

# Somalia



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## EXECUTIVE SUMMARY:

Somalia is a peculiar economic study. While the country nominally retains a 'recognized central government authority'<sup>1</sup> in the Transitional Federal Government ("TFG"), the body is so weak and ineffectual that Somalia effectively enjoys the unhappy mantle of being the world's only extant anarchy. In practice there essentially exists no real Somali state. Following the 1991 collapse of the authoritarian regime led by General Siad Barre, the former Somali state plunged into an orgy of violence, with rival clans warring for control of the state. Any semblance of a formal economy with the familiar regulatory and governing bodies of a bureaucratic apparatus disappeared with the demise of a functioning state. While some vestigial government bodies continue to operate on a de jure basis, Somalia is almost entirely a de facto informal economy.

The northern region of the country that traces roughly the same borders as the colonial British Protectorate of Somaliland declared independence shortly after the collapse of the Barre regime as the self-autonomous region of Somaliland. While this polity is currently not recognized by anyone in the international community, the region enjoys full autonomy, a moderately peaceful environment and a relatively stable central bureaucracy. Somaliland enjoys some elements of a typically functional economy, although its banking and credit systems are both fragile and severely underdeveloped.

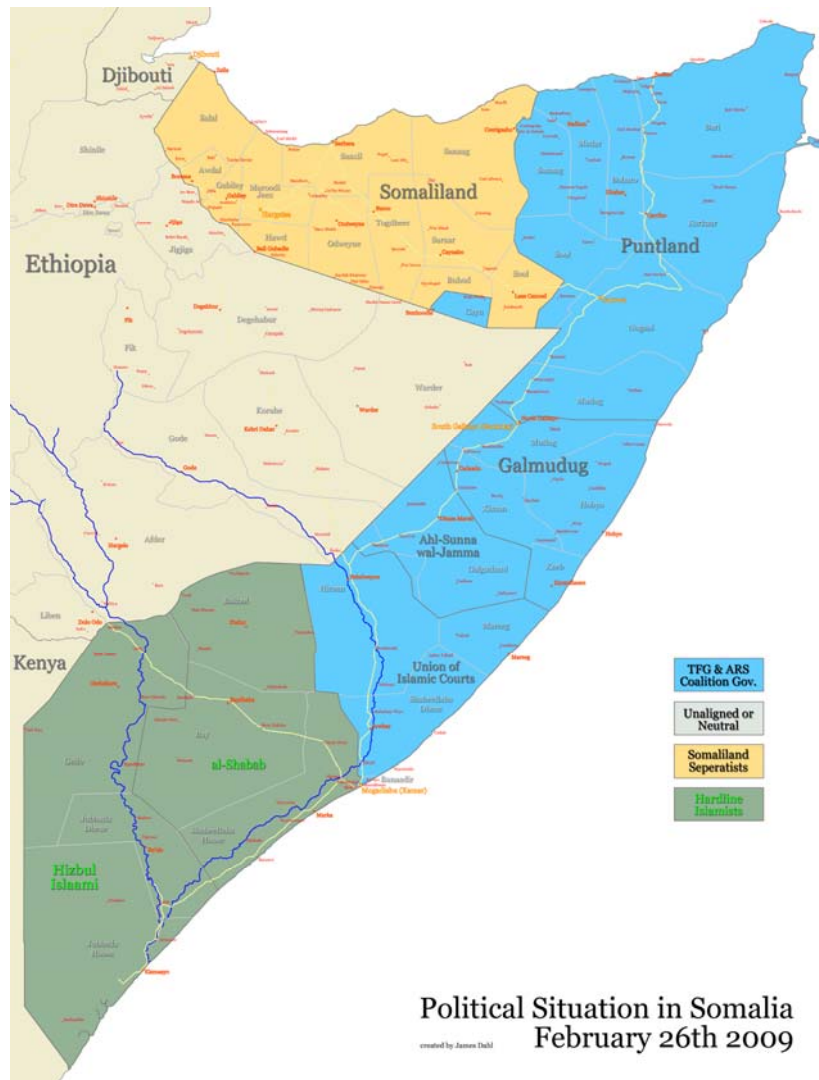
Prior to the collapse of centralized government in 1991, Somalia operated a relatively simplistic banking and credit system dominated by the Central bank and a handful of (largely foreign owned) commercial banking institutions. The fragile banking system had little impact on or contact with the lives of ordinary Somalis even before the dissolution of the Barre regime. Informal tradition-based systems of credit have dominated the money supply in Somali both before and after the 1991 civil war. Indeed, foreign remittances through these informal credit systems and wire transfers are thought to represent the lion's share of current GDP (which is almost impossible to calculate with any meaningful accuracy).

Post-Barre Somalia is nonetheless a fascinating study in spontaneous commerce and informal economies. In spite of lacking any formal governing bodies or official economic institutions, the country sports a surprising array of goods and commerce. Many enterprising Somalis operate thriving enterprises from relatively stable neighboring lands such as Kenya, Djibouti, Ethiopia and parts of the Middle East. Similarly, foreigners in the Islamic Diaspora conduct satisfactory commercial activity within the borders of Somalia. The vast majority of informal activity, however, is conducted under the auspices of the many 'moneylords' who bankroll the various clan affiliated 'warlords' that battle for regional control and dominion over productive assets – largely agriculture and other exportable commodities – and criminal enterprises. Finally, the relative peace and stability of Somaliland has recently succeeded in attracting some limited foreign investment.

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<sup>1</sup> Somalia- Wikipedia: <http://en.wikipedia.org/wiki/Somalia> 2009

## GEOPOLITICAL AND MACROECONOMIC BACKDROP



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## POLITICAL AND CULTURAL BACKDROP OF SOMALIA:

Somalia is a devoutly Muslim land in the horn of Africa whose people, despite ethnic and linguistic homogeneity, define their society through familial affiliation with one of numerous clans. The relatively small Somali population (numbering roughly 10 million) occupies a land with coasts on the Gulf of Aden and the Indian Ocean slightly smaller than the state of Texas<sup>3</sup>. Clans play an enormously important role in societal organization, dictating political affiliations and determining the fate of both leaders and diplomatic accords alike. This inherently fractious societal structure has predictably incubated instability – maintaining a credible political mandate requires active management of clan loyalties, their rivalries and

<sup>2</sup> Somalia – Wikipedia:

[http://upload.wikimedia.org/wikipedia/commons/9/9f/Somalia\\_map\\_states\\_regions\\_districts.png](http://upload.wikimedia.org/wikipedia/commons/9/9f/Somalia_map_states_regions_districts.png)

<sup>3</sup> CIA Factbook 2008

almost invariably conflicting interests. Clan rivalry and factional violence has frustrated all efforts to reconstitute a functioning state since 1991.

The Somali Republic was born of a merger between a formerly British held northern protectorate (British Somaliland) and the Italian colony of Italian Somaliland on July 1, 1960. While shared language, religion, history and ethnicity offer some measure of national identity to the Somalis, recognized authority is largely decentralized and derived from familial and clan affiliation. While no national authority currently exists, traditional legal frameworks were derived from a mixture of **English common law**, **Italian legal frameworks**, **Islamic Sharia** traditions and customary **Somali traditional law**.

