Table 4.2: Trader Returns from Cross-Border Trade of Cattle to Kenya

Item	Cattle (US$ per head)	Return to operators (%)
Initial purchase price from herder	108.00	
Purchase price from middlemen (Afmadow)	**128.0**	
Transport costs (Afmadow to Garissa)	3.00	
Hired herd labor	1.60	
Security/transit fees	0.40	
Water, 50 days@0.08 **[[per liter?]]**	4.00	
Medicine/dips	1.82	
Fodder (Garrisa market, dry only)	0.60	
Risk from loss (theft, drought, etc.) 6%	7.68	
Broker fee (Afmadow)	1.25	
Broker fee (Garissa)	1.67	
Council tax (Kenya)	1.33	
Currency transaction/conversion fees	5.28	
Costs for Somali trader	156.63	
Sale price, Garissa	**176.00**	
Return for Somali trader		15
Transport cost (Garissa to Nairobi)	20.15	
Movement permit fees	1.33	
Hired labor	0.33	
Water	1.00	
Fodder (Garissa and Nairobi)	0.60	
Market/municipal tax, Nairobi	1.33	
Broker fees (Garissa)	1.67	
Broker fee (Nairobi)	2.50	
Costs for Kenyan trader	204.91	
Sale price, Nairobi	**233.00**	
Return for Kenyan trader		16
Margin between purchase from Somali middleman and final market price in Nairobi	**105.00 (82%)**	

Source: Little, 2003.

4.103 Other problems highlighted by Somali livestock traders include the lack of veterinary and credit services. In terms of veterinary services and drugs, herders used to rely on Kismayo for supplies, but because of the continued violence there they have to use alternative sources of supply. With respect to credit, traders have difficulties in collecting their payments from the Nairobi-based wholesalers and butchers. Finally, small-scale traders in Somalia cannot procure animals in bulk because of the unavailability of capital and access to financial services.

4.104 **Role of the public and private sector**. **<<D>>** Like the situation in Somaliland and Puntland, the private sector dominates production, support services, and trade of livestock in South Central Somalia. It will be efficient for this to continue. But this region also faces special circumstances that require the public sector to intervene. Parasites and infectious diseases are much more prevalent in the South than in Central or Northern regions and hence veterinary supplies and services are crucial here. The same issues related to export inspection for cattle, camels, sheep, and goats therefore apply in South-Central as in Somaliland and Puntland in making livestock more marketable internationally through an eradication campaign.

4.105 It will therefore be a wise use of public resources for the Ministry of Livestock **[[MoLAE?]]** to be in a position to provide strong support to the delivery of veterinary services to livestock owners based on a predominantly private delivery service, possibly through CAHWs. Eradication of epizootic diseases and high standards of animal health will be the most important advertisement for the quality of Somali livestock which, despite the Saudi ban, are in high demand in most Gulf countries. Infrastructure for marketing is usually a public good the government provides—perhaps in some cases on a charge-back basis to ensure that users pay. Examples are roads (to lower the costs of transport and to reduce isolation), public stock routes, holding yards, and loading facilities at ports. Another critical role of the public sector is to ensure a highly competent export inspection and certification service to ensure compliance with the requirements of importers. It may be possible to arrange a public/private partnership such as the proposed Somali Livestock Board (see Box 4.3) to implement an export inspection service along the lines already suggested for Somaliland and Puntland—so long as the public sector is diligent in monitoring standards.

4.106 **Public investment proposals.** **<<D>>** A five-year program of priority investments will be discussed in Chapter 6. The main focus of the suggestions based on the issues discussed will be to establish policies on the livestock subsector, and increase income generation for nomadic pastoral and seminomadic agropastoral communities in South Central Somalia through improved production services and advisory services on range management, animal health services, and more effective livestock marketing systems. Increased income generation in turn should lead to reduced poverty, enhanced food security, and better nutrition. The most prominent proposals are the improvement of export inspection and certification of livestock and the improvement of animal health services, with a major effort to train CAHWs. The total estimated cost for the program is US$20 million.

Crops and Watershed Management ***<<C>>***

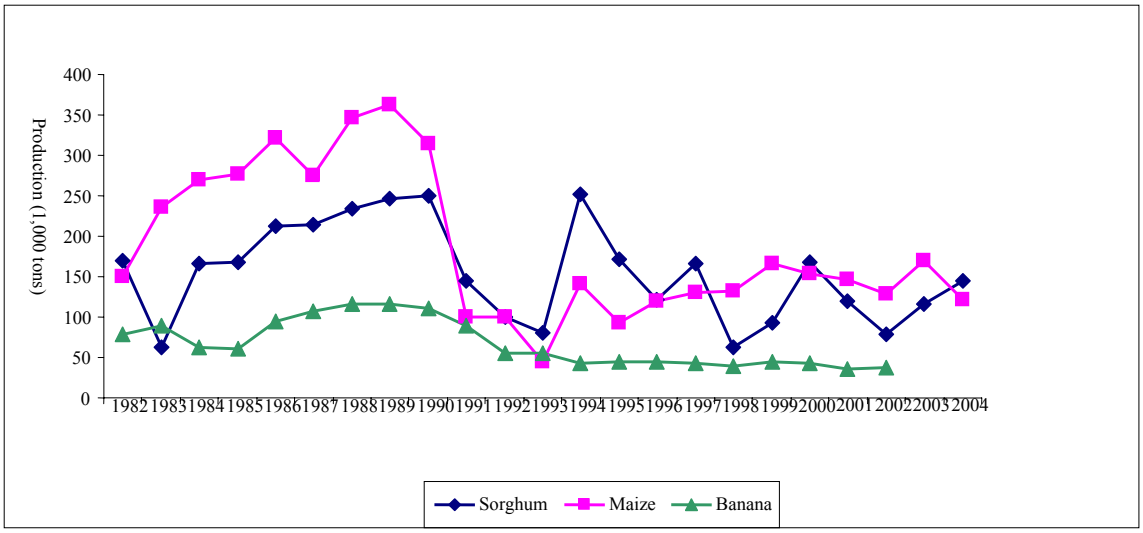
4.107 The most important food crops in South Central Somalia are sorghum, maize, sesame, cowpeas, sugarcane, and rice and most of these crops are grown in the South. Before the civil war, commercial crops included bananas, citrus (grapefruit and lemon), vegetables, and cotton. About 90 percent of the cereal production takes place in the South from where it is marketed throughout all other regions. Food crops are predominantly produced by smallholders. Prior to the civil war, the exported banana and associated crops of grapefruits and watermelons were vertically integrated. Production was carried out by large private farms that depended on the support of Somalfruit, a joint marketing company owned by Italian and Saudi companies and the banana producers and the government with minority shares. **[[not clear who had minority shares]]** The company provided inputs, technical assistance, and marketing. Lemons, which do not require inputs, are dried and exported by traders and were not adversely affected by the war. Sugarcane production and the associated processing plants were run by government parastatals and were mostly used for domestic consumption. Sugar is no longer produced and the processing plants were looted and exported as scrap metal.

4.108 Prewar annual cereal production averaged about 490,000 metric tons (SACB, 2004, World Bank, 2006). As shown in Figure 4.1, highest cereal production amounting to 625,000 metric tons was obtained in 1989. This was associated with increases in the

production of other crops such as banana, grapefruit, grain legumes, and sesame, which were a response to structural adjustment and agricultural policy reforms in the mid 1980s. Production declined immediately following the start of the civil war. There was partial recovery in crop production in 1994 to about 70–80 percent of prewar levels due to combination of reduced fighting resulting from the arrival of international peacekeeping forces, good rains, and considerable assistance from donors and NGOs. However, the withdrawal of these forces led again to reductions in production. The average annual production of cereals dropped from 395,000 metric tons in 1994 to 265,000 metric tons in 1995–2003 (SACB, 2004). A recent report by FSAU/FEWS shows that cereal production in 2004 was only 43 percent of the postwar era (1989) and amounted to only 267,000 metric tons (FSAU/FEWS, 2005). This was due to insecurity, poor rains, reduced irrigation, and damaging floods in 2004 "Der" season, which further caused considerable damage to standing crops and livestock throughout Somalia.

