

SOMALILAND'S ECONOMIC DIVERSIFICATION: CHALLENGES & OPPORTUNITIES

CONCEPT NOTE PRESENTATION



Presented by: Khalid I. Abdi

Prepared by: Omer Qolanbi & Mustafe Elmi

Presentation Outline



INTRODUCTION



RESEARCH
QUESTIONS AND
OBJECTIVES



METHODOLOGY AND
EXPECTED
OUTCOMES



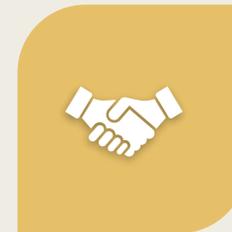
SIGNIFICANCE AND
IMPACT



PRELIMINARY
FINDINGS AND
RECOMMENDATIONS



CONCLUSION



PARTNERSHIP AND
COLLABORATION

INTRODUCTION

- This research project will study the challenges and opportunities facing Somaliland's economic diversification.
- According to Table 1, the Somaliland economy heavily relies on unpredictable livestock exports to the Arabian Gulf and wholesale and retail trade.
- Therefore, this research project will answer relevant and specific questions that provide comprehensive answers for an economic diversification strategy that could be useful for the country's economic growth and long-term development.
- Economies weakened by a lack of diversification are susceptible to global crises such as a pandemic” (Usman and Laundry 2021). Therefore, the countries that rely on a single commodity whether it is oil or other types of natural resources, in the case of Somaliland livestock, should think about ways to diversify their economies.

■ **Table 1: Somaliland's GDP % Share by Sector**

GDP % Share		GDP % Share	
Livestock	28.4	Information and communication	2.0
Wholesale and retail trade; repair of motor vehicles	21.9	Transportation and storage	1.9
Real estate activities	7.6	Professional and support services	1.7
Crops	7.0	Human health and social work activities	1.7
Taxes and subsidies on products	6.4	Manufacturing (food and beverages)	1.2
Forestry	4.6	Mining and quarrying	1.2
Education	3.3	Electricity supply	1.0
Accommodation and food service activities	3.0	Other services activities	0.5
Public administration and defence	3.0	Financial activities	0.3
Construction	2.2	Fishing	0.3
Manufacturing (others)	0.5	Water supply, sewerage, waste management	0.3