### Recent History

Clans based in the northern region of the country have achieved some measure of success in self-autonomy after declaring the independent (though unrecognized by the international community) Somaliland in what was once the former British mandated protectorate during the colonial period. Somaliland has succeeded in holding regular democratic election procedures for both 'national' and local governmental authorities and continues regular attempts to demonstrate to the world community its preparedness for statehood. Another group of clans have also instituted relative calm within an area dubbed Puntland along the northeastern coast, although without making any claims of independence. As is evident in the CIA summary of Somalia's recent political history, clan rivalry has defined much of the direction of this troubled nation (please see Exhibit 1 in the appendix for a more comprehensive historical timeline):

"Britain withdrew from British Somaliland in 1960 to allow its protectorate to join with Italian Somaliland and form the new nation of Somalia. In 1969, a coup headed by Mohamed SIAD Barre ushered in an authoritarian socialist rule that managed to impose a degree of stability in the country for a couple of decades. After the regime's collapse early in 1991, Somalia descended into turmoil, factional fighting, and anarchy. In May 1991, northern clans declared an independent Republic of Somaliland that now includes the administrative regions of Awdal, Woqooyi Galbeed, Togdheer, Sanaag, and Sool. Although not recognized by any government, this entity has maintained a stable existence and continues efforts to establish a constitutional democracy, including holding municipal, parliamentary, and presidential elections. The regions of Bari, Nugaal, and northern Mudug comprise a neighboring self-declared autonomous state of Puntland, which has been self-governing since 1998 but does not aim at independence; it has also made strides toward reconstructing a legitimate, representative government but has suffered some civil strife. Puntland disputes its border with Somaliland as it also claims portions of eastern Sool and Sanaag. Beginning in 1993, a two-year UN humanitarian effort (primarily in the south) was able to alleviate famine conditions, but when the UN withdrew in 1995, having suffered significant casualties, order still had not been restored. A two-year peace process, led by the Government of Kenya under the auspices of the Intergovernmental Authority on Development (IGAD), concluded in October 2004 with the election of Abdullahi YUSUF Ahmed as President of the Transitional Federal Government (TFG)

of Somalia and the formation of an interim government, known as the Somalia Transitional Federal Institutions (TFIs). The TFIs included a 275-member parliamentary body, known as the Transitional Federal Assembly (TFA). President YUSUF resigned late in 2008 while United Nations-sponsored talks between the TFG and the opposition Alliance for the Re-Liberation of Somalia (ARS) were underway in Djibouti. In January 2009, following the creation of a TFG-ARS unity government, Ethiopian military forces, which had entered Somalia in December 2006 to support the TFG in the face of advances by the opposition Council of Islamic Courts (CIC), withdrew from the country. The TFA was increased to 550 seats with the addition of 275 ARS members of parliament. The expanded parliament elected Sheikh SHARIF Sheikh Ahmed, the former CIC and ARS chairman as president on 31 January 2009, in Djibouti. Subsequently, President SHARIF appointed Omar Abdirashid Ali SHARMARKE, son of a former president of Somalia, as prime minister on 13 February 2009. The TFIs are based on the Transitional Federal Charter (TFC), which outlines a five-year mandate leading to the establishment of a new Somali constitution and a transition to a representative government following national elections. However, in January 2009 the TFA amended the TFC to extend TFG's mandate until 2011. While its institutions remain weak, the TFG continues to reach out to Somali stakeholders and work with international donors to help build the governance capacity of the TFIs and work towards national elections in 2011.”<sup>4</sup>

The warring clan factions have long stunted most attempts at development and have precluded authorities from properly addressing persistent famine and disease crises, leading to deaths of over 1 million people and the dislocation of countless more.<sup>5</sup> Over one third of the population is dependent on foreign food aid and progress is further frustrated by Somalia's hostile relations with many of its neighbors in the Horn of Africa region. Somalia has struck belligerent tones with Kenya, Djibouti and (especially) Ethiopia citing old grievances over traditionally and ethnically Somali lands given to neighboring states during colonial re-drawings in the aftermath of World War II. Somalia waged a losing war in the 1970's against Ethiopia over the disputed Ogaden region of Ethiopia, a conflict that has resulted in simmering tensions in the ensuing time period and led to fresh fighting in recent years when Ethiopian troops crossed the Somali border to remove the Council of Islamic Courts and support the TFG.<sup>6</sup>

### Legal Infrastructure for Commerce

A major hurdle for Somali commerce is the absence of a coherent legal underpinning that is conducive to facilitating business contracts and agreements. At a fundamental level, “Somalia lacks contract law, company law, the concept of limited liability, and other key pillars of commercial law.”<sup>7</sup> In its place, to a large extent, has been clan administered mediation

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<sup>4</sup> IBID

<sup>5</sup> BBC Country Profile - [http://news.bbc.co.uk/2/hi/africa/country\\_profiles/1072592.stm](http://news.bbc.co.uk/2/hi/africa/country_profiles/1072592.stm)

<sup>6</sup> IBID

<sup>7</sup> “*Anarchy and Invention: How does Somalia's Private Sector Cope Without Government*”; Nenova, Tatiana and Harford, Tim; Nov 2004; Public Policy for the Private Sector (Note No. 280); The World Bank Group – Private Sector Development Vice Presidency

between conflicting parties. Most business “disputes are settled at the clan level, by traditional systems run by elders and with the clan collecting damages. Such measures are free—and fast by international standards.”<sup>8</sup> Anarchic conditions have obviously curtailed judicial activities and interim attempts at ameliorating the situation have stalled. According to a 2004 World Bank report efforts “to endow Mogadishu with a functioning court collapsed when the court tried to levy taxes and take over the privately run port of El Ma’an.”

Clearly, however, the clan arbitration process is not a perfect fix. An anecdote from the World Bank report puts this in stark relief: “Clan-based systems deal poorly with disputes outside the clan. In a dispute involving the telecommunications company Aerolite, the interclan committee of elders awarded the plaintiff from a weaker clan an unfairly small settlement, and since it was not enforced, he received nothing.” The impressively innovative Somali private sector has found a number of creative remedies to the non-existent judicial system. The business community relies heavily on the ‘import’ of legal services and regulatory bodies. Indeed, “in some cases Somalis have used offshore registration of businesses to import legal concepts and services.”<sup>9</sup>

This systematic array of makeshift work-around solutions has begun to amount to a de facto system of shared business practices that have begun to govern the commercial activities of the Somali private sector. The following chart indicates some of the prevailing trends for Somalia and contrasts them against regional peers:

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<sup>8</sup> IBID

<sup>9</sup> IBID

Indicator	Somalia	West Africa <sup>a</sup>	Neighboring countries <sup>b</sup>
Per capita household income (US\$), 2002	226	501	438
Gini coefficient, 1997 <sup>c</sup>	40	45	47
Population living on less than PPP\$1 a day (percent), 1998 <sup>d</sup>	43	50	52
Roads (thousands of kilometers per million people), 1997	3	3	3
Telephones (per 1,000 people), 2002	15	9	10
Population with access to safe water (percent), 2000	21	59	60
Adult illiteracy rate (percent), 2003	81	49	35

a. Benin, Burkina Faso, Burundi, Cameroon, Central African Republic, Chad, Republic of Congo, Democratic Republic of Congo, Côte d'Ivoire, Gabon, The Gambia, Ghana, Guinea, Guinea-Bissau, Liberia, Mali, Mauritania, Niger, Nigeria, Senegal, Sierra Leone, and Togo.

b. Djibouti, Ethiopia, and Kenya.

c. The Gini coefficient ranges from 0 (perfect equality) to 100 (perfect inequality).

d. PPP dollars are U.S. dollars adjusted for purchasing power parity.

**Source: World Bank, World Development Indicators database.**

### **Banking System:**

Somalia's banking system has clearly been heavily impacted by the political chaos that has enveloped the country's recent history. There are presently an extraordinarily small number of banks active in Somalia. This, however, is not in stark contrast to pre-1991 Somalia; the country had a long history of banking system fragility. According to "In the 1970s and early 1980s the banking system was largely a financing tool for public agencies... The Commercial and Savings Bank was declared bankrupt, and the Development Bank was unable to provide new lending in 1989. The financial system fell into deep crisis and, with the complicity of corrupt officials, most of the daily operations of the banking system fell to the black market."<sup>1011</sup>

<sup>10</sup> Mubarak, Jamil (1997) "The 'Hidden Hand' Behind the Resilience of the Stateless

Historically, credit markets have been largely pre-dominated by informal trust-based community lending; determination of credit-worthiness and mitigation of counterparty risk were both addressed through familial and clan relationships. Pre-independence colonial powers had a limited banking presence prior to the governmental collapse, and the central bank also offered a limited menu of commercial banking services.

