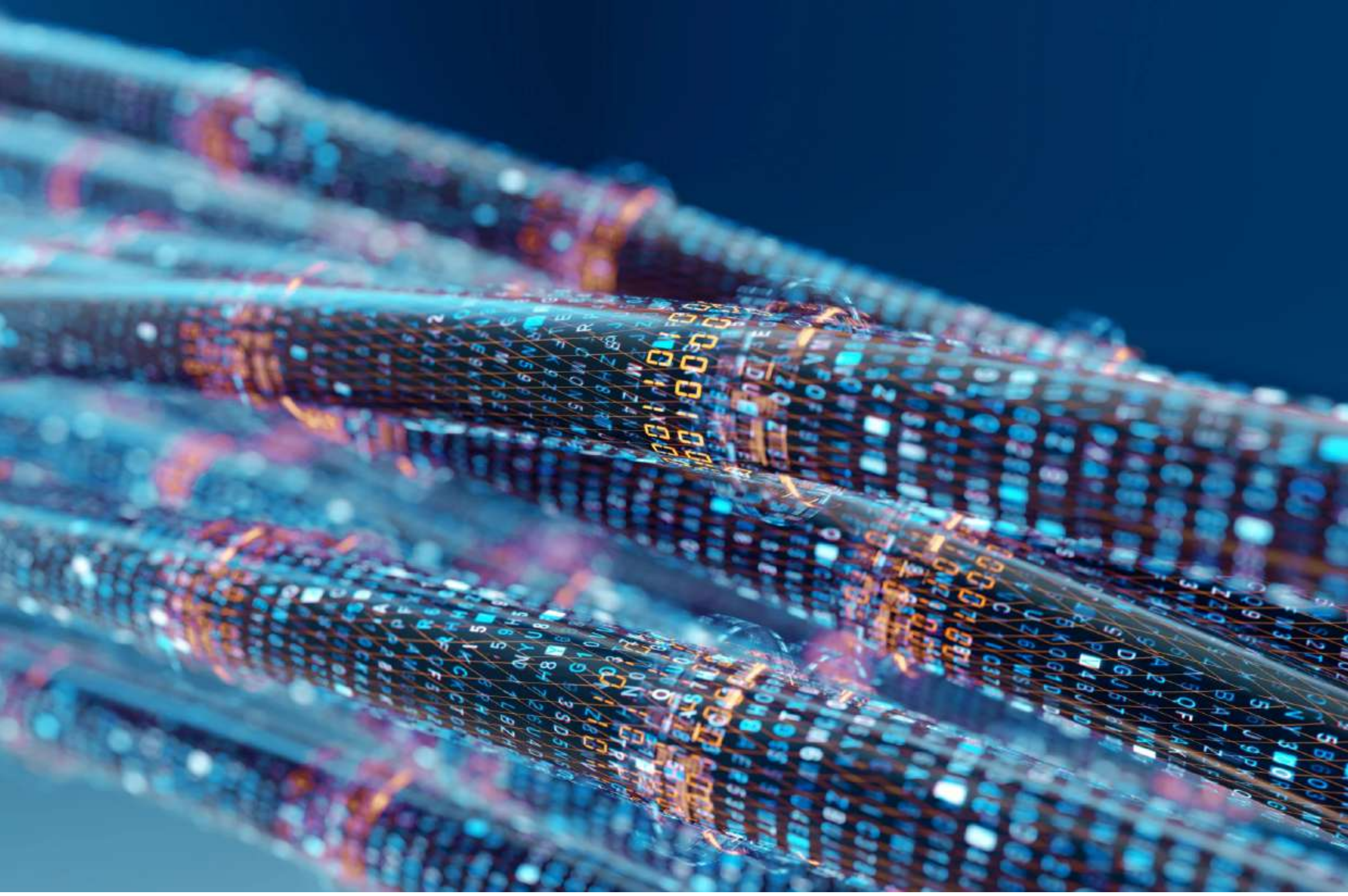

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A Roadmap to Unlocking Private Sector Investment In Somalia's ICT Sector

February 2022

Somalia Investment Promotion Office

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Frequently Used Abbreviations

ADRA	**A**dventist **D**evelopment and **R**elief **A**gency
ASP	**A**pplication and **S**ervices **P**rovider
AU	**A**frican **U**nion
BDS	**B**usiness **D**evelopment **S**ervices
BEC	**B**erbera **E**lectricity **C**ompany
BECO	**B**anadir **E**lectric **Co**mpany
BRA	**B**anadir **R**egional **A**uthority
CBS	**C**entral **B**ank of **S**omalia
CIP	**C**ommunications **I**nfrastructure **P**rovider
CISP	**C**ommunications **I**nfrastructure and **S**ervices **P**rovider
COMESA	**Com**mon **M**arket for **E**astern and **S**outhern **A**frican Community
CRM	**C**ustomer **R**elationship **M**anagement
DAI	**D**evelopment **A**lternatives **I**nternational
DARE	**D**jibouti **A**frica **R**egional **E**xpress
DB	**D**oing **B**usiness report
DDI	**D**omestic/**D**iasporic **D**irect **I**nvestment
DFI	**D**evelopment **F**inance **I**nstitution
FCDO	**F**oreign, **C**ommonwealth and **D**evelopment **O**ffice, United Kingdom
EAC	**E**ast **A**frican **C**ommunity
EASSy	**E**ast **A**frican **S**ubmarine Cable **Sy**stem
ESPs	**E**lectricity **S**ervice **P**roviders
FDI	**F**oreign **D**irect **I**nvestment
FGD	**F**ocus **G**roup **D**iscussions
FGS	**F**ederal **G**overnment of **S**omalia
FIB	**F**oreign **I**nvestment **B**oard
FIL	**F**oreign **I**nvestment **L**aw
FIPO	**F**oreign **I**nvestment **P**romotion **O**ffice
FMSs	**F**ederated **M**ember **S**tates
GBN	**G**overnment **B**roadband **N**etwork
GHI	**G**lobal **H**orizontal **I**nsolation
GT	**G**as **T**urbines
HAP	**H**igh **A**ltitude **P**latforms
HIPCs	**H**eavily **I**ndebted **P**oor **C**ountries
HSDGs	**H**igh-**s**peed **d**iesel **g**eneration sets
ICT	**I**nformation and **C**ommunications **T**echnology
IDP	**I**nternally **D**isplaced **P**erson
IG	**I**nvestment **G**enerated
IIAs	**I**nternational **I**nvestment **A**greements
ILO	**I**nternational **L**abour **O**rganization
IMF	**I**nternational **M**onetary **F**und
IPPs	**I**ndependent **P**ower **P**roviders
IPR	**I**ntellectual **P**roperty **R**ights
ISP	**I**nternet **S**ervice **P**rovider
ITU	**I**nternational **T**elecommunications **U**nion
KII	**K**ey **I**nformant **I**nterviews
LDCs	**L**east **d**eveloped **c**ountries
LLCs	**L**arge **L**oad **C**ustomers

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 endeavours 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, inadequate 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 at 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 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 in enabling the FGS to 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.

[1] 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**), 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 most eastern tip of the African continent known as the "Horn of Africa" has made it a dynamic meeting place where East meets West. It has one of the longest coastlines of Africa (over 3,300 kilometers) with a population of approximately 12 million population and an additional 2 million diaspora. In addition to its very long coastline, Somalia has a growing ports infrastructure. As the country re-establishes stability, these ports will provide massive opportunities to boost the country's economic growth.

The economy is growing consistently (from 2.8% in 2018 to 2.9%), due to a recovery in agriculture and strong domestic consumer demand. Inflation decreased (from 5.1% in 2018 to 4.4% in 2019) leading to a decrease in food prices. An improvement in the current account deficit (from 9% in 2018 to 8.3% 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 couple of years due to diaspora remittances (estimated 50-60% 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. When 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 sector that attracts 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 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.

Competitive ICT market: Somalia has 5 licensed telecommunications operators that provide voice, data and value-added services. This has helped to build a competitive market, where Somalia has the lowest internet rates in Africa and is seventh in world rankings of low internet connectivity prices. **Somalia's ICT sector does not have a government monopoly** or a government provider, unlike some of its neighboring countries. Somalia has **one of the most active mobile money markets in the world,** outpacing most other countries in Africa. The government is creating **an enabling regulatory environment for investors in the ICT sector**. This includes ICT regulations that promote innovation and certainty and increase competition in the sector.

Expansion of financial services: There is a growing number of commercial banks and branches operating throughout the country, each looking to provide debt and other financial instruments to potentially profitable business opportunities.

[2] Ibid 77

[3] UNCTAD's 2020 World Investment Report.

Significant efforts have been made by the Federal Government of Somalia, in cooperation with international partners, to **strengthen security in Somalia**. Both the **frequency** and **impact** of insecurity incidents are on the decline, thereby increasing public security. More businesses and manufacturing facilities are now operating beyond Mogadishu for the first time. Major cities and towns remain in the government's control.

The changes in investment climate summarized by the present report are succinctly described by Ahmet Mohamed Yusuf, the CEO of Hormuud Telecom, who put them in these terms, "The biggest misconception is that Somalia is a war-torn country, continuously in a state of conflict and operating in the country is impossible. Hormuud and other telecommunications firms in Somalia are some of the most innovative companies in Africa, contributing to the rapidly growing and vibrant economy."

1.3 Opportunities in the ICT Sector

This sector is now arguably one of the fastest-growing in the economy ; private operators have emerged to meet the high demand for critical communications services and the sector now accounts for up to 10 percent of GDP. Key opportunities and trends emerging in this sector are:

ICT Infrastructure

- **Gulf to Africa (G2A)**: In 2016, the G2A – **a new low-latency cable system** – was introduced to bring content closer to end-users in Africa and provide Somalia with much needed Internet capacity and access to global cloud services and applications.

- The subsea part runs from Salalah, Oman, to both Bosaso in Somalia and Berbera in Somaliland. From Salalah, a terrestrial route through Oman interconnects with all of Omantel's nine submarine cable systems, soon to be twelve, with some of them being the largest in the world connecting the Middle East with the Far East, Europe and North America.

Backbone Infrastructure

- While international connectivity has improved in recent years with the landing of the EASSy submarine fiber optic cable in Mogadishu and terrestrial cables at the borders with Djibouti and Kenya, Somalia presents opportunities for developing a **national fiber optic backbone network** to distribute the international bandwidth within the country, now the key inhibitor to Somalia's broadband market further development.

- Such a network would enable Somalia to establish itself as **a supplier of international bandwidth to landlocked Ethiopia.** This is a highly lucrative market that is currently buying most of its international bandwidth from Djibouti and Kenya (connected to a multitude of subsea cables). Ethiopia's population of 95 million - the second largest in Africa after Nigeria - is projected to grow to over 150 million in the next 20 years.

- Although some operators have built their own microwave and fiber backbone links in some areas, Somalia is currently seeking investments for an **open competitive market in national and international capacity**. This is a necessary precursor to the further development of the ICT sector.

- Somalia is seeking investors to partner with existing players to **integrate the domestic transmission network**, especially a national backbone and metropolitan networks. Due to a lack of a state-owned national backbone network, existing operators have resorted to building their own fiber networks to meet limited infrastructure needs across coverage areas (with very limited infrastructure sharing) or use expensive satellite connections.

- Once a pervasive national fiber backbone is in place, Somalia's strategic geographic location and multiple international cable links can be leveraged to the benefit of the domestic ICT industry and the public. It will also make it easier for investors to navigate the Somali ICT market and protect existing investment in the sector.

- Somalia is close to several major undersea cable networks. These networks connect with Europe, the Middle East, India, and the Gulf of Aden.

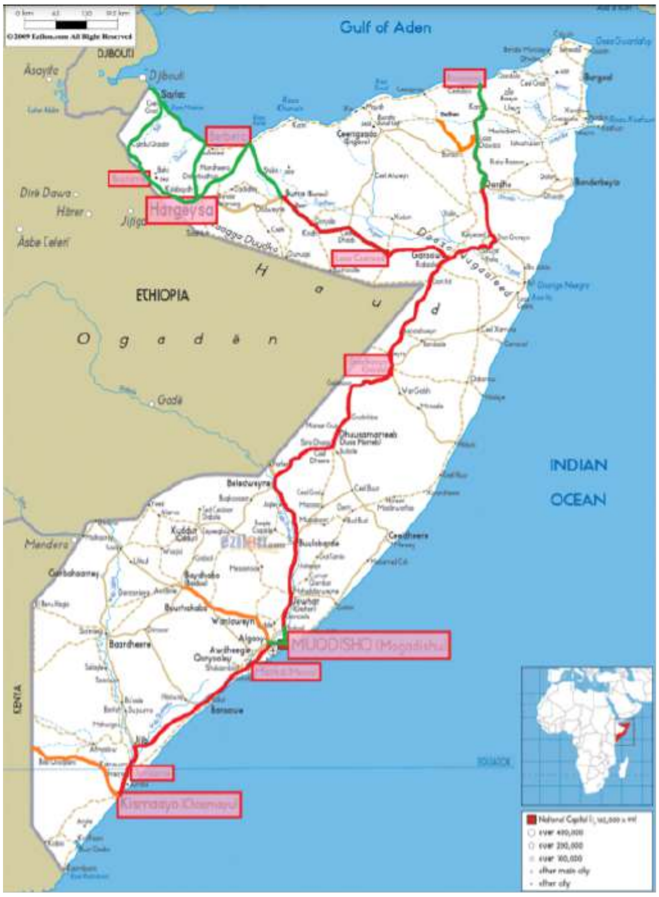

Figure 1 Fiber Optic Backbone Connecting 10 Cities

The map shows in green

Somcable's existing terrestrial fiber network which connects Berbera, Hargeisa and Borama to Djibouti and is being extended to Burao and Laas Anod

Golis's fiber optic cable between Berbera and Qardho, which is being extended to Garowe

Galkayo, Laas Anod, Erigavo, and Galdogob on the Ethiopian border

Hormuud's fibre from Mogadishu to Afgoye and Balcad.

The map shows in red

A fibre route that would connect the remainder of Somalia's ten largest cities to the currently existing infrastructure

SOURCE: Strategy and PPP Options for Supporting the ICT Sector and Broadband Connectivity in Somalia, WBG, Map: Ezilon

Public Private Partnerships

The Federal Government of Somalia (FGS) is actively conducting **consultations with the private sector** (e.g. telecom operators and Internet Service Providers) and public delegations from various countries interested in investing, to discuss potential options for the development of the ICT sector.

The FGS supports the **public-private partnership (PPP)** and joint investment programs as models worth considering for the development of a national backbone network. PPPs are useful given the fact that private sector investment can provide more efficiency and these investors can benefit from the existing incentives. The public sector can also provide utility where the private sector is unable to negotiate access to rights of way or otherwise have access to required areas of land or sea.

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 survey[4] 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.

Growth in internet use is also constrained by both the high cost of international bandwidth and the lack of a domestic fiber backbone infrastructure outside of Mogadishu to link undersea cable landing stations to other cities and towns across the country. The international connectivity is provided by Dalkom Somalia through its landing station in Mogadishu and Somcable provides international connectivity to Somaliland through its terrestrial network from Djibouti. Once an adequate national fibre backbone is in place, Somalia's strategic geographic location and multiple international cable links can be leveraged to the benefit of the domestic ICT industry and the public.

Somalia's ICT sector faces the challenge of transitioning from an unregulated market to one with a legal and regulatory framework based on global and regional best practices. The Communications Act (2017) through which subsequently the NCA was established was written to reduce the regulatory vacuum and increase Treasury revenues from the ICT sector[5].

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[4] 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.

[5] World Bank Group 2017

The NCA's mandate is to grant licenses to operators, improve the general functioning of the sector, and regulate related industries such as mobile money, telecoms, internet, broadcasting, ICT and e-commerce. The key secondary legislations—currently at different levels of development—to operationalize the Communications Act (2017) include; National ICT policy and strategy, Unified licensing framework, Interconnection policy, Numbering policy, Wireless key legislation and Radio frequency spectrum policy. NCA highlights that the Central Bank of Somalia has developed and approved mobile money regulations as of 2019, and as at December 2021 has issued licenses to seven major telecom operators including Hormuud.