Source: Ministry of National Planning and Development, Somaliland Figures 2015

Chart 1: Raw materials still dominate in Africa's global exports

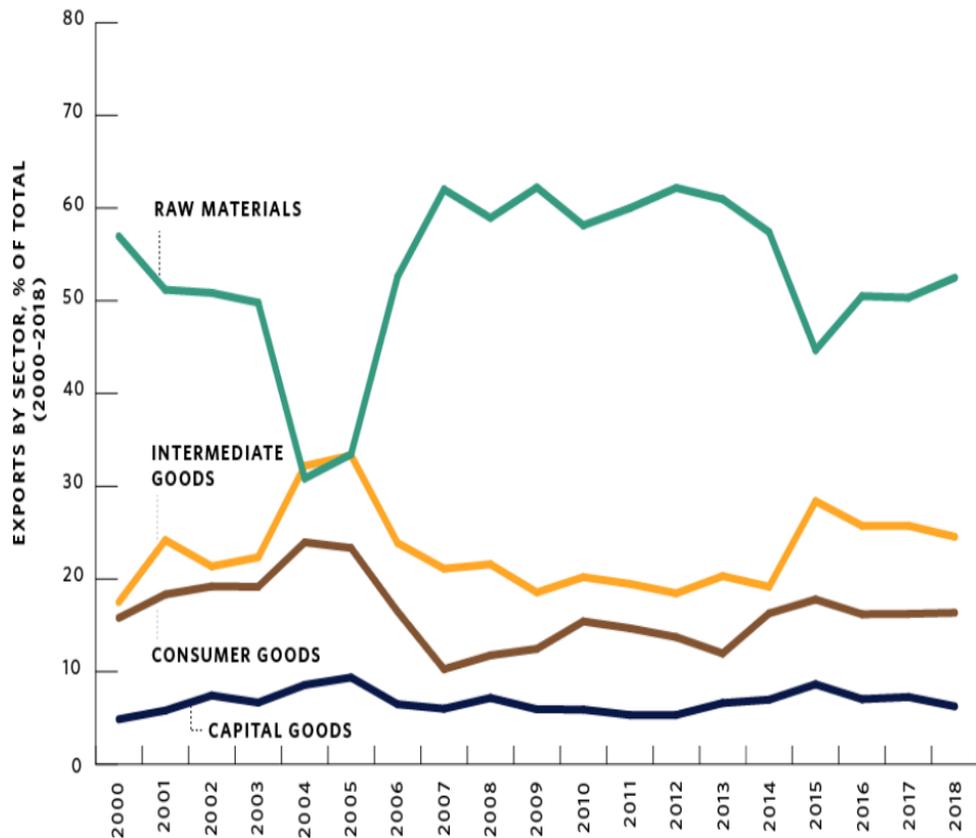
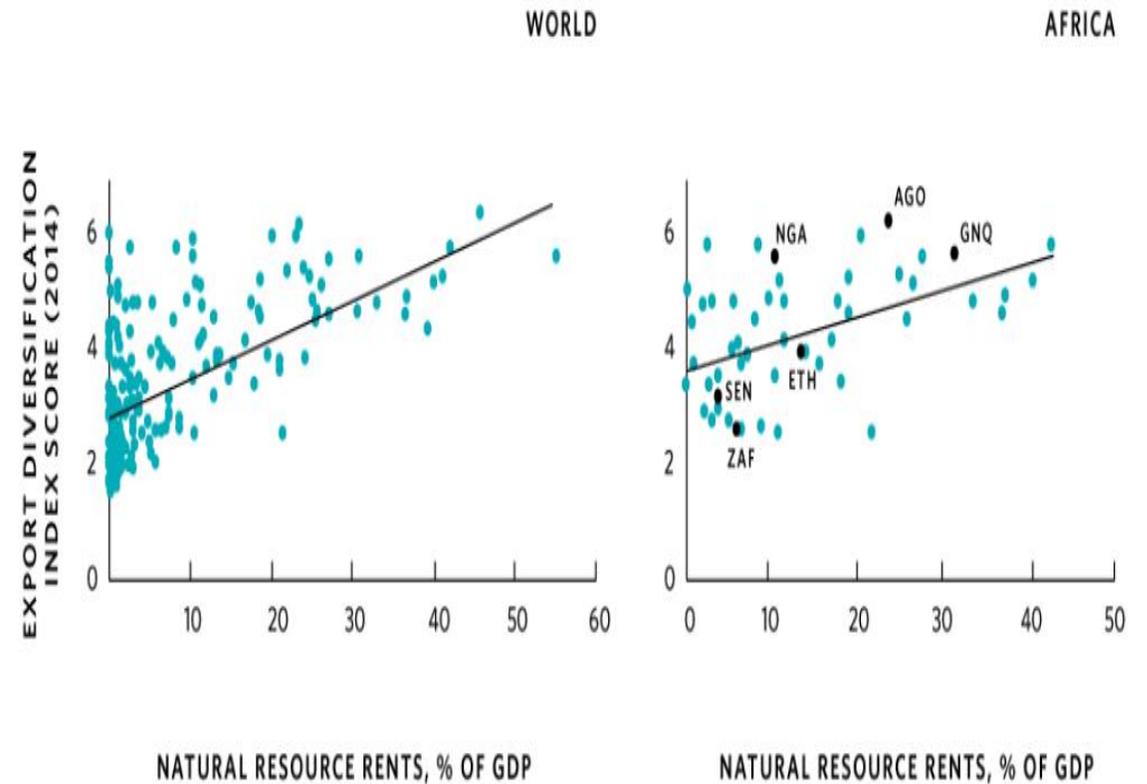


Chart 2: Natural Resource Dependence is Negatively Associated with Diversification



