian Ocean. For example, the Dharoor oil field in the northern Puntland region may hold up to 10 billion barrels of oil[101].

Large offshore natural gas deposits are similarly thought to be likely. The Malaysian firm Polaris has offered to build an 80 MW diesel generator, convertible to natural gas, in Mogadishu in exchange for natural gas exploration rights[102].

However, although Somali investments in electricity are strong and growing, Somali power producers are discouraged by the lack of foreign investment in their sector. Somali firms in the energy sector claim that investment finance is among their top concerns. The lack of capital was among the most significant challenges to scaling or expanding their business. Considerable potential for investment exists not only among foreign sponsors, the Somali business community, and diaspora, but also for "impact investors." Impact investments seek to improve the Somali region's economic development and political stability in addition to returning a profit. A recent report by the Global Impact Investing Network (GIIN) estimates that approximately $500 million in "impact capital" could become available to the Somali region by 2020.

Considering the growing scarcity of and high prices for firewood and charcoal—traditional and daily energy sources for a vast majority of Somalis—electricity will need to become more accessible and more affordable in order to sustain further economic growth and improvement in the quality of life. Investment in electricity generation, transmission, and distribution will not only have a sizeable economic multiplier effect, but will also provide substantial environmental dividends by displacing fuels burned for lighting and cooking and, in the case of renewables, by displacing diesel burned in the conventional generators prevalent around the country. While there is potential to create a national interconnected grid that facilitates power sales across micro-grids, this cannot feasibly meet the demands of the entire country, even in the long-term.

[98] SEforALL, 2018

[99] USAID 2018

[100] African Development Bank, 2015

[101] African Development Bank, 2013

[102] African Development Bank, 2015

Furthermore, electricity demand is growing on account of expansion of cities/regions, ramp-up of industries and commercial establishments, and enhanced consumption by residential customers. This points to a clear need to significantly expand the generation capacity.

As a result, the World Bank and other NGOs are focusing on off-grid renewable capacity, especially in rural areas where micro-grids are unlikely to be successful. However, investments in off-grid renewables are as yet challenged by factors such as low-quality imports, a lack of skill, and inability to access finance on the part of foreign and domestic investors.

To attract investment, the Ministry of Energy and Water Resources is conducting feasibility and analytical studies. It is also preparing an indicative least-cost geospatial electrification plan to achieve universal access and prepare electricity sub-transmission and distribution integrated development least-cost investment plans. The outcome of these studies will provide an indicative investment requirement for both on-grid and off-grid access delivery modalities. In addition, the Ministry has organized a number of one-on-one investor discussions in Malaysia, Turkey and Portugal. In these three forums, the investors expressed keen interest toward investing in the Somali Energy sector. The ministry has established the Energy Coordination Unit (ECU) that is mandated to mobilize international efforts regarding funding and investments in the sector. ECU keeps all investor related information and reports (KII, MEWR Staff).

Fighting poverty, consolidating the state, and providing services are critically needed tasks of development and state building that electricity provision can specifically facilitate. But real progress is likely to be achieved only with broad growth in the economy[103].

Economic growth requires capital and, while research reveals that Somalis provide the vast majority of their own investment capital, more FDI is needed. In an analysis of foreign investment in fragile and conflict-affected states, Whyte and Griffin (2014) argue that "the most cost-effective way to generate new flows of [FDI] may be to encourage established investors to expand, deepen, or diversify their operations."

However, a recent evaluation of the USAID Partnership for Economic Growth program assesses that investment in manufacturing for the Somali region will be held up for several years due to the cost of electricity and suggests that USAID focus on other sectors instead. However, just as the Somali region risks losing such investors if the costs of electricity are not brought under control, by the same token it is also possible to jump-start economic growth through investments in electricity production.

ESPs are looking for investment in Generation, Transmission, and Distribution: they are keen on competitive financing solutions to increase generation capacities, moving away from diesel to renewable energy, and upgrading their transmission networks to reliably meet demand with reduced technical losses.