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**[6]. 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[7].

1.5 Momentum for Investment

The investor survey highlighted that the majority (56%) 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%) of investors rated the environment to be 'poor', to 2020, when they rated the environment to be average (50%) or good (50%). Nearly 70% of foreign investors surveyed indicated that the **ease of doing business** is a critical factor for their decision to invest in Somalia, and 66% have seen a **general improvement** in the investment climate since then. Over 60% of investors have seen a general improvement in all the **main factors for their investment decision**.

[6] Ministry of Finance, FGS Estimates June 2020

[7] 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

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.

- In March 2020, Somalia - restored the country's access to regular concessional financing and launched the process toward debt relief[8]. 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% 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 & 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. SOMINVEST is 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 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 Somali Chamber of Commerce and Industry.

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[8] 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

- 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 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.

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

- Strengthening of the **spectrum regulatory framework** that will promote and support the orderly development and efficient operation of the radio communication systems and ensure planning utilization and management of the spectrum resource in accordance with the National Communication Act. These improvements include development of a spectrum licencing framework, spectrum regulations and guidelines and a National Frequency Allocation table

- Development of a **Unified Licensing Framework** for the ICT sector. NCA has successfully issued Licenses to the Major Telecom Operators (**Hormuud Telecom, Somtel Somalia, Golis Telecom, Telesom and Nationlink Telecom**).

- NCA has developed **comprehensive Interconnection regulation** covering Interconnection Fraud; Billing; Interconnection fee/rate; Dispute resolution process; Interconnection suspension and Interconnection disconnection.

NCA has successfully issued Licenses to the Major Telecom Operators[9]. The process of Licensing Internet Services Providers and other network operators is still under way.

1.6 Recommendations: Investing in Somalia

a. The lack of implementation of the various legal reforms by the mandated Government Agencies meant that there was minimal improvement on the regulatory front of the investment climate. Efforts should therefore be made toward the implementation and enforcement of the various legal frameworks in place, in addition to efforts to fill regulatory gaps.

b. 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.

[9] Including Hormuud Telecom, Somtel Somalia, Golis Telecom, Telesom and Nationlink Telecom, AMTEL, SOMLINK Telecom and DALKOM.

c. 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.

d. 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.

e. 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.

f. **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.

g. **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.

h. The baseline study established that the best practice would be to support the NCA in drafting competition guidelines to offer a basis for promoting fair and sustainable market competition, and protection of investor and consumer interests. To inform this, **there is need for diagnostic work to identify current market structure,** including significant markets within the sector, and provide an in-depth analysis of market statistical data; levels of document competition within the market and provide recommendations on policies that could foster dynamic and healthy competitive practices as well as incentives for firms to increase their investment.

i. Local private sector operators need to strengthen governance, marketing, technical skills as well as to support manpower skills development in order to attract commercial investment. NCA developed workshops/capacity building activities for the private sector to introduce and highlight new technologies that can be brought to Somalia

j. **Investment Promotion Initiatives** will help to introduce more investors to the opportunities within the sector

2.0

Investing in Somalia

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[10]. 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 [11].

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[12].

[10] TeleGeography's GlobalComms, 2020.

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

[12] 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

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[13]. 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).

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**[14].

[13] Ibid 59

[14] UNCTAD's 2020 World Investment Report

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[15]. **In 2015, total investments represented only 8.2 percent of Somalia's GDP[16].** 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 [17] and has increased by 16% between 2017 and 2019, which is above trend for most of its comparator countries as the graph below shows.

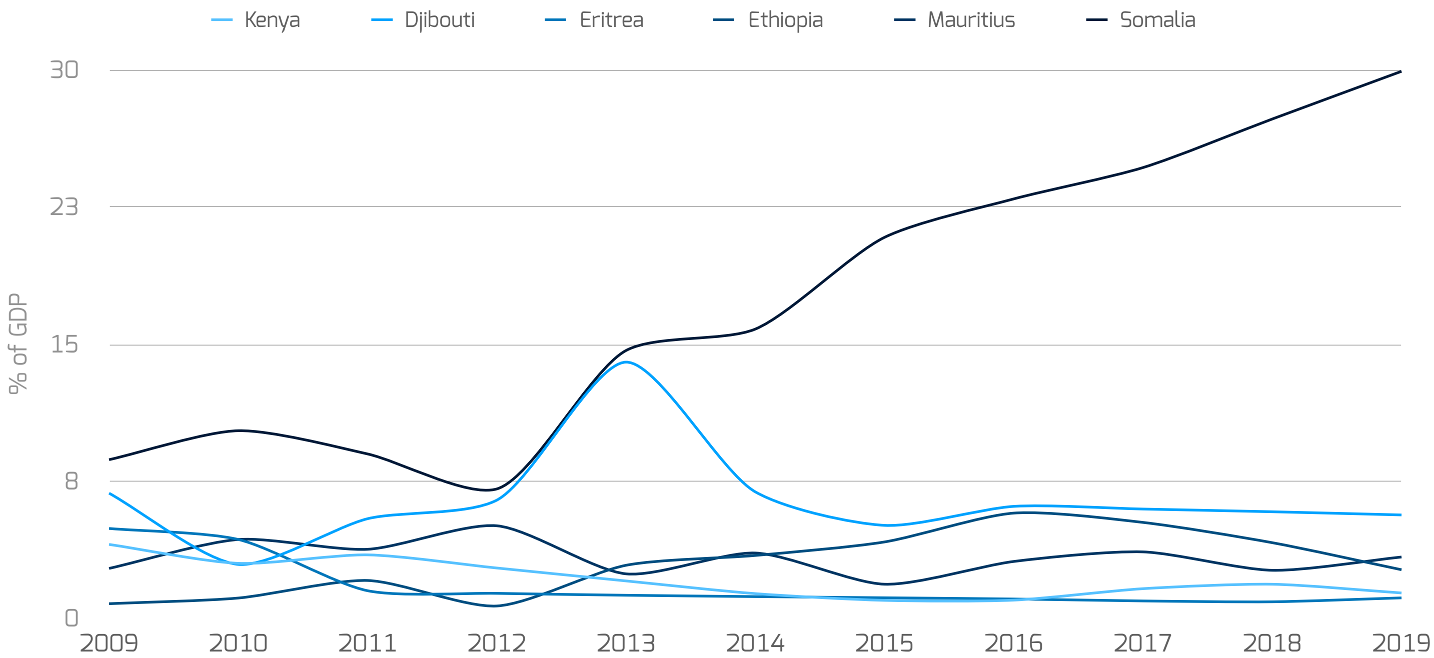


Figure 2 Total Inward FDI Inflows as percentage of GDP: Somalia vs. Comparators (2009-2019)[18]

[15] Ibid.

[16] Ibid.

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

[18] 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[19]. 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[20].

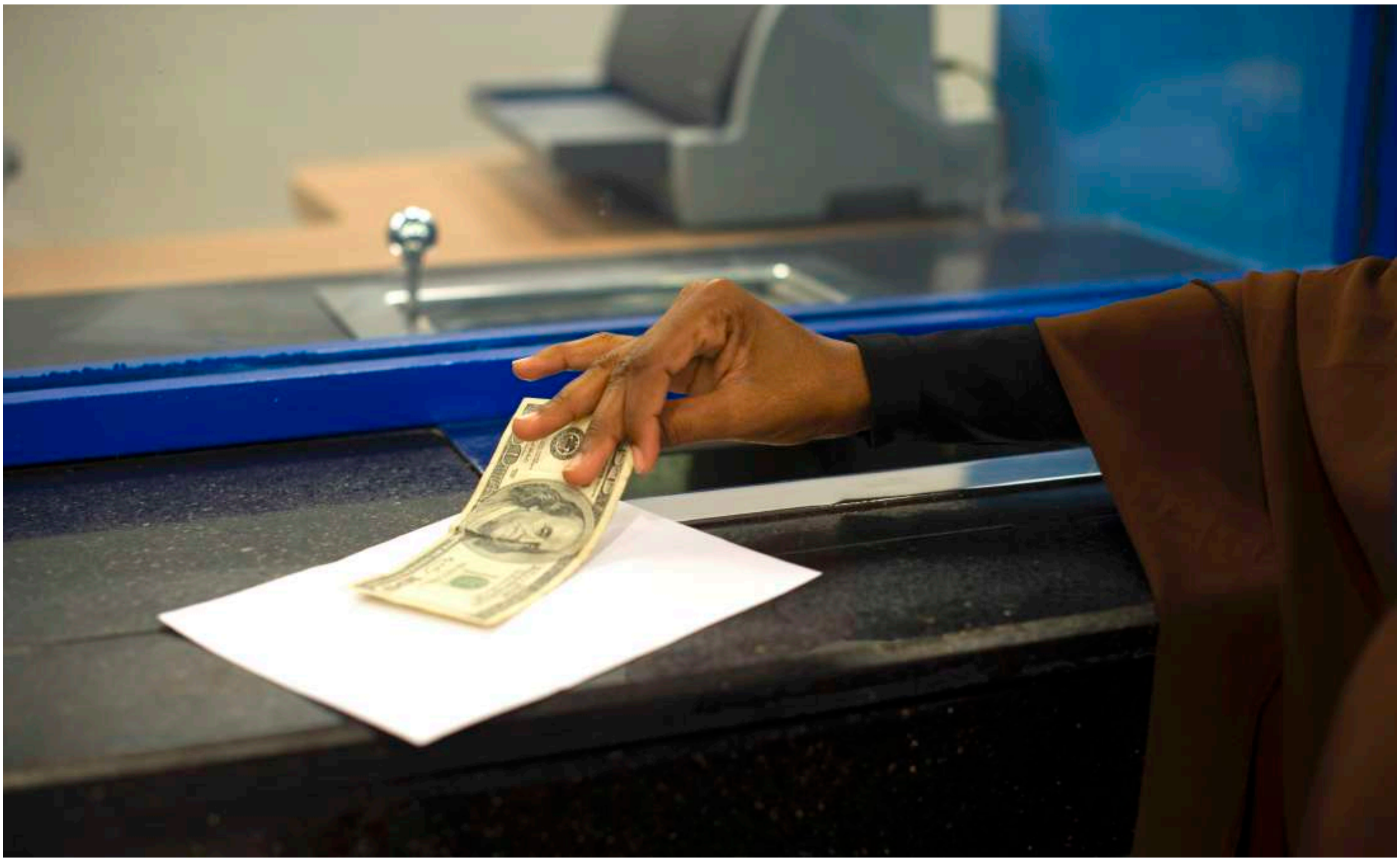
A survey of Diaspora investors by Shuraako[21] showed that diaspora investment tended to be modest, typically between US$5,000 and US$50,000, with the most popular investment sectors being Agriculture, Real Estate, Education and Fishing.

[19] Ibid 77

[20] (GIIN, 2015)

[21] 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.[22]



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.23 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.24 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.

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[22] ibid

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

[24] 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[25]

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.[26] 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 3 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.

[25] 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.

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

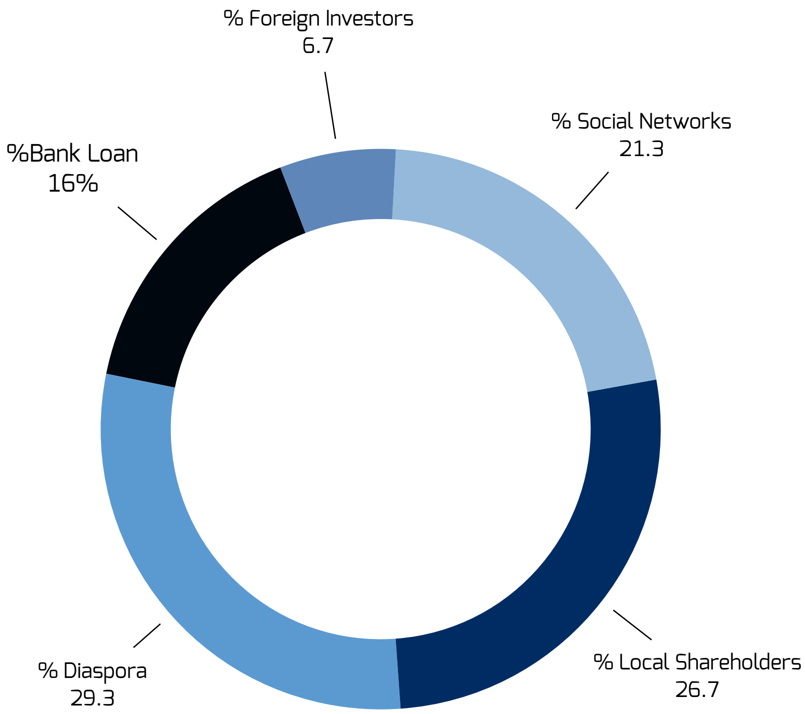

Figure 3 Source of investment financing

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[27]

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%

[27] 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.

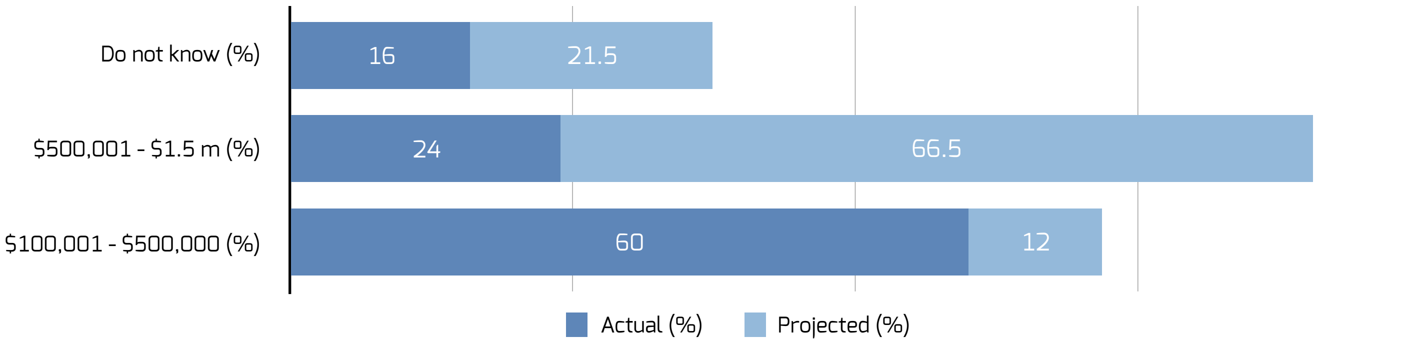

Figure 5 Total annual revenue earned from investment in 2017/18 fiscal year/projected annual revenue earned from investment

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%).

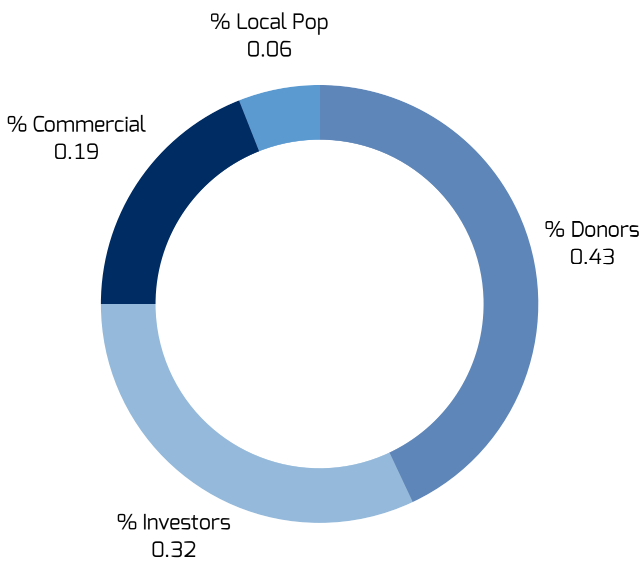

Figure 6 Funding sources for future investment

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[28]. 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[29]. The ICT sector in Côte d'Ivoire is significant, with 130 mobile phones per 100 inhabitants[30]. 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.