Source: Usman & Landry, Carnegie Endowment for International Peace

ECONOMIC INDICATORS

FIGURE 1: IMPORTS 2021

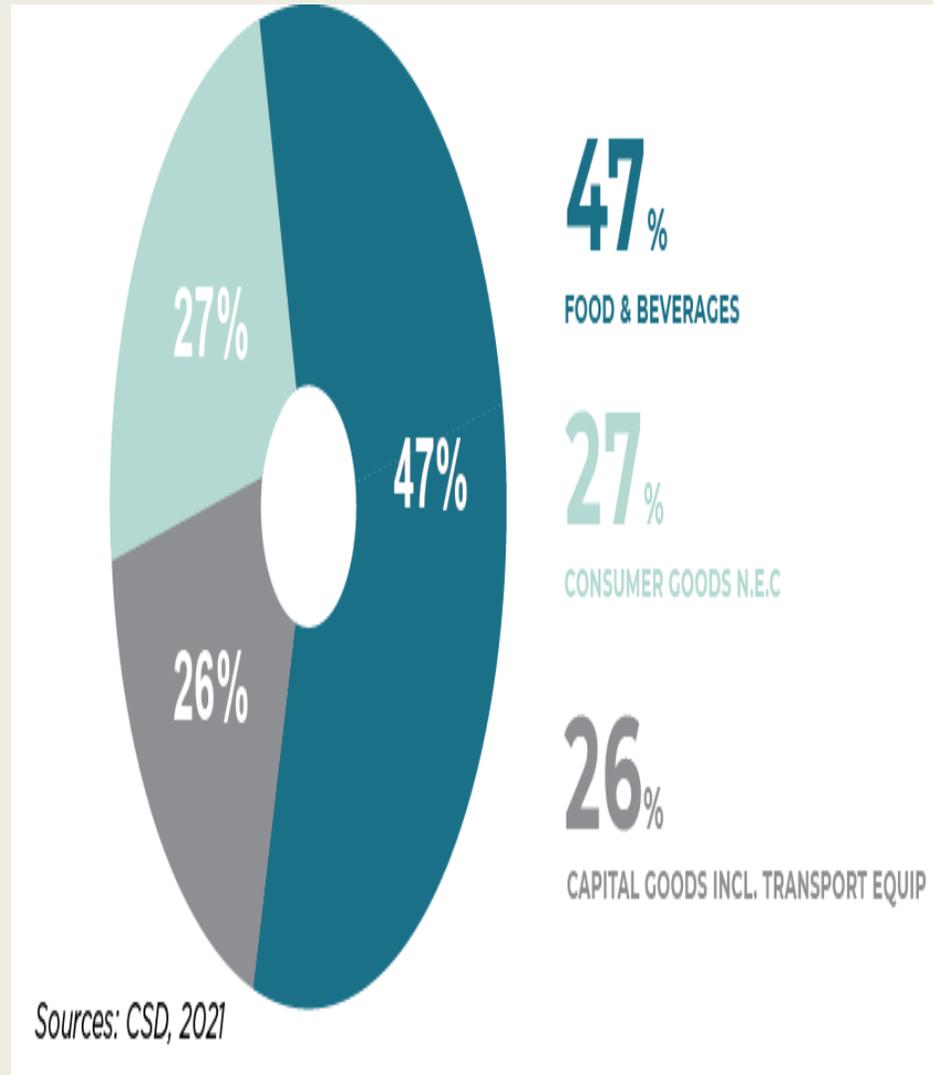
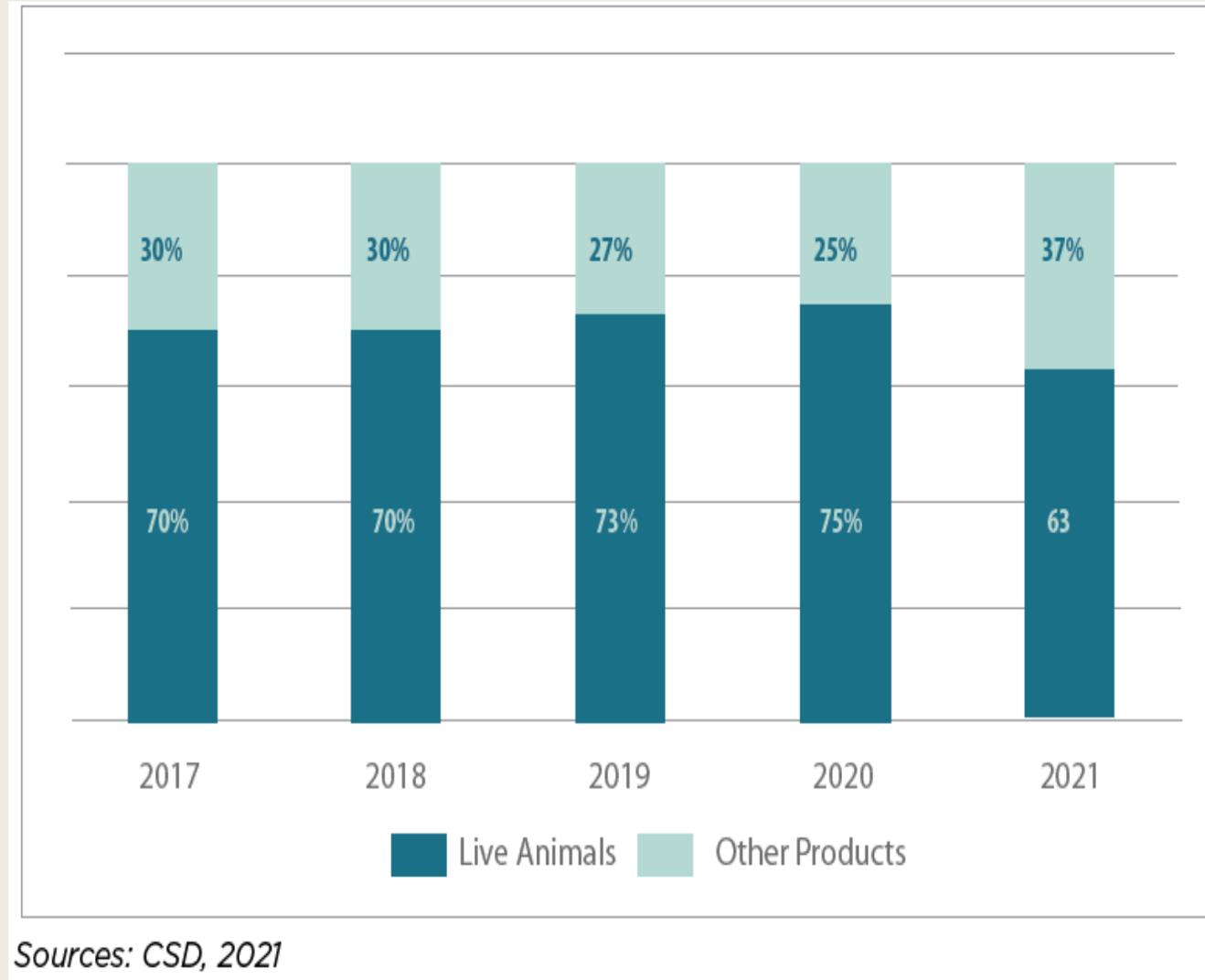


