AFRICAN DEVELOPMENT BANK GROUP
GROUPE DE LA BANQUE AFRICAINE DE DÉVELOPPEMENT

Country Focus Report 2025

Somalia

Making Somalia's Capital Work Better for its Development

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ACKNOWLEDGEMENTS

The Country Focus Report (CFR) 2025 for Somalia was prepared in the Chief Economist and Vice-Presidency for Economic Governance and Knowledge Management Complex, under the general direction and supervision of Prof Kevin C. Urama, Chief Economist and Vice-President, with support from Adamon Mukasa (Principal Research Economist), and Amah Marie-Aude Ezanin (Executive Assistant).

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Our thanks go to : Désiré Vencatachellum (Senior Director, Country Economics Department (ECCE), with Marcellin Ndong Ntah (Lead Economist, ECCE) as Project Lead, (ii) the Somalia country team led by Alex Mubiru (Director General, Eastern Africa Regional Development and Business Delivery Office (RDGE) and Country Manager, Somalia); (iii) the Department of Macroeconomic Policy, Forecasting and Research (ECMR) led by Anthony Simpasa (Director); (iv) the Department of Transition States (RDTS) led by Yero Baldeh (Director); (v) the African Centre for Natural Resources (ECNR) led by Solomane Koné (Director); and the Economic Research Consortium for Africa (AERC) led by Prof. Victor Murinde (Executive Director)for their contributions.

The Bank would like to thank the heads of government entities for hosting and organizing the mission to prepare the 2025 Country Report of Somalia and the quality of the discussions. It also thanks the representatives of civil society organizations, the private sector, and technical and financial partners for their availability and the quality of the discussions during the meetings held with the mission.

The data in this Report were compiled by the Department of Statistics - ECST headed by Samson Babatunde Omotosho (Director) with the participation of Koua Louis Kouakou, Head of the Economic and Social Statistics Division, and Anouar Chaouch (Senior Statistician, Economic and Social Statistics Division, ECST) and Stephen Bahemuka (Principal Statistician, ECST2/RDGE4).

Comments made during the peer review were received from: Innocent Onnah, Chief Natural Resources Officer, ECNR; Susan Poni Lado, Senior Fragility and Resilience Officer, RDTS/RDGE; Jessica Muganza, Senior Education Officer, AHHD1/RDGE. Dr. Joseph Attah-Mensah, Senior Researcher at the African Centre for Economic Transformation – Ghana) and Prof. Germano Mwabu, University of Nairobi, contributed as external reviewers.

The cover of the report is based on a general design by Laetitia Yattien- Amiguet and Justin Kabasele of the Bank's External Relations and Communications. Copy-editing was done by the Ahmadou Gaye, and layout was done by Eighth Wonder.

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ABBREVIATIONS AND ACRONYMS

AfCFTA	African Continental Free Trade Area
AfDB	African Development Bank
AML/CTF	Anti-Money Laundering and Counter Terrorism Financing
AUSSOM	African Union Support and Stabilization Mission in Somalia
CBS	Central Bank of Somalia
CFR	Country Focus Report
DSA	Debt Sustainability Assessment
DSSI	Debt Service Suspension Initiative
EAC	East African Community
FDI	Foreign Direct Investment
FGS	Federal Government of Somalia
FMS	Federal Member States
G20	Group of 20 Industrialized Countries
GDP	Gross Domestic Product
HIPC	Highly Indebted Poor Countries Initiative
IBAN	International Bank Account Numbers
IDA	International Development Association
IFF	Illicit Financial Flows
IIAG	Ibrahim Index of African Governance
IMF	International Monetary Fund
IUU	Illegal, Unreported, and Unregulated
PPP	Public-Private Partnerships
MDBs	Multilateral Development Banks
MDRI	Multilateral Debt Relief Initiative
NCA	Natural Capital Accounting
NTP	National Transformation Plan
ODA	Overseas Development Assistance
PIM	Public Investment Management
PPG	Public and Publicly Guaranteed debt
PPPs	Public-Private Partnerships
PSA	Production Sharing Agreement
PV	Present Value
SDGs	Sustainable Development Goals
SDRs	Special Drawing Rights
SFMIS	Somalia Financial Management Information System
SNA	System of National Accounting
SNBS	Somalia National Bureau of Statistics
SNQRC	Somalia National Quick Response Code
SOMCAS	Somali Customs Automated System

EXECUTIVE SUMMARY

Chapter 1 highlights that economic recovery picked up to 4.2% in 2023, but moderated to 4.0% in 2024, due to drought adversely affecting livestock. Growth was supported by the agriculture sector's resilient recovery from the prolonged drought of 2021-2023. Somalia's economic outlook remains positive with real GDP expected to reach 3.9% in 2025 and 4.0% in 2026, driven by the recovery of the agriculture sector, household consumption, and investments. The downside risk relates to escalating insecurity, and donor aid cuts.

Chapter 2 examines how effective Somalia's capital mobilization and efficient utilisation is to close the financing gap of US$ 19.6 billion annually by 2030 and US$ 3.4 billion by 2063, exacerbated by high unemployment (20.1%), and poverty (67% in 2024) rate. The 3.0% of tax-to-GDP in 2024 is insufficient to meet the 157.3% tax/GDP ratio by 2030. There is potential to raise Domestic Resource Mobilisation (DRM) by leveraging Somalia's natural wealth.

Chapter 3 examines how Somalia's capital potential for development can be harnessed throughreforms in economic governance and the rule of law, including peace building, strengthening institutions, tackling corruption, curbing illicit fishing & deforestation, enacting public-private partnership (PPP) legislation, and promoting investment.

GENERAL INTRODUCTION

The Somalia 2025 Country Focus Report (CFR) explores the key sources of Somalia's development capital, including domestic capital markets, natural capital, human capital, and business capital. This CFR identifies the key challenges, examines ways to harness capital resources, and makes recommendations to improve the policies and reforms for financing Somalia's development. It builds on the analysis presented in the African Development Bank's African Economic Outlook report for 2024, examining the role of the financing envelope in accelerating structural transformation, and explores the potential for harnessing the country's natural wealth to finance the country's transformation, including investments in technology, infrastructure, human capital development, the business environment, good governance, trade policy, business and urbanization to accelerate structural transformation. The report highlights the significant financing gap for Somalia, initially projected at US$ 19.6 billion annually by 2030 and expected to reduce to US$ 3.4 billion by 2063, a situation worsened by high unemployment (20.1%) and a poverty rate of 67% in 2024. Despite these challenges, Somalia's domestic resource mobilization remains low. The country is making efforts to increase the tax/GDP ratio from 3.0% of GDP in 2024 to 10% of GDP by 2029, but this remains insufficient to meet the targets of 157.3% tax/GDP by 2030, and 27.5% by 2063 needed to close the gap. The key challenges in raising DRM include weak tax administration, political instability driven by non-state actors who compete in collecting revenues, outdated laws to capture the extractive sector tax and low levels of digitalization. However, the country has potential to raise DRM from its natural wealth including land-based assets such as forestry, livestock, petroleum, minerals, fisheries and marine resources and renewable energy potentials.

Increasing investment to harness natural wealth requires the government to implement reforms in governance and improve the business environment. This includes tackling corruption and illicit financial flows, fast-tracking the approval of the PPP law to facilitate natural capital development and knowledge transfer, curbing illegal deforestation and enforcing the charcoal ban, as well as combatting illegal and unregulated fishing, transforming education and healthcare, institutionalising mechanisms for capital investment promotion, and enhancing judicial effectiveness in economic governance.

MACROECONOMIC PERFORMANCE AND OUTLOOK

1

KEY MESSAGES

- Economic recovery picked up to 4.2% in 2023, but slightly contracted to 4.0% in 2024, due to a drought which adversely impacted the livestock subsector. This growth was supported by the agriculture sector's resilient recovery from the prolonged drought of 2021-2023.

- The economic outlook is positive, with GDP projections at 3.9% in 2025 and 4.0% in 2026, driven by livestock recovery, remittances, and investments. Inflation is projected to decrease from 4.1% in 2025 to 3.6% in 2026. On the fiscal front, the deficit is expected to widen to 0.4% of GDP in 2026, from 0.5% in 2025, due to a decline in Official Development Assistance (ODA).

- Headwinds include persistent insecurity challenges, vulnerability to climate change shocks, tensions between member States and the FGS, and risks of fiscal deficit due to reductions in official ODA following USAID cuts.

1.1 Introduction

This chapter assesses macroeconomic trends, fiscal policies, inflation, public debt, and financial flows like remittances, FDI, and ODA. The Chapter provides policy options to foster high and resilient growth, support macroeconomic stability, drive economic transformation, and address the shocks that have persistently to impact Somalia's economy. It includes an overview of the links between the Regional Member Country (RMC)'s current domestic resource mobilization efforts and its development finance gap. The social development analysis assesses progress and well-being among individuals and communities, using indicators such as poverty, inequality dynamics and employment trends.

1.2 Growth Performance

Economic recovery picked up to 4.2% in 2023, and real GDP growth subdued to 4.0% in 2024, due to a drought that adversely impacted the livestock subsector. This growth trajectory continues to be supported by an improved performance in the agriculture sector, which continues its recovery from the prolonged drought of 2021-2023. On the demand side, growth was driven by strong public investments and a robust private sector construction boom, anchored on robust remittance inflows.

Headwinds include persistent insecurity challenges arising from Al-Shabaab militants attacks in Central and Southern

Somalia, while ISIS dominate the mountainous areas of North-Eastern Somalia in Puntland, compounded by periodic Ethiopian incursions that disrupt commerce, displace communities, and impede infrastructure projects. In addition, mild climate change shocks (including drought and flash floods) around the fourth quarter (Q4) of 2024, coupled with ongoing insecurity from Al-Shabaab militancy, a lower demand for Somalia's export goods due to subdued global trade, itself driven by multiple factors including China's lower economic growth, as well as the persistence of geopolitical war in Europe. However, the deceleration in global inflation eased food and fuel inflation in Somalia, increased private consumption and positively impacted on GDP growth.