The first commercial bank in Somaliland (the semi-autonomous northern region) opened in February of this year. The Banque pour le Commerce et l'Industrie - Mer Rouge (BCI-MR), Djibouti based partially owned subsidiary of French multi-national BNP Paribas, launched a commercial bank that will initially focus on issuing letters of credit in Hargesia (the Somaliland capital). The opening of the bank can be seen as a part of the continued efforts of the heretofore unrecognized regions efforts to connect to the outside world.<sup>12</sup>

Prior to the 1991 government collapse, Somalia had three major banks in addition to the Central Bank of Somalia: the Somali Commercial Bank, the Commercial and Savings Bank of Somalia, and the Somali Development Bank, but much of the national banking system collapsed as a result of the civil war. The Universal Bank of Somalia (Ubsom) declared its intent to open operations in 2002 as the first commercial bank in Somalia since 1991, over the objections of the governor of the Central Bank. Its ownership was 51% Somali and its headquarters was located in Brussels. Plans for Ubsom were stalled indefinitely after the representative of investors in the bank was kidnapped during a visit to the Mogadishu office. Attempts to found another bank, the Global Bank, also proved abortive.<sup>13</sup>

Since 1991, Somalia has been functionally without banks. Banking and credit services have been replaced by Hawaalad money transfer institutions dealing primarily in expatriate remittances. This tradition based system has supported a robust informal economy. According to the most recent CIA World Factbook report:

“Despite the lack of effective national governance, Somalia has maintained a healthy informal economy, largely based on livestock, remittance/money transfer companies, and telecommunications. Agriculture is the most important sector, with livestock normally accounting for about 40% of GDP and about 65% of export earnings. Nomads and semi-pastoralists, who are dependent upon livestock for their livelihood, make up a large portion of the population. Livestock, hides, fish, charcoal, and bananas are Somalia's principal exports, while sugar, sorghum, corn, qat, and machined goods are the principal imports. Somalia's small industrial sector, based on the processing of agricultural products, has largely been looted and sold as scrap metal. Somalia's service sector also has grown. Telecommunication firms provide

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Economy of Somalia.” *World Development*, Vol. 25, No. 12: 2027-2041.

<sup>11</sup>Powell, Benjamin; Ford, Ryan; Nowrasteh, Alex (2006) “Somalia After State Collapse: Chaos or Improvement” *The Independent Institute*, Working Paper Number 64

<sup>12</sup> Somaliland Press. Feb 2009. BCIMR Opens First Commercial Bank in Somaliland

<sup>13</sup> <http://www.pogar.org/countries/theme.asp?th=12&cid=17#sub3>. Financial Transparency Report: Somalia. United Nations Development Programme – Program of Governance in the Arab Region.

wireless services in most major cities and offer the lowest international call rates on the continent. In the absence of a formal banking sector, money transfer/remittance services have sprouted throughout the country, handling roughly \$2 billion in remittances annually. Mogadishu's main market offers a variety of goods from food to the newest electronic gadgets. Hotels continue to operate and are supported with private-security militias. Somalia's arrears to the IMF continued to grow in 2008. Statistics on Somalia's GDP, growth, per capita income, and inflation should be viewed skeptically.”

### The Recent History of Somali Banking Institutions

The following list details the institutions that have provided banking services in Somalia since 1920.<sup>14</sup>

- 1920** The first bank opened in Southern Somalia was the Banca d'Italia (Central Bank of Italy) which established its branch in Mogadishu.
- 1925** The bank opened also another branch in Kisimayo on the 2<sup>nd</sup> November 1925.
- 1930** The British Government opened in Northern Somalia the Government Savings Bank with the objectives to encourage the people to save parts of their income
- 1932** In Mogadishu a branch of Cassa di Risparmio di Torino, an Italian commercial Bank, opens its office.
- 1936** A branch of Banco di Roma, an Italian commercial bank, was established in Mogadishu. In the same year Banca d'Italia opened its third branch in the city of Merca.
- 1938** Banco di Napoli took over the branch of Cassa di Risparmio di Torino branch in Mogadishu.
- 1941** All Italian banks were closed by the British Administration.
- 1943** The Barclays Bank DCO, a British Commercial Bank, was opened in Mogadishu, This coincides when the British Government Army took control the southern regions of Somalia.
- 1950** Italian commercial banks, such as Banco di Roma and Banco di Napoli re-opened their branches in Mogadishu.

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<sup>14</sup> <https://www.cia.gov/library/publications/the-world-factbook/geos/so.html#Econ>. 2008. CIA World Factbook

**1950** The Italian Trusteeship Administration (A.F.I.S.) established on 8<sup>th</sup> April, 1950 a new currency institution regulator “ Cassa per la circolazione monetaria della Somalia” with its head quarter in Rome.

Main functions of the new institution were:

- a) Treasury services
- b) Advances to A.F.I.S. for short term loan
- c) Issuance of circular cheques and current accounts cheques
- d) Acceptance of deposits from the public
- e) Buy and sell foreign currencies and gold
- f) Buy and sell government bonds
- g) Re-discount commercial bank’s bills
- h) Invest its assets, except cash kept as guarantee

**1952** In Hargeysa for the first time was opened a branch of National Bank of India, a commercial bank owned by the British Government.

**1954** The National Bank of India opens another branch in Berbera.

**1954** In Mogadishu was established the first Government owned bank the “ Credito Somalo” founded by Decree No.2 of 22 February 1954 issued by A.F.I.S.; its main objectives were to extend financial support to the small farmers, livestock, and small scale industries and handcrafts sectors.

By Law No. 10 of 30 September 1956 the Credito Somalo was authorized to accept savings from the customers. According to the Law No.28 and 29 dated August 1957 and Law No.1 of 18 February 1959, within the Credito Somalo were established two autonomous departments: housing credit Department, and medium and long term loans facilities Department. The capital of the Credito Somalo was So.Shs. 7,500,000 of which So.Shs. 6,300,000 was paid by A.F.I.S. and A.S.E.S. (Agency for Economic Development of Somalia), and So.Shs. 1, 200, 000 paid by banana plants cultivators companies (S.A.C.A. and S.A.G.). The bank opened also branches in Kisimayo, Baidoa and Merca.

**1960** Was established the Central Bank of Somalia named “**Somali National Bank**” by Decree No.3 of 30 June, 1960 and converted into Law No.2 of 13 January, 1961.

The Somali National Bank has been authorized to extend to its activities to all the regions of the Republic of Somalia and opened the following branches:

Hargeysa	20	August	1961
Berbera	27	January	1962
Kismayo	5	November	1962
Bosaso	26	March	1963
Qardho	26	March	1963
Burao	29	March	1963
Galkaio	5	November	1963
Baidoa	4	January	1965
Beled Weyne	6	January	1965

The Somali National Bank being a Central Bank was not allowed to carry commercial banks operations, but, due of non presence of commercial banks in most of the regions of the country, the Government of Somalia enacted Decree No.264 of 3 November, 1962 authorizing the Somali National Bank the authority to engage in commercial banking operations.

**1961** Banque de Port Said, an Egyptian commercial bank, opened a branch in Mogadishu, and operated until 7<sup>th</sup> of May, 1970.

**1968** The Somali Development Bank was established by Decree No.2 of 28 February 1968. Art.3 of the Law states that the bank main purpose to its establishment is to play a significant financial role to all economic sectors in medium and long term loans, in particular agriculture, industry, mining and tourism.

The Somali Development Bank as per Art. No. 5 of its foundation act was not allowed to accept deposits or savings from the depositors.

1968 in Mogadishu the National and Grindlays Bank established a new branch and also the bank were operating in Hargeysa and Berbera.

1968 the Credito Somalo was closed due of liquidity crises and all its assets and liabilities were transferred to the Somali National Bank.

On the 7<sup>th</sup> of May, 1970 all foreign commercial banks were nationalized.<sup>15</sup>

### **1971 The establishment of two public commercial banks.**

On the 1<sup>st</sup> January, 1971 two commercial banks were established:

1. Somali Savings and Credit Bank
2. Somali Commercial Bank

The two banks were autonomous institutions with legal personalities and a capital of So.Shs. 2,500,000 each of which 50% paid by the Somali Government and 50% by the Central Bank of Somalia.

The two institutions were fully owned by the Government, with same objectives and activities (commercial banks), their operation were based on deposits and savings and short term loans.

**1975** In 1975 there was a change to the structure of banking system in Somalia. The two commercial banks were amalgamated into the Commercial and Savings Bank of Somalia, at the same time, the Somali National Bank was renamed the Central Bank of Somalia.

**1990** In 1990 following an agreement with the I.M.F. on 1<sup>st</sup> July, 1990 implementing the free private oriented economy, a new commercial bank was established “Somali Commercial Bank” by Presidential Decree No. 4 of 16 December, 1989, with a capital of So.Shs. 2 billion divided into two thousand shares of one million So.Shs. Each. One billion was paid jointly by the Government and the Central Bank of Somalia and one billion left to the private investors of which only 22 shares were subscribed.