FIGURE 2: MAIN PRODUCT EXPORTS (2017 – 2021)



- Over the past decade, the Gulf countries have been working very hard to transform their economies and limit their dependence on oil and natural gas exports. For example, the case of Saudi Arabia's ambition Vision 2030 which does not only present the future of the Saudi economy and society, but identifies how Saudi Arabia will realize such ambitions (Vision 2030).
- The first chart below shows how raw materials still dominate in Africa's exports to the global markets. The second chart shows the negative relations between dependence on natural resources and economic diversification. This means that many countries around the world are in transition to diversify their economies.
- Within the case of Somaliland, the country transitioned from the humanitarian phase to more of a development-focused phase in which development takes the center stage of government planning.

- In 2007, the Somaliland government developed the Somaliland Reconstruction and Development Program (2007-2011), which was followed by the Somaliland National Development Plans (NDPs).
- The key elements of the NDPs are economic diversification, improving the production sectors, building infrastructure, undertaking legal, governance, and institutional reforms, as well as advancing human development (Ministry of Planning and National Development).
- The NDPs were a great initiative by the successive Somaliland governments, but these Plans are ambitious, and do not meet the required deadlines, with no key indicators to measure whether or not the targets are met. Therefore, this research project is needed to assess the challenges and prospects of diversifying Somaliland's economy, and provide specific and targeted strategies and policies needed to economic diversification.