[28] (BBC, 2019)

[29] (World Bank Group, 2019)

[30] (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[31]. 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[32].

[31] (International Telecommunications Union, 2018)

[32] (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[33], up from 73 million in 2007. According to the 2007 census[34], 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[35]. 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[36]. 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[37].

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[38]. 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[39]. 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[40].

33 (CIA, 2020)

34 (Ethiopia Population Census Commission, 2007)

35 (Human Rights Watch, 2018)

36 (CIA, 2020)

37 (World Bank Group, 2020)

38 (ITU, 2017)

39 (USAID, 2020)

40 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[41]. 300,000 Somali refugees live in Kenya as of 2017[42]. 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[43]. Conversely, registering property and starting a business are particular points of weakness. Contract enforcement ranks around the world median, at 90th.

41 (KNBS, 2019)

42 (CIA, 2020)

43 (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)[44]. 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[45].

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[46].

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[47]. Kenya's energy sector has been open to Independent Power Producers since the 1990s and has active private sector investments[48]. 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.

The Kenyan government hopes to achieve universal access by 2022[49], 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.[50]

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44 (ITU, 2017)

45 Ibid.

46 Ibid.

47 (World Bank Group, 2020)

48 (USAID, 2020)

49 Ibid.

50 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[51].

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[52]. 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[53].

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

[52] (World Bank Group, 2020)

[53] (GIIN, 2015)

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[54]. 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 and reducing regulatory, political and social barriers to investment, building investor confidence, supporting private sector investors and bolstering and regulating the financial sector[55].

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[56], thus echoing NGO calls for impact investments which will offer social as well as pecuniary returns[57].

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[58], and this stance has continued under the presidency of Mohamed Abdullahi Mohamed[59]. 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[60].

[54] (FGS, 2016)

[55] (FGS, 2016)

[56] Ibid.

[57] (GIIN, 2015)

[58] Ibid.

[59] (Maruf, 2018)

[60] (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, two bodies were mandated to lead its operationalization including the Foreign Investmet Board, chaired by the Ministry of Commerce and Industry (MoCI) and Somalia Investment Promotion Office (SOMINVEST) at the Ministry of Planning, Investment and Economic Development (MoPIED).

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: MoCI as the primary institution leading business licensing, industrial developments, and trade.

MoPIED is mandated with the overall coordination of planning, investment and economic development in the country. SOMINVEST, is currently a department of MoPIED and serves as the Investment Directorate. It is also the interim Investment Promotion Agency, awaiting legislations in Parliament. Through the Foreign Investment law of 2015(law No. 1005) and a recent Prime Minister's decree (OPM/0235/06/2020), SOMINVEST is mandated with all investment promotion functions in the country.

In addition, **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 KII, 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.

The findings underscore the importance of implementing the current legal frameworks in the ICT and energy sectors by the Government Agencies. 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.**

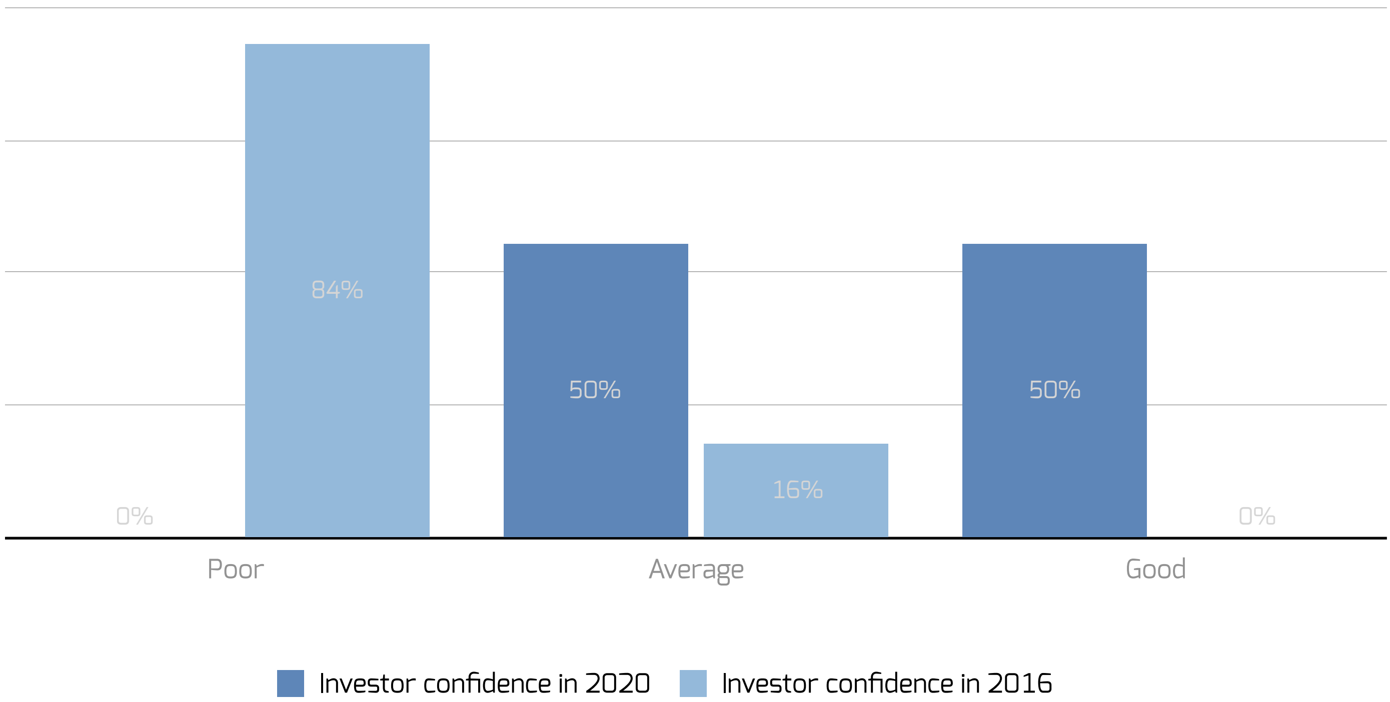

Figure 7 Investor confidence and predictability of the investment environment in Somalia

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.

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.

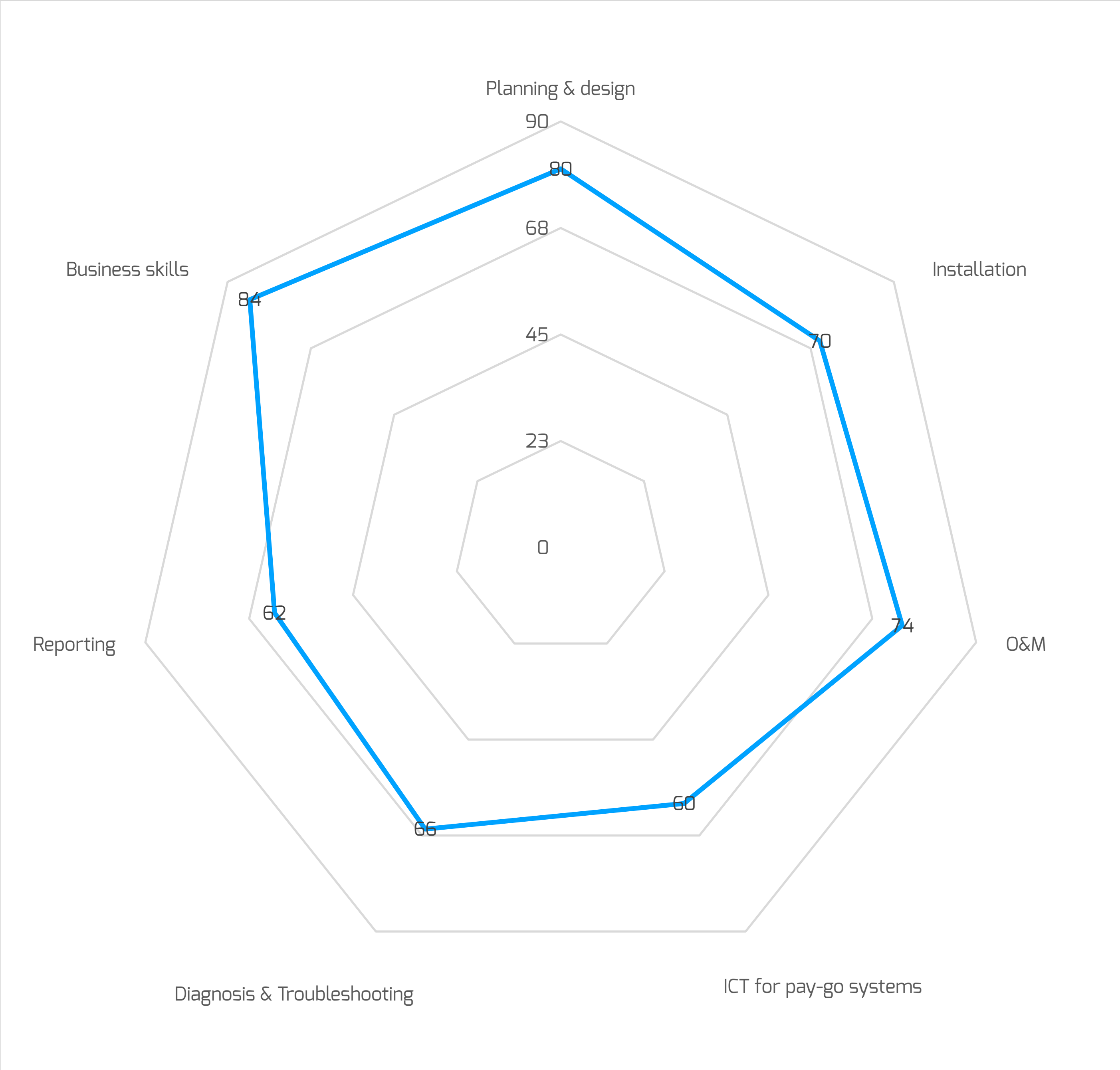

Figure 8 Technical and non-technical challenges (ICT and Energy firms)

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.

2.3.6 Technical and Non-Technical Support

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 9 Training needs : Non Technical