Finally, the under listed banks were operating in Somalia at 30 December, 1990:

1. Central Bank of Somalia
2. Commercial and Savings Bank of Somalia
3. Somali Development Bank
4. Somali Commercial Bank

### **The Central Bank of Somalia:**

The Central Bank of Somalia is unable to regulate the banking system and enjoys little autonomy. Nevertheless, there have been recent efforts to re-assert its authority over the economy and re-engage the levers over monetary policy. According to the Central Bank’s website:

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<sup>15</sup> <http://www.nationsencyclopedia.com/Africa/Somalia-BANKING-AND-SECURITIES.html>.  
Somalia - Banking and Securities.

“On the monetary policy management, the newly revived Central Bank of Somalia is in the process of taking full charge of formulating and implementing monetary policy. Speedy resumption of taking charging of monetary policy by the Central Bank is however handicapped by lack of adequate resources, both financial and material.

Alongside the Somali shilling, the US dollar is also widely accepted as a medium of large and high transactions even for local trade exchanges i.e., the economy is deeply dollarized in view of weak confidence in the local currency some of which are counterfeits;

Dollarization notwithstanding, the large issuance of the Somali shilling increasingly fuels price rises, especially for the low value transactions to the extent that inflation runs in high double digits and the Somali shilling is continuously on a depreciation trend. The inflationary environment is expected to cease as soon as the Central Bank takes full charge of monetary policy and replaces the presently circulating currency printed by the private sector.”<sup>16</sup>

Despite such determined and hopeful rhetoric, these efforts have largely been frustrated. The transitional government sacked its governor in 2005 for disobeying orders, and the governor protested that its action was illegal and unconstitutional. In its current state the central bank cannot control the money supply, particularly since the country has largely been dollarized, and has no monetary policy or interest rate setting ability.

In the south there have long been plans to reactivate the Central Bank of Somalia and to issue bank notes through it. However, in the absence of a centralized government, there has been little to stop other economic agents from importing bank notes. The prospect of the Central Bank, if it is re- established, performing a useful service is remote for several years at least.<sup>17</sup>

### **Commercial and Savings Bank of Somalia:**

In 1971, two commercial banks were established: the Somali Savings and Credit Bank and the Somali Commercial Bank. The two banks were autonomous institutions with legal personalities and a capital of 2,500,000 Somali Shillings each of which 50% paid by the Somali Government and 50% by the Central Bank of Somalia. The two institutions were fully owned by the Government, with same objectives and activities (commercial banks), their operations were based on deposits and savings and short term loans. In 1975, following a change to the structure of the banking system in Somalia, the government merged Somali Commercial Bank and Somali Savings and Credit Bank to form Commercial and Savings Bank of Somalia, the only bank in the country at that time. In 1990, the nationalized Commercial and Savings Bank of Somalia failed.<sup>18</sup>

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<sup>16</sup> <http://somalbanca.org/>. The Central Bank of Somalia. *Monetary Policy*

<sup>17</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Profile 2008. Economic Intelligence Unit.

<sup>18</sup> <http://somalbanca.org/financial-institutions/brief-history-of-the-somali-financial-institutions.html>. Brief History of the Somali Financial Institutions. Central Bank of Somalia.

### **Somali Development Bank:**

The Somali Development Bank was established in 1968. Its main purpose was to play a significant financial role to all economic sectors in medium and long term loans, in particular to the agriculture, industry, mining, and tourism sectors. As part of its foundation act, the bank was not allowed to accept deposits or savings from depositors.<sup>19</sup> It has been defunct as of 1991, when it collapsed along with the rest of the banking system at that time.

### **Somali Commercial Bank:**

In 1990, following an agreement with the IMF implementing a free private oriented economy, a new Somali Commercial Bank was established, with a capital of 2 billion Somali Shillings. This capital was divided into 2,000 shares of one million Somali Shillings each. One billion was paid jointly by the Government and the Central Bank of Somali and one billion was left to private investors, of which only 22 shares were subscribed.<sup>20</sup> The bank failed in 1991 as a result of the civil war, together with the formal financial system of the country.

### **Bank Developments**

In the northern self-declared Somaliland the Central Bank of Somaliland, which also provides some commercial banking services, has been established, but no other formal financial institutions exist. Informal facilitators typically charge 5-10% commission on transfers from abroad. The Central Bank of Puntland became operational in Bossaso in August 1999.<sup>21</sup> Somalia is one of only four members of the Arab League that does not belong to the Arab Bank of Economic Development in Africa (ABEDA).

### **Informal Financial Systems**

Financial services are provided in Somalia through many of the same informal institutions that existed under the national government. With formal economic institutions and financial systems exceedingly fragile in the 1980s, their subsequent collapse in Somalia meant little for most of the population. Loans are traditionally secured through family members, not banks. In the absence of a formal banking sector, the only way of transferring funds into Somalia is via remittance companies that use a system known as hawalad, which relies entirely on trust and therefore circumvents formal transfer systems.<sup>22</sup> This is a system of value transfer common in the South Asia and the Middle East. In this model, the migrant gives money to an agent who instructs a second agent to pay the money to the recipient. The second agent pays out on trust that the first agent will settle the debt at a later point (trust often based on family,

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<sup>19</sup> <http://somalbanca.org/financial-institutions/brief-history-of-the-somali-financial-institutions.html>. Brief History of the Somali Financial Institutions. Central Bank of Somalia.

<sup>20</sup> <http://somalbanca.org/financial-institutions/brief-history-of-the-somali-financial-institutions.html>. Brief History of the Somali Financial Institutions. Central Bank of Somalia.

<sup>21</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Profile 2008. Economic Intelligence Unit.

<sup>22</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Profile 2008. Economic Intelligence Unit.

clan or established business connections). The development of international telecommunications has facilitated the expansion of these informal financial networks.<sup>23</sup>

These money transfer companies have been forced to devise their own system of regulation with assistance from the UN Development Programme, having been created following the closure of several money-transfer companies, including the largest such company, Al Barakat, after the international seizure of their assets in November 2001, when they were accused of transferring funds on behalf of terrorist organization Al Qaeda.<sup>24</sup> The crackdown dealt the informal economy a measurable blow.

Remittances from Somalis living abroad may amount to US\$500 million to US\$1 billion annually. In the wake of al-Barakaat's collapse, numerous wire services rose to fill the gap, but commissions on their financial services increased from 3 percent to 7 percent. Wire services, or hawaalad, fill the role of financial institutions in Somalia, since no functional banks exist. The largest ones include Dahab Shiil, based in Hargeisa, which transmits \$5 million monthly, and Dalsan, which handles \$2 million in monthly transactions.<sup>25</sup>

As Little notes, "With formal economic institutions and financial systems exceedingly fragile in the 1980s, their subsequent collapse in Somalia meant little for most of the population" (2003: 9). Money transfers are handled through the Hawaalad system, which allows Somalis to transfer money within the country and from abroad. Typically recipients are asked a series of questions based on clan lineage to verify their identity when they receive funds. This system successfully moves \$500 million to \$1 billion dollars a year into Somalia; commission rates are typically around 5% (Coyne 2006: 22). Unfortunately, one of the major transfer houses, Al Barakaat, was shut down after the 2001 terrorist attacks on the United States because of suspected links to terrorist organizations. However, as Little explains, "while a resident of Somalia still has little access to formal banking and financial institutions, access to other financial facilities actually has improved with the collapse of the state (2003: 144)."<sup>26</sup>

Nonetheless this has not prevented rather vibrant economic activity and cross-border trade – particularly in animal husbandry and other forms of livestock. "The economy has long been heavily dependent on livestock and agriculture. Stock-rearing is practiced throughout the country and normally accounts for about 40% of GDP and over 50% of export earnings. Most of the farmland lies between the Jubba and Shabelle rivers in the south of the country. The small manufacturing sector is based largely on the processing of agricultural products. In the south, the absence of a central government has meant that no economic data have been produced by national sources since 1990. In Somaliland, by contrast, the government collects tax and duties

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<sup>23</sup> <http://www.compas.ox.ac.uk/publications/papers/Somalia%2005015.pdf>.

<sup>24</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Profile 2008. Economic Intelligence Unit.

<sup>25</sup> <http://www.pogar.org/countries/theme.asp?th=12&cid=17#sub3>. Financial Transparency Report: Somalia. United Nations Development Programme – Program of Governance in the Arab Region.