Research Questions

■ Therefore, this research will answer the following questions:

1. What is the current state of the Somaliland economy?
2. What are the main drivers of economic diversification in Somaliland?
3. How do African countries compare in terms of economic diversification to Somaliland? (comparative study).
4. How do economic integration and friendly trade policies contribute to economic diversification within the context of Somaliland?
5. What are the existing regulatory frameworks and policy gaps that could hinder economic diversification in Somaliland?
6. What is the role of diaspora communities in economic diversification?
7. What is the role of financial institutions in economic diversification for SMEs and the overall economic diversification of Somaliland?

■ All of these questions are relevant to the project, but specific questions can be chosen upon approval of the concept note.



Research Objectives

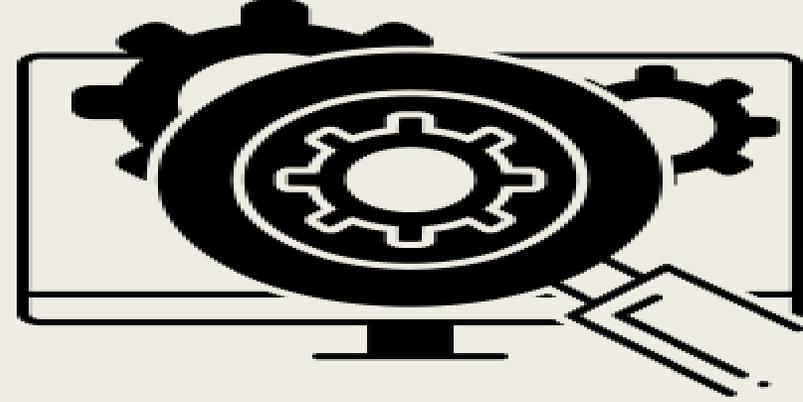


■ The objectives of this study are the following:

1. Assessing the current state of Somaliland economic diversification or the lack of it;
2. Providing relevant specific case studies of countries that are similar to the Somaliland context and drawing relevant lessons on diversification;
3. Examining the key factors that drive economic diversification within the context of Somaliland, particularly in the areas of human capital and policy incentives;
4. Studying the challenges that hinder economic diversification in Somaliland, such as regulatory frameworks, policy gaps, underdeveloped financial sector, and poor infrastructure;
5. Studying the role of natural resources or extractive industry impact on economic diversification efforts and strategies so that the country can move beyond single resource-based dependency;
6. Analyzing the existing trade policies (or the lack of it), as well as trade agreements which could have a significant impact on Somaliland export diversification;

7. Studying how Foreign Direct Investment (FDIs) affect diversification, with a particular focus on DP World investments in Berbera;
8. Assessing the environmental and social implications of economic diversification to the poorest in the society;
9. Understanding the role of industrial policies and strategies on contributing the diversification
10. Studying the role of financial institutions and financial inclusion in economic development;
11. Evaluating the role of Somaliland diaspora communities and their influence on diversification;
12. Studying the role of Small and Medium-sized Enterprises (SME) on economic diversification
13. Providing relevant, timely, and targeted policy recommendations in relation to research findings.

Research Methodology



- The research will use both qualitative and quantitative techniques.
- On the qualitative side, the research will use key informant interviews and focus group discussions in which relevant parties will be engaged, such as government institutions, the private sector, academics, and CSOs.
- On the quantitative side, the research project will rely on secondary data from government institutions, the private sector, and third-party organizations that possess extensive data on Somaliland's economy.

Expected Outcomes



- The expected outcomes of the study are the following:
 1. Enhanced understanding of the current state of economic diversification in the target region or country;
 2. Identified challenges and constraints that hinder diversification;
 3. Provided diversification strategies which are relevant to the Somaliland context;
 4. Provided key policy insights and recommendations to relevant governmental institutions, such as cross-sector regulatory reforms, policies, and private-sector incentives to promote diversification;
 5. Provided strategies and policies that promote reforming financial institutions and financial inclusion, particularly the importance of access to credit;
 6. Provided strategies and policy recommendations on climate finance, adaptation, and mitigation;
 7. Contributed to policy advocacy and greater awareness to make sure the key policymakers, business communities, civil society organisations, and other relevant stakeholders understand the importance of diversification.