The estimated required capacity to meet existing unmet demand and future demand growth is about 500 MW over the next five years. Some notable opportunities include support for expansion and growth of SomPower in Hargeisa, Somaliland; Tayo Energy in Berbera to position it to serve a strong captive client (Berbera Port and Free Zone-Tayo currently provide 25 percent of Berbera's energy); and Blue Sky in Mogadishu, looking to partner with Mogadishu Power to secure a strong competitive position (against BECO) in a fast-growing market[104].

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[103] Shuraako (2015). Powering progress Report. (http://dx.doi.org/10.18289/OEF.2016.003)

[104] Somalia Virtual Infrastructure Mission April 2020—Energy sector

4.8.2 Other Sector Opportunities

The following are the other key opportunities noted in the energy sector.

1. **Cost of Service:**

The ESPs are cognizant of the need to sustainably reduce consumer tariffs to grow electricity demand, targeting industries and commercial segments to support their targeted growth.

The ESPs are keen to receive support and assistance on development and implementation of viable plans and strategies to reduce cost of service, including lowering of generation costs through adoption of renewable energy sources and upgradation of transmission networks to address system losses[105].

2. **Sustainability and Investment Readiness:**

There is a clear need for technical assistance to EPSs to help them understand and adopt industry best practices, along with the need to help ESPs organize ESGI structures for long-term sustainability. The ESPs are keen to receive a structured capacity building support to attract investment from lenders and investors[106].

3. **Legal and Regulatory Frameworks:**

Long-term sustainability of the sector is dependent upon clear and defined policies and regulations which should be developed in close coordination with the public and private sector stakeholders[107].

4. **Technical Services and Capacity Building**

Major constraints that impede further growth of the energy sector include the **limited technical capacity** to upgrade energy infrastructure, support interconnection and the integration of hybrid systems, introducing metering and motor controllers. Opportunities exist with respect to training and supplying a cadre of electrical engineers to support the existing stakeholders (for example, an energy training institute to upskill local energy labor). There is a clear need for **technical assistance to ESPs** to help them understand and adopt industry best practices, along with the need to help ESPs organize structures for long term sustainability.

The addition of renewables-based upgrades has resulted in hybrid generation opportunities. Such hybrid opportunities offer significant improvements in fuel efficiency, fuel consumption, extended HSDG lifespans, reduction of greenhouse gas (GHG) emissions and combustion pollution, along with less reliance on fuel imports. Hybridized electricity generation for urban centers is the present global trend across electricity markets. Listed below are other sector-related opportunities:

- Cable manufacturing investment
- Independent power production
- On and off-grid electrical component sales: power poles, lines, insulators, transformers, switchgear
- Meters and metering services
- Solar lanterns, solar home systems and larger off-grid systems—for sale, lease and energy as a service
- Solar streetlights
- Wind resource measurement surveys and equipment
- High efficiency productive use equipment including air conditioners, building and fresh produce chillers, water purifiers, machine tools, and food preparation equipment
- Engineering consultancy

[105] Somalia Virtual Infrastructure Mission April 2020—Energy sector

[106] Somalia Virtual Infrastructure Mission April 2020—Energy sector

[107] Somalia Virtual Infrastructure Mission April 2020—Energy sector

The Energy Sector

4.9

Developments Since the Survey

4.9 Developments Since the Survey

The tabling of the Bill of the Electricity Energy Law, 2020 for consideration in the Lower House of Parliament and its subsequent adoption is a major milestone for the Energy Sector. Given the non-self-executing nature of this Law, the MoEWR has prioritized the development and implementation of the regulations supporting operationalization of the law.

The Ministry has also embarked on and is in the early stages of revitalizing the Energy sector PPD mechanism which it will leverage in the process. Establishing a structured and action-oriented consultation PPD between MoEWR and the private sector will increase the effectiveness and efficiency of the regulatory framework development process and its implementation.

The Energy Sector

4.10

Key Findings and Recommendations

4.10 Key Findings and Recommendations: Energy Sector

4.10.1 Energy Sector Findings

The provision of energy in Somalia is a key challenge over the near future but presents a wide set of opportunities for both domestic and foreign investment. Despite recent growth in the sector, rates of electricity penetration remain low, even by LDC standards. Despite this, it has been increasing over the last decade. Somalia's total electricity capacity in 2019 stood at 106 MW, of which 100 MW are diesel[108].