<sup>26</sup> [http://www.independent.org/pdf/working\\_papers/64\\_somalia.pdf](http://www.independent.org/pdf/working_papers/64_somalia.pdf). Somalia After State Collapse: Chaos or Improvement? The Independent Institute. 2006.

levied on trade.”<sup>27</sup> Unfortunately, Piracy has recently become one of Somalia’s “few booming businesses and will persist as long as the chaos continues on land. It is a particular problem in Puntland, and is likely to continue to be so despite the election of a new regional president in January.”<sup>28</sup>

### **Interest Rates:**

In the absence of a functioning Central Bank or a banking system, there is no autonomous control over interest rates. The only proxy for the cost of money is the transaction fees and surcharges associated with the hawaalad system that has become the de facto system of credit for the Somali region. Commission rates for these money transfer system have ranged from about 3% to 7%, with the bulk averaging at around 5% of transferred funds. While not a perfect substitute, this represents the closest observable ‘official’ lending rate that exists.

Commission fees seem to toggle with the availability of money transfer services (a rough proxy for money supply) and the overall risk associated with moving tender through the system. One should assume some component of the fee compensates for the counterparty and credit risk inherent in the trust-based remittance system, but this is difficult to quantify given current information.

### **Foreign Reserves, Currency and Exchange Rates:**

Given the collapse of the national government and the absence of any official body to determine monetary policy, the Somali Shilling (SOS) is one of the few truly independently free-floating currencies. However, the USD is freely accepted throughout the country – its circulation driven by the remittances of Somali expats. This provides for a ready real-time valuation of the Somali Shilling. However, the price of the Shilling is still quite difficult to pinpoint with precision given the fluctuation of exchange rates from region to region within the Somali territory. The currency’s value is tracked by Bloomberg and other currency reporting outlets, with its value responding to typical economic and trade factors – but largely dependent on notions of the country’s sovereign risk. The currency has strengthened somewhat in recent years, drifting from a nadir of roughly 10,000 Shillings to the USD (brought on by rampant counterfeiting of the SOS), to roughly 1200 SOS to the USD in 2006.

The unrecognized semi-autonomous Somaliland region in the north produces its own currency – the Somaliland Shilling. The Somaliland Shilling has enjoyed greater price stability and has helped buttress the region from the more extreme inflation faced in the South.

The country currently has no reserve of foreign currency, with some \$70m in foreign exchange disappearing upon the collapse of the Barre regime in 1991<sup>29</sup>.

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<sup>27</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Profile 2008. Economic Intelligence Unit.

<sup>28</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Report. 2009.

<sup>29</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Profile 2008. Economic Intelligence Unit.

According to the African Fixed Income Guidebook of 2006:

“The Somali Shilling (SOS) is a completely market driven, independent, and freely-floating currency, due to the absence, since 1991, of an effective government of national unity and the non-existence of a meaningful central bank or a functioning banking system. The system of transferring funds in the country is, therefore, carried out by privately-owned remittance companies through an old practice (“hawaalad”), purely based on trust.

As of 1996, the SOS was still widely in use despite the lack of a government to back the currency. In 1999, the mass distribution of counterfeit Shillings reduced the SOS value against the US dollar down from 7.5 to 10,000. The exchange rate was at SOS 2,600 / 1 USD in 2000. Four competing versions of the national currency have been reported to be in circulation. One of these is issued by the Transitional National Government in the South, the other is the “Somaliland Shilling” circulating in the North. The USD freely circulates in the whole country, which has been effectively “dollarized”, depending almost solely on expatriates’ foreign remittances.”<sup>30</sup>

Following 1991, several rival producers of Somali Shillings emerged entering variants of the official currency into circulation. “These included the Na shilling, which failed to gain widespread acceptance, and the Balweyn I and II, which were forgeries of pre-1991 bank notes. A competition for seigniorage drove the value of the money down to about \$0.04 per SoSh (1000) note, approximately the commodity cost. Consumers have refused to accept bills larger than the 1991 denominations, which has helped stopped the devaluation from spiraling further. The pre-1991 notes and the subsequent forgeries are treated as the same currency. It takes large bundles to make cash purchases. United States dollar is often used for larger transactions.”<sup>31</sup>

The Economist Intelligencer has this to say about the Somali Currency experience:

“In the south, the rate for the Somali shilling varies from town to town and the situation has been complicated by the occasional importation of new bank notes (see The economy: Economic policy). Exchange rates were stable during the 13th peace conference, in Arta, Djibouti” in July 2000” which led to the establishment of the Transitional National Assembly, but a further decline in the value of the Somali shilling began in September 2000. The lack of hard currency from livestock sales and reduced inflows of remittances, coupled with the ongoing instability created by various armed factions fighting between themselves, often cause the Somali shilling to fall against the US dollar. The weakening of the US dollar in 2002-05 helped to lift some of the pressure on the shilling, and the establishment of the TFG helped to stabilize the exchange rate against the US dollar, which remained stable, at around SoSh14,000:US\$1, in the second half of 2006 (July-December). However, according to the UN’s Food Security

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<sup>30</sup> African Development Bank, May 2007. *African Fixed Income Guidebook*

<sup>31</sup> [http://en.wikipedia.org/wiki/Somali\\_shilling](http://en.wikipedia.org/wiki/Somali_shilling). Wikipedia: Somali Shilling

Analysis Unit (FSAU), the shilling fell by 35% against the US dollar in Mogadishu's Bakara market between January and November 2007, from SoSh14,160:US\$1 to SoSh21,675:US\$1, with depreciations of nearer 40-50% in the Shabelle valley and central regions over the same period. These exchange rates are the highest to have been seen in Somalia since 2001/02, when the inflow of US dollars into the country was insignificant and the ban on livestock exports to the Arabian peninsula was in force.

The Somaliland shilling was trading at SoSh4,000:US\$1 in September 2000 when the livestock ban was imposed, reached SoSh7,400:US\$1 a year later, but had recovered to oSh6,500:US\$1 by December 2001 when Yemen temporarily lifted its ban. The weakness of the US dollar and the increase in livestock exports to the Middle East (excluding Saudi Arabia) has kept the currency fairly stable in the last few years. The Somaliland shilling is estimated to have averaged around SoSh6,300:US\$1 in 2006. In contrast to the Somali shilling, the Somaliland shilling appreciated by 9%, from SoSh6,280:US\$1 in January to SoSh5,738:US\$1 in November, a sign of Somaliland's greater stability and better business environment."<sup>32</sup>

#### History of Somali Shilling prior to 1991

According to the website of the defunct Central Bank of Somalia (which is trying to reconstitute itself), the following depicts the recent history of Somali currency prior to the 1991 conflict:

#### **"Conversion of the Somalo with the East African Shilling.**

An agreement was reached between the Somali and the British Governments concerning the extension of East African currency circulation for one more additional year in the Ex- British Somaliland Protectorate in order to pave way the reunification of the currencies after the union of the Southern and Northern region on 1<sup>st</sup> July,1960.

Decree No 2 of 6<sup>th</sup> March, 1961 and converted into Law No.3 of 23<sup>rd</sup> May, 1961, in Northern regions of Somalia on the 22<sup>nd</sup> April, 1961 started the replacement of East African currency with the Somalo and lasted till the 25<sup>th</sup> June, 1961.

To give chance to those who were still keeping East African Shillings in hand, the period was extended to 31<sup>st</sup> July, 1961.

#### **Currency introduced after the independence:**

In 1962, following independence in 1960, the Somalo and the East African Shilling which were equal in value, were replaced at par by the Somali Shilling. With Decree No.2 of the 6<sup>th</sup> March, 1961 transformed into Law No. 13 on 23<sup>rd</sup> March, 1961 the currency Somalo was renamed into 'Somali Shilling'. The first new series of banknotes were issued of denominations of 100 Shilling, 20 Shilling, 10 hilling and 5 Shilling in 1962.

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<sup>32</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Profile 2008. Economic Intelligence Unit.



Initially, coins of the East African Shilling and Somalo circulated. In 1967, new coins were issued in the name of The Republic of Somalia in denominations of 1 Somali Shilling, 50 cents, 10 cents and 5 cents.



It followed a second and third batches of currency issued in 1966 and 1968 respectively.

The fourth batch was different in substance as the previous one, and it was released in 1971/72.

