

# A CRITICAL EXAMINING SOMALIA'S PRIVATE SECTOR DEVELOPMENT

## REPORT ANALYSIS



## CREATING MARKETS IN SOMALIA

Unlocking private sector-led growth at a critical  
juncture of Somalia's development



**WORLD BANK GROUP**  
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# Examining Somalia's Private Sector Development: **A Critical Report Analysis**

## CREATING MARKETS IN SOMALIA

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By World Bank Group

**Somali  
Business**

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## Unlocking Private Sector-Led Growth at a Critical Juncture of Somalia's Development.

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### Introduction

This critical analysis examines the World Bank Group's report "Creating Markets in Somalia: Unlocking Private Sector-Led Growth at a Critical Juncture of Somalia's Development." The report, published in July 2024, presents a detailed assessment of Somalia's private sector and offers policy recommendations aimed at fostering its growth. The report labels this moment a crucial turning point for Somalia's development. While significant political and institutional advances have occurred since the establishment of the Federal Government of Somalia (FGS) in 2012, the report stresses that this progress is fragile. It argues that to solidify these gains, Somalia needs inclusive economic growth, which must be driven by the private sector due to the limited capacity of the FGS.

This analysis will provide a detailed assessment of the report's findings, examining its strengths and limitations, and considering potential biases that may inform its recommendations. It will explore whether the report's focus on strengthening formal institutions and attracting foreign investment adequately addresses the complexities of the Somali context, including the deeply ingrained nature of informal institutions and the need to balance economic growth with social equity.

### The Somali Private Sector: Resilient Yet Limited

The "Creating Markets in Somalia" report highlights the remarkable resilience of the Somali private sector. It has functioned as the bedrock of the Somali economy for decades and is responsible for an estimated 95% of all jobs in the country. Moreover, private businesses have stepped in to offer services that would typically be provided by the state, including essential social services and public goods such as energy, ICT, and water. Many private firms also contribute to the public good through corporate social responsibility programmes, often responding directly to requests from clan elders.

However, the report also identifies four major characteristics that are hindering inclusive and sustainable growth within the Somali private sector:

### **Underdeveloped Productive Sectors:**

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Despite some potential, particularly in livestock, fisheries, and agriculture, Somalia's key productive sectors are underdeveloped. They are characterized by low-value-added activities and suffer from low productivity. This lack of development in the productive sectors forces Somalia to rely heavily on imports and results in a concentration of businesses in non-tradable sectors.

### **Market Domination by Large Conglomerates:**

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A small number of large conglomerates, many of which are formally incorporated outside of Somalia, control most of the profitable markets within the country. While these conglomerates have played a role in Somalia's economic resilience, they also distort markets to their advantage, limiting the potential for inclusive and sustainable growth.

### **A "Missing Middle"**

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The Somali private sector suffers from a "missing middle". This means there are very few small and medium enterprises (SMEs). Most businesses are either large conglomerates or micro, informal, and household-based ventures. These smaller ventures struggle to generate productive jobs and limit the ability of workers to move into larger enterprises.

### **Ineffective FDI:**

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While foreign direct investment (FDI) into Somalia appears relatively high when measured as a percentage of GDP, it has not translated into significant productivity growth. The report attributes this to the fact that most FDI comes from either diaspora investments in low-impact sectors or from Somali transnational conglomerate investments that contribute to market inefficiencies rather than productivity.



## Cross-Cutting Constraints Holding Back Progress

The report identifies five key cross-cutting constraints that impede the development of the private sector. Despite recent progress, the formal institutional, legal, and regulatory frameworks in Somalia remain incomplete and inconsistently implemented across different regions. The report points to gaps in areas like competition law and highlights the lack of enforcement capacity within government institutions. The weakness of formal institutions forces Somali businesses to rely heavily on informal, trust-based institutions. These informal institutions are often linked to clan structures and, while they provide resilience, also reinforce existing socioeconomic inequalities and limit inclusive growth. Furthermore, corruption, including practices like bribery, illegal taxation, and extortion, persists as a major problem for the private sector. The report specifically notes the role of armed groups such as Al-Shabaab in extorting businesses.

Somalia's political settlement remains incomplete, leading to a complex situation where businesses face competing authorities at the federal and regional levels. This creates uncertainty and hinders investment. Finally, the report documents inadequate public-private dialogue (PPD) mechanisms. The country's PPD frameworks are inadequate and fragmented. They often exclude smaller businesses and youth and women-led enterprises, preventing the development of effective, inclusive policies.

## Obstacles in Key Enabling Sectors

The Creating Markets in Somalia goes on to examine several enabling sectors that are crucial for private sector development. It highlights a range of challenges within each sector. Somalia's transport infrastructure suffers from significant deficiencies. The report notes poorly maintained roads, inefficient ports, and security risks along transport routes. These challenges are compounded by weak governance and capacity constraints within government institutions.

While Somalia has a relatively developed mobile money system, the broader digital landscape faces challenges. The report points to high costs, limited coverage, and an underdeveloped regulatory framework. Access to clean water remains a major obstacle for businesses, particularly those operating within food processing and agriculture. This issue is linked to inadequate infrastructure, weak governance, and limited investment in the sector. The report further identifies a mismatch between the skills required by employers and those available in the Somali workforce. It highlights low enrolment rates, quality concerns within the education system, and a general lack of alignment between the education system and market needs.