Preliminary findings

- Like other less developed countries, the current major source of revenue for the government of Somaliland is tax. This revenue mainly depends on the taxes from the customs, which account for around **75%** of the budget. In addition to the above, The Inland Revenue of the government is very weak and accounts for about **25%** of the budget. This has become one of the potential limitations for economic growth.
- Although the government has recently developed the Somaliland PPP Act, but the current efforts for creating PPP opportunities are very limited.
- The current contribution of natural resources and extractives industry to the country's GDP is very small compared to the other sectors of the economy.
- Although the overall revenue of the government (non-tax and tax revenue) has increased (25% and 3% respectively) by the year 2022, but it has faced a decline compared to 2021. Trade restrictions were one of the main causes of the falling contribution from the tax revenues.

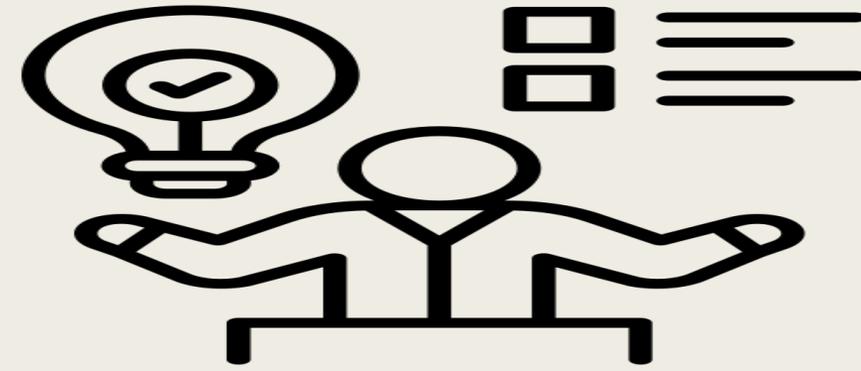
- After the investment of DP World in Berbera port, the government expects to have a significant impact on its revenue generation and the overall economy of the country. Inefficient customs processes exist in the Somaliland customs system, which will regularly cause delays to the supply chain of commodities and might demotivate the potential exporters.
- The current role of financial institutions in the overall economy is very low due to their regulatory systems, which have limited the initiation of new business and the sustainability of old ones.

Preliminary Recommendations

- The study recommends that the potential revenue sources for diversification that can add value for the overall economic growth of the country are:
 - *Public Private Partnerships (PPP) for the productive sectors*
 - *Privatization*
 - *Regional trade integration*
 - *Increasing the Taxpayer's knowledge to increase the tax compliance rates.*
- The government of Somaliland shall promote the proper extraction and utilization of natural resources and as well as create a platform to connect with both local and global markets.
- The government should work on the development of trade agreements (both import and export) with its trade counterparts to remove the trade barriers that the nation faces. This will have a significant impact on the promotion of export trade in Somaliland, which will eventually raise overall economic growth.

- The government of Somaliland shall improve its customs process and create a 'clean slate' to develop fully aligned single window systems with its trade counterparts, especially Ethiopia.
- Somaliland has very low levels of investment: ranked approximately 180th in the World for gross fixed capital formation as a %age of GDP.

Conclusion



- This research will highlights the importance of diversifying the economy.
- The Somaliland economy heavily relies on livestock exports, wholesale and retail trade, and diaspora remittances with an underdeveloped industrial sector.
- Therefore, the current state of the economy is not sustainable and poses a significant challenge to the very existence of Somaliland if necessary changes are undertaken to diversify the economy.
- The final product of this research project will do three things:
 - a) The current state of the economy,
 - b) Comparative analysis of success cases of countries who have diversified their economy and
 - c) Propose the strategies and policies needed to diversify the Somaliland economy.

INSTITUTIONAL PARTNERSHIPS AND COLLABORATIONS



CIVIL SERVICE INSTITUTE



MINISTRY OF FINANCE
DEVELOPMENT

- In this research, the two institutions that will collaborate are the Civil Service Institute and The Ministry of Finance Development.
- These two institutions have the capacity and knowledge to undertake a research project of this magnitude.