The agricultural sector contributed about 65% to GDP in 2024, driven mainly by livestock exports, though it faces significant climate-related risks such as droughts and floods. Concurrently, the services sector, notably financial services and telecommunications, is experiencing rapid growth, with mobile money platforms enhancing financial access for millions of Somalis. Additionally, diaspora remittances bolster household consumption. Somalia officially became a member of the East African Community (EAC), marking a significant step toward regional integration in March 2024. Somalia has outlined a roadmap aimed at the adoption of a customs union and a common market, intended to deepen trade and regional economic cooperation within the EAC framework.

In 2024, Somalia endured geopolitical tensions with Ethiopia, following the signing of a Memorandum of Understanding (MoU) on 1 January., 2024, between Ethiopia and Somaliland, granting Ethiopia access to a port in Somaliland's Gulf of Aden with the intention of establishing a naval base. This tension initially escalated, with both countries expelling each other's. However, the dispute was resolved through mediation led by Turkey, culminating in an agreement reached in Ankara in December 2024.

1.3 Other recent macroeconomic and social developments

1.3.1 Monetary Policy, Inflation, and Exchange Rate

Annual headline inflation eased to 5.6% in 2024 from 6.1% in 2023 due to a decrease in global commodity prices and domestic food prices. Somalia has gradually progressed towards macroeconomic stability following the implementation of various reforms including the establishment of a monetary/currency exchange policy and the issuance of new Somalia shillings. The amendment of the 2016 Anti-Money Laundering and Counter-Terrorism Financing Act approved in March 2024 aligns Somalia with global standards and supports its reintegration into the global correspondent banking system.

1.3.2 The Financial Sector

The financial sector remained sound and profitable with commercial bank assets increasing by 32% to US$1,907 million in 2024. The ratio of nonperforming loans was below the threshold of 5%, at 3.4% of gross loans in 2024. During 2023-2024, the Central Bank achieved progress in the implementation of its national payments system, the adoption of International Bank Account Numbers (IBAN), and the revision of the AML/CTF Act was approved by Parliament on 12 March 2025 to strengthen compliance and facilitate Somalia's integrationinto the international financial system. In parallel, the Central Bank of Somalia (CBS) launched Somalia's unified National Quick Response Code (SNQRC), a standardised QR code system used for payments, aimed at promoting digital payment adoption across the country. Despite these reforms, Somalia's financial system remains severely underdeveloped, with banking penetration estimated at only 10–15% of the adult population and domestic savings standing at negative 30.84% of GDP. The banking sector faces challenges in reintegrating into the international financial system and establishing correspondent banking relationships.

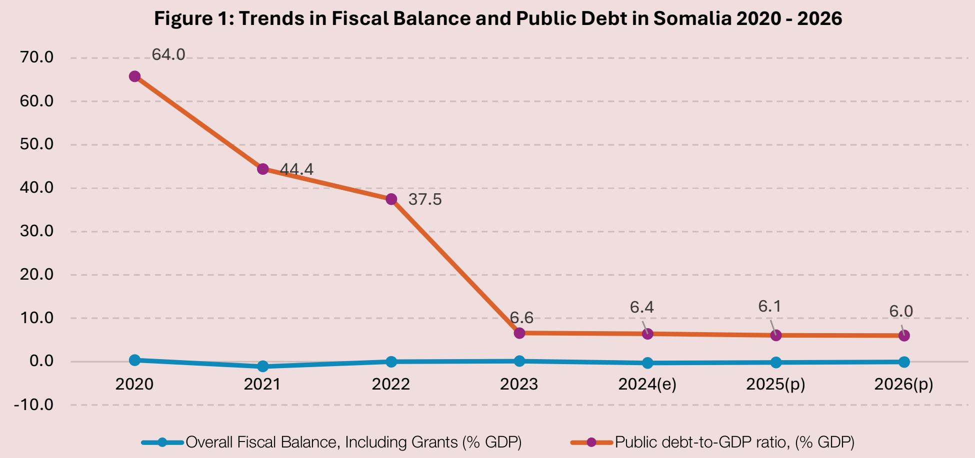
1.3.3 Fiscal Policy and Public Debt

Fiscal performance deteriorated, shifting from a surplus of 0.1% of GDP in 2023 to a deficit of 0.3% in 2024, due to increased spending pressures related to security, social services, and public infrastructure development. However, the current account deficit narrowed to 8.7% of GDP in 2024, down from 11.1% in 2023, reflecting improved export performance as economic recovery gained momentum. Somalia reached the Completion Point under the Heavily Indebted Poor Countries (HIPC) 2023 initiative on 13 December 2023, thereby improving its debt risk classification from "in distress" status to "moderate", while decreasing its external debt from above 100% of GDP during 2013-2019 to 6.4% in December 2024. Somalia's domestic capital markets are not yet developed, and the country carries no domestic public debt apart from short-term debt obligations to the Central Bank of Somalia and wage arrears. Nevertheless, the present value (PV) of public and publicly guaranteed (PPG) external debt declined to 4.3% of GDP in 2024 – lower compared to the 30% threshold for weak debt carrying capacity countries like Somalia. The tax-to-GDP ratio remained low at 2.86% at the end of 2024, reflecting insufficient domestic revenue mobilization to sustain development financing.

Trends in Fiscal Balance and Public Debt in RMC

Somalia's total public debt-to-GDP ratio is estimated to have declined to 6.4% in 2024, down from 6.6% (2023), 37.5% (2022), 44.4 (2021), and 64.0% of GDP in 2020 at the HIPC decision point (Figure 1). The downward trajectory of public debtis driven by the successful implementation of the Heavily Indebted Poor Countries (HIPC) debt reduction initiative which enabled Somalia to benefit from substantial debt cancellation.

Figure 1: Trends in Fiscal Balance and Public Debt in the RMC



1.3.4 External Position – External Financial Flows

The current account deficit narrowed to 8.7% of GDP in 2024, from 11.1% in 2023, as economic recovery translated to increased exports from livestock, increased diaspora remittances and sustained grants, financed by official development aid, remittances, and foreign direct investment (FDI). Diaspora remittances marginally declined in 2023 to 19.2 of GDP compared to 21% of GDP in 2022 before recovering and growing to 19.8% of GPD in 2024. Overall, the inward total transfers grew to US$ 5,669.75 million. On the other hand, exports marginally increased from 17.7% of GDP in 2022 to 19.7% in 2023 and further increased to 20.1% of GDP in 2024. Imports on the contrary initially remained unchanged at 80.6% of GDP in 2022 and 2023, before declining to 77.1% of GDP in 2024.

Table 1: Key Macroeconomic and Social Indicators

Macroeconomic Indicators	2020	2021	2022	2023	2024(e)	2025(p)	2026(p)
Real GDP growth	-2.8	3.5	2.7	4.2	4.0	3.9	4.0
Real GDP growth per capita	-6.5	-0.4	-1.0	1.1	0.9	0.4	0.6
Inflation	4.3	4.6	6.8	6.1	5.6	4.6	3.6
Overall fiscal balance, including grants (% GDP)	0.4	-1.1	0.0	0.1	-0.3	-0.5	-0.4
Current account (% GDP)	-6.1	-8.6	-8.2	-11.1	-8.7	-7.5	-8.3

Source: Data from Domestic authorities; estimates (e) and prediction (p) based on authors' calculations.

1.3.5 Social Developments

Social conditions remain difficult due to the rate of poverty increasing to 67% in 2024, from 54.4% in 2022. Similarly, youth unemployment remained high at 33.8% in 2024, compared to a national unemployment rate of 20.1% in 2023. Somalia ranked lowest globally in human capital development, with a HDI score of 0.38 in 2022, placing it in the low human development category. The 2024 HDI report marked Somalia's inclusion the for the first time in 30 years. The government is improving social conditions through cash transfer programmes targeting displaced populations. According to the African Gender Index 2023, Somalia scored 0.39, where 1 is the highest score on gender equality. Women face significant barriers to economic participation.

Domestic Resource Mobilization Efforts and the Development Finance Gap.

Box 1 below presents Somalia's current domestic resource mobilization efforts and its development finance gap. The Bank estimates that, to close the financing gap by 2030 and 2063, in the absence of other measures, Somalia must broaden its tax base to address a structural transformation financing gap of 157.3% by 2030 and 27.5% by 2063.

Box 1: Domestic resource mobilization efforts and development finance gap

Somalia's domestic resource mobilization (DRM)-to-GDP ratio remains low, despite increasing from 1.2% in 2013 to 3.0% in 2024. Key challenges comprise insecurity, institutional and human capacity weaknesses, a lack of harmonization between the federal and State tax systems, and high informality. The Somalia Medium Term Revenue Road Map 2024-2027, established in June 2024, underscores major reforms in revenue administration aimed at increasing income and sales tax collection, as well as customs revenue. This effort is supported by technological advancements, including the rollout of Somalia Customs Automated System (SOMCAS) in October 2023 at the Mogadishu seaport and airport, with subsequent implementation planned for Kismayo. SOMCAS aims to harmonize tariffs and system codes across regions. Additionally, the launch of the Integrated Tax Administration System (ITAS) in 2024 further supports the harmonization of tax systems between the Federal Government and the Federal Member States. Somalia is prioritising the digitalisation of payment filing for large and medium taxpayersthrough ITAS, targeting a 20% increase. Continued training of traders in SOMCAS aims to raise revenue by 0.3%/annum to support the Post-HIPC growth priorities, formalize more informal taxpayers in the informal tax bracket, and strengthen the registration to 5000 new taxpayers and integrate systems (non-tax, SOMCAS, SFMIS, and ITAS. Customs regulations on valuation and declarations were issued in September 2022 and Point-of-Sale (POS) machines were rolled out. A spectrum fee schedule was also issued for telecom operators in September 2022, with projected revenue mobilization of approximately US$6 million annually from 2022 to 2031 . Additional reforms include: (i) improvements in tax policy such as developing a tax and non-tax revenue policy, and a domestic revenue mobilisation strategy, implementing the EAC common external tariff from 2027; (ii) strengthening tax administration through the finalisation of relevant legislation, the development b of an integrated tax administration system, and the extension of customs reforms to remaining ports as security conditions permit.