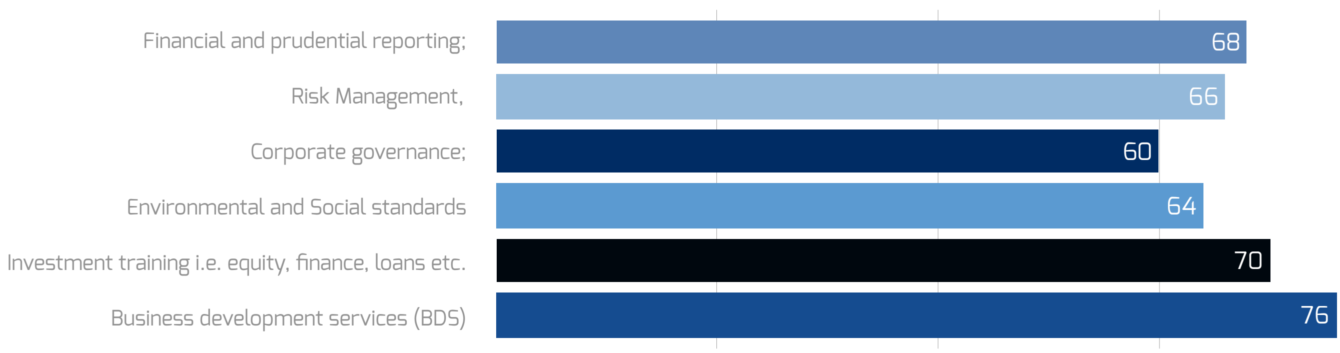

Figure 10 Off-grid systems training needs

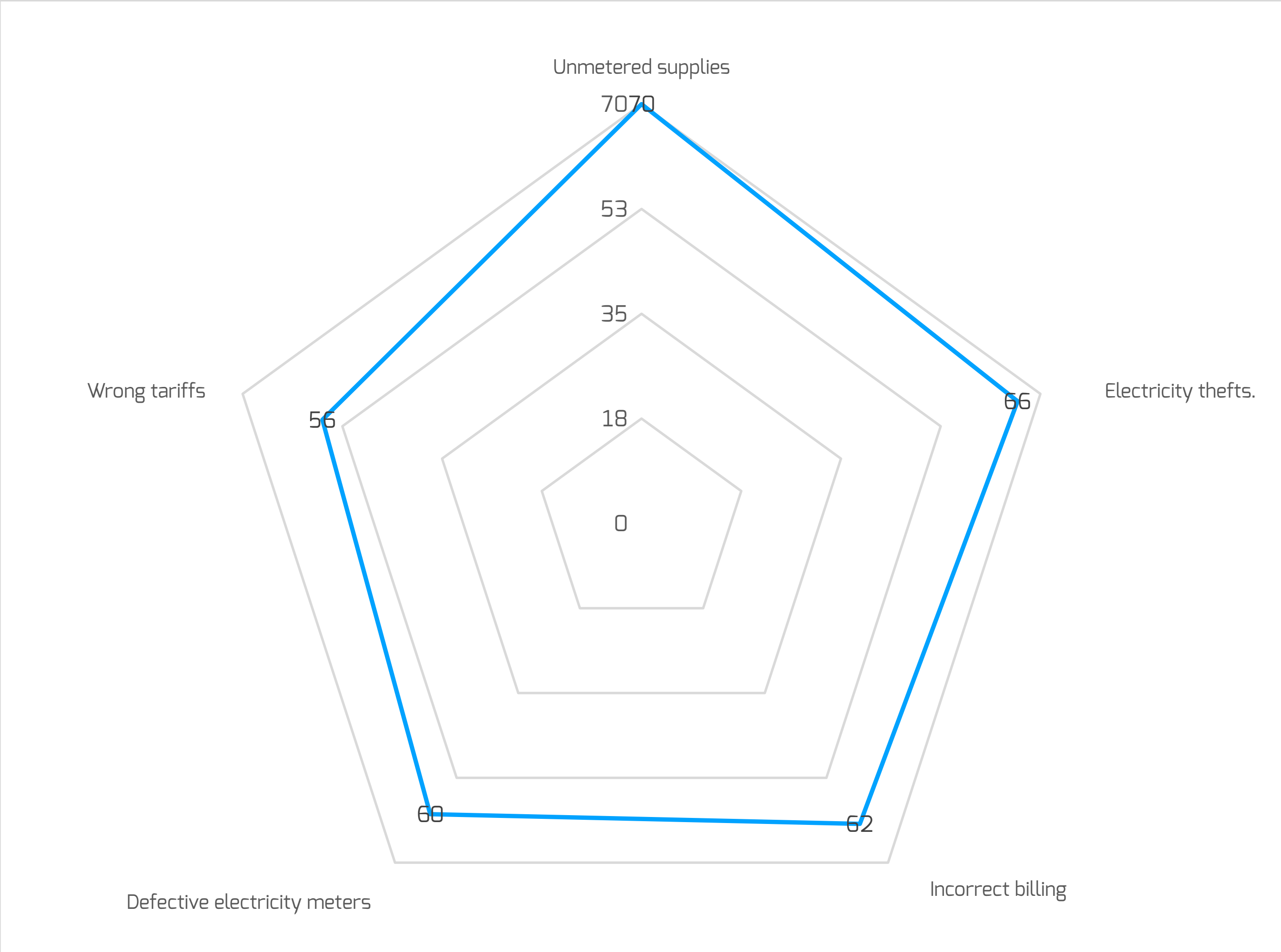

Figure 11 On grid-tied systems training needs

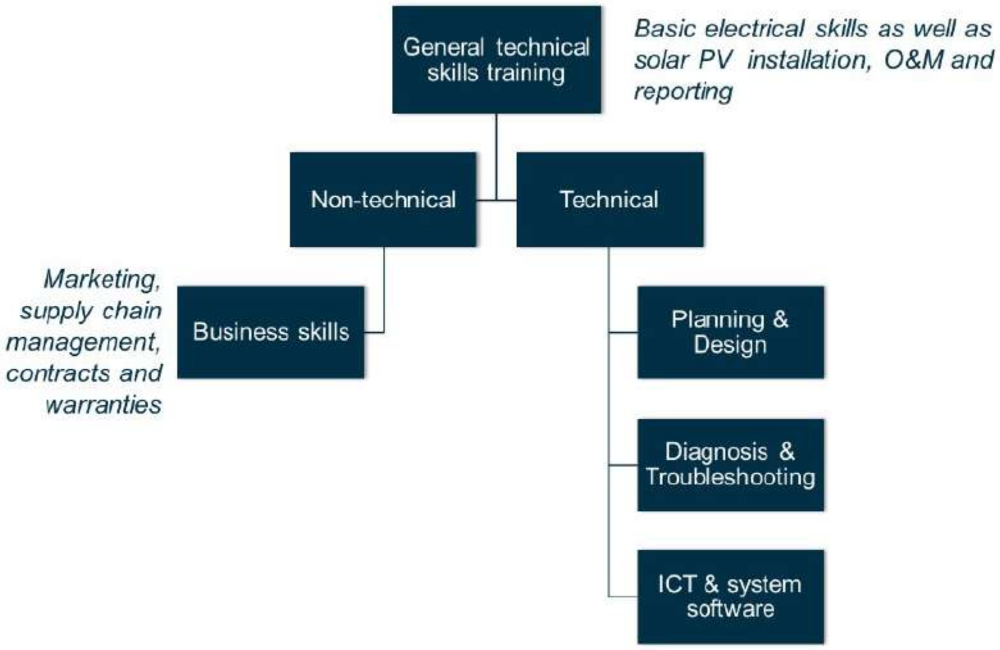

Figure 12 Proposed private sector development curriculum

According to the ICT Sector players, the following technical issues should serve as priorities for training: i) technical understanding of spectrum management, its benefits and implementations including spectrum management policies and frameworks and how to apply them, the objectives of spectrum management and its functions, understanding frequency plans and pricing, understanding conditions of spectrum usage; ii) technical understanding of passive and active infrastructure sharing including understanding and managing perceived shortcomings, efficient sharing of scarce resources, ease of market entry to increase competition in the sector, improved innovation, improved customer focus, reduce environmental impact. On the other hand, the non-technical specialization would focus on business skills, including supply chain management, distribution, marketing, contractual agreements, including warranties (ICT Sector Interviewees, 2019).

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[61]. 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[62].

[61] Figure 45 Curriculum

[62] 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[63].

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[64].

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[65]**. 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[66]

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

[64] UNCTAD, September 2020

[65] Ministry of Finance, FGS Estimates June 2020

[66]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

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)[67].

[67] 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[68], 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.

68 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[69]. 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, 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.

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.

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.

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[69] 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

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 (See Figure). 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 competing ICT and energy investors.

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. On the other hand, the key factors identified as encouraging investment were legal reforms in the ICT sector, a strong ICT sector, infrastructure and security and political stabilityThe 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: To the extent possible, development partners should seek to support the government's work to improve the investment climate through reforming laws and regulations, strengthening implementation of regulation and providing additional support to improve information on investor firms.

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.

Recommendation: Development 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[70].

Recommendation: To the extent possible, development partners project should support the government in maintaining and increasing stability and improving infrastructure. Improving the banking system, reforming laws and heightening Somalia's trade network with the outside world will encourage investments in the ICT sector. This 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.

The firms interviewed rated the regulatory environment as improving (compared to previous years) but still poor. The reforms influencing this improvement 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).

Recommendation: Efforts should 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.

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[70] USAID—Power Africa in Somalia - https://www.usaid.gov/powerafrica/wherewework/somalia

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 (, 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: 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**. 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.

3.0

Government Services for Investors

Government Services for Investors

3.1

Business Registration

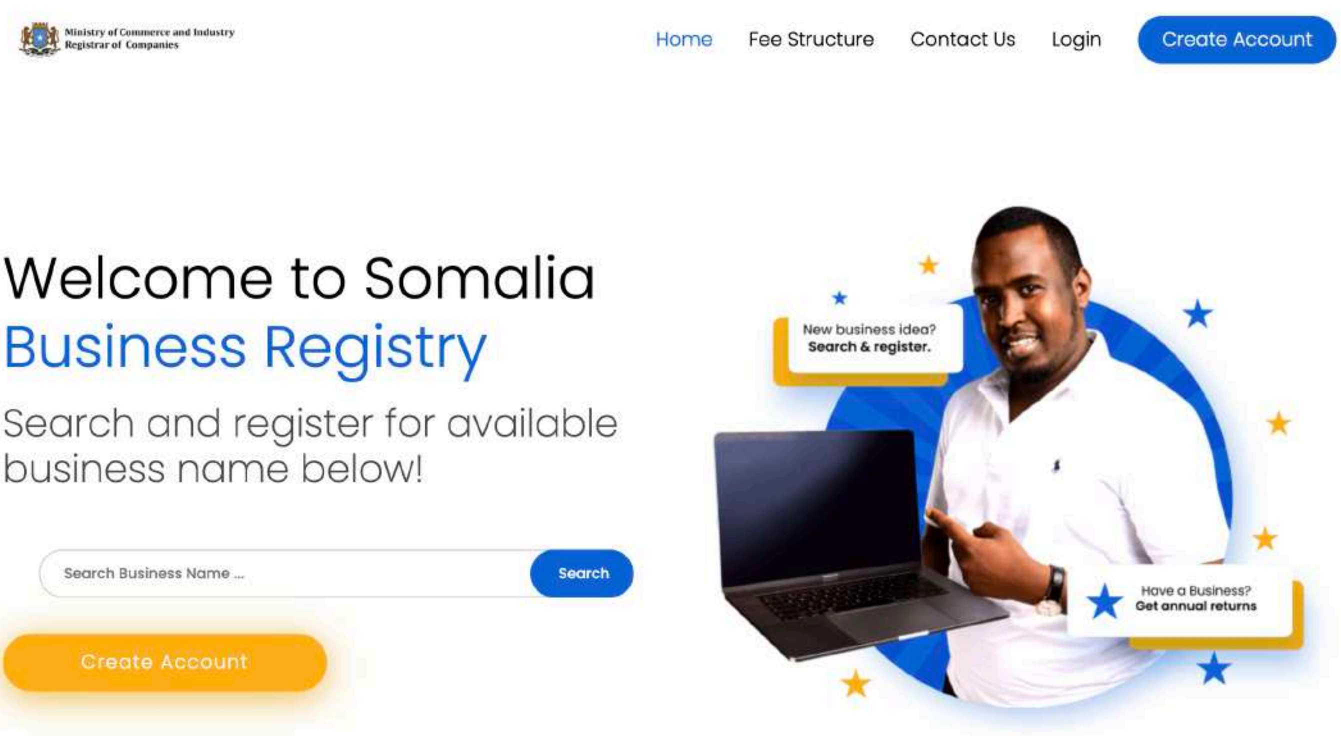
Government Services for Investors

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.

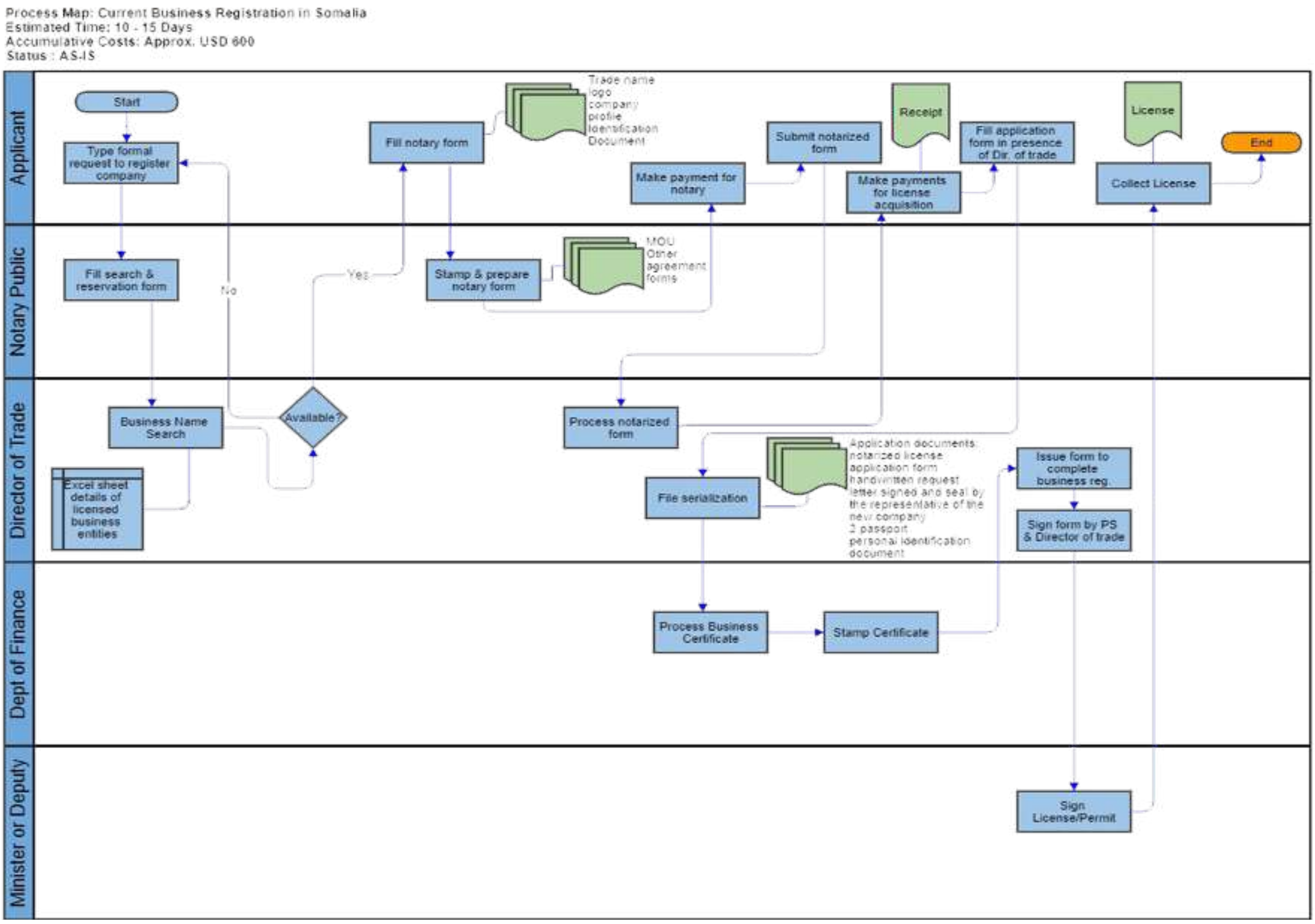
Renewal costs depend on the size of the company: larger enterprises can expect to incur several thousand dollars in annual registration and licensing fees and smaller business pay just $300. Foreign investors pay more: $3000.

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 13 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

Figure 14 Process map of obtaining MoCI licence



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[71].

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[72]. 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.

[71] 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.

72 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**)[73]; 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**).

[73] 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. While the law provides for investor registration, in practice this appears not to be implemented as neither minutes of the Board's decisions nor a list of approved investments was available from the Government agencies interviewed.

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[74]. 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.

[74] 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 benchmarks in 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 ICT Sector

The ICT Sector

4.1

The Somalia Context

The ICT Sector

4.1 The Somalia Context

The baseline study sought to provide key information for the development of the ICT sector investment profile, describing the current state of the ICT sector, sectoral regulations, gaps and opportunities. From the findings, Somalia has one of the most underdeveloped ICT sectors in the region because of very low access to reliable and affordable connectivity as well as prolonged civil conflicts that have destroyed a significant part of the country's telecom infrastructure. However, this sector is arguably one of the fastest growing in the economy and, despite having little to no formal regulatory framework and oversight, private operators have emerged to meet the high demand for critical communications services and the sector now accounts for up to 10 percent of GDP

Table 6 Key Indicators for Somalia 2017

Key indicators for Somalia (2017)		Arab States	World
Fixed-telephone sub. per 100 inhab.	*0.0004*	7.9	13.0
Mobile-cellular sub. per 100 inhab.	*48.3*	102.6	103.6
Active mobile-broadband sub. per 100 inhab.	*2.4*	53.9	61.9
3G coverage (% of population)	*65.5*	88.0	87.9
LTE/WiMAX coverage (% of population)	*18.0*	50.9	76.3
Individuals using the Internet (%)	*2.0*	48.7	48.6
Households with a computer (%)	*3.6*	47.1	47.1
Households with Internet access (%)	*4.2*	50.1	54.7
International bandwidth per Internet user (kbit/s)	*1.3*	65.3	76.6
Fixed-broadband sub. per 100 inhab.	*0.7*	5.6	13.6
Fixed-broadband sub. by speed tiers, % distribution			
-256 kbit/s to 2 Mbit/s	*92.6*	30.7	4.2
-2 to 10 Mbit/s	*7.4*	33.8	13.2
-equal to or above 10 Mbit/s	*-*	35.4	82.6

With a population of 16 million people, Somalia's mobile penetration is less than 40 percent (unique subscribers). About 90 percent of the population is within a 2G coverage area while 76 percent and 67 percent are within 3G and 4G coverage areas, respectively. Internet through satellite, ADSL, fiber, WiMAX and 4G LTE are limited to the main towns and cities, and the service costs are extremely high. Fixed line telephony and fixed internet penetration rates were estimated at 0.3 percent and 1.2 percent, respectively as of December 2019. See Table 12. The current market structure of telecom infrastructure reflects the evolution of the country's telecom sector, which was born of a need for only basic telecom services, primarily to facilitate mobile money services (estimated at over $1 billion a year). As a result, the telecom companies, which are owned by major local conglomerates, have focused less on deploying advanced technologies like 3G and 4G and has instead centered on expanding the present 2G networks to facilitate nation-wide mobile money through USSD services[75].

Fixed services and broadband in Somalia are rare, in part due to the success of mobile services.[76] However, recent infrastructure provides opportunities for development: in 2014, Mogadishu was connected to the West Indian Ocean Cable Consortium's East Africa Submarine Cable System (**EASSy**)[77], a high-capacity (10 Tb/s) fiber-optic cable that links Africa's east coast to the global fiber-optic network[78].

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[75] Ibid

[76] Ibdi

[77] Firestone, Kelly, & Rifon, 2015

[78] African Development Bank, 2017

Figure 15 Connection Points of the EASSy Cable

The WIOCC is a joint venture between Somali firms, including Dalkom Somalia, and the International Finance Corporation; it was financed with a $150 million IFC loan[79], of which $35 million was used to connect Somalia to EASSy. This connection represents an important impact investment in the ICT sector in Somalia and has generated millions of dollars of internet commerce in Mogadishu already. See Figure 17.

Somalia also has a tradition of unlicensed companies using satellites to provide international services[80]. 3G and LTE services are becoming more widespread, especially in urban areas. A little under half of the population has access to mobile services, with a rate of 48.3 subscriptions per hundred inhabitants in 2017. This is lower than in Ethiopia, which had 59.7 subscriptions per hundred people in that same year, but higher than Djibouti, which had 39 subscriptions per hundred people[81].

