



Somalia: At the Crossroads of Peril and Opportunity



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One January afternoon in 2014, I got on the phone with one of our Somali government counterparts. We were talking about the newly established Somali cabinet, which had grown from 10 ministries to 25. Suddenly, loud blasts rang out in the background of our call.

Alert but not noticeably frightened, the gentleman explained the noise was gunfire outside his building. As we rushed to say goodbye, he joked about the new bullet holes the offices would add to their collection.

To me, this brief phone conversation epitomized Somalia at its core: a volatile political and security situation, a newly engaged international community, and an incredibly resilient people.

Despite very challenging conditions, Somalia has managed to achieve considerable progress since it resumed relations with the IMF in April 2013. However, sustained growth and development will require continuous international support and capacity building. The country's economic success will ultimately rest on the strength of its people.

Political plight

The government of Somalia collapsed in 1991 when a coalition of militia groups ousted the Siad Barre regime. A civil war ensued, splintering the country into several autonomous regions (see map). Each of these had its own government, army, and, in some cases, even its own currency.



Source: BBC, 2014.

In 2012, a parliament and a president were elected and the international community officially recognized the new government.

Despite a common culture, ethnicity, and clan system, Somalia strains to achieve national unity. The Federal Government of Somalia is still shaping its institutions as it struggles to gain control over the country's territory. Most of Somalia remains under the administration of sub-national governments or under control of militant groups.

From the turmoil comes a rare opportunity

Somalia endures some of the **worst security, social, and economic conditions in the world** (see table). The economy is largely dollarized, in part for lack of a central bank, but also due to large remittances sent by the Somali Diaspora.

Somalia: Selected Economic and Financial Indicators, 2015				
(Quota = SDR 44.20 million)				
(Population: 14 million, 2015 estimate)				
(Per Capita GDP: US\$704.1, 2015 estimate)				
(Main Export: Livestock)				
	Est.			
	2012	2013	2014	2015
	(Annual percentage change, unless otherwise indicated)			
National income				
Nominal GDP in million of U.S. dollars	8,168	8,820	9,299	9,857
Nominal GDP	...	8.0	5.4	6.0
Per capita GDP in U.S. dollars	628.3	661.9	680.9	704.1
Population (in million)				
Population (in million)	13.0	13.3	13.7	14.0
Life expectancy at birth (years)	55	55	55	55
Life mortality rate (per 1,000 live births)	147	147	147	147
Gross school enrollment ratio (females/males per 100)	15/28.1	15/28.1	15/28.1	15/28.1
Sources: Somali authorities; and IMF staff estimates and projections.				

About 80 percent of the **Somali shillings in circulation are counterfeit** and authentic bills are in deteriorating physical condition.

Yet from this turmoil comes a rare opportunity to build a state virtually from the ground up. Amid trying circumstances, Somali adaptability shines through a dynamic domestic private sector and the many prosperous businesses owned by the Diaspora.

The country's financial sector makes a good example. Financial institutions are informal and began as *Hawalas* (or money remittance companies), which evolved into Somalia's *de facto* banking system. *Hawalas* perform a vital social role because their branches reach the poorest

and most remote areas of the country. Some of the biggest *Hawalas* are holding discussions with the new Central Bank of Somalia to obtain formal banking licenses.

Somalia's economy grew by about 5½ percent in 2014 in nominal terms (real-term growth is hard to figure out due to absence of data on prices). Agriculture, forestry, fishing, and construction led the way, with 2015 forecasts predicting further growth of 6 percent in these industries. Consumption increased by 4½ percent, driven by population growth and returning members of the Diaspora.

Role of IMF and international community

Though Somalia was welcomed back as an active IMF member, economic policymaking and sustained technical assistance have been hindered by complex clan politics and high turnover in the Somali government.

Somalia is in arrears with the IMF and other multilateral and bilateral donors and, hence, remains ineligible for IMF financial assistance until it clears its arrears status with the IMF. This will require external debt reconciliation, debt relief financing, and establishing a track record of cooperation that could help Somalia become eligible for borrowing from the IMF.

To undertake this task, Somalia has opened a productive dialogue with the international community and the IMF. The IMF has been providing technical assistance in areas related to currency reform, banking operations, central banking, financial sector supervision, anti money laundering/combating the financing of terrorism, fiscal policy, and macroeconomic statistics.

Important milestones have already been reached, including the preparation of the first national budget, the development of initial GDP and external sector estimates, and the preparation of central bank financial statements.

With the support of international donors, the IMF launched the three-year, multi-donor Trust Fund for Capacity Building, and established a Resident Representative office based in Nairobi, Kenya in December 2014.

Somalia has made good progress since resuming relations with the IMF. The Somali government is working quickly to restore key economic institutions. Make no mistake: sustained growth and development will require continuous international support and capacity building. But Somalia's success will ultimately rest on the strength of its people, and this they have in abundance.

Carolina Castellanos is an economist in the Middle East and Central Asia Department in the International Monetary Fund. She has worked on a broad range of topics and countries, most recently Somalia. Previously she worked as an economist in HDR Decision Economics, concentrating on infrastructure development projects in the US and Mexico. She graduated from Columbia University (New York, USA) and the Universidad Externado de Colombia (Bogotá, Colombia).