

SOMALIA

# THE LANDSCAPE FOR IMPACT INVESTING IN EAST AFRICA



WITH SUPPORT FROM



**THE  
IMPACT  
PROGRAMME**

# ACKNOWLEDGMENTS

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We would especially like to thank our interview participants—without their key insights this report would not have been possible. We include a full list of interviewees in the Appendix.

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# LIST OF COMMON TERMS AND ACRONYMS

**AFD** | Agence Française de Développement (French Development Agency)

**AfDB** | African Development Bank

**BIF** | Burundian Franc

**BIO** | Belgian Investment Company for Developing Countries

**BoP** | Base of the Pyramid

**CEPGL** | Communauté Économique des Pays des Grand Lacs (Economic Community of the Great Lakes Countries)

**COMESA** | The Common Market for Eastern and Southern Africa

**CSR** | Corporate Social Responsibility

**DFI** | Development Finance Institution

**DFID** | The Department for International Development (United Kingdom)

**DRC** | Democratic Republic of the Congo

**EAC** | East African Community

**Early-stage business** | Business that has begun operations but has most likely not begun commercial manufacture and sales

**EIB** | European Investment Bank

**ESG** | Environmental, Social, and Governance

**ETB** | Ethiopian Birr

**FDI** | Foreign Direct Investment

**FMCG** | Fast-Moving Consumer Goods

**FMO** | Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. (Netherlands Development Finance Company)

**Focus countries** | Countries under the study where non-DFI impact investors are most active in. Namely Ethiopia, Kenya, Rwanda, Tanzania, and Uganda

**GDP** | Gross Domestic Product

**GEMS** | Growth Enterprise Market Segment

**GIIRS** | Global Impact Investing Ratings System

**GIZ** | Gesellschaft für Internationale Zusammenarbeit (German Agency for International Cooperation)

**Growth-stage business** | Company has a functioning business model and its current focus is developing new products / services or expanding into new markets

**HDI** | Human Development Index

**ICC** | International Criminal Court

**ICT** | Information and Communication Technology

**IFAD** | International Fund for Agricultural Development

**IFC** | International Finance Corporation

**IMF** | International Monetary Fund

**IRIS** | Impact Investing and Reporting Standards

**KES** | Kenyan Shilling

**LP** | Limited Partner

**Mature business** | Profitable company with a developed and recognizable brand

**MDG** | Millennium Development Goal

**MFI** | Microfinance Institution

**MSME** | Micro, Small and Medium Enterprise

**NGO** | Non-Governmental Organization

**Non-focus countries** | Countries covered in the study but have limited non-DFI impact investor activity. Namely Burundi, Djibouti, Eritrea, Somalia, South Sudan, and Sudan

**OFID** | OPEC Fund for International Development

**OPIC** | Overseas Private Investment Corporation

**PE** | Private Equity

**PPA** | Power Purchasing Agreement

**PPP** | Purchasing Power Parity

**PPP** | Public-Private Partnership

**PTA** | Preferential Trade Area Bank

**RDB** | Rwanda Development Board

**RFP** | Request for Proposal

**RWF** | Rwandan Franc

**SACCO** | Savings and Credit Co-operative

**SAGCOT** | Southern Agricultural Corridor of Tanzania

**SDG** | Sudanese Pound

**SGB** | Small and Growing Business

**SME** | Small and Medium-Sized Enterprises

**SOE** | State-Owned Enterprises

**SOS** | Somali Shilling

**SSP** | South Sudanese Pound

**TA** | Technical Assistance

**TIC** | Tanzania Investment Centre

**TZS** | Tanzanian Shilling

**UGX** | Ugandan Shilling

**UN DESA** | United Nations - Department of Economic and Social Affairs

**UNCTAD** | United Nations Conference on Trade and Development

**USAID** | The United States Agency for International Development

**VAT** | Value-Added Tax

**VC** | Venture Capital

**Venture-stage business** | Sales have begun but cannot sustain the company's operations. The business model is still being aligned with the realities on the ground