In 1974, a new series ( fifth batch) of banknotes was introduced. This time the shape and the language of the banknotes changed substantially, but the value remained the same. The language used was Somali and Arabic.

The sixth batch or the first batch of currency printed by the Central Bank of Somalia was in 1978, by Decree No. MJDS of 6<sup>th</sup> December 1977, in the denomination of 5 and 100 shillings, these was followed by issuance of 10, 20 and 100 notes in 1980. The content of the value of the currency remained the same except the name of the issuing authority that changed from the Somali National Bank to Central Bank of Somalia.

In late 1982 preparation were put in place for the introduction of a new series of banknotes. The pertinent Decree was enacted in December 1982 and in 1983 the notes were released into

circulation. The notes of this series are similar to the notes of the preceding series, but they are reduced in size ( seventh batch).



In addition to the four traditional denominations released in Somalia over the previous thirty years, this issue sees the introduction of a new denomination of 50 Shillings, in 1983.



As the political and economic situation started deteriorating and inflation continued to rise, it became necessary to issue higher denomination of the shilling notes. With the new release in 1989 (eighth batch) a new denomination was introduced that is of 500 shilling note.



As the situation spiraled out of control, a 1000 Shilling note was introduced ( ninth batch).<sup>33</sup>

### Inflation Data:

Inflation, as might be expected, has been a significant challenge for the people of Somalia. Official estimates put annual inflation rates at roughly 30% per annum.<sup>34</sup> The lack of

<sup>33</sup> <http://somalbanca.org/>. The Central Bank of Somalia. *Currency*

authorities to prevent rampant counterfeiting of banknotes and other legal tender has resulted in a highly debauched currency. In three months of 2000 alone, after a group of businessman imported 30 billion shillings of notes printed in Canada, the SOS declined in value by about 30%.<sup>35</sup> From 1992 to 1995, Somalia's weighted average annual rate of inflation was 331.2 percent. No subsequent data are available, but it is estimated that inflation remains in the 300 percent range annually.<sup>36</sup>

Inflation has often ranged higher in southern Somalia where control over the money supply and counterfeiting is considerably less than in the northern self-declared protectorate territory. The following is a list of periodic free market exchange rates since 1991:

- 2000 SOS/USD in June 1991
- 5000 SOS/USD in June 1993
- 13,400 SOS/USD in March 2006
- 15,000 SOS/USD in February 2007
- 25,000 SOS/USD in March 2008<sup>[4]</sup>
- 35,000 SOS/USD in July 2008<sup>[5]</sup>

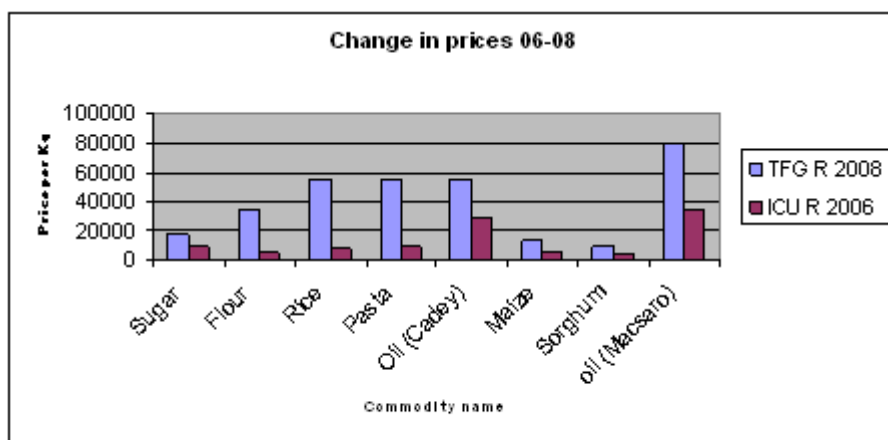
Price fluctuations for sample commodity goods between 2006 and 2008:

Item	Previous prices during the ICU rule per KG or Litt.in the year 06	Current prices per Kg or Litt. In the year 08	percentage increase in prices %
Sugar	10000	18000	80
Flour	6000	35000	483.3333333
Rice	8000	55000	587.5
Pasta	9000	55000	511.1111111
Oil (Cadey)	28000	56000	100
Maize	5000	14000	180
Sorghum	4000	10000	150
Semsemoil (Macсарo)	35000	80000	128.5714286

<sup>34</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Profile 2008. Economic Intelligence Unit.

<sup>35</sup> [http://en.wikipedia.org/wiki/Somali\\_shilling](http://en.wikipedia.org/wiki/Somali_shilling). Wikipedia: Somali Shilling

<sup>36</sup> <http://www.pogar.org/countries/theme.asp?th=12&cid=17#sub3>. Financial Transparency Report: Somalia. United Nations Development Programme – Program of Governance in the Arab Region.



FGR (TFG RULE)  
ICUR (ICU RULE)

### Taxes and Duties:

As would be expected, no formal tax policy exists in the absence of a formal government apparatus, but through extortion and protection rackets, Somali's do adhere to an informal patchwork of duty collection. These levies provided a large portion of the income enjoyed by warlords and regional strongmen. The exception, as is typical, is in the northern Somaliland region, where port levies and other official excises provide a large bulk of government revenues. According the Economist Intelligencer:

"There is little formal economic policy beyond the collection of duties and tax. In southern Somalia, taxes are often levied by local warlords or clan leaders and used to pay militiamen. Some factions in the south have made attempts to manage various cities, in some cases using collected funds to restore schools and hospitals. Elsewhere, collection of taxes and duties is more like extortion by armed groups in the areas that they control. By contrast, in Somaliland, duties levied at the port of Berbera generate an estimated 85% of government revenue, although these duties were severely depleted during the ban on livestock imports by Saudi Arabia and other Gulf states (see The external sector: Trade in goods). Consequently, Somaliland's government revenue, which is mostly spent on the armed forces and civil-service salaries, has been extremely modest in recent years. The US\$25m total for 2005 was an increase of 13% over the 2004 budget of US\$22m. In many areas, all over Somalia, duties on the import of a mild narcotic, khat, represent a significant source of income for those in power.

In Somalia at least two forms of Somali shilling circulate. Hussein Mohamed Aideed's administration imported several million dollars worth of new bank notes in 1997 and 1999. The Puntland administration imported new notes in 2000 and 2006, and several similar deliveries arrived in Mogadishu under the Transitional National Assembly (TNA) from 2000 to 2003. In Somaliland the Somaliland shilling became legal tender in February 1995. Money-changers operate legally and freely, even though multiple currencies continue to circulate."<sup>37</sup>

<sup>37</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Profile 2008. Economic Intelligence Unit.

## **Equity and Bond Markets:**

Somalia has no securities exchanges or listed entities.

The Somali external debt, which the IMF estimated at \$3BN in 2001, continues to accumulate in arrears. According to the Economist Intelligencer, "Because there is only a nascent government in Somalia, and the administration in Somaliland has yet to be internationally recognized, relations with creditors have been frozen for over a decade. External debt totaled US\$2.84bn in 2006. No debts have been serviced since 1990 and the undrawn balances of credits with the IMF have been frozen since September 1987. The majority of Somalia's debt (67%) is owed to official creditors. As the Transitional Federal Government (TFG) began to establish itself in 2005, the World Bank and IMF announced that Somalia must clear US\$430m of debt arrears before the Bank could start lending to the new government. It is likely that once there is some semblance of peace and a government in Somalia, a substantial portion of Somalia's commitments will be written off "at present a distant prospect."<sup>38</sup>

## **Trade and Foreign Investment:**

Somalia's primary trading partners are its regional neighbors and the Middle East.