1.4 The Impact of Conflicts and their Socioeconomic Costs

The prolonged conflict in Somalia since the collapse of the Siad Barre regime in 1991, compounded by a decade-long insurgency by Al-Shabaab, has resulted in an estimated death toll of about 450,000 to 1.5 million people. Additionally, famine, food insecurity, pandemics, and drought have had devastating impacts on the population, further contributing to mortality and exacerbating socio-economic disparities. The socioeconomic costs of the conflict on natural resources and development are follows:

- **Loss of Economic Output:** The economic cost of the 30-year conflict and instability in Somalia is estimated to be significant, standing at approximately $55.3 billion since 1991. This figure comprises humanitarian aid, development aid, infrastructure destruction, peacekeeping efforts, and the economic impact of piracy and organized crime. By 1993, Somalia was estimated to have had the largest UN operation in the world with about 30,000 personnel costing US $1.5 billion annually. The conflict paralyzed the country's productive sectors, including services, industry, and agriculture. Various estimates put global piracy at US$18-22 billion annually, with Somalia's illicit financial outflows estimated at about US$ 804.4 million including tax evasion, counterfeiting and piracy, according to the Global financial integrity watchdog group. A report by the Center for American Progress revealed that 1,181 hostages were taken by Somali pirates in 2010, while 750 Somalia pirates were awaiting piracy trial. Similarly, the average ransom paid to Somali pirates per released ship in 2010 was US$5.4 million.

- **Destruction of Infrastructure:** Conflict-affected Somalia has seen a destruction of physical infrastructure including roads, seaports, bridges, dams, waterways, telecommunication networks, electricity distribution lines, and cargo handling facilities. This destruction has widened the country's infrastructure deficit, resulting in missed opportunities for industrialization and export-led growth. Consequently, trade, the provision of essential public services such as education and healthcare and broader economic activities have been severely impededIn the post-conflict period, Somalia must prioritise investments towards physical infrastructure to bolster growth.

- **Displacement of People and Humanitarian Crisis:** About 4.0 million people were displaced from their homes as of end-March 2025 due to escalating conflicts, droughts due to failed rains and climate shocks, and inadequate rural development. This situation has exacerbated the burden on humanitarian resources, complicating the delivery of social services to both internally displaced persons (IDPs) and host communities. Among the displaced, some 38,000 are asylum seekers who crossed into Somalia from the neighbouring countries, primarily Yemen and Ethiopia due to the regional geopolitical spillover effects in the Horn of Africa. Internal displacement is projected to increase to 4.1 million by end of June 2025.

- **Increase in Poverty:** Poverty increased to 67% in 2024, from 54.4% in 2022. Similarly, youth unemployment remained high at 33.8% in 2024, compared to against the national unemployment rate of 20.1% in 2023 (see Section 1.3.5 of this chapter). The escalation of hostilities has driven more people into poverty. The loss of livelihoods due to the conflict has reversed the earlier gains made in poverty reduction.

- **Food Insecurity:** The conflict and instability have disrupted food production, resulting in 4.6 million people (26% of population) being classified as in high levels of acute food insecurity during April-June 2025 period, by the United Nations Integrated Food Insecurity Phase Classification (IPC), Phase 3 or above (crisis or worse). This includes 784,000 people or 4% of the population in IPC Phase 4 (Emergency), while 3.8 million people (20% of the population in IPC Phase 3 (Crisis).

- **Depletion of Natural Resources:** The combined effects of fragility and the conflict has severely impacted Somalia's natural resource base, resulting in the degradation and overexploitation of forests and the environment. This is largely driven by illegal charcoal burning for export, deforestation, and illegal charcoal trade, contributing to environmental degradation. Weak governance, coupled with the conflict, enables practices like illegal, unreported, and unregulated overfishing - estimated to cast about US$ 300 million annually - to thrive along the 3,333 km coastline bordering the Indian Ocean and Gulf of Aden. The coastlines are highly lucrative for both legal and illegal fishing operations and piracy. These factors exacerbate resource scarcity, potentially fuelling conflict over land, water, and grazing resources. The maritime and economic agreement signed between Turkey and Somalia in 2024 will go a long way towards building Somalia's naval capacity to curb illegal, unreported and unregulated fishing, and regulate oil & gas activities.

- **Competition for Control over Somalia's Natural Resources:** Competition over natural resources, particularly among pastoralist communities, is a significant driver of conflict in Somalia. Additionally, the conflict has also had a multifaceted regional impact in the Horn of Africa, including neighbouring countries like Ethiopia, Djibouti, Eritrea, and Yemen, resulting in displacements, increased strain on resources, and heightened security concerns. Tensions between Somalia and Ethiopia were mediated by Turkey in Ankara, in December 2024, following Ethiopia's signature of the MoU with Somaliland, a region of Somalia, granting Ethiopia access the Gulf of Aden. The agreement, signed on 01January 2024, allowed Ethiopia to establish a naval base and commercial maritime service in the Gulf of Aden, with Somaliland gaining formal recognition. In some instances, both the Member States and the Federal government signed agreements for the exploitation of natural resources, while in others, the fight to control the charcoal trade continues to fuel insurgency by non-state actors, putting unsustainable pressure on natural resources and making them inaccessible for investors.

1.5 Macroeconomic Outlook and Risks

1.5.1 Outlook (Economic Growth – Inflation - Fiscal and External Position)

The economy is expected to grow at 3.9% in 2025 and 4.0% in 2026, driven by the recovery of the agriculture sector, household consumption, and increased investments from both the private and public sectors. Inflation is projected to decrease from 4.6% in 2025 to 3.6% in 2026. On the fiscal front, the deficit is expected to widen to 0.4% of GDP in 2026 due to a gradual decline in Official Development Assistance (ODA) inflows especially as a result of USAID funding cuts. On the other hand, the current account deficit is projected to narrow to 8.3% of GDP in 2026, down from 8.7% in 2024, supported by continued growth in remittances, which reflect potential supply chain disruptions due to the effects of US trade tensions. Significant headwinds - including insecurity, intra-state tensions, and climate change impacts such as droughts, reduced ODA, regional geopolitical tensions from the Horn of Africa, and fiscal vulnerabilities. As a tailwind, Somalia has signed production-sharing agreements with three companies to commence seismic surveys and exploration in 2025.

1.5.2 Risks

The downside risks include insecurity threats. The aggressive escalation of Al-Shabaab offensives in Central-Southern Somalia since February 2025 poses a deterrence to trade and investment. Offensives in the vicinity of Mogadishu, including the airport green zone, undermines macroeconomic stability. Despite the latest security agreement with Turkey, the situation remains tense. Although the counterterrorism partnership with the US led to air strikes against Al-Shabaab and ISIS-Somalia in the Cal Miskaad mountains of Puntland in February 2025, Al-Shabaab's aggressive offensives continue to escalate. This occurs amid a fragile funding situation for AUSSOM and the broader security sector, which remains precarious following the USAID cutscuts.

- Vulnerability to climate change shocks such as droughts remain a challenge and poses a potential risk to agricultural activities, with livestock exports being especially susceptible.

- Somalia's borrowing projections may pose a risk to debt sustainability and fiscal vulnerabilities.

- Tensions between Member States and FGS also pose a threat to growth targets, In particular, Puntland and Jubbaland's disputes over constitutional amendments and the proposed introduction of a universal suffrage system based on a "one-person, one-vote" electoral framework ahead of the 2026 elections have led to political dysfunction, creating a fertile ground for insurgency.

- The Israeli Palestinian conflict risks disrupting global supply chains.

- The risks of increased fiscal deficit arising from ODA cuts from 2026-2029 could weigh on GDP growth, potentially lowering projections by an estimated 0.1% to 1.0% of GDP, while also affectingremittances.

Box 2: The Economic Impact of the U.S. Tariffs and Official Development Assistance (ODA) Cuts on Somalia.

Somalia's dependency on Official Development Assistance (ODA) has been a defining feature of its economic landscape since the collapse of the central government in 1991. The ODA-to-GDP ratio increased from 29.9% in 2013 to 36.3% in 2015, and contracted to 21% in 2016, before rising to a peak of 46.0% in 2018. In 2019, the ODA/GDP ratio declined to 37.5% of GDP, before increasing to 43% in 2020 (US$ 2.1 billion) due to COVID-19, and to 19.6% in 2023. In 2025, USAID suspended its foreign aid to all countries including Somalia with an aid-freeze estimated in the range of US$1.5 billion, of which US$ 400-600 million was planned for 2025. In addition, most bilateral donors, apart from Norway, have programmed global aid cuts from 2025-2027: Germany, the Netherlands, the United Kingdom and Delegation of the European Union. The overall decline in the ODA/GDP is likely to affect Somalia's fiscal space and development.

Likely impact of the increase in US tariffs. On 3 April 2025, the USA issued new trade tariff regimes including for 32 African countries who have had duty-free access to US markets since 2000 under the African Growth and Opportunity Act (AGOA). While Somalia does not have any trade agreements with the USA, it has been exporting small essential oils, and other pure vegetable oils to the USA. In 2024, Somalia exported goods worth US$2.5 million to the United States, down 21.9%t (US$0.7 million) compared to 2023. Meanwhile, imports to Somalia from the USA in 2024 was totalled US$49.1 million, reflecting a decline of 1.4% (US$0.7 million) from 2023. Somalia needs to consider possibilities of diversifying its export markets for the essential oils from the USA Somalia should explore opportunities to diversify its export markets for essential oils currently beyond the United States. Secondly, the imposition of trade tariffs poses potential second-round effects on the economy, primarily by disrupting supply chains for imported

1.6 Policy Options to Accelerate RMC Economic Development

Somalia currently lacks an active monetary policy framework. In response, the government is undertaking a currency reform aimed at laying the foundation for a functional monetary policy and introducing a new Somali shilling. In the interim, the US dollar is used alongside the Somali shilling which remains characterized by the counterfeit-prone notes last issued in 1991notes issued in 1991. The implementation of the currency reform, which the World Bank and other donors have been supporting, has experienced delays due to financing constraints. The completion of the monetary policy framework will establish a monetary and contribute to macroeconomic stability.