**WASH** | Water, Sanitation, and Hygiene

**WHO** | World Health Organization



# SOMALIA

A VIBRANT PRIVATE SECTOR  
SUSTAINED BY DIASPORA

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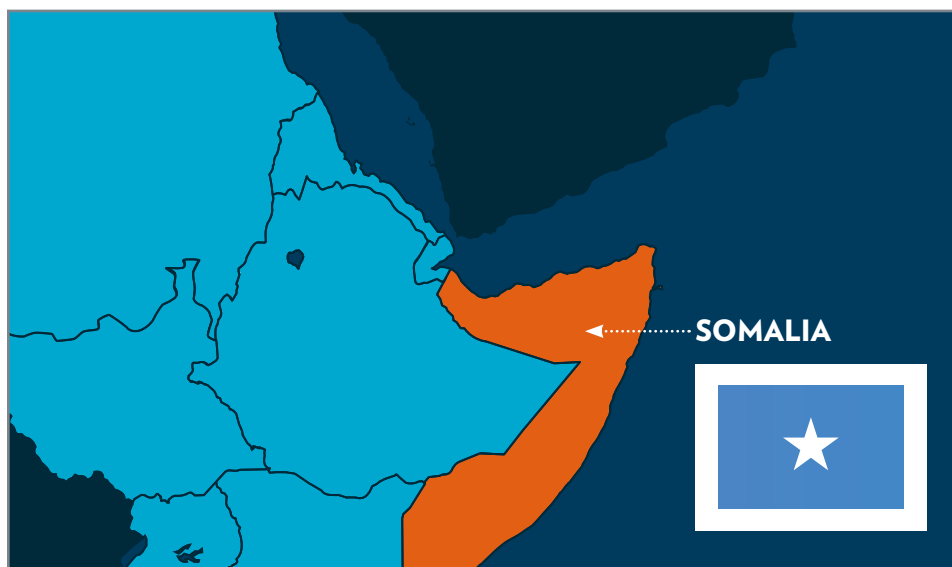
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# INTRODUCTION

Over the past few decades, Somalia has experienced conflict and insecurity, and has witnessed the disintegration of its central government. Despite these uncertainties, the country has maintained a growing private sector. In many cases, the private sector has filled roles typically held by public institutions such as financial services, security, and education. With a new, internationally backed government now in power and the militant Islamist group Al-Shabaab expelled from all urban centers, there is hope for a new era of stability. Sufficient peace could allow the government to establish regulatory and legal systems to encourage foreign investment and the formalization of the private sector.

Despite these improvements, no impact capital has been disbursed in Somalia to date, including by development finance institutions (DFIs).<sup>1</sup> Impact investors face serious challenges to investing in Somalia, including high political uncertainty, no formal banking or foreign exchange mechanisms, a weak legal system, and insufficient regulatory protection. However, many impact investors include the entire East Africa region in their geographic mandates, representing approximately USD 500 million in impact capital. Given the lack of investing activity to date, however, it seems unlikely that much or any of this will be placed in Somalia in the near future.

FIGURE 1: MAP OF SOMALIA



<sup>1</sup> Due to the unique nature and large size of development finance institutions (DFIs), the authors of this report analyzed their activity separately from those of other types of impact investors (“non-DFI”), and present this separate analysis when appropriate. See the Introduction and Methodology section of this report for more details.

# COUNTRY CONTEXT

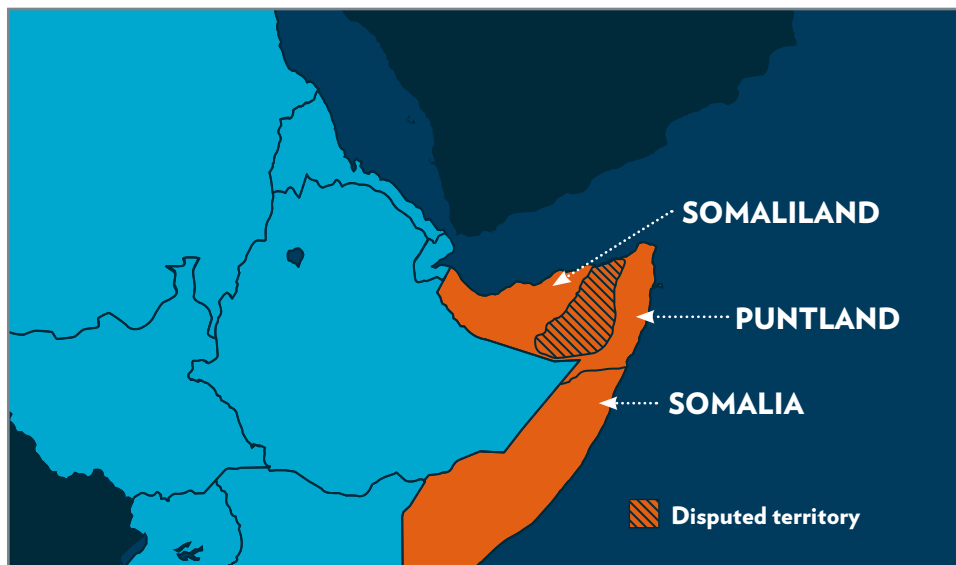
Somalia has experienced prolonged periods of conflict and instability, accompanied by intense fighting, population displacement, food insecurity, and a lack of centralized governance structures.