4.109 **Rainfed farming. <<D>>** The most important rainfed farming system is found in the inter-riverine regions of Bay and Bakool and along the two rivers where irrigation infrastructure is not developed. Farmers often use soil and water conservation measures to enhance their productivity. In addition, in the 1980s, considerable innovations in enhancing soil fertility and the introduction of drought-tolerant varieties contributed higher yields (Haji, 2005; University of Wyoming, 1990). However the civil war, the recurring droughts, the lack of adequate agricultural services such as research, extension, improved seeds, and other inputs have reduced the productivity of rainfed agriculture in all the key areas in southern Somalia. Therefore, improving these support services will be essential to the recovery of productivity.

Figure 4.1: Production Trends for Major Food Crops and Bananas



Source: FEWS for sorghum and maize data, FAO/FSAU for bananas.

4.110 **Irrigated farming. <<D>>** In 1990 about 165,000 or 15 percent of the estimated cultivated land of 1.1 million hectares was under irrigation (FAO, 1991). Irrigated agriculture is mainly along the two perennial rivers of Juba and Shabelle that originate in the eastern Ethiopian highlands. The areas with traditionally controlled irrigation, in the order of

importance, are Lower Shabelle, Lower Juba, and Middle Shabelle regions. Limited small-scale pump irrigations are practiced in Middle Juba, Gedo, and Hiran regions. Most of the irrigated areas of the Shabelle valley extending from Hiran to Balad in Middle Shabelle, are owned by small farmers. The area between Balad and Afgoye has pump-irrigated plantation farms. The area between Afgoye to Bariray is occupied by small-scale farmers; in the eastern side of the river from Bariray to Bulo Mareerto there are large plantations, whereas the western side is dominated by small farms. Downstream of Bula Mareerto to Hawaii **[[correct?]]** are only small farms. The Juba Valley it is dominated by small farms, with the exception of the area downstream of Jilib that consists of former state farms and plantations.

4.111 Several methods of irrigation were used along the Juba and the Shabelle rivers, including pump irrigation, gravity-fed irrigation, and controlled and uncontrolled flood inundation. Several major irrigation schemes were in place prior to the civil war. In the Shabelle valley there were four main colonial barrages, and four newer ones that were constructed in recent years. On the Lower Juba River there were four major irrigation schemes: the Fanoole Irrigation and Hydroelectric Scheme, the Juba Sugar Project, the Mugambo Irrigation Project, and the private banana plantations.

4.112 Both Juba and Shabelle rivers are susceptible to flooding during the rainy season and to scarcity of water during the dry season. The war also stopped the collection of hydrological data along the Shabelle and Juba rivers. The network of staff gauges and automatic water-level recorders that were positioned in key sites along the two rivers are no longer functional, resulting in reduced capacity for flood early warning. The available hydrological data clearly show the need for enhancing the storage capacity and flood control and plans were underway, before the civil war, to address them. The EC-funded ongoing Somalia Water and Land Information Management (SWALIM) project aims at developing a soil- and land-management database. This includes a hydrological network with staff gauges and automatic water-level recorders and will be eventually transferred to relevant government institutions.

4.113 The Shabelle had a storage capacity of 200 million cubic meters at the Jowhar Off-Stream Storage (JOSS), which due to the civil war and lack of repair and proper management became dysfunctional. On the Juba, there was a proposal for the construction of the Baardheere Dam, which if built, would impound flood flows and store some 5,000 million cubic meters of water, irrigate 200,000 hectares, and generate 105 megawatts of hydroelectric power. The implementation of this project was interrupted by civil war (Noor, 1996). While there is considerable capacity to increase the irrigated area in the Juba, the capacity to increase the irrigated area in the Shabelle valley is limited due to less water storage potential. In both valleys, however, the efficiency of irrigation could be improved from the current 30 percent to 60 percent through improvement in the irrigation practices, and there is potential to double the current intensity of cropping through multiple cropping throughout the year.

4.114 Despite this potential, drastic reduction in the area under controlled irrigation has resulted from the looting of irrigation assets; lack of maintenance of the physical infrastructure for water storage, distribution, and flood control; inadequate agriculture services; and the displacement of plantation owners and experienced farmers. Therefore,

according to recent reports from Lower and Middle Shabelle regions, as much as 85–90 percent of the originally irrigated land is now used for rainfed agricultural production (Abikar, 2004). Somali professionals made presentations about the status of irrigation and road infrastructure in the Juba and Shabelle basins for the Somalia Country Economic Memorandum (CEM) in 2006, and highlighted the extreme damage caused by years of neglect and disrepair (World Bank, 2006). The above-mentioned factors were cited as the main causes of drastic decrease in the irrigated area and the marked increase in the frequency of flooding (EU, 2003). However, some wasteful flood irrigation for recession farming is still feasible and practiced at the lower reaches of both rivers. The rehabilitation of the major irrigation, drainage, and flood control assets in Middle and Lower Shabelle and Lower Juba as well as the road infrastructure that links these agricultural areas to urban markets are high priorities once peace is reestablished, an equitable land-tenure system is put in place, and clan-based land disputes are resolved, in order to minimize risk to the proposed investment. The ongoing EC-funded Diversification of High Potential Irrigation Schemes (ARDOPIS) has a labor-intensive feeder road component to be implemented by the International Labor Organization (ILO). The local and central governments should enlist clan elders and religious leaders to establish committees for land conflict resolution. Once conflicts are resolved, an efficient cadastral survey and mapping capacity need to be put in place. Such an initiative could draw on the similar experience in Somaliland, where Cadastral Survey, Ltd., has made considerable progress in farmland registration and titling (Cadastral Survey, Ltd., 2004).

4.115 The lower reaches of the Juba and Shabelle rivers cut through rich alluvial vertisol soils. In addition, the Shabelle valley has the potential and the history for a well-developed, gravity-irrigated farmland. In the order of importance, the crops produced under controlled irrigation prior to the civil war were bananas, maize, grapefruit, sugarcane, cotton, and rice. Flood irrigation and recession farming were and are still used to grow maize and sesame. Maize is used for domestic consumption. Most sesame is exported to the Gulf countries for oil extraction, and sold **[[sesame or oil or both?]]** to North America.

4.116 **Banana production.<<D>>** A recent study by the EU indicated that the production of bananas in Somalia declined drastically and the export mostly stopped by 1998, with the exception of small quantities that are being exported to Libya and the Gulf countries. This stoppage was attributed to the civil unrest, illegal occupation of farmland by armed groups without agricultural experience, the pullout of foreign partners that marketed banana, damage from the El Niño floods of 1997–98, and the deterioration of irrigation and processing infrastructure (EU, 2003). The same report indicates that the terms of trade for bananas worldwide have experienced deterioration in the past two decades and that further deterioration is foreseen to result from the anticipated gradual removal of quota and preferential entries for Africa, Caribbean, and Pacific (ACP) banana producers into the European market, starting in 2006 and ending in 2008, due to WTO regulation. The EU study recommends diversification from banana cultivation to food crops. Other more positive reports indicate that EU is introducing a tariff preference under the tariff-only policy that will give advantage to ACP countries. The measure will remove quotas and impose tariffs on non-ACP countries and will result in African bananas becoming even more competitive, especially those with vertically integrated production systems, of which Somalia was one prior to the civil war (World Bank, 2000, Borrell and Bauer, 2004, Borrell, 2004).

4.117 In addition, on November 8, 2005, the European Commissioner in charge of trade announced that member countries of the ACP group can continue to export a quota of 775,000 tons of bananas to EU without paying customs duties (World Bank, 2005a). In addition to the predicted positive outcome of the EU action, the high potential yields of about 35–50 tons per hectare for well-managed plantations of Somali bananas, the suitability of current and potential irrigated areas in the South for banana production, the proximity of production areas to ports in Mogadishu and Kismayo, and the location of Somalia close to major maritime routes would make Somali bananas profitable and competitive in comparison with annual crops such as maize. Bananas and grapefruit have higher value per area planted than maize, the preferred alternative annual crop. The value of 9,000 hectares of bananas, in 1990, was US$96.0 million, and 3,890 hectares of grapefruit produced US$24.8, whereas it took 315,000 hectares of maize to produce a value of US$35.7 million (Somalia, 1990). This scenario does not conflict with the recommended diversification of crops, which is also desirable. Since bananas at peak production in 1990 occupied only 8–9,000 hectares on 141 farms of average size of 40 to 300 hectares, only partially used for bananas at any given time (EU, 2003), there is additional irrigated land that can be used for diversification into high-yielding and high-value crops such grapefruit, papaya, vegetables, sugarcane, sesame, and rice. The ultimate decision in any case will depend on producers and their partners.