- **Financial Sector Stability:** Somalia should consider moving forward with the development of the regulations for the revised AML/CTF Act, as well as the amended CBS Act, approved by Parliament in March 2025. The CBS should consider taking necessary steps to formalize the Currency Board arrangements to support the introduction of the monetary exchange framework.

- **Fiscal Policy:** Somalia should fast-track the implementation of critical reforms to accelerate and sustain economic growth, including broadening the tax base to meet the government's tax/GDP ratio rate of 0.4% of GDP per annum over the 2024-2027 period. This includes harnessing taxes from natural resources such as oil & gas, fisheries, and minerals. The government needs to fast-track the implementation of its extractive industry's law, tax administrative reforms, digitalization and capacity building.

- **Political Stability:** Enhance governance, build institutional and human capacities to promote political inclusion, facilitate dialogue, and support peacebuilding efforts aimed at addressing intra-state tensions. These measures are critical to ensuring comprehensive electoral reforms and enabling a peaceful political transition ahead of the upcoming elections due in May 2026.

- **Structural Reforms:** To transform its economy and promote growth, Somalia must diversify exports and strengthen local value chains. This includes scaling up intra-African trade within regional economic initiatives such as the REI and EAC, expanding beyond livestock to sectors like fisheries. Additionally, improving access to credit through credit guarantees for private sector development projects, strengthening pension fund management, and deepening insurance market penetration are crucial measures to mitigate the effects of ODA cuts.

- **The Contribution of Remittances:** Unlock and mobilize remittances from the diaspora, to finance bankable development projects, and cushion the country from the effects of declining donor aid.

- Accelerate the approval of the Public-Private Partnership Act to drive private sector-led growth.

2

BOOSTING DOMESTIC CAPITAL MOBILIZATION AND EFFICIENT UTILIZATION IN SOMALIA

KEY MESSAGES

- Somalia is a transitional low-income characterized by a narrow revenue base yet possessing potential diversification. Boasting a strategic geographic position with the longest coastline in the region - 3,333 km, along the gateway to the Red Sea and Indian Ocean and has a strong commitment to structural transformation. Despite this potential, Somalia experiences substantial financing gaps that constraint its ability to mobilize adequate resources to achieve sustainable development. Meeting the country's Sustainable Development Goals (SDGs) by 2030 an estimated USD 21.32 billion and US$ 19.0 billion annually through 2063. However, Somalia facesannual financing gaps of US$ 19.63 billion by 2030, and US$ 3.4 billion annually through 2063, in sectors such as infrastructure, climate adaptation, and social services.

- Despite these challenges, Somalia's economic growth is predominantly financed through domestic resources (44%), including tax revenues (3.0% of GDP in FY 2024),). Savings stood at -30.84% of GDP in 2024 while remittances accounted for 19.2 of GDP in 2023. However, inefficiencies in tax collection, capital flight, and the underutilization of business and natural resources limit the country's financial potential. Addressing financing gaps and harnessing domestic capital effectively will go a long way toward boosting domestic capital.

2.1 Introduction

This chapter examines potential domestic capital categories in Somalia, including fiscal assets, natural, business, human, and financial resources. It assesses their current status, identifies existing financing constraints, utilization inefficiencies, and outlines strategies for mobilizing and utilizing the resources available to finance Somalia's future growth, structural transformation initiatives, and sustainable development. The chapter outlines the necessary actions, policies and reforms for that purpose.

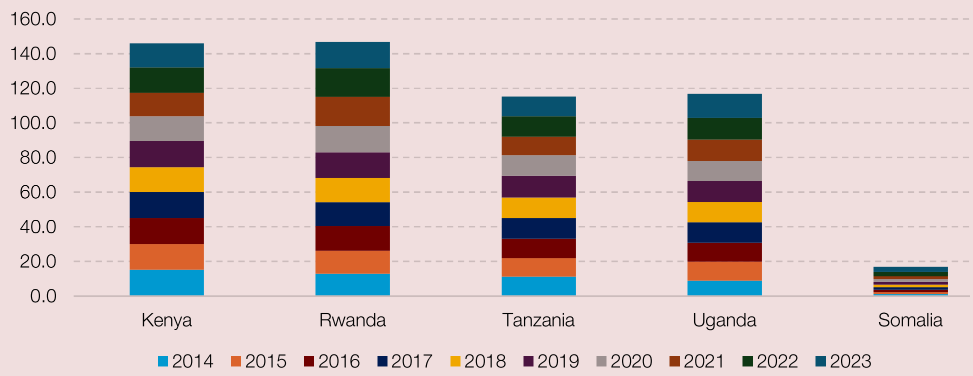
2.2. Fiscal Resources Mobilization

2.2.1 The State of Fiscal Resources

Somalia's Revenue Performance and Government Financing Trends
Somalia increased its tax revenue collection ratio from about 1.1% of GDP in 2014 to 2.8% in 2023. However, its cumulative tax-to-GDP ratio over the period 2014-2023 stands at 16.9%, which remains the lowest in comparison to the rations of the other Eastern African countries (EAC), excluding Burundi, Sudan and the DRC), (Figure 2). Somalia's cumulative tax-to-GDP ratio is

significantly lower than Rwanda's (146.6%), Kenya's (146), Uganda's (116.7%), and Tanzania's (115.3%). Somalia's average tax-to-GDP ratio is also below the EAC's average of 108.0% and that of the African continent's 138.5%, constraining the government's ability to finance the national budget. Overall, Somalia's tax-to-GDP ratio for instance in 2022 (2.6%) was lower than the average of the 36 African countries in 2024 (16.0%). In this regard, Somalia has programmed to increase its tax-to-GDP ratio to reach 10% of GDP by 2029, through tax administration gains to provide the fiscal space to finance development.

Figure 2: **Total Cumulative Tax Revenues in the EAC as a Percentage of GDP), 2014–2023**



The AfDB's 2024 Somalia Country Focus report estimates that to fast-track structural transformation, the country will need to raise US$ 19.63 billion annually by 2030, and US$ 3.4 billion annually through 2063. To close the financing gaps by 2030 and 2063, Somalia's tax bracket needs to be broadened by 157.3% annually to achieve structural transformation by 2030 and by 27.5% annually through 2063.

Despite this, the Federal Government of Somalia (FGS) must overcome several drivers of tax imbalances mainly driven by weak tax administration, and political instability driven by non-state actors who are also revenue collectors in some geographical areas. Somalia also has outdated laws, which are being revised to capture revenues from the extractive sector, coupled with low levelsdigitalization. The limited utilization of electronic point-of-sales systems, and little interest in adopting new sales tax regimes exemplify these challenges. For instance, in August 2024, traders in Mogadishu traders protested the introduction of a 5% sales tax. Furthermore, the fragmentation of the tax authorities between the Federal Member States (FMS) hampers coordinated tax collection efforts. The absence of consensus among certain FMS on the operationalization of the 2023 Fiscal Federalism Agreement, which was designed to guide revenue collection and revenue sharing, further undermines DRM.

2.2.2 Tax Structure

Revenue Structures in Somalia: Tax revenue in Somalia accounts for about 68.9% of domestic revenue, but only about 36.6% of total government income. The highest share of tax revenues in Somalia in 2023-2024 was contributed by taxes on goods and services other than VAT (87%), followed by personal income tax (10%), and taxes on goods and services other than VAT at 3%. In comparison, corporate tax rates stand at 30% across most EAC countries, with the exception of Rwanda where it stands at 28%. The government is implementing various tax reforms to increase revenue, including administrative reforms, modernizing customs procedures, digitalization, enhancing digitalization and implementing the medium-term revenue strategy 2024-2027 to achieve fiscal sustainability.

2.2.3 Strategies for Fiscal Resource Mobilization:

The Federal Government of Somalia has committed to raising its tax-to-GDP-ratio by 0.3 percentage points annually, with the goal of fully covering recurrent expenditures through domestic revenues by 2027, implying that DRM at its current collection is insufficient to finance the scale of structural transformation required before 2027 and beyond. Somalia is intensifying its DRM efforts through the implementation ofthe Somalia Medium Term Revenue Roadmap 2024-2027 launched in June 2024. The roadmap outlines a reform agenda including encompassing revenue administration, expansion of the sales tax regime, and modernization of customs operations. These initiatives are , supported by the use of technology – the Somalia Customs Automated System (SOMCAS) and ITAS system, aimed at supporting tax system harmonisation between the State and Federal Member States Due to these reforms, Somalia recorded increased domestic revenue growth, with a 25% increase in 2023 and a 30% growth in 2024, boosted by tax collections mostly from customs and international trade catalysed by the operationalization of the SOMCAS and the digitalization of tax systems, including integration with mobile money platforms. Somalia is is aligning its tax framework with EAC standards, while removing non-tariff barriers and finalizing the fiscal regulations for the extractive industries to complement the existing Extractive Sector Act. This will enable the unlocking of oil revenues. Plans are underway to establish a Somalia Revenue Authority.

2.3 Natural Resources in Somalia

2.3.1 Somalia's Natural Capital and its Economic Contribution

Somalia is endowed with significant, albeit poorly quantified, natural capital assets: land-based capital estimated at US$ 222.3 billion, forests, water systems (9 rivers and a 3,333km coastline), wildlife, livestock, petroleum reserves, mineral resources, marine resources such as fish and aquatic life. In addition, Somalia enjoys abundant sunlight with renewable energy potential. However, this wealth is dwindling due to weak regulation, climatic shocks and illegal charcoal production, which continues to drive deforestation. The mining industry contributes a very small portion of GDP (less than 3%), largely derived from small artisanal mining of gemstones, sandstone, granite, marble and salt. Somalia's rich mineral wealth, including oil and gas, gold, lithium, uranium, and copper, remains untapped due to obstacles such as insecurity and infrastructural deficit which hinder investment in the mining sector. Environmental degradation, illegal fishing, and poor enforcement of sanctions against environmental malpractices driven by illegal charcoal burning have led to environmental degradation and desertification.