Unlike some of its neighbouring countries like Ethiopia, Somalia's ICT sector does not have a government monopoly or indeed a government provider. Instead, numerous private providers sell mobile services. Costs are generally lower than in other East African countries, such as Djibouti, and as a result mobile penetration is greater. Somalia's large international diaspora has contributed to the growth of the ICT sector, as Somalis abroad seek ways to stay in contact with and support their families in Africa**.**

Somalia's ICT sector is dominated by five Mobile Network Operators (MNOs) operating across the country: **Hormuud** (South Central), **Golis** (Puntland), **Telesom** (Somaliland), **Somtel** (South Central, Puntland and Somaliland) and **NationLink** (South Central, Puntland and Somaliland).

Some interconnectivity exists between concurrent operators : there is an interconnectivity agreement between Hormuud, Golis and Telesom, the three sister companies of the Hormuud conglomerate.

With respect to the main players, Hormuud has three affiliates within Somalia's regions, all independently licensed – Hormuud Telecom (South and Central), Golis (Puntland), and Telesom (Somaliland) and account for up to 70 percent of the nationwide mobile market. It has taken advantage of its de facto monopoly by providing network services, including 2G, 3G and 4G, though at exorbitant cost and with access limited to only a small cross-section of population in major urban areas.

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[79] IFC, 2018

[80] Ibid

[81] Ibid

There have been several attempts by smaller operators to challenge Hormuud's dominant nationwide market position, but most of these could only afford to provide services on a regional basis while others suffered colossal losses and were driven into bankruptcy by the anti-competitive behaviours of the dominant operator (no interconnection agreements, no infrastructure sharing, and so on).

On the other hand, Somtel, part of the Dahabshiil group of companies has approximately 15 percent of the market share and operates in some regions of Somalia. Amtel Telcom is an emerging MNO and is part of the Amal Group, which is a leading financial services company in Somalia; Amtel is seeking to develop a national network and has already invested significantly in infrastructure (See Annex 1).

APRU (mobile connection) for Somalia is currently estimated at $3.87 and including broadband and mobile money it is about $10.

The market structure is still evolving, with de facto consolidation around larger companies, resulting from mergers and alliances. Although consolidation can bring some consumer benefits and help to achieve economies of scale, the future licensing framework will need to take into account competition policy considerations and enforce interconnection. For instance, critical areas including remittances, mobile banking and mobile to money services are influenced and, in some cases, controlled by large companies with minimal regulation, that might pose economic risks through levying exorbitant fees or engage in other business malpractices.

4.1.1 Last Mile Connectivity

The public telecom and Internet sector in Somalia is largely composed of mobile operators and their users, which comprise 35-40 percent of the population, employing about 25,000 Somalis. Currently the market comprises five major operators (Hormuud, Somtel, Golis, Telesom, and NationLink) and one mobile virtual network operators (**MVNO**s) (SomNet k). These are primarily Mobile Network Operators (MNOs) that provide voice and data services, mainly in urban locations and surroundings to 7.9 million subscribers. Golis Telecom, Telesom, SomNet and Hormuud are interconnected, while Somtel is a subsidiary of Dahabshiil and is interconnected with SomLink. NationLink has a very small market share.

Amal Telecom and Somaphone Telecom are still becoming established as they have made investments but have not yet been launched. Currently, the NCA has completed the important process of regularizing the market by negotiating the issuance of licenses to all of these de facto operators. Somalia's fixed-line market has only recently begun to develop, and there are now some high-speed fiber access networks deployed to government, business and homes in a few urban locations. Internet uptake in Somalia is relatively low, at about 10 percent of the population, partly because of the country's historic security situation, as well as lack of stable energy sources, which have hindered the development of the ICT sector, along with limited demand caused by low literacy and ICT skill levels among large groups of the population. Nevertheless, ICT, and mobile in particular, is one of the fastest growing sectors, generating profits and is the third largest industry by employment in Somalia.

Ensuring that all Somalis have access to affordable voice and broadband data services that meet international performance benchmarks is the spirit behind the government's ICT reform agenda. It is expected that private operators will fulfil needs for last mile connectivity to most of the remaining unconnected population once cost-effective and pervasive backhaul infrastructure is in place, along with the other key elements of an enabling environment, such as access to sufficient radio spectrum and regulation of companies that have Significant Market Power (**SMP**) in relevant geographic and product markets.

NCA KII reiterated the great need for the government to fully involve all strategic stakeholders in the reform agenda, so that they can understand and fully support it through increased investment and partnerships. To reach the poorest of the poor in the most isolated locations, additional government support will be necessary.

4.1.2 Backbone Infrastructure

Although some operators have built their own microwave and fiber backbone links in some areas, Somalia does not have an open competitive market in national and international capacity. This is a necessary precursor to the development of the ICT sector. As a result, growth in internet-use is also constrained by both the high cost of international bandwidth and the lack of a domestic fiber optic backbone infrastructure outside of Mogadishu to link landing stations to the other cities and towns across the country.

The international connectivity is provided by Dalkom Somalia through its landing station in Mogadishu and Somcable provides international connectivity to Somaliland through its terrestrial network from Djibouti. In addition, Somcable also has a large fixed-line network in Somaliland and Golis is developing fixed-lines in some parts of Puntland. Dalkom Somalia is a privately-owned company, and is a shareholder of the West Indian Ocean Cable Company (**WIOCC**) consortium through which it has access to the EASSy cable and about 100 km of terrestrial fiber. Somcable is also a privately-owned Somaliland company with about 1,000 km of fiber for backhauling in Somaliland via national long distance and metropolitan networks.

Somalia lacks an integrated domestic transmission network, especially a national backbone and metropolitan networks. Due to a lack of a state-owned national backbone network, operators have resorted to build their own fiber networks to meet their limited infrastructure needs across their coverage area, with very limited infrastructure sharing, or use expensive satellite connections. Once a pervasive national fibre backbone is in place, Somalia's strategic geographic location and multiple international cable links can be leveraged to the benefit of the domestic ICT industry and the public. Somalia is close to several major undersea cable networks. These networks connect with Europe, the Middle East, India and the Gulf of Aden.

To maximize this potential an open stance will be taken on licensing cable landing stations, and competitive international gateways will be encouraged. International connectivity in Somalia has already improved in recent years with the landing of the EASSy submarine cable in Mogadishu and Somcable's terrestrial fiber link to Djibouti, which takes advantage of the large number of submarine cables there to obtain low-cost international capacity. In addition, the cable landing in Bosaso from Oman is used by Golis Telecom and terrestrial fiber networks from Kenya and Ethiopia have been extended to the Somali border. In the future, the Djibouti Africa Regional Express (**DARE**) cable initiative will connect Djibouti, with Berbera, Bosaso, Mogadishu and Mocha (Yemen). In addition, PEACE and AfricaOne cables along with similar international submarine fiber optic cables such as SEACOM, and TEAMs running along the East Coast are expected to become present in the Somali market.

Most 4G LTE networks, currently in the main cities, backhaul using microwave which results in poor quality, and due to the monopolistic position of Dalkom and Somcable, international bandwidth is very expensive making the retail price of broadband prohibitive. In order to develop a complete ICT ecosystem, a key priority is the building of complete carrier neutral open access nationwide networks to allow for efficiency and competition in the market.

Deployment of domestic fibre infrastructure to connect the urban areas should also be a future FGS top priority, necessary to ensure inclusion of the whole country in access to affordable Internet services. Wherever feasible, the national backbone network should prioritize deployment of fiber optic cable, due to its superior network capacity, as it would easily meet the expected demand in large urban locations.

Nevertheless, in the interim before terrestrial infrastructure becomes available, and for remote rural areas as well as for TV broadcasting and backup links, traditional satellite connectivity will continue to play an important role. In the future, high-altitude platforms (HAPs) and constellations of low earth orbit satellites (LEOs) may disrupt the existing market with low-cost broadband services. Initial estimates indicate that the envisaged fibre optic backbone network would cost between $67 million and $100 million to build. Combining network deployment with planned road reconstruction would provide substantial cost savings on this estimate, while reaching additional smaller cities and rural areas, as well as improving network resilience[82].

4.1.3 Legal Framework for the ICT Sector

In the absence of a central government between 1991 and August 2012, the telecoms sector was largely self-regulated, with operators ruled by market forces until the introduction of a legal framework in October 2017. Without licensing barriers to entry, firms were free to install and then operate networks as they chose. While a lack of regulations was in many ways beneficial to companies, such as through lower regulatory burden and taxes, it has also led to issues such as insufficient interconnectivity between providers and competition from illegal or unregistered businesses[83].

[82] Somalia, National-ICT-Policy-Strategy-2019-2024

[83] International Telecommunications Union, 2018

The country was challenged to transition from an unregulated market to one with a legal and regulatory framework based on global and regional best practices. Proper development of a regulatory framework and a strong, well-defined role for the regulator will allow it to continue to grow and flourish. The development of broadband access will allow Somalia to diversify its economy into emerging fields such as high-end technology and software. Properly targeted government programs could increase mobile access outside of well-served areas such as cities[84].

On the other hand, excessively restrictive regulations or onerous taxation schemes could harm the competitiveness of established companies in the ICT sector. Following consultations with various stakeholders, including regional states, telecoms operators and ISPs and having been approved by both the Upper and Lower Houses of Parliament, the President, Mohamed Abdullahi signed the National Communications Act into law on October 2, 2017.

The National Communications Act aims to establish the legal, regulatory and institutional frameworks for the country's telecoms sector. The law established a central, independent body to govern telecommunications in Somalia: The National Communications Authority (**NCA**). The NCA's mandate is to grant licenses to operators, improve the general functioning of the sector, and regulate related industries such as mobile money, telecoms, internet, broadcasting, ICT and e-commerce.

The purpose of the Communications Act was to reduce the regulatory vacuum and increase Treasury revenues from the ICT sector. In addition, the NCA is responsible for facilitating the development of the ICT sector; enabling and ensuring fair and sustainable competition; regulating interconnection between operators; transparency in the implementation of the National Communications Law; protecting consumer interests and rights; and planning and assigning radio frequencies.

On the other hand, the MoCT's mandate includes formulating national policies, laws and regulations for the post, telecoms and ICT sectors; setting and overseeing industry standards; developing telecoms infrastructure and ICT; protecting the interests of consumers; and fostering a knowledge-based economy and information society.

Through NCA, the ministry aims to promote investment in infrastructure, fair competition and affordable prices for telecoms services, as well as to protect the rights of operators and consumers, tackle cybercrime and encourage more private sector participation in the development of the market.

In addition to the National Communication Act of 2017, Somalia uses multiple secondary legislations to regulate the ICT sector.

These secondary legislations are at different levels of development and implementation. They are described as follows.

[84] Kerrets-Makau, 2015

National ICT policy and strategy

In April 2019, the MoCT launched a consultation on a draft National ICT Policy and Strategy, which provides the framework needed to leverage the benefits of ICT to support the social and economic development of the country. Stakeholders were given until May 31, 2019 to submit feedback on the guidelines, which were formulated with support from the ITU and the World Bank. The Cabinet approved the five-year National ICT Policy and Strategy in November 2019. It outlines the development and enhancement of ICT across Somalia over the period from 2019 to 2024 and aims to promote transformation, growth, inclusiveness, sustainability, innovation and partnerships in the mainstream economy, while recommending institutional and regulatory frameworks in order to achieve its intended goals. The broad areas of focus over the five years are access, including cost of connectivity and coverage of networks; domestic digital infrastructure, such as interconnection, internet exchange points, domain names and cybersecurity; consumer protection; content, including online local media, applications and financial services; and e-government[85].

As of May 2021, NCA had licensed all the incumbent Mobile Network Operators (MNOs) and is working on licensing the entire ICT sector. In close consultations with the World Bank, potential project support may include mediation between private sector actors and NCA to encourage full licensing implementation and recommendations for enforcement of license provisions. The NCA facilitated comments from the sector on the licensing regime, and provided feedback on these comments. KII with ICT investors revealed concerns over the basis of the licenses fees, which they consider very high and punitive. According to the World Bank, since May 2014 the private sector has been making regular monthly payments to the national treasury in lieu of formal licenses. It adds that the Communications Law will recognize this progress and, with more formal institutional arrangements, put it on a stronger footing.

Interconnection Regulations

For voice traffic, although interconnection exists, some major operators are not interconnected (e.g. Somtel) currently. Limited interconnection results in reduced competitiveness in the market and lower quality of service. To address this situation an Interconnection Regulation with a clearly defined set of rules and guidelines for voice connections between licensed operators has been drafted. For Internet traffic, operators interconnect internationally partly due to the currently limited quantity of domestic Internet traffic. However, with the rapid growth in Internet use, and expansion of the national backbone and hosting services, domestic Internet traffic will soon need to be routed locally, to provide shared caching and related services which need to be available within Somalia. MoCT is facilitating this process with the establishment of Somalia's first Internet Exchange Point (**IXP**) in Mogadishu—the Somali Internet Exchange Point (**SoIXP**).

Once operators connect to the IXP, this will reduce latency, improve competition and performance, decrease the cost of network operations and provide scale for additional services. In December 2019, the MoCT launched a consultation on its draft Interconnection Policy, which aims to simplify the arrangements for interconnection and the provision of services between licensees, and ensure that all operators are treated fairly and in a non-discriminatory manner. Under the rules, each telecoms network operator would be required to interconnect with all other networks and provide customer access, including equal access to competing services, while also fulfilling general requirements to contribute to the development of the telecoms market. The policy also establishes a formal process for dealing with interconnection disputes, and sets out the methodology for determining interconnection rates, and the framework under which a move toward cost-based interconnection rates should take place. Stakeholders are currently in the process of submitting their comments on the draft Interconnection Policy[86].

[85] http://mptt.gov.so/en/wp-content/uploads/2019/11/National-ICT-Policy-Strategy-2019-2024.pdf

[86] http://mptt.gov.so/en/wp-content/uploads/2019/12/Interconnection- Policy-draft.pdf

Numbering policy

In December 2019, the MoCT launched a consultation on its draft Numbering Policy, which aims to ensure optimal utilization and management of numbering resources in Somalia, alongside the implementation of a new National Numbering Plan. The numbering regulation was approved in December 2021. It also stated that operators must be ready to implement Number Portability to enhance liberalization and competition. Stakeholders are currently in the process of submitting their comments on the draft Interconnection Policy[87].

Wireless key legislation

The Somali wireless sector is governed by the National Communications Law, which came into force on October 2 2017, and is regulated by the NCA, created in early 2018. The new law seeks to introduce a licensing framework for existing operators, as well as to regulate existing spectrum allocations and oversee new spectrum allocations, including for 4G LTE services. As a result of years of self-regulation, spectrum allocation amongst operators is sub-optimal with overcrowding of certain frequency bands, while others remain unused. NCA has also drafted regulation and guidelines on Spectrum and Interconnection including a dispute resolution process and articles organizing fraud, billing and quality of services.

Previously, firms were free to install and operate their own networks as they chose, but in October 2013 the government ordered telecoms companies to register their operations by November 10 or face closure. As of May 2021, all incumbent ICT companies have been licensed. The license has an initial 15-year term with a renewal option and no rollout or service obligations; it is technology-neutral, allowing voice and mobile data, as well as VAS such as mobile money.

Radio Frequency Regulation

Radio is the most important channel for broadcast communications in Somalia. There are dozens of FM radio stations, and a growing number of terrestrial and satellite television stations. Most FM radio stations in Somalia have a limited geographical coverage—typically no larger than the town where they are based plus a small surrounding area, with no single Somalia-based radio station providing broad national coverage. More recently, television has become increasingly popular in urban areas, both in private homes and in public places and viewing centers. State television media is also a part of the current Somali media environment and online media has also developed with a vibrant web site and social media community, including the Somali Media Council (**SMC**). To develop broadcasting law and regulations, the MoCT is working with the Ministry of Information, Culture and Tourism (**MoICT**), the NCA, which provides technical licensing, and the State Ministries of Information, which is the authority responsible for content. Article 33 of the Media Law refers to Public Broadcasting Services (**PBS**) describing the protection of a legal framework for an editorially independent service.