4.118 **Grapefruit production.**<<D>> Since the onset of the civil war there has been a marked reduction in the area under grapefruit, which was expanded in 1980s to complement the banana export. In the 1980s, with support from the European Union, seedlings of high-quality export varieties were multiplied and given to plantations by the Ministry of Agriculture. The area under grapefruit increased from about 1,000 hectares to 3,890 hectares with an average yield of about 9.3 tons per hectare and total production increased from 9,500 tons to 36,200 tons. The apparent low yields are due to the fact that some of the farms did not reach production, which takes about 4–5 years, at the time. Yields of fully mature young fields can reach 40–50 tons per hectare. The producer price in 1990 was US$21.16 per ton (US$197 per hectare) and the local consumer price was US$39.27 per ton (US$365 per hectare) (Somalia, 1990). The export of grapefruit and bananas was carried out together. Grapefruit was put on the deck while bananas were put in cold chambers, thus reducing the cost of transport. Somali grapefruit is usually ready for the market in September, at a time when most Mediterranean grapefruits are out of the market. South Africa was the only potential competitor at the time. In 2000, South Africa produced 240,000 tons of grapefruit from an area of 4,360 hectares and a yield of 55 tons per hectare (USDA, 2001). Somalia needs to rehabilitate its grapefruit industry and increase yield through the application of efficient irrigation and agricultural inputs. Therefore, expanded cultivation of grapefruit and other high-value fruits and vegetables should be associated with the proposed rehabilitation and diversification of the banana sector, to which grapefruit was already a successful companion crop. In addition, grapefruit can grow in association with vegetables and short-duration fruits such as papaya, which intensifies production and provides employment for farm workers.

4.119 **Sugarcane production**. <<D>> Before the civil war sugarcane was also commercially produced by two state-owned enterprises, one in Middle Shabelle and the other in Lower Juba. The yields of sugarcane were also quite high and averaged about 100 tons of cane per hectare or about 10 tons of sugar per hectare. In 1989, the two sugar enterprises

produced 375,000 tons of sugarcane or about 37,500 tons of sugar, with total value of US$24.84 million. **[[OK?]]** This was one of the most important sources of tax revenue for the central government and met most of the country's sugar requirement (Somalia, 1990). However, after the civil war, the processing plants for sugarcane were looted and sold as scrap. This crop could be restarted with private initiatives to meet the domestic need. Some of the land in the two sugar estates could be distributed to farmers in the area and the private enterprises could plant the rest. The two enterprises could be owned by private sector companies with strong sugar industry backgrounds, in partnership with the local private sector. This would contribute to poverty alleviation while meeting the domestic sugar requirements. In addition, any surplus could be marketed, a benefit of a recent decision to allow the 48 least developed countries duty-free access to the EU sugar market by 2009 through its Everything But Arms (EBA) initiative. Or, the surplus could be exported to a Common Market for Eastern and Southern Africa (COMESA) country such as Kenya, which imports considerable quantities of sugar (Mitchell, 2004).

4.120 **Other fruits and vegetable production. <<D>>** There has also been a reduction in vegetable production because of the civil war, with the exception of onions, tomatoes, hot and sweet peppers, and some leafy vegetables that are used in local urban centers. One major factor of this reduction is the lack of seeds and other inputs that are essential for successful vegetable production. Dried lemons and lime from the Shabelle valley are also exported to the Gulf countries and onions are marketed in Northern and Central Somalia. This limited production is from small farms as well as disputed large farms. Tree species that were used as wind-break and mango are being cut for furniture making, because of the high cost of importing timber from abroad (Abikar, 2004) and the lack of market access for mango fruits due to insecurity and the deterioration of roads.

4.121 The general decline in agricultural production in the irrigated areas, due to the civil war, deterioration of the irrigation infrastructure, and recurring droughts and floods caused structural food insecurity, more frequent famines, and internal population displacement. Therefore, the rehabilitation of irrigated agriculture should be a priority for assessment and implementation. A combination of infrastructure rehabilitation and use of improved and innovative agricultural technologies are needed to increase productivity and reduce poverty. This would also reduce the need for horizontal expansion of cultivation into marginal areas, which in turn would lead to environmental degradation**.**

4.122 **Vision for the future. <<D>>** South Central Somalia should return to being the core producing area for food and fruit for all other areas because it has a comparative advantage in producing these products under irrigation. This region is therefore also the most logical area for food processing. Any investment should therefore be aimed at increasing the sustainable productivity of irrigated and rainfed crops in order to contribute to the return to high levels of efficiency and high incomes of producers, increased employment, poverty reduction, and food security for all regions. The production target associated with this vision is to reach production levels comparable with the 1990s for both the domestic and export market in five years and to then lay the foundation for subsequent steady growth. In the Central Rangelands the target outcome is to restore the rangelands to an effective base for efficient, drought-resilient livestock production with animals sold through a modern and export-based marketing system.

4.123 **Future initiatives based on past experience. <<D>>** The vision for the crop production sector in South Central Somalia has a sound precedent in the Shabelle, Juba, and Bay regions. In these regions, food crop and fruit production, both irrigated and rainfed, has been successful and widely adopted. This conclusion is based on considerable research. Based on the assumption of peace and security the core strategy proposed is the rehabilitation of irrigation and flood control systems, roads, and other marketing infrastructure. A number of donors have already been assisting the process of rehabilitation of irrigation and flood control systems; these donors and their work will provide valuable experience and starting points. Such initiatives include the completed Improved Food Security and Water Resources Management program in Lower Juba, funded by the EU and Italy, which was implemented by Agrosphere. In addition there is the ongoing ARDOPIS program in Southern Somalia and the PACSU capacity-building initiative funded by the EU. In order of priority, the suggested investment initiatives are discussed in the following paragraphs.

4.124 *Peaceful resolution of land conflicts is essential*. Assuming widespread peace and security, rehabilitation of irrigation areas and flood plains cannot start until there has been a resolution of conflicts over disputed land in the valuable Lower Shabelle and Middle and Lower Juba. Land policy issues will be addressed by the Governance and Rule of Law cluster, but clearly the TFG, regional authorities, and clan elders will need to find a way of resolving the many land disputes. This conflict resolution process will take time but perhaps an interim solution can be found that allows production and income generation using the land, without the implication that current land occupancy and use implies legal ownership. The Land and Property Committee of the Somali Reconciliation Conference held in Kenya from late 2002 to late 2004 (see Box 4.6) issued suggestions for the federal government in addressing land policy. It is ***recommended*** that these suggestions be pursued.

Box 4.6: Land Policy and the Somali Reconciliation Conference

Background

The Land and Property Committee was one of six committees of the Somali Reconciliation Conference held in Kenya from late 2002 to late 2004. The Committee assessed all issues relating to the misappropriation of land and property throughout the colonial period, the post-independence civilian and military governments, and looting of public and private properties during the civil war to the present.

Recommended Solutions

The Committee declared and called for reconciliation among the various Somali communities and the return of private and public land and properties to their rightful owners. It issued the following suggestions as a way forward for the federal government in addressing land policy:

1. Appeal to all Somalis to reconcile and return public and private properties to the rightful owners.
2. Establish a proper land tenure system in consultation with the communities and use the experience of other countries.
3. Warn those who continue to hold, illegally, public and private property after the Committee's declaration that they will face legal action.
4. Uphold the principle of the equality of both genders in conformity with teachings of Islam and the Universal Declaration of Human Rights.
5. Form an interministerial committee to study the land and property damage done during the colonial period and ask for compensation from the governments concerned.
6. Instruct regional and federal courts to resolve conflict during the period 1960–69, based on the laws

that existed.

7. Issue a declaration by the federal and regional governments, elders, religious leaders, sultans, and women, to those holding illegal land and property acquired after 1991 through force and intimidation, to return these properties to the rightful owners, within a specified period of time and punish those who do not comply. Two Committees, one for land and settlement and another for farmland, should be established by the federal government one month after its formation. The decision of these committees can be appealed to the courts.
8. The government should establish a special fund to help with cost of repairs, if the holder has no means to pay for such repairs.
9. All public property inside and outside the country shall be repossessed by the government.
10. All militias occupying territories of other communities by force must be ordered to withdraw so a meaningful solution can be found. The government shall establish a high-level committee to determine the ownership of land by communities.
11. The federal government should establish a register of all public property and regulate the use of natural resources by communities, in order to assure sustainable use of resources. Such regulation must be used on rational land-use classification.
12. Protect the national heritage of forestry, wildlife, pastureland, water, and rich marine resources, through the establishment of interministerial committees of concerned institutions.

