Economic solutions are crucial to help solve Somalia’s political woes

Maximilien von Berg argues that a formalised and inclusive financial sector is necessary for Somalia’s political and economic prospects to improve.

With the 2016 presidential contest looming, political stakes are high in Somalia. Yet, it is no secret that this race falls way short of a democratic election. This is precisely why the economy should have every development partner’s complete attention.

Since the state was dismantled in 1991 with the overthrow of long-time ruler Mohammed Siad Barre, the private sector stepped in to fill the void. Somalia’s entrepreneurial spirit has safeguarded many, but it is now seriously hampered by limited access to liquidity and lack of opportunities to finance the country’s growth locally. Democratising access to finance in Somalia, for instance by betting on Information and Communication Technology (ICT) already prevalent in this highly-penetrated mobile money market, could seriously improve governance. Financial resources are not redistributed; they are used to ascertain political power instead of growing the people’s purchasing power.

Access to capital is scarce for Micro, Small and Medium Enterprises (MSMEs) in sub-Saharan Africa, according to McKinsey. In Somalia, this reality is felt even more as investors are wary and the absence of market mechanisms means MSMEs are essentially self-financed.

Premier Bank reached a deal with Mastercard in 2015 to distribute debit cards to customers Photo Credit: Mohamed Sheikh Nor for RFI

Crippled by the absence of a formal financial system, a limited number of manufacturing plants and an undiversified industry, the Somali economy is frail and lopsided. The industrial and manufacturing vacuum left by war has resulted in inflated prices because the majority of goods must be imported. The cost of living is high despite poverty and “people pay 2016 prices for 1990s services and infrastructure,” laments Hassan Yusuf, CEO of the International Bank of Somalia (IBS) and one of six registered banks in Somalia.

The remittance companies (money transfer operators) provide what is essentially a US$1.3billion lifeline of cash to half of the population. Though banks have been re-opening after being wiped out by two decades of conflict, "people still don't know how to bank with the bank," says Yusuf. Understandably, anyone below the age of 40 was not old enough to hold a bank account before the war broke out. A pervasive issue is that inflows of capital from the diaspora are currently not invested – they are consumed for basic needs. In fact, only a meagre US$143 million are kept in savings accounts, according to recent estimates.

The development of a diversified and liquid financial industry is the best bet for the emergence of a functioning society and, therefore, a credible democracy. The Somali Stock Exchange was launched in late 2015, the Somali Banking Association formed in June 2016 and a few foreign investors have risked putting some funds into start-ups. MasterCard brokered a deal with Premier Bank in 2015 to distribute debit cards to customers and, amid destroyed buildings and rundown shops, I recently spotted a Premier Bank advertisement while driving past Mogadishu's ruined parliament. Yet, businesses remain squeezed by high registration taxes, which encourage the economy to remain informal. With a license costing 90 per cent of GDP *per capita* (53 per cent of GDP on average in sub-Saharan Africa), the barrier to open a business legally is still very high for Somalis.

Unless smaller service providers across industries are given the means to compete, poor infrastructure and high operating costs will continue to knock out MSMEs. For example, the price of electricity in sub-Saharan Africa is US$0.13 on average, which is a sixth of the price in Somalia – the world's fourth poorest country per capita. The price of electricity in Mogadishu, or 'Hamar' as locals call the capital, is a whopping US$1.00/kWh – a figure off the charts by energy standards. In comparison the price is US$0.10 in Norway – the fourth richest country per capita. In Hargeisa, the government of Somaliland and electricity companies recently committed to lowering the price to US$0.79/kWh but still leaves the region among the highest prices for electricity in the world. Energy expert, Randall Nottingham explained that "given the extremely low *per capita* income, even running a light bulb for a few hours a night is a luxury some can't afford."

Market mechanisms are at a standstill in Somalia and hampering its development. Micro-credit and micro-loans via financial institutions could ignite demand for the formalisation of the sector and people's familiarisation with it using a grassroots', bottom-up approach. IBS has issued 700 micro-loans and reports few late payments and no defaults, according to the bank's CEO. Yet, lending, credit, and investment are happening on an insufficient scale to kick-start a choking economy still under severe threat from security-related issues, and increasingly from climate change induced events.

With the return of investment and a decrease in conflict, commercial property projects are giving birth to malls in Mogadishu, but the population at large only benefits marginally. In a country where three-quarters of the population live below the poverty line, this is a pressing issue, especially when young Somalis join Al Shabaab's merchants of death for economic reasons, because with politics firmly in the grip of powerful clans, some see a dearth of alternative options. In Somalia, MSMEs may be the linchpin of success and could spread a belief in the possibility of emancipation from poverty that can serve to uphold democracy. Therefore, the best argument against the lure of Islamic militancy would be a job with a regular source of income.

The World Bank and development partners are investing a great deal in the government and the Ministry of Finance is spearheading public financial reform. Parliament has passed several important pieces of legislation, such as financial institutions, public procurement and anti-money laundering bills; but tax, energy and commerce still lag behind. While development partners focus on governance and security in Somalia, the country needs entrepreneurs and a diversified economy at least as much as the growing mass of civil servants and politicians. Formalising the banking sector, perhaps using ICT as a stepping stone, would act as a catalyst for relief and positive change away from aid addiction.

When I probed Yusuf on the road ahead, he sighed and said: "The day Somalis own something, the day they have a job, they will grow responsible and make sure security is reinstated." In other words, pull people out of disenfranchisement and they will work for peace. Limited capital or borrowing opportunities result in a bleak outlook and donor spending on governance and security has yet to show it is spurring growth and reining in corruption. Strategies focused on MSMEs' access to credit and markets may therefore be best positioned to harness inclusive growth, opportunity, and peace at last.

Maximilien von Berg is a consultant for international donors in fragile States.

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