Aside from ensuring that equitable spectrum allocation for broadcasting occurs, the NCA is also responsible for migrating spectrum use away from analog services. The NCA is in the process of developing a draft Digital Migration Strategy which will be implemented through a consultative multi-stakeholder process to bring together government, regulator, broadcasters, signal distributors, vendors and consumer association groups to ensure harmonization in the broadcasting radio spectrum area, in line with international practice.

In December 2019, the MoCT launched a consultation on its draft Radio Frequency Spectrum Policy, which aims to establish a transparent spectrum allocation and assignment process. The policy states that all spectrum users will have to obtain a radio frequency user license from the NCA, adding that the frequency assignment process shall be open, transparent and non-discriminatory for all spectrum users. Technology and service-neutral spectrum licensing will be implemented to promote competition in the sector. Stakeholders are currently in the process of submitting their comments on the draft Radio Frequency Spectrum Policy.

[87] http://mptt.gov.so/en/wp-content/uploads/2019/12/Numbering-Policy-Draft.pdf

As of May 2021, NCA has drafted regulation and guidelines on Spectrum and Interconnection including a dispute resolution process and articles organizing fraud, billing and quality of services.

In the absence of a central regulatory authority—a situation the government sought to redress through the creation of the NCA in early 2018—interconnectivity between telecoms operators was not always possible, although over the years several companies have negotiated agreements with each other. The launch of services by rival Somafone spurred NationLink, Hormuud and Telcom Somalia to sign an interconnection deal in late 2005, while in July 2011 five telecom providers operating in the autonomous Somaliland region—Somtel International, NationLink, Telcom Somalia, Soltelco and Africa Online—signed an agreement to allow interconnection between their networks.

NCA report (May 2021) that Hormuud, Golis and Telesom are interconnected and NCA is currently working on receiving and registering the Interconnection agreements between them. Survey respondents reported that international rates are sometimes charged by operators for cross-network calls, and often inter-network connection is simply not possible; for these reasons it is not unusual for users to have different handsets on separate networks, although NCA advise that this is no longer the case. Some Somalis resort to using several different SIM cards to get around the problem of interconnection and some own mobile phones that can take two or three different SIMs. In December 2019, the MoCT launched a consultation on its draft Interconnection Policy, which aims to simplify the arrangements for interconnection and the provision of services between licensees, and ensure that all operators are treated fairly and indiscriminately.

SIM registration

According to the National Communications Law of 2017, the registration of SIM cards in Somalia is now mandatory. The World Bank's 'ICT Sector Support in Somalia Phase II' project targeted the introduction of SIM card registration by the end of December 2018, although no further details had been announced twelve months on. Previously, Puntland, a region of north-east Somalia which declared itself an autonomous state in 1998, announced in October 2014 new conditions for mobile telephony customers and users of money remittance services.

According to a decree from the interior ministry, all mobile SIM card users must hold a valid Puntland ID card, while beneficiaries of remittance services are also required to show their IDs to receive their money. The new measures were reportedly aimed at improving security in the region.

MVNO legislation

The draft Unified Licensing Framework (**ULF**), which was published for public consultation in October 2019, states that any operator seeking to provide MVNO services would require an Applications and Services Provider Licence from the National Communications Authority.

Broadband key legislation

The Somali broadband sector is governed by the National Communications Law. It is regulated by the NCA, which was created in early 2018 and took control of the country's top-level domain (.so) in March 2018.

IXP

In May 2018, the MoCT announced it was establishing Somalia's first domestic IXP in Mogadishu. The IXP allows ISPs to connect their networks and exchange internet traffic locally, providing high bandwidth and low-latency access.

VoIP legislation

The provision of voice over IP (**VoIP**) services in Somalia is governed by the National Communications Law and regulated by the NCA. VoIP providers include Mogadishu-based Sahal Telecom, and Somaliland operators Somtel International and Telesom.

The ICT Sector

4.2

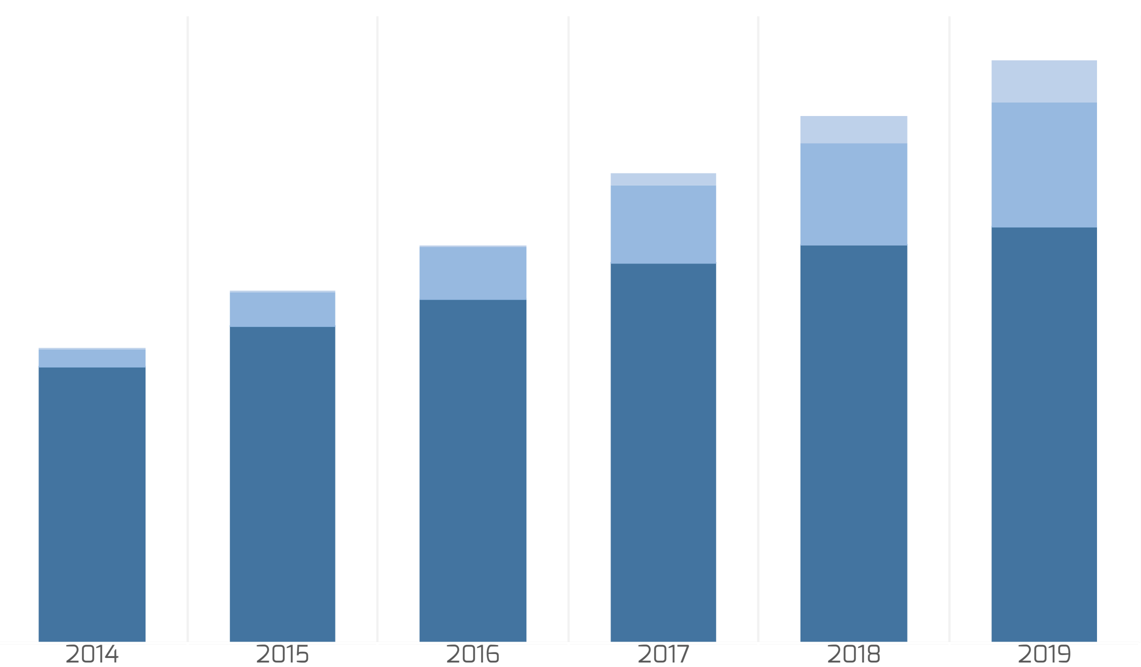
ICT Market in Somalia

4.2 ICT Market in Somalia

4.2.1 Market Share

The survey results suggest that the ICT sector market has doubled from 5,257,000[88] mobile subscribers in 2014 to 7,936,800 subscribers in 2019, a 50.9 percent increase in market size (See Figure). However, in terms of growth over time, there has been a reduction in the rate of growth in market size from 15.0 percent growth between 2014 (5,257,000) and 2015 (6,043,200) to 4.6 percent growth between 2018 (7,589,300)[89] and 2019 (7,936,800). The slowing growth signifies market saturation as well as the need to reform the business and investment environment to allow for market growth. In terms of mobile penetration, the survey results show significant growth in penetration levels from 38.9 percent[90] in 2014 to 50.8 percent in 2019 implying a robust and growing industry against a background of minimal regulation and infrastructural challenges that stifle growth of the industry, compounded by Somalia's high levels of poverty.

Figure 16 Market Size by SIM Penetration



	2014	2015	2016	2017	2018	2019
4G	500	7,200	44,000	218,000	511,000	801,800
3G	353,000	650,000	1,010,000	1,513,000	1,961,000	2,405,000
% growth	19.5	15	8.5	10.5	4.8	4.6
SIM. Pen. (%)	38.9	43.5	45.8	49.1	50	50.8
Total (SIM)	5,257,000	6,043,200	6,555,000	7,245,000	7,589,300	7,936,800

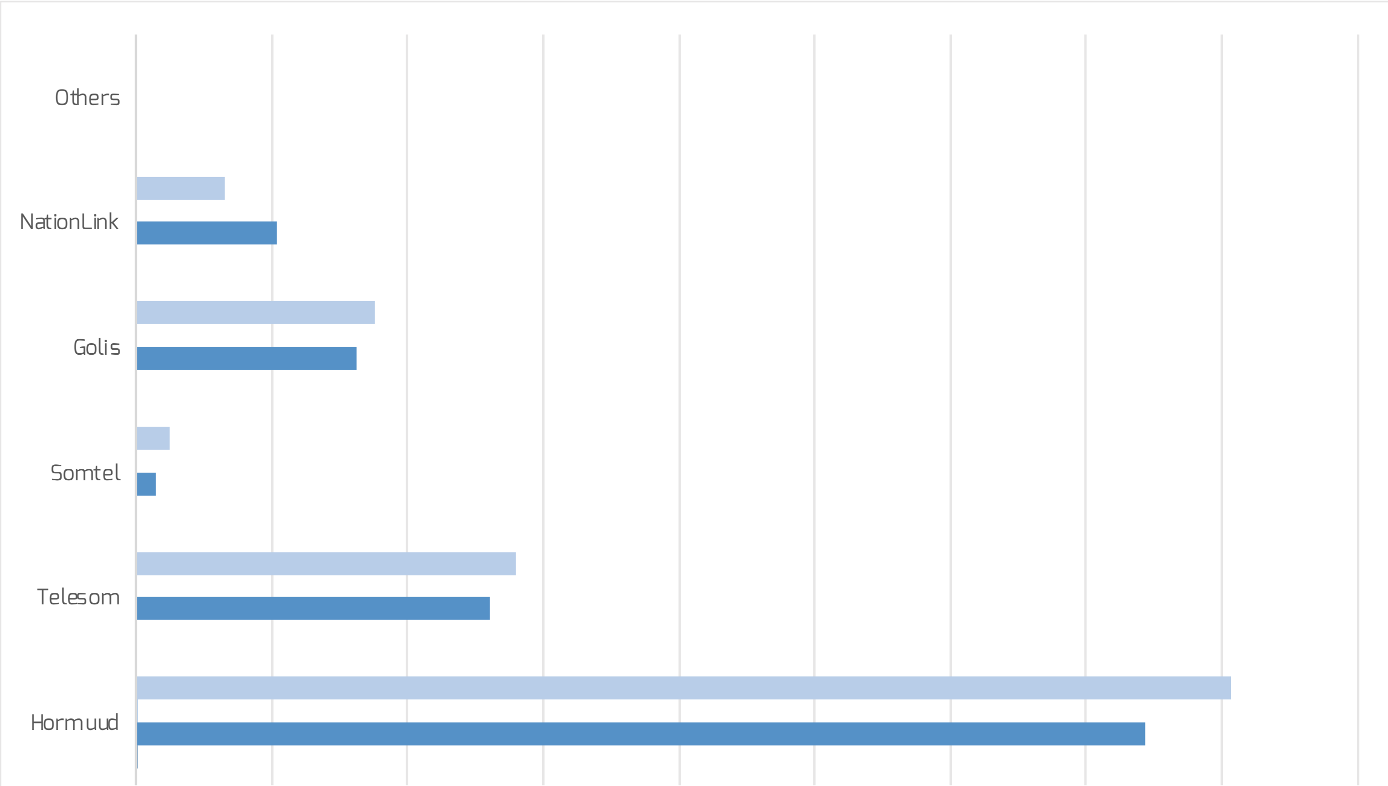
SOURCE: ITU, estimates, 2019

88 Not verified by NCA : based on reported figures from the survey

89 NCA report that in 2021, that there were 7.30 million mobile connections in Somalia in January 2021 and the number of mobile connections in Somalia increased by 351,000 (+5.1 percent) between January 2020 and January 2021. The number of mobile connections in Somalia in January 2021 was equivalent to 45.3 percent of the total population.

90 Not verified by NCA : based on reported figures from the survey

Figure 17 MNOs by SIM Penetration



	Hormuud	Telesom	Somtel	Golis	NationLink	Others
Dec-19	4,032,000	1,400,000	125,000	878,000	328,000	
Dec-19	50.80%	17.60%	14.70%	11.10%	4.10%	1.60%
Dec-18	3,715,000	1,303,000	70,000	812,500	520,000	
Dec-18	49.00%	17.20%	14.40%	10.70%	6.90%	1.80%

SOURCE: ITU, estimates, 2019

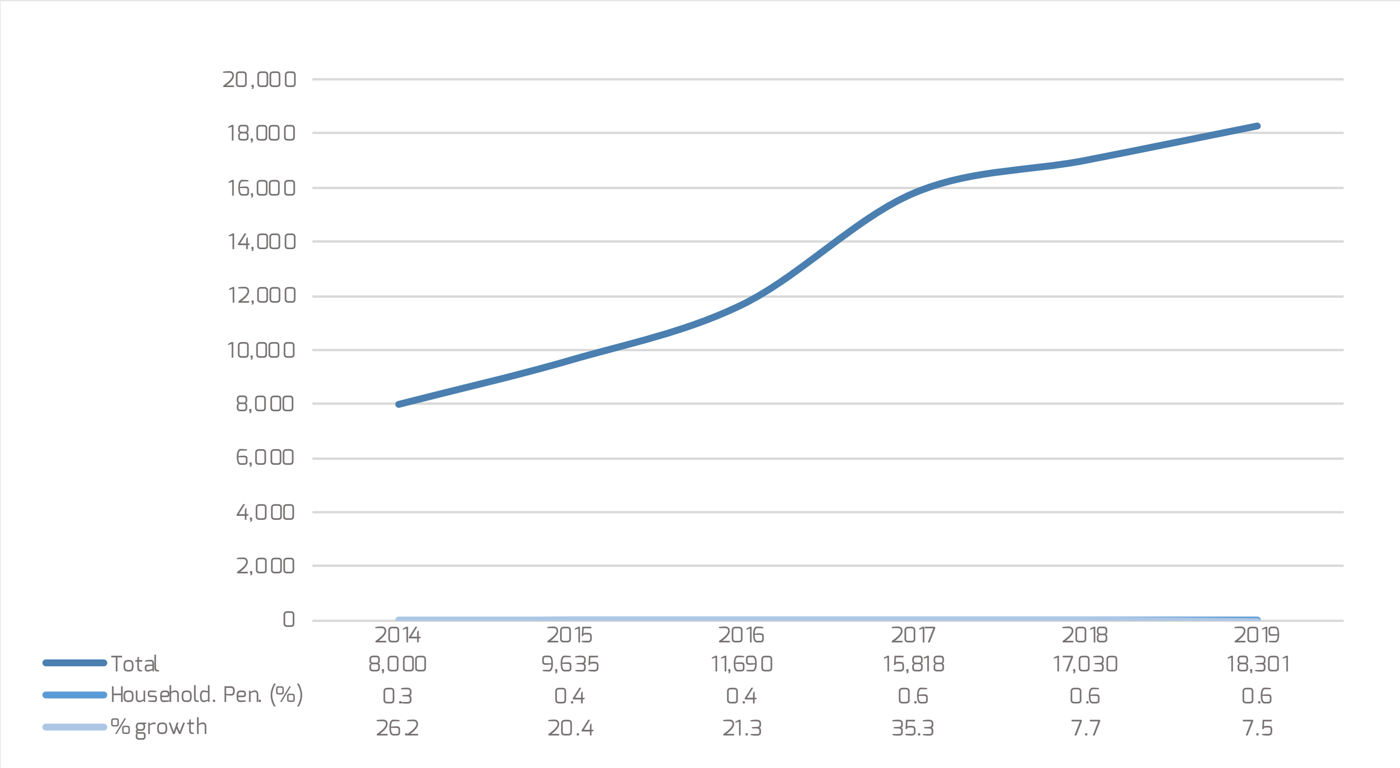
NCA reports that as of January 2021, there were 2.10 million social media users in Somalia, equivalent to 13 percent of the population. The number of social media users in Somalia increased by 500,000 (+31 percent) between 2020 and 2021.

NCA report that there were 1.95 million Internet users in Somalia in January 2021. The number of Internet users in Somalia increased by 329,000 (+20 percent) between 2020 and 2021 and Internet Penetration in Somalia stood at 12.1 percent in January 2021.