4.125 *Rehabilitation of the irrigation, flood control and drainage infrastructure is a priority,* and should be sequenced with the aim of restoring the simplest tasks first and then gradually addressing more complex engineering activities later. The most urgent rehabilitation is flood control, including repair of river embankments and flood relief channels. Irrigation rehabilitation is the next priority, involving repair of gates of the main barrages that are still in good physical shape, desilting of the main irrigation canals and barrages, and reconstruction of rural roads. These activities would make a substantial contribution to peace building. They can be based on current initiatives by a number of donors and NGOs and should be participatory—involving the communities concerned, including the establishment of water users associations and regional/national irrigation water authorities. Such activities will upgrade crop production from current subsistence levels to more productive prewar levels. In addition to enhanced productivity and profitability, such interventions would reduce the hazards of flooding, water-borne diseases, and drought, and thus result in income generation, employment, and improved food security.

4.126 For rehabilitation of irrigation systems (even at the simplest level), the following priorities and their sequencing are ***recommended.*** The first priority should be flood control combined with high river flow storage on the Shabelle, to reduce the probability of floods and increase river flow during the dry season. To this end, the Jowhar Offstream Storage Project (JOSP) and the Duduble Irrigation and Flood Relief Channel, upstream of JOSP, should be priorities.[33] The Middle Shabelle is relatively peaceful and has had far less land

[33] The reservoir at JOSP has a storage capacity of 200 million cubic meters. A study with engineering designs commissioned by the EU in 1996 and carried out by Mott MacDonald Group put the cost of rehabilitation at US$4 million (Mott MacDonald Group, 1996 **[[not in biblio]]**). Another study with engineering design was also formulated by UNDP in 2004 for the rehabilitation of the Duduble Irrigation and Flood Relief Channel, which is estimated to cost about US$1 million (UNDP, 2004a). This project was actually implemented by UNDP in 2005, with community and local government contributions. These two projects are complementary

conflict than the Lower Shabelle and Lower Juba, and these projects would benefit the entire reach of the Shabelle River.

4.127 In parallel with the first stages of rehabilitation, the empowerment of stakeholder organizations such as water user associations (using technical assistance from NGOs), professional agricultural associations, and international consulting companies should begin. The stakeholder associations should reflect their commitment by contributing labor to the activities, paying water charges, and eventually managing the rehabilitated systems. The combination of community mobilization and technical assistance are essential for success. Collaboration between regional, state, and national government administrations could also enhance the process, using the principle of subsidiarity.

4.128 The second plausible priority is rehabilitation of the remaining seven irrigation barrages, two broad-crested weirs, and the associated main canals on the Shabelle. These include the barrages of Balad, Jenale, Gaywerow, Qoryooley, Fakeerow, Kurtun Wareey, and Sablaale and weirs of Jowhar and Hawai.

4.129 The third priority would be rehabilitation of the natural flood relief channels on the Shabelle and Juba, in conjunction with the exclusion of farming in their command areas and restricting the use of desheks [**[give English translation?]]** (since they also contribute to flood control) along the Juba to recession farming. These relief channels include the Beledweyn By-Pass, Farwaaley (downstream of Buulabarde), Awdegle and Shangani on the Shabelle, and Far Wamo on the Juba. In addition, technical support should be provided for pump-irrigated farms in the Hiran, Middle Juba, and Gedo regions; rainfed agricultural and agropastoral communities in Bay and Bakol; and the area along the two rivers where irrigation infrastructure is not developed. Technical assistance also should be provided for improvement of agricultural services and crop diversification through the acquisition of available technologies from international and regional organizations as well as countries with similar agroecological conditions. Collaboration mechanisms should be established among the regional and national administrations, and enhanced using the principle of subsidiarity. It is ***recommended*** that a national river water authority with the membership of regional river water authorities and farmer-led water associations, including small farmers, should be established.

4.130 The fourth priority is the rehabilitation of Fanoole Dam and irrigation system, the Juba and Jowhar Sugar Estates (in the medium term, with private initiatives), and the Mogambo Rice Project, involving farmers associations. **[[check previous sentence---I see three projects, separated by commas. Does medium term/private initiatives only apply to Sugar Estates?]]** Long-term goals include development of the Bardheere Dam in order to achieve flood control in the Juba Valley, expand irrigation, and generate electricity to meet the growing energy requirements and reduce the use of charcoal. Finally, the issue of riparian rights of the Shabelle and Juba rivers with Ethiopia will need to be addressed, in order to secure adequate water for agriculture and other uses.

---

and can reduce flooding and enhance storage of water for the dry season. The JOSP also will require an additional outlet regulator that empties into the river to avoid severe silting of the Outlet Canal, which needed repeated desilting in the past. In parallel, the flood control embankments in Middle and Lower Shabelle need to be repaired.

4.131 *Incentives for change* include the devastating impact of about 15 years of conflict, which has reduced production of irrigated and rainfed crop in of Somalia as shown in Figure 4.1. There is a recognized need to regain lost ground and increase the production and productivity of the South Central region, which is the bread basket for all other regions and the source of valuable commercial crops for export and national income generation. With the return of peace, security, and the rule of law, and the rehabilitation of essential agricultural infrastructure, the private sector will invest in agriculture again because in the past a broad spectrum of crops were shown to be highly profitable and able to generate considerable income, employment, and poverty reduction.

4.132 The priorities discussed above justify**[[correct word?]]** investment of public resources to rehabilitate public flood control structures and irrigation systems using up to date technologies. Detailed engineering and economic analysis would of course need to be completed to determine exactly what scale of investment is justified as well as the locations for such investment. In other words, this report recommends the rehabilitation of flood control structures and irrigated agriculture, but this does not necessarily mean an exact replication of the previous systems.

4.133 **The priority roles of public and private sectors. <<D>>** Crop production is dominated by the private sector; however, the role of the public sector has been amply demonstrated by the absence of government in the past 15 years. The lack of agricultural policy, the absence of enforcement of regulation, the deterioration of agricultural service, the disrepair of the irrigation and other supportive infrastructures, and the absence of peace and security, which were due to the absence of government, have led to decreased production and productivity. Therefore, the role of both the private and public sector to enhance crop production is essential.

4.134 The role of government would be to provide the necessary public infrastructure and services and to create the enabling environment for private investment in crop production. Agricultural services could be undertaken, on a contract basis, by the existing universities, agricultural associations, international and local NGOs, the private sector, and other civil society groups. The government could encourage public/private partnerships that would be a powerful source of energy to reestablish production and marketing for commercial crops such as sugar and bananas, and the associated crops like grapefruit and watermelon, which require vertically integrated production and marketing systems. **[[only applies to grapefruit and watermelon?]]** Other commercial crops such as vegetables also require processing for domestic consumption; and it is assumed, as in the past, that the government will provide the enabling environment for the private sector (Somali or foreign) to produce, process, and market such crops, whether in partnership with the government or not.

4.135 **Public investment proposals. <<D>>** Chapter 6 will summarize a proposed program for priority public investment based on the previous discussion. The main conclusions are that the most urgent priority is to rehabilitate the infrastructure that was built to support irrigated agriculture, subject to engineering and economic analysis. Provisional estimates of the cost of a rehabilitation program for irrigation and the cost of support for improving the agricultural sector and watershed development are US$98.2 million.

Fisheries ***<<C>>***

4.136 South Central Somalia has a coastline of about 1,200 kilometers and about 45 percent of the EEZ. This makes the sea area over which South Central Somalia has jurisdiction larger than its land area of about 324,600 square kilometers. The fisheries resources have an estimated annual sustainable catch of about 12,500 tons of large pelagic fish, including tuna and kingfish. The estimated annual sustainable catch of small pelagic fish such as sardines, anchovies, scad, and horse mackerel is about 39,000 tons. The annual catch of sharks and rays is about 13,500 tons. Demersal (bottom fish) fish stocks are also present including scavengers, grouper, snapper, grunt, sea bream, lizard fish, and threadfin bream. It has been estimated that some 22,500 tons of large demersal fish per year could be taken on a sustainable basis in this region.