Chief Export Partners: UAE 50.7%, Yemen 21%, Oman 6.1% (2007)

- Key Exports: livestock, bananas, hides, fish, charcoal, scrap metal

Chief Import Partners: Djibouti 34.4%, India 9.1%, Kenya 9%, Oman 6%, UAE 5.6%, Yemen 5.5% (2007)

- Key Imports: manufactures, petroleum products, foodstuffs, construction materials, qat

Details on Somali external trade are given by the following treatise in the Economist Intelligencer:

"Traditionally, livestock and bananas have dominated exports, but some hides and skins are also traded. Inevitably, drought and war have affected exports. Formal trade more or less collapsed after 1990, but the northern ports of Berbera and Bossasso reopened in the mid-1990s. An estimated 3-3.5m animals, mostly sheep and goats, were exported annually to the Arabian peninsula through Berbera and Bossasso in the late 1990s, although this total dropped sharply during a ban on livestock imports imposed by various Gulf states in September 2000. Between 2003 and 2005 about 2m sheep and goats were exported annually through the two northern ports, and chilled meat is also exported to Gulf states by plane from abattoirs located in Burao, Gaalka'yo, Beled Weyne and the capital, Mogadishu. The port of Mogadishu used to handle large amounts of food aid and equipment for UN operations, but since March 1995 aid imports have been severely reduced because of poor security. Most goods arrive in the capital

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<sup>38</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Profile 2008. Economic Intelligence Unit.

via the beach at el-Maan, an hour's drive from Mogadishu, where gunmen oversee security as cargo is transferred to smaller boats and brought ashore by hand. In the north, three private airlines operating from Hargeisa fly in electronic goods from the Middle East and export frozen meat, skins and hides. Officially recorded foreign trade, in common with other elements of the formal economy, has suffered greatly because of the civil war.

The United Arab Emirates and Yemen are Somalia's main commercial partners, accounting for an estimated 50% of Somalia's exports in 2006. Saudi Arabia was also a major trading partner until a ban was placed on the importation of livestock in mid-September 2000 following an outbreak of Rift Valley fever. Discussions were initiated in 2003 to establish a Somali Livestock Board to regulate the industry and to help to end the ban; a new slaughterhouse, observing acceptable standards of hygiene, opened in Burao in 2003. By late 2003 the ban had been lifted by all Gulf states except Saudi Arabia, which did not follow suit until December 2006. The ban's impact, particularly on the economies of Somaliland and Puntland, has been severe in terms of loss of sales, export levies and port revenue. However, demand for livestock during the Muslim Haj festival in Nigeria has created a new market for Somalia, with exports to Nigeria totaling US\$42m between 2001 and 2006. Berbera port alone provides 85% of Somaliland's income. According to data produced in recent years, trade with European countries has ceased almost entirely. Djibouti and Kenya have emerged as major suppliers of Somali imports, reflecting their strategic positions during a period when Somali ports and airports have operated only sporadically."<sup>39</sup>

While official statistics are hard to identify, Somalia's informal economy provides a fertile ground for foreign owned private entity – with the bulk of private sector ownership coming from nationals of neighboring (especially Islamic) states. Coca Cola made a flashy re-entry into the Somali market with a new bottling plant opened in Mogadishu in 2004 (the last such plant was destroyed in the early 90's).<sup>40</sup> As a working paper on thriving Somali commercialism in the absence of a state observes, foreign business is relatively prevalent in the anarchic territory:

“Perhaps somewhat surprisingly for a poor, stateless, African country, Somalia has attracted a number of major corporations. Italian agribusiness companies and U.S.-based Dole Fruit Inc. have invested in the agricultural sector since the state's collapse.<sup>2</sup> One of Somalia's media companies has affiliated with the British Broadcasting Corporation (BBC). The courier DHL serves Somalia. A British Airways affiliate flies to Somalia. General Motors also does business there. In 2004 Coca-Cola opened a soft drink plant in Mogadishu that will employ 120 Somalis and have a productive capacity of 36,000 bottles per hour (Ali 2004). Many companies avoid doing business in a number of Africa's nation states, so the fact that these international companies are willing to do business in Somalia is a strong indication that it has been successful in providing a

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<sup>39</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Profile 2008. Economic Intelligence Unit.

<sup>40</sup> <http://news.bbc.co.uk/2/hi/africa/3865595.stm>. *Coca-Cola makes Somalia Return*. Ferrett, Grant. Jul 2004.

minimum security of property rights and economic freedom.”<sup>41</sup>

Limited tentative joint venture agreements have been signed in the mineral extraction and oil and gas exploration industries – but these provisional agreements will require stability to return in order for them to be executed upon. According to the Economist Intelligence:

“There has been little exploration of Somalia’s mineral resources. Most of Somalia’s proven oil and gas reserves lie to the north, and although various agreements have been signed in the past regarding exploration and drilling, companies must deal with governments that are unrecognized internationally, a risk only some smaller firms have been willing to take. A South African company, Ophir Energy, has an agreement covering four oil concessions in Somaliland, and in Puntland an Australian firm, Range Resources, began exploration for petroleum and minerals in February 2006. Range Resources took on a partner, Canadian-based Canmex Minerals, in October 2006.

The state-owned China National Offshore Oil Corporation (CNOOC) was reported to have reached agreement with Transitional Federal Government (TFG) officials in Nairobi in late June 2007 for exploration rights in the north Mudug region, according to London-based daily newspaper, the Financial Times. Few other details of the CNOOC survey program are available, but the success or otherwise of the Chinese venture in the region, which is claimed by Puntland, will depend on an appropriate agreement also being reached with the regional government of Puntland. It is highly unlikely that the venture will come to fruition, as insecurity in the country is fairly high and such an operation would be a magnet for forces opposed to the TFG. In addition, the legality of any agreements signed by the interim government could be called into question, as several factions within the country are unlikely to consider such deals to be part of the TFG’s mandate.

Commercially exploitable deposits of gold, silver, tungsten, manganese, titanium, chromium and nickel were discovered at Jezira, near Mogadishu, in 1989, but were not developed. Local non-metallic mineral deposits were used in a cement factory and gypsum plant at Berbera before the civil war and, although both plants are now defunct, a joint-venture agreement between Somaliland and a German-based company, Sougueta Engineering AG, to establish new factories for cement and gypsum, was signed in September 2006.”<sup>42</sup>

### Transfer Payments

Transfer payments make up a large bulk of the current account, but the composition of those transfer payments skews heavily towards remittances from Somali’s abroad; direct foreign aid is sparse and has dwindled substantially since the beginning of the Civil War.

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<sup>41</sup> Powell, Benjamin; Ford, Ryan; Nowrasteh, Alex (2006) “Somalia After State Collapse: Chaos or Improvement” *The Independent Institute*, Working Paper Number 64

<sup>42</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Profile 2008. Economic Intelligence Unit.

“Foreign aid fell sharply at the beginning of the civil war in 1991, but picked up after an international appeal for humanitarian relief. The US was the largest bilateral donor in 2005 with US\$37m, followed by Norway with US\$31m. Widespread insecurity continues to hamper relief efforts, and donor responses to appeals for humanitarian relief have been mainly poor. The consolidated appeal of the Somali Aid Co-ordination Body (SACB) in 2007 was US\$237m.

Private transfers from the Somali diaspora are Somalia’s main source of transfer income. These overseas remittances, estimated at around US\$825m a year (including Somaliland), are traditionally the country’s largest source of foreign currency, followed by livestock exports, and become even more vital when import bans are imposed on Somali livestock. Remittance flows were disrupted following the international seizure of the assets of several money-transfer companies in November 2001, although other firms have now taken their place.”<sup>43</sup>

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<sup>43</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Profile 2008. Economic Intelligence Unit.

## Appendix

### Exhibit 1 – Timeline of Somali History<sup>44</sup>

#### A chronology of key events:

**600s** - Arab tribes establish the sultanate of Adel on the Gulf of Aden coast.

**1500s** - Sultanate of Adel disintegrates into small states.

**1875** - Egypt occupies towns on Somali coast and parts of the interior.

**1860s** - France acquires foothold on the Somali coast, later to become Djibouti.

**1887** - Britain proclaims protectorate over Somaliland.

**1888** - Anglo-French agreement defines boundary between Somali possessions of the two countries.

**1889** - Italy sets up a protectorate in central Somalia, later consolidated with territory in the south ceded by the sultan of Zanzibar.

**1925** - Territory east of the Jubba river detached from Kenya to become the westernmost part of the Italian protectorate.

**1936** - Italian Somaliland combined with Somali-speaking parts of Ethiopia to form a province of Italian East Africa.

**1940** - Italians occupy British Somaliland.

**1941** - British occupy Italian Somalia.

#### Independence

**1950** - Italian Somaliland becomes a UN trust territory under Italian control.



Somali capital, Mogadishu, in more peaceful times  
Emerged as Arab settlement in 10th century  
Bought by Italy in 1905  
Capital of independent Somalia from 1960  
Estimated population: 1 million



Parliament in ruins: War devastated much of Mogadishu

2004: Life amid Mogadishu's

<sup>44</sup> BBC Africa – Feb 2009 - [http://news.bbc.co.uk/2/hi/africa/country\\_profiles/1072611.stm](http://news.bbc.co.uk/2/hi/africa/country_profiles/1072611.stm)

**1956** - Italian Somaliland renamed Somalia and granted internal autonomy.

**1960** - British and Italian parts of Somalia become independent, merge and form the United Republic of Somalia; Aden Abdullah Osman Daar elected president.