After the collapse of President Siad Barre's regime in 1991, the country went more than two decades without a formal parliament. It was not until 2012 that a new, internationally backed government came into power. In the intervening years under transitional governments, the country suffered from clan warfare and the rise of Islamist militant groups, most notably Al-Shabaab.

By the middle of 2012, a coordinated operation between the Somali Army and international forces re-captured most of the territory held by Al-Shabaab, including Mogadishu, the capital, and other major urban centers. Al-Shabaab still controls many rural areas of the country.

During many years of conflict, Somalia fragmented into three de-facto autonomous regions: South Central Somalia, which contains Mogadishu; Puntland in the north-east; and Somaliland in the north (Figure 2).<sup>2</sup> After President Barre's fall in 1991, Somaliland declared itself a sovereign state and has since been seeking the international community's recognition as such.<sup>3</sup> Puntland declared its autonomy in 1998, although it seeks only recognition as an autonomous region within Somalia, not as an independent state.<sup>4</sup>

FIGURE 2: REGIONS OF SOMALIA



2 African Development Bank Group, *Somalia: Country Brief 2013-2013* (2013) available at, <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/2013-2015%20-%20Somalia%20-%20Country%20Brief.pdf>.

3 *Ibid.*

4 "Puntland Profile," *BBC News* (Jan. 8, 2014), available at <http://www.bbc.com/news/world-africa-14114727>.



Although the term “Somalia” is often used to refer to only South Central Somalia, for the purpose of this study the three political entities are referred to as South Central Somalia, Puntland, and Somaliland, while Somalia refers to all three entities collectively.

## Gross Domestic Product

After years of conflict without a central government or state institutions, Somalia lacks reliable economic and social statistics, making it difficult to accurately monitor economic and social development.

Nonetheless, Somalia’s GDP was estimated at USD 5.8 billion in 2010, the last year in which official data was available, while GDP per capita was estimated at USD 600.<sup>5</sup> At these figures, Somalia is the fourth smallest market in the region. The economy is predominantly informal and dominated by agriculture, which accounts for approximately 65% of GDP and employment.<sup>6</sup>

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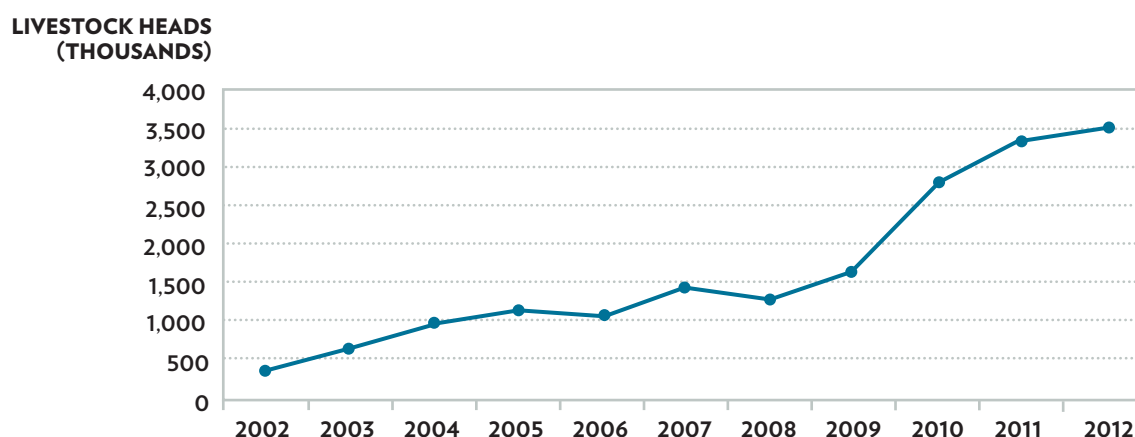
5 Ahmed Dualeh, African Development Bank Group, *African Economic Outlook Somalia 2014* (2014), available at [http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN\\_Long\\_EN/Somalia\\_EN.pdf](http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/2014/PDF/CN_Long_EN/Somalia_EN.pdf).