4.137 Annual inshore lobster catches could total around 500 tons per year, while deep-sea lobster could yield 680–900 tons per year. Small quantities of prawns are found in the region, including near the Juba River outlet at Kismayo and at Ras Chiamboni near the Kenyan border. The total seasonal **[[annual?]]** availability of all fish has been estimated at between 73,000 to 105,000 tons.

4.138 The fishing communities in South Central Somalia are located in around 35 villages and towns along the coast between Hobyo in the north and Ras Chiamboni at the Kenyan border (FAO, 2005d). The present distribution of fishermen is immigrant fishermen (1,125), seasonal fishermen (4,437),and permanent fishermen (15,164)—making a total of 20,726 people involved in fishing at some time of the year

4.139 **Vision for the future. <<D>>** South Central Somalia should develop a sustainable fishing industry that is based on a combination of artisanal and industrial fishing. The industrial fishing should be legally licensed and operate within the limits of the available marine resources. The results from this framework **[[meaning this discussion, or the fishing industry just described?]]** should be the achievement of remunerative incomes for artisanal fishermen, the establishment of simple infrastructure such as jetties to support fishing enterprises in coastal communities, and the construction of ice-making and fish-processing facilities in villages and towns Such facilities achieve satisfactory returns to capital. **[[Please my changes for meaning---didn't quite follow this paragraph]]**

4.140 **Future initiatives based on past experience. <<D>>** Artisanal fish catches have been as high as 12,653 metric tons (the catch in 1986). The fishing gear used is mainly hand lines, gill nets, and long lines. South Central Somalia also has a deep-sea trawling venture using 10 factory trawlers with a capacity of around 680 gross tons per day. This group operated in the mid-1970s. **[[Is it still operating? Previous sentence suggests it is]]** In the 1980s, another venture operated 3 stern trawlers that targeted deep-sea lobster, but fish were also taken. Catch rates for fish were in the range of 5 to 7 tons per day while lobster catches ranged from 1.5 to 2.5 tons per day. In general, industrial fishing peaked in 1985 with a catch of close to 12,000 tons per year, and for lobster in 1980 when the catch peaked at 1,800 tons. For lobster the rate in 1980 was about twice the current estimated sustainable catch.

4.141 Over the past decade, Somalia's rich marine fish resources have been overfished. Overfishing off Mogadishu, for example, is reported to be seriously affecting the sustainability of the lobster population. It is reported that the current lobster business is dominated by so-called "big men" who have the financial resources to (i) purchase the lobster catches at relatively high prices and (2) to package and transport the finished product to high-paying overseas markets. The economic return is reported to be very high and therefore the buyer can afford to source product from even isolated places, and from stocks that are depleted. With this kind of pressure of use, lobster populations will inevitably be reduced to quite low levels.

4.142 Endangered species like turtles and dugongs are also threatened. These animals are easily entangled in the nets that are used by both artisanal and industrial fishermen. Another threat throughout all Somali regions has come from industrial fishing within Somalia's 200-nautical-mile EEZ by local and foreign motorized vessels operating in joint fishing ventures with Somali business people and faction leaders (UNDP, 2001).

4.143 Fish-processing facilities are available in the main towns such as Adale, Merca, Barawa, and Kismayo. During February 2005, a fact-finding tour of Somalia by a team of World Bank consultants studying the productive sectors spent some of its time in Adale gathering information on the Somali coastline and the marine fisheries activities. People in the Adale community managed to salvage **[[from the civil war?]]** a refrigerated container, two stand-by generators, and a processing center that was built by FAO in the 1980s. However, the poor traditional methods of catching and holding fish mean that the product available for processing is not up to the standards required for export. Fishermen need to be trained in modern fishing methods in order to improve quality of product and overall productivity.

4.144 In South Central Somalia, warlords issue "fishing licenses" in all areas. For example, warlords in the vicinity of Kismayo issue licenses to foreign vessels in the name of the state of Jubaland. The licenses are worthless because they are not supported by any kind of policy, law, or system of government. Ships that hold these licenses are still vulnerable to piracy, which has been a rampant and extremely serious problem along this part of the Somali coast in recent years.

4.145 Also, it is known that there are a significant number of foreign vessels operating in this area illegally. The District Officer of Adale informed the mission that many unlicensed fishing trawlers were operating in Adale waters mainly at night. Efforts to control these clandestine activities have been unsuccessful.

4.146 *There are numerous constraints* facing the fishing industry in South Central Somalia. The following are probably the most important:

- lack of an effective monitoring, control, and surveillance system to manage the fisheries resources and activities of local and foreign fishermen
- lack of a proper fish marketing system
- stringent food processing regulations imposed by overseas countries

- lack of fisheries infrastructure such as cold stores, ice plants, fish processing factories, roads, seaports, airports, and so forth
- lack of private sector fishery organizations
- lack of fishery statistics
- poor skills of fishermen (Sabriye, 2005, p. 27–29).
- illegal fishing by foreign vessels

4.147 The problems, constraints, and issues raised above are daunting in a context of weak and relatively powerless public administration responsible for the marine resources and the fishing industry. Four actions are recommended. First, produce a competent assessment of the marine resources, which has already been recommended for Somaliland and Puntland and could be done in the context of the "State of the Environment" recommended in Chapter 3. Second, establish an appropriate public policy for the fishing industry and institute legally valid licenses to qualified fishing boat operators within the EEZ. Third, establish a coast guard to monitor the operations of licensees, combat piracy, and ensure safety at sea. Fourth, the government should establish a formal inspection system of fish-processing plants as well as an inspection system for any fish product that is exported.

4.148 In addition to these largely administrative, but important, responsibilities of the government, it will also be necessary to provide the right enabling environment and incentives for the private sector to establish on-shore fish-processing and ice-making plants at suitable coastal sites; such an environment will help ensure demand for the catches by artisanal fishermen. While the investment capital for the plant and related investments will need to come from private-sector entrepreneurs, the public sector has a role in providing infrastructure such as jetties and navigation aids, as well as limited but basic roads near processing plants and jetties. It should be added that while fishing towns, villages, and communities are likely to develop quickly if artisanal fishing is active and the fish-processing industry is viable, the communities will need education and health services if they are to remain in their typically remote coastal locations.

4.149 **Role of the public and private sectors. <<D>>** Since marine resources are shared public resources, the government has a responsibility for ensuring that they are used judiciously. It therefore has the responsibility for formulating public policy on the use of marine resources and issuing licenses for their use. The role of the private sector is to use the resources subject to the policies established on the use of marine resources as well as the government's investment and industrial policies.

4.150 **Public investment projects. <<D>>** Chapter 6 and Table 6.2 provide detailed information on the range of projects proposed in this report. It is proposed that priority institutional and capital investments cover the development of the fisheries subsector in the short and medium term through a combination of policy formulation, capacity building of government authorities, and promotion of investment in artisanal and semi-industrial fish production and processing. A strengthened government would be able to manage an industrial fisheries subsector based on licenses to foreign companies while promoting the

development of semi-industrial and artisanal enterprises. The latter would consist of providing basic infrastructure and support to for strengthening community fishing institutions at Cardale, Warshiikh, Marka, Barawa, and Kismayo and possibly providing loans for boats, engines, and fishing gear to strategically located fishing associations that would enable the timely transportation of fresh fish to processing centers (if not too far away). The estimated cost of the priority programs for the next five years is estimated at US$7.1 million.

5. PRIVATE SECTOR DEVELOPMENT <<A>>

Introduction <<B>>

5.1 **There was significant pre-war private sector activity but substantial public controls. [[don't want these intro sentences to be headings---just emphasized text]]** As noted in the recent Country Economic Memorandum for Somalia (World Bank, 2006), before the civil war broke out in January 1991 livestock and crop production, small manufacturing, many of the service sectors such as retailing and hotels, construction, and even schools were in the private sector.[34] All agricultural markets had been decontrolled. Exports such as livestock were generated mainly by the private sector. On the other hand the government controlled a number of production and trading monopolies and services that seriously reduced the efficiency of the economy and hampered the enabling environment for private sector investment. For example the government controlled shipping services for livestock exports; had a monopoly on the processing and export of hides and skins; controlled frankincense and myrrh exports; and controlled fuel, fertilizer, and vegetable seed imports. The only airline was owned by the government; power and water supplies, telecommunications, and banking were also government controlled; and there were still a number of government farms. In 1988 the government reintroduced domestic price controls on agricultural products, but the disastrous impact of this policy on production, and the black markets that developed leading to higher consumer prices, convinced the government to abandon these price controls.