Agriculture, including livestock and fisheries, which contributes 65% of GDP is impacted by drought, and illegal unregulated fishing practices. Meanwhile, renewable energy, primarily solar and wind, holds significant potential. Somalia is endowed with a a coastline capable of generating up to 45 gigawatts (GW) of wind power and receives 3,000 hours of sunlight annually. However, renewable energy accounts for only about 12.2% of the country's total energy production. The remaining 88% (303MW) of Somalia's power generation is derived from highly polluting imported diesel generators. The forest cover was estimated at 10.8% of the total land area in 2022 by FAO. However, Somalia lost 18.5% of its forest cover (1% per year loss) between 1990 and 2010, due to illegal charcoal production, and revenue losses estimated at US$360-384 million annually.

2.3.2 Challenges and Opportunities in Somalia's Natural Resources

Overview of Natural Capital Accounting (NCA): The Somalia National Bureau of Statistics (SNBS) compiles GDP using the 2008 System of National Accounting (SNA). Plans are underway to upgrade to the recently approved 2025 SNA by 2030 to align the consumption-side estimates of GDP with the production side. This will follow data collection and analysis of businesses surveys. NCA plays a vital role in tracing the economic contribution of natural capital to the economy, thereby contributing to providing evidence-based decision making and enhancing a country's credibility in accessing international development financing. However, Somalia has yet to apply the UN System of Environmental-Economic Accounting (SEEA) framework to integrate available scanty natural capital administrative data into national accounts.
Progress in NCA Implementation: Somalia's SNBS is building capacity to start collecting data for the GDP, including for the Natural Capital Accounting Program, in partnership with various development partners. The SNBS is hoping to collect data on forestry, the blue economy, and water resources, with agricultural surveys also scheduled to commence soon. Somalia has 9 water basins and ocean coastal waters stretching 3,333 km. Therefore, incorporating these natural resources needs to be integrated into national planning.

Challenges in NCA Implementation: Somalia faces constraints due to insecurity, which limits access to natural resource areas, and a lack of technical capacity to compile NCA statistics such as environmental and economy-data related to land, soils, forests, water resources, fisheries, and geological surveys for minerals, and no data for oil and gas. Seismic surveys are currently underway and are due to be completed by October 2025. This lack of data limits the establishment of baselines and the integration of natural resources into planning and development financing. The main challenges include inadequate infrastructure, a shortage of skilled personnel, limited statistical capacity for data collection and integration of natural resources information to support private sector investment, and the absence of mineral testing laboratories.

2.3.2.1 Natural Capital Beneficiation in Somalia.

Natural resources exports are predominantly in raw form, with limited value addition, job creation, and revenue generation. Additional challenges include, (i) weak state policies and institutional capacity , (ii) limited access to investment finance; (iii) infrastructure deficit, (v) weak policy implementation, and (v) corruption.

2.3.3 Other Challenges to Somalia's Natural Resources:

I. The Impact of Climatic Shocks: Frequent extreme weather events, including droughts and floods have impacted agricultural productivity and damaged infrastructure in Somalia. Recurrent and prolonged droughts in the Horn of Africa have resulted in the loss of approximately 3.5to 8.9 million livestock and have affected around 6.5 million people in Somalia.

II. Deforestation and Land Degradation: Somalia experiences an annual loss of about 40,000 hectares of forest cover, driven by charcoal and firewood production.

2.4. Strategies for Sustainable Natural Resource Utilization

2.4.1 Addressing Illicit Financial Flows

To reduce illicit financial flows and enhance the extractive sector's contribution to Somalia's economy, the government should: (i) strengthen enforcement of the bans on illegal charcoal trade and unlicensed fishing; (ii) improve transparency in licensing processes, ensuring application of the model PSA for oil & gas; (iii) bolster anti-money laundering and counter-terrorism financing measures; (iv) implement anti-corruption policies; and (iv) support Somalia's accession to join the Extractive Industry Transparency Initiative.

2.4.2 Address NCA Gaps

To strengthen Natural Capital Accounting (NCA) in Somalia: (i) the Somalia National Bureau of Statistics (SNBS) should adopt the UN System of Environmental-Economic Accounting (SEEA) framework model before integrating collected NCA data, ii) the Ministry of Environment, the Blue Economy and Mineral Resources should build partnerships with the SNBS; (iii) data collection should be expanded to include the productive sectors, as current data primarily supports GDP compilation by expenditure only. Somalia needs to start collecting data to build a credible NCA system; (iv) dedicated budget allocations are needed to support NCA infrastructure, digitalization and data collection for integration into economic planning; and (v) the private sector should be engaged in natural resource data collection efforts, especially in the extractive sector.

2.4.3 Addressing Limited Beneficiation and Value Addition

Somalia could address the challenges of limited beneficiation and value addition by (i) establishing a national industrial policy, (ii) building mineral processing infrastructure and agro-processing facilities; (iii) strengthening domestic and regional linkages and value chains through regional trade agreements, and export promotion strategies; (iv) enhancing policies and beneficiation laws, tax incentives, and enforcing stronger local content policies; and (v) expanding financing options through beneficiation guarantee funds, PPPs, and credit access.

2.4.4 Addressing the Other Challenges:

(i) Strengthening environmental governance: implement Somalia's Nationally Determined Contribution (NDC) updated in 2021 under the coordination of the Ministry of Environment and Climate Change (MoECC), focusing on reducing greenhouse gas emissions and enhancing climate resilience; developing the National Climate Action Plan; (ii) scaling up renewable energy production to achieve sustainable clean energy, increase investments in geothermal and wind power to reduce dependency on fossil fuels; and (iii) leveraging reafforestation projects to attract climate green financing (iv) finalising the National Charcoal Policy, and the National Forestry Policy.

2.5 Business Resources in Somalia

2.5.1 Somalia's Business Capital and Landscape

Business capital refers to the financial and physical resources that are needed to start, operate, and grow businesses to drive economic activity, investment, and production. For instance, micro, small, and medium enterprises (MSMEs) require start-up capital, loans, and financial capital that businesses need to operate. According to the Somalia Business Establishment census 2024, Somalia has over 174,000 MSME establishments, including both formal and informal businesses. The private sector is resilient and has continued to weather various shocks, accounting for 75% of the country's GDP. According to the 2022 SIHBS, the private sector accounts for 87% of all wage employment, and generates 95% of total jobs created.

2.5.2 Challenges Facing Business Capital in Somalia:

These challenges include: (i) Insecurity: Al Shabaab terrorist attacks deter investors; (ii) high cost of business start-up; (iii) high infrastructure deficit; (iv) high cost of credit and lending interest rates; (v) low saving rates and weak private sector lending; (vi) infrastructure deficit: high energy costs (USD 0.5-$1.00 per kWh); (vii) limited access to formal finance, (viii) high levels of corruption erode investor confidence. Somalia ranked 179 out of180 countries on the 2024 Corruption Perceptions Index, (ix) low financial literacy: Only 15% of the population considered financially literate, (x) Shocks: Somalia continues to face frequent challenges and shocks including drought, insecurity, displacement, making it difficult to start a business. The 2024 United Nations Office for the Coordination of Humanitarian Affairs (OCHA) Somalia Humanitarian Response Plan reports over 6.9 million people needing humanitarian assistance, with 4 million described as in urgent need due to acute vulnerabilities.

2.5.3 Strategies for Business Resource Optimization

To boost business resources, Somalia should (i) enhance access to affordable financial services and development credit; the rate of penetration of banking services is low at 10-15% of the adult population; (ii) provide access to reliable infrastructure (energy, roads, ports, digital connectivity) to support businesses; (iii) streamline financial intermediation in the country, which continues to be a challenge due to AML/CTF law amendments which require regulations; (iv) address high informality and low business registration and compliance to taxation.

2.6 Human Resources in Somalia

2.6.1 Definition and Importance of Human Capital

Human capital refers to the economic value of an individual's skills, knowledge, health, and competency, which contributes to their earning potential, enhances productivity, and overall individual welfare. Overall, human capital is crucial in driving economic transformation and growth. For human capital to drive development, Somalia must prioritise investments in education and youth skilling, healthcare, capacity building and re-tooling existing workforce and personnel who play a role in enhancing productivity and innovation.

2.6.2 State of Human Resources

Somalia had a 40% literacy rate in 2022, the lowest in East Africa. This rate is approximately half that of neighboring countries such as Kenya (82%), Rwanda (83.1%), Uganda (80.59%), and Tanzania (82.02%). 70% of school-age children (6-17 years) are out of school due to insufficient education facilities, especially among rural and nomadic communities. Somalia's Gross Enrolment Rates (GER) for primary and secondary education are among the lowest in the East Africa region, standing at 34.6% and 22.6% respectively. About 44.2% of youth (50.2% female youth) are neither in employment nor in education/training (NEET). Basic primary and secondary education are free in public schools in Somalia. However, there is a scarcity of public schools and an urgent need to expand access to quality education programmes (especially addressing out of school children and TVET) with consideration given to marginalized groups and youth at risk of recruitment into militancy, especially in nomadic communities, IDP camps and rural areas.

2.6.3 Key Contributions of Human Capital to Economic Growth

Human capital has the potential drive Somalia's economic growth through (i) increased skilling of the youth bulge, enhanced expertise and workforce participation which would lead to improved innovation & technology supported by TVET expansion, especially as the ICT sector contributes 11% to GDP, according to the Somali Investment Promotion Office; (ii) improved human capital leading to increased industrialization and manufacturing value added; (iii) improved healthcare, with well-trained health personnel capable of effectively responding to pandemics.