As far as the broadband market is concerned, the market size has witnessed a 128.8 percent growth from 8,000 subscribers in 2014 to 18,301 subscribers in 2019. See Figure 20.

Similarly, this growth was higher between 2014 and 2015 (20.4 percent) than between 2018 and 2019 (7.5 percent) signifying market saturation with the current level of available investment and infrastructure and the fact that the environment is ripe for reforms to facilitate growth and diversification of the ICT sector

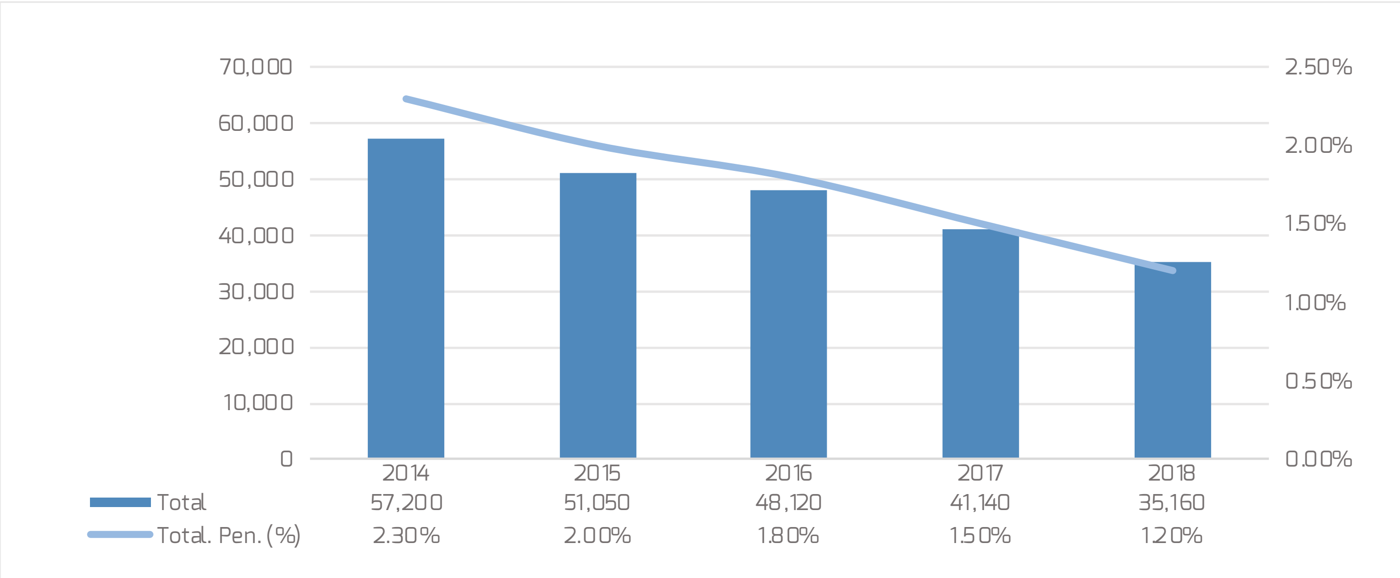
Figure 18 Broadband Market Size by Number of Customers



SOURCE: ITU, estimates, 2019

The penetration rate of fixed telephone and fixed broadband (PSTN + VoIP) is low and declining as most of the operators are concentrating on providing mobile services. (The number of subscribers significantly dropped from 57,200 in 2014 to 35,160 in 2018.

Figure 19 Wireline (PSTN + VoIP) Subscribers

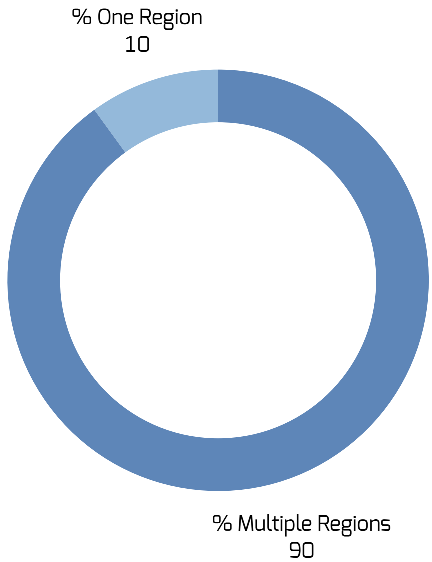


SOURCE: ITU, estimates, 2019

4.2.2 Coverage Across Federal States in Somalia

The majority (90 percent) of the MNOs were operating in multiple regions in Somalia beyond Mogadishu (Banadir region). Therefore, the ICT sector/mobile biased services across Somalia are increasingly expanding with MNOs operating in multiple places beyond the comparatively lucrative urban areas. However, ISPs mainly operated in urban areas with limited expansion in rural areas due to a lack of the requisite infrastructure. With reform expanding the sector will be faster and more profitable to the ICT players and will support economic development in the country.

Figure 20 Areas of Coverage by ICT Players



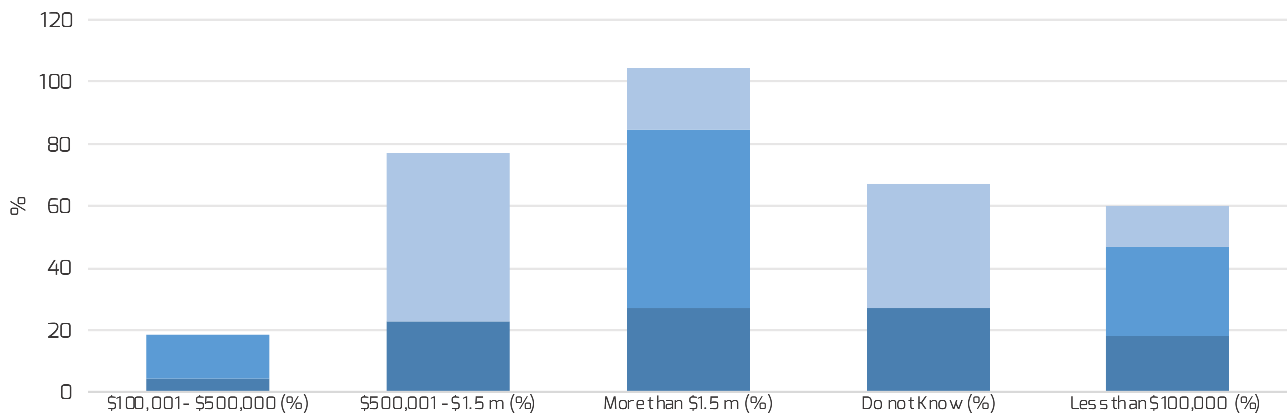
The majority of firms surveyed (54.6 percent), both from ICT or energy, had more than $500,000 in annual sales turnover in 2017/18.

A majority (57 percent) of ICT firms had more than $1.5 million in annual turnover, although firms were surveyed that had less than $500,000 or even $50,000 in turnover.

Among energy firms that reported their turnover, a majority (54.5 percent) had between $500,000 and $1.5 million in annual turnover. Less than 20 percent had more than $1.5 million in turnover. As such, energy firms were smaller—in terms of turnover—than ICT firms.

According to Shuraako data (2018) energy IPPs collectively earn a minimum range of $23–$41 million per year, though this figure is likely much higher if BECO, the largest energy provider in Somalis, and other IPPs are included. This is likely to enter the range of $50–$60 million per year. Therefore, the sector is made up of a strong, diverse, and growing private energy sector.

Figure 21 Annual Sales Turnover in 2017/18 for ICT and Energy Firms



	$100,001 - $500,000 (%)	$500,001 - $1.5 m (%)	More than $1.5 m (%)	Do not Know (%)	Less than $100,000 (%)
Energy	0	54.5	20	40	13.3
ICT	14.3	0	57.1	0	28.6
Aggregate	4.5	22.7	27.3	27.3	18.2

4.2.3 Mobile Money

Somalia lacks a strong formal banking system, and only about 15 percent of the population has a bank account. Mobile money has helped to expand financial inclusion. For vulnerable groups, it is a convenient and fast way to access money quickly. As it is' viewed as faster and safer than cash handouts, many aid agencies use it to reach remote villages. Similarly, as most shops accept mobile money, it also offers beneficiaries more flexibility, and avoids a requirement to travel, which can in turn minimise risk of security incidents.

Many mobile phone users in Somalia own several mobile phones. Each phone has a subscriber identity module (SIM) card from a specific Somali network to allow communication or make business transactions. Calling or transacting across networks, a feature that is taken for granted in many other countries, is not currently possible in Somalia. This limits interactions and also raises costs, creating an investment entry and growth barrier.

The mobile money market is active and MNOs have developed mobile money services that fit well with Somalia's cultural and socio-economic context, with 73 percent of Somalis over the age of 16 using mobile money services. Mobile money in Somalia has filled a more traditional banking need; Somalis use mobile money as e-wallets, holding money in the system and saving it for other purchases or transfers, in essence recreating many of the conveniences of a traditional bank account. Apart from the dollarization of mobile money services, the no-fee business model and the internal distribution network, another key characteristic of the Somali mobile money ecosystem is the commitment on the part of MNOs to salary payments and merchant payments. This further contributes to developing a model whereby customers are incentivized to keep money in the system rather than cashing it out[91].

Nevertheless, there are some considerable risks in the mobile money system. The biggest is weak regulatory framework, which makes the system fragile and fragmented. The Central Bank passed Mobile Banking regulation in 2019 and Somtel and Hormuud, have been

[91] Altai,2018

licensed under the provisions of mobile money regulations 2019. However, the system remains vulnerable to money laundering and terrorism financing. This is because there is weak "know your customer" compliance, out of line with global banking standards. Ultimately, this results in limited accountability and tractability. Another risk is the fact that there is no assurance that the funds will be immediately and perpetually available, as they would be in a normal bank account. That is because there is no guaranteed parity between the mobile money balances held by mobile operators and those held in individual and business accounts. Transfers in Somalia are predominantly available in US dollars, which, given the fact that dollarization deepens a financial system only in inflationary economies, is not optimal for the country's future economic growth[92].

The Government is taking steps to address these risks through the establishment of the Somalia's Financial Reporting Centre (FRC) which is an independent center with the objective of identifying financial crimes and combating money laundering. The center's mandate was established through the Anti-Money Laundering and Countering the Financing of Terrorism (AML/CFT) Act, 2016.

While it is supposedly competitive, some operators have virtual monopolies. Each zone is indeed largely dominated by one mobile money service: Somaliland by Telesom's Zaad, Puntland by Golis' Sahal and South Central by Hormuud's EVC-Plus. Partnerships are increasingly being developed between MNOs and banks and between MNOs and Money Transfer Operators (**MTO**s) in hopes of creating better services for the population and gaining competitive advantages.

To this end, MTOs are increasingly partnering with MNOs to transfer international remittances directly to mobile money accounts. In addition, partnerships between MNOs and banks enable further integration of mobile money and mobile banking. The realization of mobile money as a significant tool to help create a financial infrastructure has not yet been achieved. Once it has been realized, mobile money can help to develop potentially better financial structures in the country.

Puntland has the highest mobile money penetration rate (82 percent), closely followed by Somaliland (78 percent). South Central (69 percent) exhibits high heterogeneity of mobile money penetration among its Federal Member States (FMSs**).** The penetration rate of mobile money is 83 percent in urban areas, 72 percent in IDP camps and 55 percent in rural areas. Mobile money is less widespread in rural areas, where the economy is based predominantly on subsistence farming and where the Somali shilling (SOS) is more valued. The gender gap in terms of mobile money

subscription is 5 percent (penetration of 75.4 percent for men versus 70.4 percent for women). Mobile money services are booming as the industry has enjoyed significant year-on-year growth over the past few years. However overall annual growth has started to decline pointing toward a saturation of the market. Mobile money is used for various types of transactions. Somalis use mobile money to transfer money, purchase goods, pay bills, transfer airtime, receive money from families and relatives, receive salaries, save money, and so forth. Urban users tend to use more mobile money services than their rural and IDP counterparts.

The percentage of subscribers using mobile money to pay bills, purchase airtime, pay merchants and receive salaries is particularly higher in urban areas. SMEs and merchants receive most of the payments from their customers through mobile money. SMEs and merchants also largely rely on mobile money to pay their utility bills, remunerate their vendors and suppliers, store money and reimburse money borrowed[93].

Incoming transactions (including cash-in, disbursements and international remittances) amount to $1.65 billion

[92] De Nicolo, 2003

[93] Altai, 2018

per month. $1.2 billion is circulating in Somalia's mobile money ecosystem every month (P2P transfers and merchant payments). Lastly, outgoing transactions (cash-out, bill payments and airtime top-up) account to $1.25 billion per month. People mostly use dollars when paying for durable goods, sending and receiving money from friends and family, or pay for groceries, school fees, rent and utility bills, and so on. On the contrary, they use SOS for small daily expenses. The dollarization of the economy has exacerbated the depreciation of the local currency. Given the depreciation of the local currency and lack of other satisfying and accessible-to-all alternatives, people and firms rely heavily on mobile money for their daily economic participation.

Mobile money has a crucial role and has become the first financial instrument in Somalia, while cash usage is decreasing. Mobile money is considered fast, convenient, affordable and safe (on a personal level) by Somalis. Compared to bank and hawala transfers, Somalis think that mobile money transfers are simpler to use, simpler to register, faster and easier to physically access. Mobile money facilitates financial inclusion as it is an accessible and efficient means of extending financial services to those who are unbanked in Somalia. For vulnerable groups, mobile money has three additional advantages and positive consequences:

Firstly, displaced populations believe mobile money has mitigated the risks to personal security they previously faced. The system also facilitates the flows of remittances and cash-assistance programs by aid agencies and contributes to their recovery and resilience, as it enables smoothing of their income and helps them prepare for and adjust to the inevitable shocks and stresses of living in a recently post-conflict society. In addition, they feel more economically integrated and empowered thanks to the system.

Secondly, nomads believe mobile money is convenient and facilitates trade, notably that of livestock. They also feel the system helps strengthen relationships between nomadic communities and the rest of society. Lastly, they perceive mobile money as a system that fits well with nomadic patterns and that has improved the way they deal with shocks, for example during droughts.

Lastly, women report feeling less financially dependent and more empowered thanks to the system.

This more bottom-up approach to innovation, whereby technology has succeeded in beginning to address challenges of everyday governance and service delivery is also an important lesson for the relevance of taking a context-based approach to understanding innovation, and serves as a case study for the potential of new technologies to engage marginalized communities and vulnerable groups. In terms of disadvantages of mobile money to the Somali public, a significant portion of Somalis perceive mobile money to be unreliable and to carry significant risks for their money, as the system does not provide guarantees for customers.

In addition, it is also prone to technical issues and mistakes. Users also deplore the acute lack of interconnectivity between the several walled garden mobile money services. Electronic payment services are relatively well developed in Somalia. About 45 percent of Somalis regularly use their mobile device to access mobile payment services, with over 150 million incoming and outgoing transactions a month, worth $5.6 billion or 36 percent of GDP. There is a need to strengthen the legal and regulatory framework in this sector to ensure Increased financial inclusion; Development of a wider range of financial services, including international payments and banking services; Interoperability/interconnection; Financial stability of the current system of mobile payments and; Sufficient customer protections.

Moving forward, amendments to the Financial Institutions Law (2012) are necessary in order to cover all providers of financial services. Such amendments shall ensure that all financial service providers are governed by the same law and have equal levels of access to shared financial market infrastructure such as payment systems and a potential ID management system, thereby contributing toward a conducive business environment for shared services and a level playing field for potential entrants into the market.

The ICT Sector

4.3

Challenges Facing the ICT Sector

4.3 Challenges Facing the ICT Sector

Further expansion of the sector is challenged by lack of regulation. The private sector has supported the Government to enact the 2017 Communications Act which led to the establishment of the National Communications Authority (NCA). With technical support from IFC, the NCA is currently operationalising the act. A proper regulatory framework will allow the ICT sector to continue to provide benefits to Somali consumers and entrepreneurs operating in other sectors of the economy. Somalis rely on information and communications technologies for remittances, mobile banking, and mobile money services, in addition to internet access and communication[94].