5.2 **The civil war brought decontrol.** When the government collapsed in 1991 the economy was freed of all controls and regulations and very soon the private sector, which had already been heavily involved in crucial parts of the economy, also took over activities previously in the government domain. The extent to which the private sector took over these activities varied depending on the region. In Somaliland, for example, where the impact of the anarchy was not nearly as intense as in Puntland and South Central Somalia, the private sector was a dominant force in rebuilding Hargeisa and Burao, which were violently destroyed by the former government in 1988.[35] Bossaso developed rapidly as its port became a hub for exports and imports following the effective closure of Mogadishu's port. Investments by the private sector in all these cities resulted in the delivery of goods and services such as electricity, telecommunications, domestic water supplies, and urban waste disposal. At the same time the livestock and fisheries industries also flourished.

5.3 **The private sector was hampered by insecurity.** In South Central Somalia the private sector was hampered by high insecurity and the consequent difficulties associated with transport and the delivery of inputs and supplies, not to speak of the lack of reliable

[34] Like the environment, the private sector knows no boundaries and therefore this chapter will cover issues related to the private sector in all Somali regions.

[35] The private sector in Somaliland flourished despite some early resistance by the authorities to its dominant role.

power, water supplies, and sanitation. But even here the private sector managed to do business because in times of civil war all kinds of services are still needed and private entrepreneurs were able to find profitable niches. In terms of the productive services, banana exports from Mogadishu were possible through part of the civil war, with the assistance of and payments to warlords, until conflict created untenable export conditions and unscrupulous land acquisitions reduced production.

5.4 Large areas of Puntland also experienced insecure and unstable conditions in the early years of the civil war but, following favorable political changes, conditions gradually became more peaceful and similar results to those in Somaliland were achieved In Puntland the core livestock export sector was able to continue at some level, even during the worst of times and has been booming in recent years despite the import ban by the Saudi authorities. The port town of Bossaso developed rapidly as it benefited enormously from the livestock trade and from the trade in other goods that was made possible by the excellent road (a public investment) that connected Bossaso with the southern Puntland and the Central regions. So long as the port in Mogadishu is closed the port in Bossaso will remain active.

5.5 **Unsustainable Use of Natural Resources.** While the well-known Somali initiative generated the energy behind the explosion of private sector investment in Somaliland and other areas, it still depends heavily on the country's natural resources. In Somalia, as in most countries, there were laws and regulations that manage and control the use of natural resources from land to wildlife. Before the civil war there was a general adherence to these laws. For example, all major investments required environmental assessments before government approval and registration. The civil war heralded the start of an "open season" on all Somalia's natural fauna and flora.

5.6 After the government's collapse, there were no longer any controls and the quest for earning incomes and the freedom of the private sector resulted in the replacement of the previous rapacious government with an equally rapacious private sector. Fragile but valuable forests and rangelands were plundered by charcoal producers. At the time this report was originally written charcoal was still being illegally exported by freelance traders, although the Union of Islamic Courts is currently enforcing this ban in Mogadishu. What is now left of the common rangelands is being partly appropriated by individuals or groups in enclosures (see Box 5.2) for their own enrichment leaving the remainder of the range for those less fortunate and subject to higher stocking rates, a higher probability of environmental destruction, and a high probability of conflict. Marine resources are arguable over-used, although the impact is not as visible as in the treeless rangelands, but the dangerous foreign exploitation of fish and lobster stocks still continues. The waste from private enterprises including health clinics and restaurants in towns and villages is dumped in haphazard ways with the further desecration of the environment and the potential for the spread of disease. As underlined already in this report, there is also no systematic monitoring and control of livestock diseases nor have there been adequate procedures for the inspection and certification of livestock sold on the export market This resulted in the current six year-old import ban for Somali livestock by the Kingdom of Saudi Arabia and there is still not a system in place that is likely to satisfy Saudi authorities.

5.7 **Somali Transitional Charter.** The same spirit of entrepreneurship that motivated private investors (albeit recklessly at times) during periods of relative peace in Somaliland, and even during conflict throughout all regions, should be harnessed during the reconstruction and development phase to generate growth, employment, poverty reduction, and food security. There is little doubt that the private sector, in close partnership with the public sector, can deliver a peace dividend for all Somalis if it is given the chance. The Somali Transitional Charter states that "the system of economy for the country shall be based on free enterprise" and also "The Government shall encourage, support and provide full guarantee to foreign investment in the country as specified by law."[36] The first and most critical condition for a more vigorous and broader future development of the private sector is peace and security and this chapter will proceed on the assumption of broad-based peace and security. A discussion of the other constraints that need to be resolved will follow below.

5.8 **Structure of Chapter.** The next sections of this chapter will (i) lay out a vision for the future of the private sector; (ii) review the past as a baseline, consider medium-term initiatives, and identify the constraints that need to be overcome; (iii) identify the respective roles of the public and private sectors; and (iv) suggest proposals for public sector investments that are needed to support the private sector. This is the same framework used for agriculture in Chapter 4 where the role of the private sector in agriculture is preeminent, and where it is shown also that agriculture is dependent for its sustainable development on many elements of the private sector outside agriculture.[37]

Vision for the Future <<B>>

5.9 The overall vision is for strong, private sector-led growth in the economy. The growth will be based on vastly improved public policy to enhance the enabling environment for investment in the private sector, diversification of economic activity, and efficient minimalist government regulatory interventions to address market failures. As mentioned already, this vision assumes the existence of broad-based peace and security. A number of intermediate outcomes will be required to reach the ultimate vision. First, establishing and stimulating investment climate. Second, increased foreign direct investment. Third, enabling and facilitation of impact- and demand-driven business development services (BDS), including the reconstruction of effective and independent chambers of commerce and other business representative bodies that will, in collaboration with governments, address constraints impeding private sector development, with the resolution of constraints leading to an improved investment climate.[38] The final intermediate outcome should be an increase in employment in the private sector—the result of a macroeconomic policy that encourages labor-intensive investment.

---

[36] Somali Transitional Charter, Transitional Federal Charter for the Somali Republic, Article 27 (Somali Reconciliation Conference, 2004).

[37] The following sections will make use of information in the CEM (World Bank, 2006) and also the report on the Somali private sector prepared by a consultancy team led by the ILO (ILO/IFC/World Bank, 2005).

[38] A simple preliminary measure of the investment climate is an assessment of the "ease of doing business," which is measured in member countries on the basis of interviews with knowledgeable accountants, lawyers, and so forth. Results are published on a regular basis by the World Bank ((http://www.doingbusiness.org). More detailed surveys measure investment climate for each country and these surveys are published individually for each country.

Future Initiatives Built on Experience <<B>>

5.10 This section first summarizes the baseline of activities in the private sector, focusing on sectors other than agriculture. It will then discuss the need for various future initiatives to stimulate the private sector across all regions to achieve the vision sketched out above.

Investment Laws<<C>>

5.11 The Somalia CEM reviewed the investment law and other legal legislation and, while noting the improvements needed, concluded that "old laws can do in the near term" (World Bank, 2006, p. 70). Therefore an acceptable investment law is available to all Somali regions. Certainly investment laws will need to be reviewed and achieving such reviews will be an important part of the intermediate outcome that seeks to establish the enabling environment for private sector investment.

Investments<<C>>

5.12 In terms of information on actual investments by way of the registration of firms, there are limited data available. Annex I provides a listing of small-scale manufacturing enterprises in Somaliland that underlines the relative importance of the service industry. This listing excludes large-scale service industries such as telecommunications, electricity, and water supply. In Mogadishu there were 23 functioning manufacturing plants in 2002 covering a range of activities in food processing and light manufacturing.[39] Other characteristics of these companies were that they were usually owned by a small number of shareholders, there had been no or little formal business planning, sources of capital were closely guarded but often had originated in Somalia, total investments appeared to be usually less than US$200,000, and the technically qualified workers were in short supply (Marchal, 2002).