2.6.4 Challenges in Human Capital Development

(i) A skills mismatch: Somalia registered a significant loss in human capital development between 1991 and 2012, which has affected its education outcomes. The skills provided by the education system is pooer aligned with the needs of the private sector industry, resulting in a supply-demand skills mismatch; (ii) a poorly harmonized curriculum: Somalia currently runs different education curricula, producing different skills for the workforce intended for the same sector; (iii) unequal access to education: currently most children are out of school due to safety concerns; boys are prioritised over girls, (iv) an inadequate education infrastructure still poses a challenge as over 3 million children are out of school, (vi) healthcare constraints: inadequately trained personnel, poor healthcare infrastructure, and medication.

2.6.5 Strategies for Optimizing Human Capital

Revamping education to improve education attainment; increasing literacy and employment by investing in TVET education to align skills with industry demands; (ii) expanding TVET institutional capacity through digital training to enhance youth employability in the global digital economy; (iii) improving investments towards healthcare; (iv) introducing internships, apprenticeships and business incubators for the youth.

Box 3: Successful Reforms and Investments in Education

Since the establishment of the Federal Government in 2012, Somalia has achieved the following: establishment of a new national primary education curriculum (2014), enactment of enabling laws and policies: the General Education Act (2021), the National Education Policy (2020), the Teacher Education Policy (2018), the Teacher Policy (2021), the Private Education Policy (2020), the Gender in Education Policy (2020) intended to improve the education outcomes for all. School enrollment increased from 11% in 2019 to 44% in 2021. As of 2021, the primary school enrolment rate had risen to 398,845 students, from 296,925 in 2016. In addition, teacher training capacity increased while government education capacity was substantially strengthened. The reintroduction of national exams, coupled with continuous professional development of teachers and gender-focused education, have also worked well. The Somalia Education Partnership Compact of 2023-2026 confirms that despite the above achievements, Somalia's education system continues to face major challenges with respect to access, quality, and efficiency. Illiteracy rates still remain high at about 60%. The system remains highly fragmented due to decades of decentralized service provision by communities, and the private sector over the last two decades of war, with limited implementation of policies to harmonize critical education areas, including teacher training and qualifications. Fragmentation is also noticeable in terms of curriculum development. As part of the broader state-building process in Somalia, the MOECHE continues to further consolidate the education system to deliver on its mandate.

2.7 Financial Resources in Somalia

2.7.1 Somalia's Financial Capital and Landscape

Somalia needs US$ 26 billion to finance its NTP 2025-2029 and SDGs. Yet, the country's tax-to-GDP mobilization remains low at 3% of GDP. Financial capital mobilization and utilization are hampered by insecurity, tax evasion, untapped natural capital, and informality.

2.7.2 State of Financial Development in Somalia

Somalia's financial sector is nascent and undeveloped with limited products. According to public statistics, gross domestic savings were about -30.84% of GDP. This means the country's final consumption expenditure exceeded its GDP. Remittances and transfers remain a dominant source of livelihoods for many households, while domestic capital markets are inexistent. Sex-disaggregated statistics on access to financial services in Somalia are not available. Similarly, financial infrastructure and institutions such as credit bureaus are missing.

2.8 Policy Recommendations

Somalia's financial markets are still nascent - with key institutions missing, including the credit bureau, domestic capital markets and development banking. Banking penetration is low, comprising 13 banks, and 11 money transfer businesses (MTB). The country faces challenges of integration into the global financial architecture due to piracy and terrorism. With the approval of the revised Financial Institutions Act of March 2025 that integrates aspects of AML/CTF, the banking regulations are likely to be accelerated. Somalia should consider reviving new capital markets, and incentivize private sector financial initiatives, while ensuring regulatory processes are streamlined to attract more firms and develop innovative financing products: green and SME bonds, capitalize the Somalia Development and Reconstruction Bank.

To expand access to credit, credit guarantee schemes need to be strengthened to enable SME lending. To boost market efficiency, trading can be enhanced through improved market infrastructure to lower transaction costs and turnover can be increased using market-makers. Institutional depth can be strengthened through the support of pension fund growth and deeper insurance penetration, and the promotion of long-term savings and investment products. Innovative finance could expand to equity markets, value chain finance, and export finance.

3

HARNESSING SOMALIA'S CAPITAL POTENTIAL AND RESOURCES FOR DEVELOPMENT: THE ROLE OF INSTITUTIONS, ECONOMIC GOVERNANCE, AND THE RULE OF LAW

KEY MESSAGES

- Somalia has established most of the regulatory frameworks for harnessing natural resources. However, due to environmental malpractices, weak regulation and insufficient policy frameworks on natural capital, weak enforcement of measures against illegal fishing and illegal charcoal exports, there is a need to enhance governance, institutional capacity, and macro stability, and the rule of law in capital mobilization

- The private sector is largely informal but contributes about 90% of GDP. Accelerating the enactment of the Public-Private Partnership bill and improving the ease of doing business will attract more private sector players to harness capital assets for Somalia's development financing. Efforts to formalize the informal sector will broaden Somalia's tax base.

- Building capacity for various entities in the context of the federal fiscal arrangements will be critical to enhance service delivery and the governance for natural resource management.

3.1 Introduction

Somalia is endowed with enormous natural resources including land, water resources (rivers and ocean), fish and aquatic resources, sunshine, wind, forests, biodiversity, as well as mineral resources such as oil and gas, gold, platinum, iron, copper, tin, gemstones, and potential lithium deposits. However, the value of these resources has largely not been assessed, leaving them untapped and unavailable as a source of financing for economic development. The other capital assets that Somalia is endowed with include human, business, financial and capital assets. Additional public assets include infrastructure such as seaports, roads that generate tax revenues for development financing. Yet, environmental malpractices lead to deforestation, weak regulation and policy frameworks on natural capital, inadequate enforcement to prevent illegal fishing, and unlawful charcoal exports continue to pose significant challenges. Due to weak institutional and technical capacity to harness its capital potential, the country has not benefitted from unlocking financing from its capital assets. This chapter outlines policy actions and recommends strategies that Somalia can deploy for its capital assets to work better for development financing purposes.

3.2 The Rule of Law, Institutions and Governance of Somalia's Capital

Capital Mobilization

3.2.1 Institutional Arrangements for the Management and Utilization of all forms of Capital

The Somali economy is largely informal, with the private sector contributing nearly 90% of GDP. Nevertheless, the Public-Private Partnership (PPP) legislation is still awaiting parliamentary approval. A PPP unit established within the Ministry of Finance is responsible for coordinating PPP concessions. Agriculture is the mainstay of the Somali economy, contributing 60% to GDP, providing employment for 80% of the workforce and about 50% of exports. However, with just 0.1 tractor per 1,000 hectares, the country has one of the lowest rates of mechanization adoption, alongside insufficient irrigation infrastructure. The agriculture sector is largely comprised of small holder farmers owning about 75% of Somalia's 8.9 million hectares of arable land, while 25% is owned/managed by large-scale farmers. The livestock sector is the highest export earner in Somalia. Somalia possesses about 50 million livestock and produces about 1.8 million tonnes of fish annually for export. The government has developed the Somalia Livestock Sector Development Strategy (LSDS) 2020-2030 to guide growth along the primary livestock value chains. Nevertheless , the country exports live animals mainly to Gulf countries, due to a lack of meat processing facilities and low manufacturing capacity. Regarding the fisheries resource potential, illegal unregulated and unreported fishing is rampant on the coast of the Indian Ocean. Occasional piracy and overfishing have further undermined revenues from the fisheries and marine sectors.

Somalia's economy has mostly been dominated by the informal sector, largely comprising of SMEs, which increases the tax collection burden on administrators. However, according to the 2024 Business Establishment Census, 53% of business establishments were formal compared to informal business establishments at 47%. Informal businesses operated outside the formal regulatory framework—unregistered, lacking fixed premises, and without formal accounting systemsThe same survey found that 48% of businesses were micro-establishments, which jointly with the informal sector contributed about 40.5% of GDP. At 63%, the microenterprises (both formal and informal) were the largest employer. The government is making efforts to formalize the informal sector through initiatives such as registering businesses under the electronic point-of-sale tax system, promoting vocational training, and fostering dialogue between the private sector, government, and civil society. In addition, micro and small enterprises have gained access to credit through the Garagara financial framework specifically designed to support the informal sector.

Somalia has established institutional frameworks to manage and utilize its capital effectively.

I. The Investors and Investments Protection Act was enacted in March

2023 with a view to attracting and protecting foreign and domestic investments. This law provides for legal protection, and mechanisms for dispute resolution, especially in the fisheries sector. The law aims to attract foreign direct investment and boost economic growth.

- Article 3 of the PPCDA defines 'Concession' as the grant of an interest in a public asset by a Contracting Authority to a non-public entity for a specified period, during which the non-public entity may operate, manage, utilize, or improve the asset in return for fees or royalties The Public Procurement, Concessions and Disposal Act, 2015 (PPCDA) covers concessions. A Concession Technical Unit was established under the Ministry of Finance (art. 121)
- (Art. 155 to 157 of PPCDA). Each Concession Agreement shall be developed by the Concession Entity in collaboration with the Attorney General and endorsed by the Inter-Ministerial Concessions Committee prior to Negotiations (art. 155)
- The PPP Act was approved by cabinet and awaiting parliamentary ratification
- Private Partnership Unit (PPPU) within the Ministry of Finance. The PPPU is responsible for the systematic coordination of all the PPP project reviews and approvals.

II. The Somalia Constitution, Article 25 ("Environment"), Article 43 ("Land"), Article 44 ("Natural Resources") and Article 45 ("Environment") states that "[every Somali] has the right to have a share of the natural resources of the country, whilst being protected from excessive and damaging exploitation of these natural resources." Article 45 (in Chapter 3 – "Land, Property and Environment") exhorts "all people in … Somalia" to "participate in the development, execution, management, conservation and protection of the natural resources and environment."