**1963** - Border dispute with Kenya; diplomatic relations with Britain broken until 1968.

**1964** - Border dispute with Ethiopia erupts into hostilities.

**1967** - Abdi Rashid Ali Shermarke beats Aden Abdullah Osman Daar in elections for president.

### **Drought and war**

**1969** - Muhammad Siad Barre assumes power in coup after Shermarke is assassinated.

**1970** - Barre declares Somalia a socialist state and nationalizes most of the economy.

**1974** - Somalia joins the Arab League.

**1974-75** - Severe drought causes widespread starvation.

**1977** - Somalia invades the Somali-inhabited Ogaden region of Ethiopia.

**1978** - Somali forces pushed out of Ogaden with the help of Soviet advisers and Cuban troops. Barre expels Soviet advisers and gains support of United States.

**1981** - Opposition to Barre's regime begins to emerge after he excludes members of the Mijertyn and Isaq clans from government positions, which are filled with people from his own Marehan clan.

**1988** - Peace accord with Ethiopia.

### **Disintegration**

**1991** - Mohamed Siad Barre is ousted. Power struggle between clan warlords Mohamed Farah Aideed and Ali Mahdi Mohamed kills or wounds thousands of civilians.

**1991** - Former British protectorate of Somaliland declares unilateral independence.

ruins

Taxi driver: Mogadishu



Muhammad Siad Barre backed 'Scientific Socialism'

Born in 1919

Led military coup in 1969;  
overthrown in 1991

Died in Nigeria, 1995



UN force sent to quell violence  
suffered losses, left in 1994

On This Day 1992: American

**1992** - US Marines land near Mogadishu ahead of a UN peacekeeping force sent to restore order and safeguard relief supplies.

[marines land in Somalia](#)  
[On This Day 1993: US forces killed in Somali gun battle](#)

**1993** - US Army Rangers are killed when Somali militias shoot down two US helicopters in Mogadishu and a battle ensues. Hundreds of Somalis die in the battle depicted in the film "Black Hawk Down". US mission formally ends in March 1994.

**1995** - UN peacekeepers leave, having failed to achieve their mission.

**1996** - Warlord Muhammad Aideed dies of his wounds and is succeeded by his son, Hussein.

**1998** - Puntland region declares autonomy.

**2000** August - Clan leaders and senior figures meeting in Djibouti elect Abdulkassim Salat Hassan president of Somalia.

Exhibit 2: Summary Statistics on Somalia

<a href="#">GDP (purchasing power parity):</a> <sup>45</sup>	<a href="#">Inflation rate (consumer prices):</a> <sup>46</sup>
\$5.575BN (2008 est)	30% (2007 est)
\$5.259BN (2007est)	
<a href="#">GDP (official exchange rate):</a> <sup>47</sup>	<a href="#">Investment (gross fixed):</a>
\$2.6BN (2008 est)	Unavailable
<a href="#">GDP - real growth rate:</a> <sup>48 49</sup>	<a href="#">Budget:</a>
2.00% (2008 est)	revenues: NA
8.33% (2007 est)	Expenditures: NA
<a href="#">GDP - per capita (PPP):</a>	<a href="#">Public debt:</a>
	NA
<a href="#">GDP - composition by sector:</a>	<a href="#">Agriculture - products:</a>
agriculture: 65%	bananas, sorghum, corn, coconuts, rice, sugarcane,
industry: 10%	mangoes, sesame seeds, beans, cattle, sheep, goats,
services: 25%	Fish
<a href="#">Labor force:</a> <sup>50</sup>	<a href="#">Industries:</a>
3.612 (2006 est)	NA
<a href="#">Labor force - by occupation:</a> <sup>51</sup>	<a href="#">Industrial production growth rate:</a>
Agriculture : 71%	Unavailable
Industry & Service: 29%	
(1975 est)	
<a href="#">Unemployment rate:</a>	<a href="#">Household income or consumption by percentage share:</a>
Unavailable	lowest 10%: Unavailable
	highest 10%: Unavailable
<a href="#">Population below poverty line:</a> <sup>52</sup>	

<sup>45</sup> Index Mundi

<sup>46</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Profile 2008. Economic Intelligence Unit.

<sup>47</sup> 2008 CIA World Factbook

<sup>48</sup> Index Mundi

<sup>49</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Profile 2008. Economic Intelligence Unit.

<sup>50</sup> POGAR

<sup>51</sup> CIA World Factbook

43% below \$1 per day  
73% below \$2 per day

[Distribution of Family Income - Gini index:](#)

[Current account balance:](#)

Unavailable

[Exports:](#)<sup>54</sup>

\$0.241BN (2008 est)

\$0.300BN (2007 est)

[Exports - commodities:](#)<sup>55</sup>

livestock, bananas, hides, fish, charcoal,  
scrap metal

[Exports - partners:](#)<sup>56</sup>

2007: Djibouti \$305 million, Brazil \$84  
million, India \$81 million, Kenya \$78  
million, Oman \$53 million

[Imports:](#)<sup>57</sup>

\$0.798BN (2008 est)

\$0.576BN (2007 est)

[Imports - partners:](#)<sup>58</sup>

2007: UAE \$193 million, Yemen \$79  
million, Oman \$23 million, Nigeria \$12  
million, Kuwait \$9 million

[Imports - commodities:](#)<sup>59</sup>

manufactures, petroleum products,  
foodstuffs, construction materials

[Economic aid - recipient:](#)<sup>60</sup>

\$237m (2007 est)

[Oil - production:](#)<sup>53</sup>

0 bbl/day\*

[Oil - consumption:](#)

5,082 bbl/day (2008 est)

5,041 bbl/day (2007 est)

[Oil - exports:](#)

NA

[Oil - imports:](#)

5,082 bbl/day (2008 est)

5,041 bbl/day (2007 est)

[Oil - proved reserves:](#)

0 barrels

[Natural gas - proved reserves:](#)

200 bn cubic feet (2006 est)

[Electricity - production:](#)

280.0 mn kWh (2006 est)

[Electricity - consumption:](#)

260.4 mn kWh (2006 est)

[Currency \(code\):](#)

SOS : Somali Shilling\*\*

<sup>52</sup> POGAR, Somali Central Bank

<sup>53</sup> All Energy Data sourced from the EIA

<sup>54</sup> Index Mundi

<sup>55</sup> CIA World Factbook 2008

<sup>56</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Profile 2008. Economic Intelligence Unit.

<sup>57</sup> Index Mundi

<sup>58</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Profile 2008. Economic Intelligence Unit.

<sup>59</sup> CIA World Factbook 2008

<sup>60</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Profile 2008. Economic Intelligence Unit.

Reserves of foreign exchange and gold:<sup>61</sup>

\$0.0BN (disappeared in 1991)

Debt - external:<sup>62</sup>

\$2.836BN (2006 est – In arrears)

Fiscal year:<sup>63</sup>

Calendar Year

Exchange rates:

1,483 SOS to 1 USD\*\*\*

\*Note: In 1986, Somalia refined 196 bbl/day of oil, which decreased rapidly to an average 1999 of 54 bbl/day, which then decreased to 0

\*\*Note: the Republic of Somaliland, a self-declared independent country not recognized by any foreign government, issues its own currency, the Somaliland shilling

\*\*\*Note: Somali shillings (SOS) per US dollar - NA (2007 08), 1,438.3 (2006) official rate; the unofficial black market rate was about 23,000 shillings per dollar as of February 2007. This is due to the mass distribution of counterfeit Shillings, and four competing versions of the national currency are now in circulation. The US\$ freely circulates in the whole country, which has been effectively "dollarized", and depends almost solely on expatriates' foreign remittances.

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<sup>61</sup> [www.eiu.com](http://www.eiu.com). Somalia Country Profile 2008. Economic Intelligence Unit.

<sup>62</sup> Ibid

<sup>63</sup> [www.country-data.com](http://www.country-data.com), Library of Congress