Telecommunications<<C>>

5.13 The public telecommunications system was almost completely destroyed or dismantled by the civil war. Annex L provides a summary of rapid developments in the telecommunications industry since 1991 and describes its current structure, challenges, and the potential future developments. This section of the report is aimed at addressing the challenges the industry faces today and the strategic way forward.

5.14 A number of private telecommunications services emerged quickly after 1991 but growth at the beginning was haphazard and resulted in many weaknesses. For example, the allocation of frequencies between different company networks was chaotic, it was not possible to make calls between different networks, fee collections from consumers were problematic, and technical inadequacies resulted in high costs and declining margins for operators. The problems facing the private, competitive, but disorganized telecommunications sector led, with the support of UNDP and the International

[39] Since then a few enterprises have been added, such as the Coca Cola factory, an additional abattoir, two water bottling plants, and a plastic bag company (personal communication—Roland Marchal **[[year?]]**).

Telecommunications Union (ITU), to the establishment in Dubai in November 1999 of the Somali Telecommunications Association (STA).[40]

5.15 The STA provided the telecommunications industry with the means for self-regulation, collaboration, and in-house training. The support of the ITU and UNDP provided opportunities for international training and advisory support that improved the skills of Somali managers and engineers and hence enhanced the efficiency and profitability of the industry. The result is that today Somali private operators have invested in the latest technology and, using primarily wireless and satellite network facilities, provide the lowest international calling rates on the African continent. Despite this growth of competitive service provision, some significant issues remain to be addressed, namely full interconnection between networks and more efficient allocation of frequencies to operators.

5.16 The telecommunications sector is part of a larger framework of information and communications technology (ICT) in Somalia and the world. The proliferation of ICT entities has been predominantly managed by the private sector. For the purpose of their own interests the private sector may disregard ethical and other standards, and may also sometimes preempt access to public resources. The possibility of such activities requires a public regulatory entity to establish public policy on standards, interconnection of networks, access to public resources, and enforcement of compliance with standards and license obligations thereby ensuring an environment for fair competition.

5.17 At present there is no Somali-wide national strategy on ICT and telecommunications in particular. It is ***recommended*** that such national ICT strategy and policies are elaborated and debated with all stakeholders such as service providers, government, and end users. The agreed policies should ultimately be reflected in legislation for a Telecommunications Act that would include provision for the establishment of a Telecommunications Regulatory Authority (TRA), to be independent of both the government and the private telecommunications sector. Currently the role of such regulatory authority to a great extent is performed by the STA. The STA provides basic prerequisites for interconnection, oversees proper standards application and frequency spectrum utilization, and is a kind of arbiter in ICT industry disputes. This specific role of STA in the complicated context of Somalia should be supported in the interim period, with the goal of creating a proper public regulator (TRA) that among other things will ensure more efficient frequency allocation, promotion of technology convergence, effective interconnection between networks, licensing of operators where necessary, compliance with equitable business practices, human capacity building in the ICT sector, and advocacy on behalf of the industry in international fora. The establishment of an independent ICT industry public regulator should in no way undermine freedom of telecommunications, broadcasting, access to Internet services, and large-scale involvement of the private sector. Indeed such an authority should be designed to support the private sector, to ensure universal access, to monitor the ICT sector's activities, and to ensure a "level playing field" for further private sector investments and competition.[41]

[40] The STA was based on a Memorandum of Understanding signed by 10 Somali telecommunications companies.

[41] Annex M provides more detail about the suggested roles and responsibilities for the TRA.

Airlines<<C>>

5.18 The Somali Airlines Association has an unimpressive history. After the Dubai meeting in 1998, there were a few meetings organized by the International Civil Airlines Association (ICAO) to set up an association. Though all airlines **[[this association between a number of local Somali airlines, or international?]]** agreed in principle, none dedicated the time and resources to getting the association started. Today, the situation seems more favorable. First, ICAO has had a staff change, and the new people in charge are eager to get involved. Second, the conditions of operation have changed: Dubai/Sharjah airport allows only jet aircraft to transport passengers; **[[why mention Dubai here?]]** Mogadishu airport is reopened but the security level 5, as defined by the UN, hampers the operations (no plane can stay there for more than a couple of hours). A Somali Airlines Association could tackle those issues in partnership with ICAO and other agencies. For example, security standards could be defined for Somalia and compliance with international rules and regulations agreed upon. The issue of registration and the use (and misuse) by all operators and governments of former agreements concluded with Somali Airlines (the national carrier until 1991) should be put on the agenda as well.[42]

Foreign Direct Investment<<C>>

5.19 In the 1980s Somalia did not have significant direct foreign inflows (World Bank, 2006, p.145). Over the last 15 years there are no records of foreign direct investments, which is consistent with the findings of Marchal (2002) for Mogadishu, even though some investments must have been financed by the diaspora to establish various high-cost manufacturing enterprises in Mogadishu and Somaliland (for example water bottling plants, electricity generation plants, and the abattoir in Burao). In addition there is a large annual flow of remittances into Somalia; this was estimated to be about US$1 billion in 2004 (60 percent of GNP), of which some is likely to have resulted in private sector investment. If broad-based peace and security can be achieved then there are sound prospects for a substantial increase in the flow of private sector investment in Somalia.

Chambers of Commerce<<C>>

5.20 Box 5.1 provides some information on the Somaliland Chamber of Commerce, Industry and Agriculture, which indicates that there is a legal basis for the registration of businesses in Somaliland. The only legislation in Puntland is the Foreign Investment Law of Puntland. Entrepreneurs in Puntland advise that the old Somalia company legislation applies to Puntland companies and registration is with the Ministry of Commerce and Industry. Municipalities issue business licenses. The socioeconomic mapping studies completed in Somaliland and Puntland during 2004–05 confirm that business licensing is not pro-poor. For example, the annual collection of daily fees paid by petty traders is substantially higher than the collections of annual license fees from larger enterprises (ILO/IFC/World Bank, 2005). There is no functioning chamber of commerce in South Central Somalia, for which Mogadishu is still the main commercial hub. Despite the devastating turmoil in Mogadishu until recently, it is arguably still the dominant commercial center among all Somali areas.

[42] Based on written contributions by Roland Marchal.

Box 5.1: Somaliland—The Chamber of Commerce and its Members

Legal and Institutional Framework

Somaliland has a Companies Act and the Somaliland Investment Law. For private sector development, company and business licensing registrations are processed by the Ministry of Commerce in Hargeisa. For most business licenses it is necessary to become a member of the Somaliland Chamber of Commerce, Industry and Agriculture. In addition exporters and importers need to come to the Chamber offices before receiving their first licenses. The Chamber is legally independent of the Somaliland Government. It had a paid-up membership of 700 in January, 2006. Membership fees are US$10 per month, but the Chamber's main income is derived from taxes on the certification of livestock exports—income that has fluctuated with the fortunes of the livestock export trade in recent years. Rural business license applications and fee payments are made through local municipality representatives. They lodge license applications with District Councils for approval (information supplied includes name and nature of business, location, and contact person details); the Councils in turn forward the information to the Ministry of Commerce in Hargeisa for processing. The Chamber provides few services to its members, which is a cause for concern. Discussions are ongoing, with assistance from ILO, to find ways to improve services to members and to strengthen its advocacy role regarding the government.

Small- and Medium-Scale Enterprises

A summary of small-scale industries/enterprises operating in Somaliland prepared by the Ministry of Commerce shows 48 enterprises in 2005, of which 46 percent produced building materials or furniture, 41 percent produced processed food of various types, and half of the remainder were leather processors. There is little manufacturing since most of the building company suppliers rely on imported finished products. There is some local furniture manufacture but again it depends on imported wood. Among the food processors, the production of bottled water and fruit juices is important and dependent on local materials apart from the containers. Other food processors use imported materials such as flour. Apart from the leather tanners and bottled water producers there are only three substantial employers among the medium-size enterprises in Somaliland, namely the Las Qoray fish processing factory close to the disputed boundary between Somaliland and Puntland, the fish processing factory in Berbera, and the sheep and goat abattoir in Burao.

Large-Scale Enterprises

There are an unknown total number of large enterprises such as the telecommunications companies, money transfer companies, and commercial airlines.