While there is a significant demand for business development services (BDS), the BDS ecosystem in Somalia remains severely underdeveloped. Businesses face limited access to professional services, training, and technical support, hindering their growth.

## Recommendations

To address the numerous challenges outlined in the report, it proposes three overarching recommendations:

### 📌 Strengthen Formal Frameworks:

The report calls for the strengthening of formal institutional and regulatory frameworks. This involves refining existing frameworks, addressing gaps in crucial areas like property rights and competition law, and enhancing the enforcement capacity of relevant institutions.

### 📌 Promote Private Sector Participation in Enabling Sectors:

The report emphasizes the need to encourage private sector participation within key enabling sectors like energy, financial services, transport, and education. This would involve the development of supportive policies, robust regulatory frameworks, and attracting private investment.

### 📌 Develop Targeted Value Chains:

Focusing on value chains that have high growth potential and where conglomerates do not yet dominate is key. The report suggests that targeted interventions can address specific constraints and boost short- to medium-term economic opportunities.

The report acknowledges the limitations of short-term solutions given Somalia's fragile context. It emphasizes that addressing the underlying causes of fragility, such as insecurity, weak governance, and limited state legitimacy, is crucial for long-term success. However, it also stresses the importance of initiating private sector development initiatives early on to generate inclusive economic growth and support broader state-building efforts.

## Key Report Strengths

- The report acknowledges the crucial role private enterprises play in providing essential services, accounting for an estimated 95% of total jobs and even stepping in to deliver public goods that are typically the responsibility of the state.

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- It crucially identifies the structural limitations that prevent this resilience from translating into inclusive and sustainable economic growth.

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- The report identifies deficient formal frameworks, the prevalence of informal institutions, enduring corruption, competing governance structures, and ineffective public-private dialogue mechanisms as key cross-cutting constraints that hinder progress.

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- It provides in-depth assessments of critical enabling sectors like transport and logistics, digital connectivity, water, education and skills, and business services, highlighting the challenges they face and offering concrete recommendations for improvement.

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- The document underscores the importance of addressing root causes, such as fragility and conflict dynamics, alongside immediate measures to stimulate private sector growth.

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- The report acknowledges that achieving sustainable progress requires tackling deep-rooted issues like corruption, insecurity, and the prevalence of informal institutions.

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## Limitations of the Report

Despite its strengths, the report is not without limitations. The most prominent limitation stems from the data scarcity that plagues Somalia. The report itself acknowledges this challenge, stating, "Somalia is highly data deprived, and knowledge of how Somali economic life is organised remains limited". This reliance on limited data, expert interviews, and qualitative data collection could potentially introduce biases and limit the generalizability of some findings. For instance, the report's assessment of the fisheries sector, while highlighting its potential, relies heavily on qualitative information and acknowledges significant limitations.

Another limitation is the report's focus on formal institutions and regulatory frameworks. While acknowledging the role of informal institutions, the report's primary recommendations centre around strengthening formal structures. This approach may overlook the deeply ingrained nature of informal institutions in Somalia and the challenges associated with transitioning to a more formalized system. The report itself notes that informal institutions, while providing resilience, often reproduce socioeconomic inequalities and can be unsustainable in the long run.





## Potential Biases

It is essential to consider potential biases that might influence the report's recommendations. The report's emphasis on attracting foreign direct investment (FDI) and integrating Somalia into the global financial system, while aiming to stimulate economic growth, could inadvertently favour the interests of foreign investors and large conglomerates over those of smaller, local businesses. The report acknowledges that FDI in Somalia has not resulted in significant productivity gains, primarily because it is driven by diaspora investments in low-impact sectors or by investments from Somali transnational conglomerates that exacerbate market inefficiencies. Focusing on FDI without addressing existing market distortions and the dominance of conglomerates could further entrench inequalities and limit the inclusivity of economic growth.

The report's recommendations for promoting private sector participation in key enabling sectors also warrant careful consideration. While private sector involvement can enhance efficiency and service delivery, it is crucial to ensure robust regulatory frameworks and effective public stewardship to prevent exploitation and safeguard public interests. The report's recommendations may not fully address the potential risks associated with privatizing essential services in a context like Somalia, where regulatory capacity is limited, and corruption remains a challenge.

## Conclusion

The "Creating Markets in Somalia" report is a valuable contribution to understanding the challenges and opportunities facing Somalia's private sector. Its strengths lie in its comprehensive analysis of constraints, detailed sector-specific assessments, and emphasis on a multifaceted approach to development. However, its limitations, primarily stemming from data scarcity and a potential bias towards formal institutions and foreign investment, should be considered when interpreting its recommendations.

It is crucial to ensure that policy interventions aimed at strengthening the private sector prioritize inclusivity, address the dominance of large conglomerates, and safeguard the interests of smaller, local businesses. Navigating this complex path will require careful consideration of Somalia's fragile context, the deeply ingrained nature of informal institutions, and the need to balance economic growth with social equity.



## Creating Markets in Somalia