III. The Somalia National Environmental Policy 2020 was the first to be developed and taken to Cabinet level for approval, since the collapse of the previous central administration in 1991

IV. The following Federal Member States have laws to guide the use of natural capital including Somaliland and Puntland. The Somaliland Constitution establishes the framework for environmental management, while Puntland's National Environmental Policy (2015) promotes the use of key environmental assessment tools, including Environmental Impact Assessments (EIA) and Strategic Environmental Assessments. Additionally, Puntland has enacted the Environmental Management Act (2016), the Rangeland Management Policy (2nd Edition, 2016–2025), the Waste Management Policy (2016), and the Ministry of Environment and Climate Change Strategic Plan (2016–2020) The Somalia Livestock Sector Development Strategy (LSDS) 2020-2030 guides the Livestock sub-sector, which contributes approximately 40% to GDP, generates about US$5.5 billion in revenue, and accounts for over 50% of export earnings

V. Fish production is guided by the declaration of the Exclusive Economic Zone (EEZ) in 2014 which makes it feasible to harness revenues from commercial offshore fishing, and inshore fishing for local food security, trade, and economic growth. Licensing of offshore fishing is closely linked to maritime security, political equity, and collaboration among the regional states; the revenues can help public finances and the development of the domestic sector.

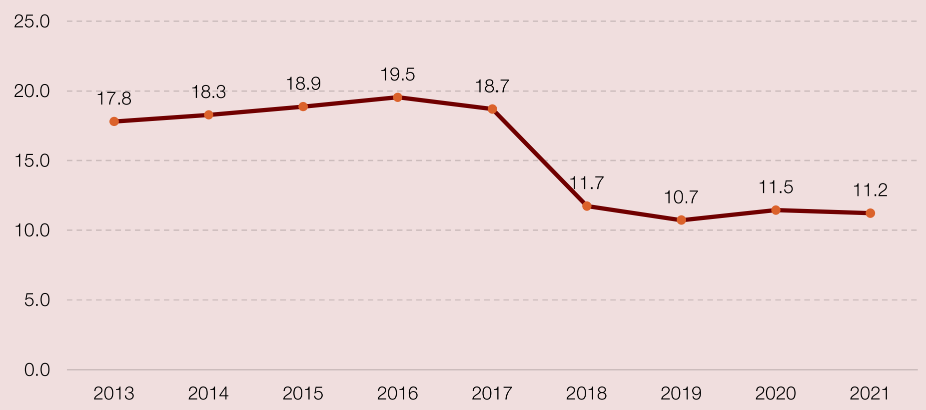
VI. Petroleum and mineral production is guided by the Petroleum Act of 2020 which created the Somali Petroleum Authority (SPA) as the main regulatory body for managing oil wealth, and the Somali National Oil Company (SONOC) as a government-controlled entity for petroleum operations. The 2020 Petroleum Law established the production sharing agreements (PSAs); with the model PSA as the main form of petroleum contract to be signed.

Comparison with Peers: The PIM system in Somalia is largely non-existent and lacks a regulatory framework, which makes it difficult to increase public investment projects. According to the World Bank's 2023 report, Public Investment Management (PIM) processes—including budgeting, procurement, monitoring, and evaluation—are not fully implemented due to insufficient personnel capacity to operate the PIM system effectively. Moreover, there has been a slow implementation of capital projects owing to the insecurity and low domestic resource mobilization. Consequently, Somalia's infrastructure assets remain in a dilapidated state following the destruction caused by the 30-year conflict since 1991. Most of the ports, roads and energy sources are in dire need of rehabilitation. Since the establishment of the federal government in 2012, Somalia has largely been reliant on grants from donors until 2023 when it realized the HIPC completion point, qualifying for external loans.

In the post-HIPC era, strengthening institutional and human resources capabilities for public investment management is crucial. Thus, Somalia needs to have a structured approach to implementing public investment through the PIM, to ensure that capital investments are properly planned, sequenced, and financed from domestic revenues, capital markets or PPP concession agreements. Moreover, Somalia's capital market is non-existent, and the investment appraisal of projects lacks a regulatory framework to decide if a capital project should be considered for approval or not, implying Somalia still lacks a project screening process to be followed for the development of capital projects. This leaves Ministries with the role to identify capital projects. Moreover, without a formal PIM process, the Ministry of Finance's oversight role is not clear, especially when the FGS has not yet implemented a medium-term fiscal framework to be aligned with PIM and sector strategies. However, challenges such as high levels of corruption, a weak public financial management system, limited domestic revenue mobilization and limited debt carrying capacity persist. During the 2024 first-ever International Investment Conference, the FGS announced it would issue tax incentives and exemptions to attract investors. Given that some Member States like Somaliland are already implementing this, it will further limit investment resources. In comparison, other EAC member countries like Rwanda and Eritrea have a zero-tolerance stance on corruption and have implemented stringent financial management measures for effective resource utilization. There is a need for Somalia to learn from regional peers in this area.

Somalia remains vulnerable to illicit financial flows (IFF) and terrorism financing. The risks and losses from illicit financial flows (IFFs) are of concern in Somalia, particularly linked to charcoal exports, illegal fishing, the mining sector dominated by small-scale artisans, and widespread tax evasion. While the natural resources rent contributed to 11.24% of GDP in 2021 (Figure3.0), it has notably been on a declining trajectory from a peak of 19.5% of GDP in 2017 due to IFF-related problems including illicit charcoal exports, illegal unregulated fishing and tax evasion reflecting power structures from non-state groups.

Figure 3: **Natural Resources Rent as a Percentage of GDP – Somalia: 2013-2021**



Somalia enacted the Anti-Money Laundering and Counter Financing of Terrorism Act in 2016 and amended its financial regulations in March 2025 to bolster its efforts in combating money laundering and terrorist financing (AML/CTF), curbing illicit financial flows (IFFs) and strengthening compliance with international standards while addressing gaps related to its Financial Action Task Force. The reforms are a pre-requisite for reintegrating the country into the international financial system and restoring correspondent banking relations. The AML/CTF Act mandates the Central Bank of Somalia to oversee the AML/CTF regime and designates the Financial Reporting Centre (FRC) as the financial intelligence unit mandated to obtain and analyse suspicious financial transaction and share financial intelligence. The roll-out of the Somalia national ID in 2023 has strengthened these investigations.

I. Somalia is developing its second National Anti-Corruption Strategy (NACS) 2025-2028, a successor to the first 2020-2023 NACS anchored in the Somalia Provisional Constitution (2021). Article 111 (c) establishes the Anti-corruption commission charged with investigating corruption within the public sector. It also provides for the freezing and confiscation of gains from the proceeds of criminal activity.

II. The Public Procurement, Concessions and Disposal Act (2015) provides procurement control in public offices, and its enforcement is through its interim national procurement board, which is a stop-gap until a procurement authority is established.

III. The Revenue Administration Act of 2019, and revenue administration regulations provide the legal framework for tax compliance and inhibits tax evasion.

IV. The Fisheries Act passed in 2023 replaces the 1985 law and a 2016 review. It strengthens fisheries management, addresses illegal, unreported, and unregulated (IUU) fishing, which causes significant lost fisheries revenue. The Act emphasizes sustainable practices, equitable access to resources, and the strengthening of partnerships to combat illegal fishing activities. Illegal, unreported and unregulated fishing is estimated to cost Somalia about US$300 million annually. In response the government updated its licensing guidelines in 2023 to identify and criminalize illegal fishing activities. Additionally, Somalia has fostered economic cooperation with Turkey to enhance maritime security and curb piracy, as well as collaboration with Denmark to combat IUU.

V. The extractive industry is primarily governed by the Mining Act of 1984 and the 2020 Petroleum Act, whose focus is on production sharing agreements (PSAs). The Ministry of Petroleum and Mineral Resources oversees mineral exploration and mining operations. The government has established the 2020 Petroleum Act and the 2023 Extractive Industries Fiscal Regime Law (EIFRL) and developed a production sharing agreement (PSA) model for petroleum. The mining regulations support the curbing of illicit financial flows through transparency measures requiring mining companies to submit reports on exploration activities and revenue generations to the government.

The above legal and regulatory framework is further supported by the United Nations Conventions Against Corruption (UNCAC). Somalia became the 188th State Party to the UNCAC on 11 August 2021 thus strengthening its capacity for the multi-staged comprehensive Implementation Review Mechanism ('IRM') to the UNCAC, in 2021. Despite these initiatives, the effect of corruption in Somalia remains, while enforcement towards the IFFs is ineffective. Figure 3 shows a significant decline in the levels of resource rents to GDP ratio from 17.8% as a share of GDP in 2013 to 11.2% of GDP in 2021.

Somalia is ranked 179th out of 180 countries, according to the 2024 Corruption Perceptions Index reported by Transparency International. Corruption therefore continues to divert capital from its intended economic productive purpose. Corruption is reported at all levels of society.

On the fiscal side, the government plans to establish the Somalia Revenue Authority as an oversight institution to raise taxes amid political tension ahead of the 2026 election year. Somalia is implementing the revenue roadmap 2024-2027 intended to increase the tax-to-GDP ratio by 0.3% per annum. As part of the IMF ECF program, the country is implementing public financial management (PFM) reforms.

3.2.2 Governance Challenges in the Management and Utilization of the Various Forms of Capital

Somalia presents weaknesses with regards to the governance and utilization of various forms of its capital assets. Despite an improvement in Somalia's score on the 2024 Mo Ibrahim Index of African Governance (IIAG) to 25.5 out of 100—up from 23.2 in 2022 and an average of 22.2 in 2019 and 2020—the country's ranking remains well below the continental average of 49.3 and the Eastern Africa regional average of 46.8. The IIAG results highlight persistently poor governance, particularly in the areas of Foundations for Economic Opportunity and Human Development.

The 2012 provisional Constitution introduced the federal government system, political federalism and fiscal federalism. However, the latter lacks clarity in terms of customs harmonisation and revenue sharing related to natural resources revenue. The lack of clarity on fiscal federalism under the Constitution has seen some Member States refuse to sign the fiscal federalism agreement of 2023. As it stands, tax revenues collected in Member States are retained within that jurisdiction. The remaining contentious issues over revenue-sharing between the FGS and FMS have been forwarded to the constitutional review committee for consideration. The refusal of some FMS to sign the 2023 fiscal federalism agreement reflects deeper contestations over State sovereignty, resource control, and power structures.