The ICT sector in Somalia could soon reach a tipping point where market competition, equitable distribution and demand-driven efficiency can grow exponentially and transform operating environments for both government and individual citizens[95]. Despite, or perhaps due to the lack of a public sector presence, private, unlicensed mobile companies, using satellite for international communications, have emerged to meet the high demand for communications, especially with the large Somali diaspora. In terms of mobile penetration rates, Somalia has higher rates and lower prices than neighbouring Djibouti and Ethiopia[96].

[94] World Bank Group, 2017

[95] World Bank (2019)—Supporting the ICT Sector in Somalia (https://blogs.worldbank.org/digital-development/supporting-ict-sector-somalia)

[96] International Telecommunications Union, 2018

According to the responses to the NCA KII, there are many macro-economic, systemic and institutional challenges that need to be addressed to achieve an optimal ICT ecosystem able to foster progress toward SDG connectivity targets, and economic development. For example, limited digital literacy rates, a lack of local content, security issues, gender inequalities and the absence of an affordable energy supply are all significant barriers that need to be dealt with.

The MoCT KII noted that the ongoing legal and institutional reforms in the ICT sector should take into account the highly dynamic technological developments that characterize the ICT space. It should also encompass the emerging areas of the Internet of Things (IoT), Artificial Intelligence, Robotics, Machine to Machine (M2M) services, Net Neutrality, Big Data, Block-chain Technologies and Cryptocurrencies, through review and adjustment of the governing policy frameworks[97] .

[97] Somalia, National-ICT-Policy-Strategy-2019-2024

The ICT Sector

4.4

Other Sectoral Issues - ICT Sector

4.4 Other Sectoral Issues - ICT Sector

4.4.1 Security

Despite the presence of the Federal Government of Somalia, security remains a concern for all foreign and domestic investors. However, despite this risk, there are new companies being set up by locals and foreigners to take advantage of the emerging market as Somalis return home to rebuild their country. When doing business, most of the security challenges can be minimized with good security planning. There have been several attempts by the militant group Al-Shabaab to ban internet services in the areas of the country under its control. The Somali government strongly condemns any coercive act that shows the continued brutality and terrorist tactics of intimidation by trying to intimidate Somalis from using the internet. The MoCT KII reiterated the FGS position about this security threat to telecoms, that Somalis, like people everywhere, should be able to use the internet for education and to communicate with the global community. The militants continue to target telecoms' infrastructure and demand illegal taxes to permit their operation.

4.4.2 Government Broadband Network

In December 2016, the Government Broadband Network (GBN) was completed, with the private company Dalkom serving as prime contractor. A World Bank subsidy for the project covered the advance purchase of bandwidth for the government and the provision of a local fiber loop around Mogadishu, covering 16 ministry sites.

The national broadband network was formally handed over to the government in August 2017 and the following month saw the launch of internet connectivity for universities through a research and education network (SomaliREN).

4.4.3 Development Partner Support

In October 2017, the MoCT signed a cooperation agreement with the ITU to help Somalia develop its telecoms sector. The accord aims to facilitate the mechanism for the ITU to provide assistance and support to the country under ITU Resolutions.

Areas highlighted include the development of national ICT policies and infrastructure, capacity building, the establishment of a telecoms regulator and improving ICT access and usage in the education and healthcare sectors. Following this, in November 2018 the ITU adopted Resolution 160—Assistance to Somalia, which aims to provide assistance and support to rebuild and modernize the country's telecoms infrastructure, and develop policy, legislation and regulation.

The Resolution calls on member states to take special actions to provide appropriate assistance and support to Somalia.

4.4.4 Access to Information

Access to reliable investment information for the Somali market is hard to come by. The provision and accessibility of investment-relevant information by FGS agencies is necessary both to ensure voluntary compliance with the investment registration processes and procedures, and to facilitate investment. However, the transparency of information about investment procedures, documents and fees remains a major challenge in Somalia. Most of the government agencies mandated with investment promotion lack robust, diverse and reliable communication channels to share information regarding investment procedures, costs and the documentation required to operate legally.

According to Investor KII, transparency of information and customer support remain a challenge in investment promotion by Government Agencies. Similarly, SOMINVEST KII noted that regulatory frameworks forming a legal basis for mandatory information transparency and sharing across Government Agencies, and with the public, are lacking in most cases. Therefore, the surveyed investors recommended that a trade portal for investment promotion should be established and that this should contain information on investment procedures, documentation and costs, permits and licensing, rules and regulations, and an index of the Government Ministries and Agencies responsible for different certifications.

For their part, during KII MoCI officials recommended that the investment portal should provide links to websites for different Government Agencies involved in investment promotion from which investors could individually acquire the sought information (Investor KII).

4.4.5 Securing Business Permits

The baseline study undertook process mapping of the steps and procedures needed by investors before actual investment in Somalia may occur as well as establishing the average time and number of steps taken to convert a lead into an actual investment.

Our generalized finding was that Somali companies were optimistic about legal reforms and economic development outlook but were also frank about the challenges they faced. They provided a rich array of quantitative and qualitative information that allowed us to map the steps needed to actualize investment in Somalia.

The ICT sector has self-regulated over the last 30 years, and new regulations will need to provide a framework to firms without stifling innovation.

Given the fact that information about the procedures, processes and costs of registering an investment are not in the public domain, compliance proves difficult to the investors. The process converting an opportunity into an actual investment project in Somalia across different Government Agencies is largely manual and implemented in an non-procedural, ad-hoc manner. This is due to the minimal automation of the investment registration processes.

This creates opportunities for graft when the investors try to expedite the investment registration process and data management challenges for Government Agencies' decision-making. In addition, investors must visit many different government offices and private institutions involved in the investment registration process such as, MoCI, MPPT, NCA, MoEWR, Chambers of Commerce and banks, among others. These institutions are highly inaccessible due to security precautions stemming from the recent conflicts such as numerous checks and regular road blockades in Mogadishu, leading to increased labor, processing time and costs. The foreign investors must conduct registrations through their local proxies to have their investment licensed, which comes at an extra cost. Investors were asked to describe the agencies with which they worked and also the process an investor must follow to comply with all steps, procedures, documentation and other requirements to convert an opportunity into an actual investment project in Somalia.

The ICT Sector

4.5

Key Findings and Recommendations

4.5 Key Findings and Recommendations: ICT Sector

The main reasons for Somalia's relative underdevelopment in the ICT sector are low access to reliable and affordable connectivity as well as its prolonged civil conflict, that has destroyed a significant part of the country's telecom infrastructure, causing Somalia to lag behind many countries in the region on key indices. However, this sector is arguably one of the fastest growing in the economy and, despite having little to no formal regulatory framework or oversight, private operators have emerged to meet the high demand for critical communications services and the sector now accounts for up to 10 percent of GDP.

Somalia's ICT sector is dominated by five Mobile Network Operators (MNOs) operating across the country: Hormuud (South Central)**, Golis** (Puntland), **Telesom** (Somaliland)**, Somtel** (South Central, Puntland and Somaliland) and **NationLink** (South Central, Puntland and Somaliland). No interconnectivity exists between concurrent operators. Hormuud has three affiliates within Somalia's regions—Hormuud Telecom (South and Central), Golis (Puntland), and Telesom (Somaliland) and accounts for up to 70 percent of the nationwide mobile market.

It has taken advantage of de facto monopoly by providing network services at exorbitant cost, with access limited only to a small cross section of population in major urban areas. Somtel, part of the Dahabshiil group of companies controls approximately 15 percent of the market share and operates in some regions of Somalia. APRU (mobile connection) for Somalia is currently estimated at $3.87 and including broadband and mobile money it is about $10.

A majority of ICT firms surveyed reported having more than $500,000 in annual sales turnover in 2017/18, with 57 percent of them reporting more than $1.5 million. According to Shuraako data (2018), energy IPPs collectively earn a minimum of $23–$41 million per year, though this figure is likely to be much higher if BECO, the largest energy provider in Somalia and other IPPs are included. This is likely to reach $50–60 million per year. Therefore, the sector is made up of a strong, diverse, and growing private energy sector.

While it is supposedly competitive, some operators have de facto monopolies: Each zone is largely dominated by one mobile money service. Puntland has the highest mobile money penetration rate (82 percent), closely followed by Somaliland (78 percent). South Central (69 percent) exhibits high heterogeneity of mobile money penetration among its Federated Member States (**FMS**s). However, this sector is arguably one of the fastest growing in the economy and, despite having little to no formal regulatory framework or oversight, the sector now accounts for up to 10 percent of GDP.

The survey results show that the sector market has doubled from 5,257,000[98] mobile subscribers in 2014 to 7,936,800 subscribers in 2019, a 50.9 percent increase in market size. The slowing growth between 2018 and 2019 indicates market saturation as well as the need to reform the business and investment environment to allow for market growth. In terms of mobile penetration, there has been significant growth in penetration levels from 38.9 [99]percent in 2014 to 50.8 percent in 2019 implying a robust and growing industry against a background of minimal regulation and infrastructural challenges, which stifle growth of the industry, compounded by Somalia's high poverty rate. The majority (90 percent) of the MNOs were operating in multiple regions in Somalia.

[98] Figures from survey respondents : NCA cannot verify the validity of the figure

[99] Figures from survey respondents; NCA cannot verify validity of the figure

The market structure is still evolving, with de facto consolidation around larger companies, resulting from mergers and alliances—with a population of 15 million people, Somalia's mobile penetration is 35-40 percent (unique subscribers). About 90 percent of the population is within a 2G coverage area while 76 percent and 67 percent are within 3G and 4G coverage areas, respectively. Internet through satellite, ADSL, fiber, WiMAX and 4G LTE are limited to the main towns and cities as the service costs are extremely high. The current market structure of telecom infrastructure reflects the evolution of the country's telecom sector, which was born of a need for only basic telecom services, primarily to facilitate mobile money services (estimated at over $1 billion a year).

The public telecom and Internet sector in Somalia is largely composed of mobile operators and their users, which compose 35-40 percent of the population, employing about 25,000 Somalis. Currently the market comprises five major operators (Hormuud, Somtel, Golis, Telesom, and NationLink) and one MVNO (SomNet).

Growth in internet use is also constrained by both the high cost of international bandwidth and the lack of a domestic fiber backbone infrastructure outside of Mogadishu to link undersea cables to landing stations and then to other cities and towns across the country. The international connectivity is provided by Dalkom Somalia through its landing station in Mogadishu while Somcable provides international connectivity to Somaliland through its terrestrial network from Djibouti. Once a pervasive national fibre backbone is in place, Somalia's strategic geographic location and multiple international cable links can be leveraged to the benefit of the domestic ICT industry and the public.

No interconnectivity exists between concurrent operators, except for an interconnectivity agreement between Hormuud, Golis and Telesom, the three sister companies of the Hormuud conglomerate. The mobile money market is active and MNOs have developed mobile money services that fit well into Somalia's cultural and socio-economic context .

While it is supposedly competitive, some operators have de facto monopolies: Each zone is largely dominated by one mobile money service: Somaliland by Telesom's Zaad, Puntland by Golis' Sahal and South Central by Hormuud's EVC-Plus. Partnerships are increasingly being developed between MNOs and banks, and between MNOs and Money Transfer Operators (MTOs) to try to create better services for the population and reap the competitive advantages these often create.

Somalia's ICT sector faces the challenge of transitioning from an unregulated market to one with a legal and regulatory framework based on global and regional best practices. The Communications Act (2017) was established by NCA to partially fill the regulatory vacuum and increase Treasury revenues with fees derived from the ICT sector[100]. The NCA's mandate is to grant licenses to operators, improve the sector's general functioning, and regulate related industries such as mobile money, telecoms, internet, broadcasting, ICT and e-commerce.

The key secondary legislations currently at different stages of development to operationalize the Communications Act (2017) include: National ICT policy and strategy, Unified licensing framework, Interconnection policy, Numbering policy, Wireless key legislation and Radio frequency spectrum policy.

[100] World Bank Group, 2017)

The ICT Sector

4.6

Developments since the Survey

4.6 Developments Since the Survey

NCA has developed and is implementing a number of regulations relevant to investment in the sector:

- **Radio Frequency Spectrum Regulation** that will promote and support the orderly development and efficient operation of the radio communication systems and ensure planning utilization and management of the spectrum resource in accordance with the National Communication Act, and promote the efficient use of frequency spectrum resource through the adaptation of the latest technical advance.
- **National Frequency Allocation Table** (**NFAT**)**,** and its objective of increasing spectrum efficiency and utilization. National Frequency Allocation Table details the uses to which various frequency bands are put in Somalia. It provides the framework within which frequency assignments are to be made for all radio communications services in Somalia.
- **Spectrum licensing framework** that will define and clarify the regulations for the licensing of spectrum for the different radio communication services in order to provide guidelines that will assist applicants for spectrum licenses and to reduce the administrative burden for applicants and the authority in the management of spectrum and the licensing process. NCA has developed **regulatory guidelines** for the use of radio spectrum. NCA has developed **Spectrum Fees Regulation.** This regulation will facilitate the development and use of all frequencies, creating modern technology based on communication services. It will also develop open markets, vibrant and free communications sectors in Somalia and improve the freedom of expression and exchange of idea. This regulation facilitates and encourages investment in communications services, giving priority to national companies.
- Type Approval Guidelines and Type Approval Fees. It is now issuing the following licenses: Aircraft Radio License; Amateur Radio License; Broadcasting License; Cellular Radio License; Citizen Band Radio License; Private Radio Communication License ; Radio Frequency License; Satellite Service License; Maritime Service License. Details can be found @ the following: https://nca.gov.so/type-approval-database/ and https://nca.gov.so/features/slc/.
- National Frequency Allocation plan for mobile and fixed communication networks.

NCA soon will deploy Spectrum Monitoring equipment that will identify unlicensed transmitters; help to verify that technical emission standards are being met and indicate whether new policies might be needed to prevent interference.

NCA has developed and implemented a **Unified Licensing Framework** for the ICT sector. The framework offers more flexible, simplified and technology-service neutral form of licensing. The aim of the unified licensing framework is to streamline investment by increasing the certainty of the market, increase competition, eliminate hidden costs and accelerate administrative procedures. The document can be accessed here: https://nca.gov.so/wp-content/uploads/2020/12/Unified-Licensing-Framework-Nov-2020-BV.pdf). The following licenses are issued under the licensing framework:

- Communications Infrastructure Provider (CIP) License
- Applications and Services Provider (ASP) License
- Communications Infrastructure and Services (CISP) License

NCA has successfully issued Licenses to the Major Telecom Operators (**Hormuud Telecom, Somtel Somalia, Golis Telecom, Telesom, Nationlink Telecom, Amtel and Somlink**). The process of Licensing Internet Services Providers and other network operators is still under way.

NCA has also developed a numbering regulation which provides regulatory framework for the control, planning, administration, management and assignment of resources pursuant to the National Communications Law of 2017NCA has developed **a Numbering and Electronic Addressing** which are crucial for the proper operation of networks, the provision of a network-based services, and the development of an online economy and society, and facilitates the socio-economic development of the country's communication networks.

NCA has developed a comprehensive Interconnection regulation covering Interconnection Fraud; Billing; Interconnection fee/rate; Dispute resolution process; Interconnection suspension and Interconnection disconnection.

- NCA acknowledges that there is Interconnection in Somalia, between Hormuud, Golis and Telesom.
- NCA is in the process of obtaining the Interconnection agreements between Hormuud, Golis and Telesom in order to be reviewed, approved and registered by NCA.

NCA has also drafted an Interconnection Technical guideline to be used by incumbents in order to help draft their Reference Interconnection Offer (RIO) and make sure that any RIO drafted in transparent, fair, and in line with the National Communications Law, the Interconnection regulation and the Interconnection technical guidelines

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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