Micro Enterprises [[but note that para below speaks of small enterprises --- pls. review changes]]

There are numerous traders and micro businesses producing goods and services in all Somalia regions. Although there is no information available on how many micro enterprises exist and what their turnover might be, one needs only to look at Hargeisa's commercial center to make it clear that micro enterprises make up a very large proportion of the business and service sector in Somaliland The Chamber's membership number of 700 suggests that the official list of micro enterprises from the Ministry of Commerce is incomplete or that the list covers only medium-scale enterprises. It cannot be assumed that all micro enterprises in Somaliland are members of the Chamber and hence there must be many more than 700 private enterprises of all sizes in Somaliland. There are, for example, few female members in the Chamber even though there are numerous female-owned and managed businesses.

Sources: ILO/IFC/World Bank, 2005, and mission discussions in Somaliland and Puntland in 2005–06.

5.21 Chambers of commerce in Somaliland and Puntland at present are weak in terms of the services they offer and are far too dependent on governments. It is suggested that they would be more effective if they made major changes in their management structure, leaving themselves free of government appointees, and broaden their membership among the

business community. It is also suggested that the chambers (including subchambers for important trade groups) should focus on becoming effective advocates on behalf of various business interests with the various governments. To do this successfully the chambers will need to broaden their membership, increase the scope of their activities, strengthen their capacity to identify and analyze the concerns of the private sector, respond with BDS facilitation, and improve their ability to represent their members with the government. If they do not make these changes other business representative bodies should, and will, emerge to take their place.

5.22 During the PSE cluster mission visit to Hargeisa in mid-January, 2006, a Business Forum was held to discuss the future role of the Somaliland Chamber. In brief it was agreed to (i) redefine the Chamber's mission and vision and strengthen its capacity, (ii) put together a strong program for assisting the business community, and (ii) promote public-private partnerships. Actions are being taken to implement this program. An example of services the Chamber could very quickly provide for the business community, including the agricultural sector, is to ensure that there is a satisfactory and transparent market information system and involve many more businesswomen in their activities.

5.23 The Somali Business Council based in Dubai (which is the destination for most of Somalia's exports and the source for most of its imports) is a business organization that parallels the chambers of commerce in Somaliland and Puntland. It has received technical assistance from donors for the purpose of facilitating the establishment of a chamber of commerce in Mogadishu, and a constitution has been drafted. But the extremely unsettled political situation in Mogadishu would need to change considerably before such a chamber, even if established, could do useful work.

5.24 The Dubai Somali Business Council (DSBC) was set up in late spring 2000, just before Carta's government. The idea was raised in the first gathering of the Somali business people organized at the Dubai Chamber of Commerce in May 1998. The DSBC has been used by various groups (including the UN and the World Bank) to assist in making assessments of Somalia's business and trading and activities. The DSBC has limited finances and staff and hence the real work of the Council has been done voluntarily by a few members. Politics has also been an increasing problem. Since the DSBC wanted to represent the whole Somali business community, it had to steer clear of politics. The TNG did not last long enough to create difficulties but concerns were raised about the DSBC leadership's involvement in TFG politics. Somalilanders and others opposed to the Jowhar/Baidoa TFG government resented this involvement as a breach of rules that governed the creation of the DSBC. When a new leadership was supposed to be elected late in 2005, a crisis broke out and elections could not take place. Up till now, no solution has been reached to reconcile the two parties.[43] Irrespective of the outcome, the establishment of the DSBC is an example of the emergence of an alternative business representative body mentioned in paragraph 5.21. **[[check cross-ref after editing]]**

[43] Roland Marchal, who made these observations about the DSBC, suggested that this crisis could be seen as the product of some success on the part of the DSBC. If resolved, the current crisis could also be interpreted as a significant phase in its continued growth.

5.25 If the chambers and the SCBC are there to assist the business community there is no shortage of problems that need to be addressed. Constraints to private sector development have been reviewed by the report mentioned above (ILO/IFC/World Bank, 2005). The constraints listed in Box 5.2 are based on that report and can be broadly summarized as the extremely limited availability of BDS and providers.[44] But in the face of this withering list one could question how the many Somali businessmen, mainly traders and merchants, make a living and stay in business. The answer lies in their energy and ingenuity that makes them able to overcome many difficulties. Businessmen and businesswomen have learned to cope with many constraints, have learned to live with uncertainty, and are prepared to take risks with their investments. Nevertheless, the establishment of small businesses is known to be risky even in ideal business environments. For example, it is generally agreed that worldwide a high proportion of small-scale enterprises fail within a year of start-up, even in countries free of conflict. It is not known how many fail within a year of start-up in Somalia. The availability of BDS would be a major benefit for all businesses and reduce the failure rate.

5.26 One of the main contributions the chambers of commerce, or alternative business representative bodies, could make is to promote capacity building in the considerable range of skills that are important to the Somali private sector. The availability of trained craftsmen and women in a range of skills will be a crucial ingredient in the development of the public and the private sector. Investment in skills training in agriculture, livestock, and fisheries has already been highlighted the previous chapter. The demands for training in management of enterprises will no doubt grow as the Somali economy expands all regions. But skills in almost all crafts are also in short supply. Another report addressing technical training and the chambers of commerce will make an important contribution by assessing demand for different skills in the private sector.

The Financial Sector<<B>>

5.27 A persistent issue facing the private sector, already underlined for the agricultural sector in Chapter 4, is the need for an effective financial sector that provides reliable banking and insurance services. The broader issues in respect of the financial sector, except microcredit, will be addressed in a separate report and will therefore not be discussed here. It is, however, important to stress that without effective financial services normal trade is severely constrained and it ends up as a barter arrangement, which some experienced traders in Dubai have described as "trading goats for bottles of water"—and certainly Bossaso port is crowded almost every week of the year with goats and bottles of water.

5.28 *Microcredit for small-scale traders*, other entrepreneurs, and farmers/pastoralists are also dependent on a larger financial sector. In 1998 an EC-funded Somali Microfinance Institution (MFI) was established as a pilot to (i) improve the living conditions of the poor in Somaliland and Puntland, (ii) assess how microfinance would be received in these two Somali areas, and (iii) study the impact it would have on the livelihoods of the poor and on business development.

[44] Some changes providing more detail have been added to some items.

5.29 *About 70 percent of MFI borrowers were women.* Since 1998 the MFI has provided loans to over 5,000 households in three main urban areas of Hargeisa, Bossaso, and Galkayo. Most of the women borrowers were small-scale traders said to have benefited from the program over eight years.

5.30 *Microcredit is not plain sailing.* The MFI did attract considerable criticism from religious leaders, who objected to the service charge for the loans describing it as *riba* (usury) and therefore unacceptable. In addition the repayment rate for the MFI dropped to about 50 percent during the pilot program but climbed up again to almost 90 percent. Despite some critical reviews, the program has been regarded by many as successful. One of the Somali experts with sound knowledge of the MFI program considers that the *riba* issue can be dealt with through a dialogue with religious leaders to achieve an understanding that it is consistent with Islamic principles. The repayment issue was resolved by an awareness-raising campaign to underline that credit was not a grant and needed to be repaid. Independent consultants contracted to review the pilot concluded that it had generated a positive impact, although the implementing agency had performed poorly. Finally, it is being proposed that the NGO which ran the program be transformed into a business venture to operate the credit program in future (see Box 5.2). Given the lack of a banking system, it is ***recommended*** that this microfinance business venture is worth examining further with a view to replicating it in the future.

<<begin box text>>

Box 5-2: List of Constraints Facing the Private Sector

General

- No formal private banking and insurance services
- Poor infrastructure and logistics for trade
- Limited product range available from imports or domestic production
- Lack of subcontracting and other linkages with larger enterprises
- Lack of inter-firm linkages among private enterprises
- Lack of representation and participation in public policy debate
- Very shallow technological level and experience
- Absence of public or private business advisory services
- Absence of business and market news and information systems and services
- Limited micro-finance institutions capacities and outreach to remote areas
- Absence of certification capacities for export markets, especially standards of compliance
- Poor understanding of international market requirements and opportunities
- Widespread insecurity and lawlessness in South Central Somalia

Small-, Medium-, and Large-Scale Enterprises

- Difficult to raise business capital (fixed and working capital) to start/expand businesses
- General absence of partnership/multishareholder culture limits large-scale capitalization
- Absence of formal credit institutions causes cash flow/liquidity problems
- Difficult access to markets because of isolation