Corruption remained high in Somalia, which ranked 179th out of 180 countries on the 2024 Transparency International Corruption Perceptions Index, a one position improvement from180th/180 countries in 2023 and 178/180 in 2021. Thes low scores indicate severe issues with public sector corruption, including impunity for corrupt officials and restricted access to justice, reflecting the scale of challenges in governance, transparency, and policymaking.

Political instability, and conflict undermines the governance and utilization of Somalia's natural capital. Insecurity makes it difficult to access certain parts of the country, resulting in overfishing, deforestation, and illicit charcoal production for export, thereby exacerbating environmental degradation.

Limited domestic resource mobilization, including tax collection, restricts Somalia's ability to finance its own development and reduce its reliance on foreign aid, which remained high at 19.6% in 2023 and is programmed to decline further. This limits revenue availability for rebuilding critical physical and social infrastructure damaged by war—including education, healthcare, clean water, electricity, and roads—thereby hindering efforts to promote inclusive growth.

Somalia's tax structure comprises direct and indirect taxes. The direct tax system includes corporate income tax, rental tax, and employment payroll tax, while indirect taxes include product tax, stamp tax, vehicle taxes, registration tax and the sales tax. In 2024, taxes on goods and services other than VAT dominated accounting for 87% of total tax revenues, followed by personal income tax. International trade and customs taxes are key revenue sources, but a World Bank (2022) study shows customs revenue sharing remains challenging as each federal Member State administration collects and retains their revenues. Moreover, there is tax competition between intra-state ports, as well as competition between government administrations and armed militias competing for the same taxes from the citizens.

3.2.3 The Rule of Law, Management and Utilization of Various Forms of Capital

3.2.3.1 Somalia's Rule of Law, Judicial Effectiveness, and Investment Climate

Understanding the rule of law vs. the role of law: The rule of law is enshrined in the 2012 constitution and the Somalia National Transitional Plan (NTP) 2025-2029 whose first pillar on transformational governance lays emphasis on the rule of law as a means for promoting peacebuilding. Similarly, the Justice Sector Strategy 2025-2029 outlines aspects of human rights, rule of law and justice sector, anti-corruption, displacement in conflict-affected areas. Judicial effectiveness impacts economic governance and the investment climate, as delays in commercial dispute resolution undermine business confidence.

Somalia's performance in the Index of Economic Freedom (IEF): The Heritage Foundation's Index of Economic Freedom (IEF) which measures the rule of law scored property rights at zero out of 100, judicial effectiveness at 1.6 out of 100, and government integrity at 8.2 out of 100 2024.

3.2.3.2 Judicial Challenges in Capital Management

Somalia's judiciary faces various institutional weaknesses which is a hinderance to investment and economic stability. The legal framework for environmental governance is fragmented and weakly enforced. Customary law, which the community profoundly relies on, is inadequate in resolving disputes related to capital assets.

Judicial corruption: According to GAN Integrity (2020), some investors have associated the judiciary with corruption. They report significant delays in court proceedings, particularly in contract enforcement and the resolution of commercial disputes, which undermines investor confidence. These court delays erode foreign investor confidence and stalls capital project development. In February 2025, the Somalian Judiciary was accused of blocking an anti-corruption audit legal process. The Judiciary audit follows widespread concerns about financial mismanagement and legal noncompliance within the courts system. Corruption within the judiciary erodes investor confidence and creates biased rulings.

3.2.3.3 Investment Climate and Business Reforms

Despite the 2014 establishment of the Office of the Auditor General and the Public Procurement, Concessions, and Disposal Act, corruption is rampant. Transparency International cites insufficient enforcement mechanisms, political interference, and inadequate accountability within government institutions, including the judiciary, as key factors undermining efforts to combat corruption effectively and affecting the investment climate. The Somalia Investment Promotion Office (SOMINVEST) was established in the Ministry of Planning, Investment and Economic Development, to champion business reforms, facilitate business registration and promote investment policies.

3.3 A Pan-African Approach to Strengthening the Rule of Law, Institutions and Governance for Harnessing Somalia's Capital

Somalia is a member of the Horn of Africa Intergovernmental Authority on Development which is an 8-member state comprising Djibouti, Eritrea, Ethiopia, Kenya, Somalia, South Sudan, Sudan, and Uganda who share transboundary natural resources. Somalia is also a member of the East African Community (EAC) which mandates it to harmonize its fiscal, monetary and financial regulations and strengthen cross-border security. Somalia is a member of the African Union (AU) and has also ratified various United Nations frameworks including the UNFCCC, a framework to promote cooperation on climate change, stabilise greenhouse gas concentrations and prevent human interference with the climate system. Somalia has ratified the AfCFTA and validated its national implementation strategy. These membership mandates considerable efforts to align Somalia's development agenda with regional and continental peers. Most importantly, the AU and EAC and Regional Economic Communities are supporting Somalia with the harmonization of trade policies, tax harmonization and the removal of non-tariff barriers, and facilitate cross-border capital flows.

3.4 Conclusion and Policy Recommendations

a. **Enhancing Economic Stability, Investment, and Governance in Somalia**

   Achieving inclusive economic recovery and macro stability requires Somalia to sustain improvements in security and state building. Yet, the drivers of economic fragility stem from complex structural determinants, including the disintegration of centralized economic structures, persistent aid dependency ratios, entrenched poverty metrics, and historically unsustainable debt servicing requirements. Since 2022, there have been significant increase in FDI and bilateral economic cooperations from Turkey, Egypt, and the United Arab Emirates. The achievement of HIPC completion represents a significant stabilization factor, with public debt declining from 64.0% in 2018 to 6.4% of GDP at the end of 2023 and at end-2024. This recalibration of debt sustainability indicators provides essential fiscal space for addressing systemic vulnerabilities. In addition, protecting the economy's judicial integrity and maintaining a zero-tolerance stance on corruption will bolster FDI expansion. Furthermore, maintaining a balance between fiscal policy and monetary reforms, ensuring moderate to low debt sustainability, and improving financial stability will attract investment, create jobs for households, and promote macroeconomic stability.

Somalia's pathways towards resilience require structural economic diversification through targeted peace-positive interventions. Prioritising structured public-private partnership frameworks for critical infrastructure development and replicating successful models from the Berbera and Mogadishu port expansion projects will boost inclusive growth. To strengthen financial resilience, regulators must prioritize risk assessments, corporate governance, and risk management in line with the risk profile of different economic subsectors.

b. Strategies to Increase Investment

Somalia can raise investment levels by improving the Business Environment and deepening reforms for private sector-led growth, including building institutional capacity. Energy and insecurity are the two most binding constraints affecting investment and growth. Tackling infrastructure bottlenecks, especially in transport, energy and water will significantly enhance agricultural productivity, and value chain integration investments, particularly in cold chain infrastructure for the fisheries sector, offer significant economic diversification potential beyond traditional sectors. In addition, skilling and building capacity of youth and human resources and accelerating the regulatory framework around public-private partnerships will increase investment. Adopting the EAC common tariff protocol and harmonising customs duties by 2027 will deepen regional economic integration, create a more attractive investment climate, and spur investments and growth. Scaling up investment promotion mechanisms through SOMINVEST—while prioritizing underfinanced sub-sectors such as renewable energy (to expand electricity access), fisheries, construction, and digital financial services (to improve SME credit access)—along with high-potential livestock areas like milk processing, poultry, and hides, presents viable pathways for economic expansion. Government-led promotion of natural capital, its potential, and commercial viability will help attract increased private sector interest—particularly from the diaspora—in investing in natural resource development.

c. Transforming Education and Healthcare

Somalia has low literacy and education

attainment resulting in high youth unemployment rates. 75% of youth are under 30 years of age, but the education and health infrastructure were destroyed by decades of war. There is a need to focus on expanding and upgrading education infrastructure across all levels; reviving the TVET sector and skills that brings collaboration with the private sector to ensure the skills needed by the private sector are supplied by TVET institutions; enhancing staff training of trainers, integrating youth training in ICT in the education and health sectors; promoting inclusion and ensuring that girls, internally displaced from conflict and climatic shocks as well as pastoralists benefit from education, healthcare and other social services; and strengthening science, technology, engineering (STEM).

d. Institutional Mechanisms for Capital Investment

Somalia is institutionalizing the promotion of capital foreign direct investment through initiatives like the SOMINVEST (Somalia Investment Promotion Authority), which aims to provide a one-stop shop for investors to obtain approvals for various government licenses, including investments through PPP concessions. According to the National Investment Promotion Strategy 2020, the priority sectors for Investment promotion include crop agriculture, livestock, fisheries, energy, transport infrastructure, real estate, manufacturing, human capital investment, and banking sector. Similarly, the Chamber of Commerce and Industry (SCCI) of Somalia prioritizes bilateral investment dialogue like with the British Chamber of Commerce, the US Chamber of Commerce among others. Effective institutional coordination is needed to mobilize investments towards capital resource exploration.

e. Public-Private Partnerships (PPPs) that leverage private sector expertise and capital.

PPPs enable the private sector to transfer expertise and financial resources through PPP concessions, including the build, operate and transfer (BOT) model. In Somalia, effective PPPs that have been used to harness natural capital include the oil & gas sector (including the petroleum seismic surveys), and solar energy investments, as well as investments in healthcare. Despite this effort, the lack of robust legal and regulatory framework persists. Fast-tracking the parliamentary ratification of the PPP Act will improve private sector access to finance and create a pathway for increased business sector engagement.

f. Reforms to Enhance Judicial Effectiveness in Economic Governance

Somalia is implementing the Justice Sector reform 2025-2029 aimed at enhancing the rule of law in promoting accountability, fairness, equity, and respect for human rights. The 12 March, 2025, Parliamentary approval of the amendments to the 2016 Anti-Money Laundering and Terrorist Financing Act gives the Central Bank of Somalia oversight independence for strengthening Somalia's financial crime measures and align them with international standards. Fast-tracking the implementation of the AML/CTT regulations, tackling corruption in the judiciary, targeting the enforcement of contracts and building the capacity of the judiciary for mediation, arbitration, and dispute resolution will restore investor confidence.