Renewable energies are also gaining momentum, with solar and wind increasing their share of the generation mix up to 18 MW. The country has the greatest potential of all African nations for wind shore power which could generate between 30 to 45 GW, and is also among the top countries on the continent for solar potential: generation potential is estimated to be around 2,000 kWh/m^2[109].Thus, by 2020, the total installed generation capacity in Somalia and Somaliland is estimated to be around 130 MW, which leads to significant market potential for the unmet demand, especially in rural areas.

Some challenges remain with respect to ensuring proper regulation of and support for the energy sector, however this may be considerably addressed by the FGS allocating sufficient funds and staff to the responsible ministry, MoEWR. Over the short-term, the Somali government has prioritized the drafting of an energy policy, strategy, and regulatory framework to facilitate more private sector investment in alternative renewable energy, and also to explore the possibility for technically viable cross-border energy trade with neighbouring countries.

These efforts began with the drafting of the Somali Electricity Act, which was developed by the private sector, and reviewed and commented upon by WBG teams for conformity with international best practices. After MoEWR reviewed comments, and completed consultations with stakeholders, the draft act is being deliberated at Parliament (August 2021). The Ministry is also conducting feasibility and analytical studies.

An indicative least-cost geospatial electrification plan to achieve universal access and preparing electricity sub-transmission and distribution integrated development least-cost investment plans has been completed since the survey. The sector has created about 2,052 direct jobs and 7,500 indirect jobs. However, gender equality in employment within the sector is very low, with only about 5 percent of jobs created for women while 95 percent are intended for men.

Despite these challenges, the energy sector in Somalia presents key opportunities for investment in Generation, Transmission, and Distribution, Cost of Service, and sustainability and Investment Readiness.

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[108] USAID 2018 : for the sake of comparison, this capacity is less than that of the Mansfield Dam in Texas, one of six operated by the Lower Colorado River Authority of Austin, Texas

[109] African Development Bank 2015

4.10.2 Energy Sector Recommendations

The Energy Power Plan sets out a number of priorities for the sector which are broadly consistent with the findings from the survey.

- **Capacity Building:** there is a need to provide additional training on internationally accepted procedures that ensure the safe and reliable operation and maintenance of generation, transmission and distribution facilities. The survey found that energy losses by ESP due to technical and commercial challenges to be about 45 percent. The current lack of technical capability among ESPs further limits their current and future operation and maintenance of decentralized distributed hybrid electricity generation and energy utilization.

- **Development of policies, laws and regulations:** there is a need to adopt a national policy for the electric sector and the passage of law that addresses industry and market structures. Further the sector would benefit by developing standards, codes and guidelines assuring the safe operation ofthe generation, transmission and distribution assets;

- **Institutional**: the Powerplan states that the sector would benefit from a law establishing an Energy Regulation Authority. Further it highlights the need for institutional support to the private sector, to develop an Association or council to facilitate advocacy and feedback into regulation and standards by the private sector. This survey highlights the need for improved public private dialogue to move forward the implementation of a regulatory framework and recommends support to an industry association to facilitate better dialogue and standards setting.

- **Investment Facilitation:** The investor survey found that the energy sector in Somalia has high potential, both in terms of renewable and non-renewable resources. However, without the required foreign investment in the sector, local investment is not adequate to enable the country utilize its latent high-energy potential. Investment facilitation support to the energy sector is an important intervention that is likely to open the energy sector to highly sought-after foreign investment.

5.0
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The Investment Promotion Office (SOMINVEST) is a statutory body established under Article 6 (sections 1-8) of the Foreign Investment Law of 2015 to: promote foreign investment; rebrand Somalia; facilitate investment entry and retain; and continuously advocate for improved investment policies.

The Federal Government of Somalia considers investment as a main economic engine and established the Department of Investment under the Ministry of Planning, Investment and Economic Development (MOPIED) to closely coordinate National Development Plans and strategies with the investment priorities. SOMINVEST, as the National Investment Promotion Office, focuses on sector-specific investor targeting and development of new partnerships to enable sustainable investments in Somalia.

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