6 African Development Bank Group, *Somalia: Country Brief 2013-2015* (2013), available at, <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/2013-2015%20-%20Somalia%20-%20Country%20Brief.pdf>.



Within agriculture, livestock production is the biggest sub-industry. Somalia has a large pastoral population that is dependent on livestock for its livelihood and, in aggregate, livestock accounts for 40% of GDP and more than 50% of export earnings.<sup>7</sup> This is even higher in Somaliland, where livestock is estimated to make up 65% of GDP.<sup>8</sup> The export of cattle is also an important and growing sector in the Somaliland economy—in 2012 an estimated 4 million cattle were exported from the region (see Figure 3).

FIGURE 3: CATTLE EXPORTS, SOMALILAND, 2002-2012



Source: Somali Ministry of Trade and Investment

Driven largely by the diaspora, remittances are a large source of revenue in Somalia and the largest source of foreign currency.<sup>9</sup> It is estimated that remittances add up to USD 1-2 billion annually, more than 25% of GDP.<sup>10</sup> Almost 40% of households rely on diaspora funds to cover basic needs like food, clothing, education, and medical care. North America and Europe are the largest sources of remittances.

7 "The World Factbook Somalia," *Central Intelligence Agency* (Jun. 23, 2014), available at <https://www.cia.gov/library/publications/the-world-factbook/geos/so.html>.

8 African Development Bank Group, *Somalia: Country Brief 2013-2015* (2013), available at, <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/2013-2015%20-%20Somalia%20-%20Country%20Brief.pdf>.

9 Manuel Orozco & Julia Yansura, Oxfam America, Africa Development Solutions & Inter-American Dialogue, *Keeping the lifeline open: Remittances and markets in Somalia* (2013), available at <http://www.oxfamamerica.org/static/media/files/somalia-remittance-report-web.pdf>.

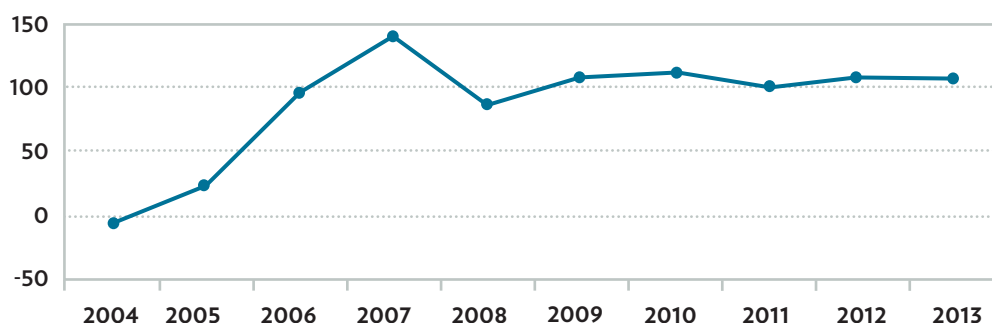
10 African Development Bank Group, *Somalia: Country Brief 2013-2015* (2013), available at, <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/2013-2015%20-%20Somalia%20-%20Country%20Brief.pdf>.

## Foreign Direct Investment (FDI)

With increased stability, foreign direct investment in Somalia is expected to grow in the coming years, yet current levels remain low, with USD 107 million in estimated inflows in 2013 (Figure 4). The Somali government views foreign investment as a key component of rebuilding the economy, and actively encourages new investors. They have released multiple statements to this effect and hosted conferences to promote Somalia as an attractive investment opportunity. For example, the government co-hosted the Somalia Trade and Investment Event with the UK Department for International Development (DfID) in May 2013 and another conference in Dubai in May 2014 with the Dubai Chamber of Commerce.

FIGURE 4: FDI FLOWS, 2004–2013

USD MILLIONS



Source: UNCTAD

In South Central Somalia, food processing has historically attracted the most FDI, although the telecommunications sector has recently superseded it. The primary sources of FDI reaching South Central Somalia are United Arab Emirates, Yemen, and Oman.<sup>11</sup> Somaliland FDI is estimated to have significantly increased in recent years with key investments from Kuwait, China, and France in the transport and service sectors.<sup>12</sup> At present, remittances still far outweigh FDI as a source of foreign capital.

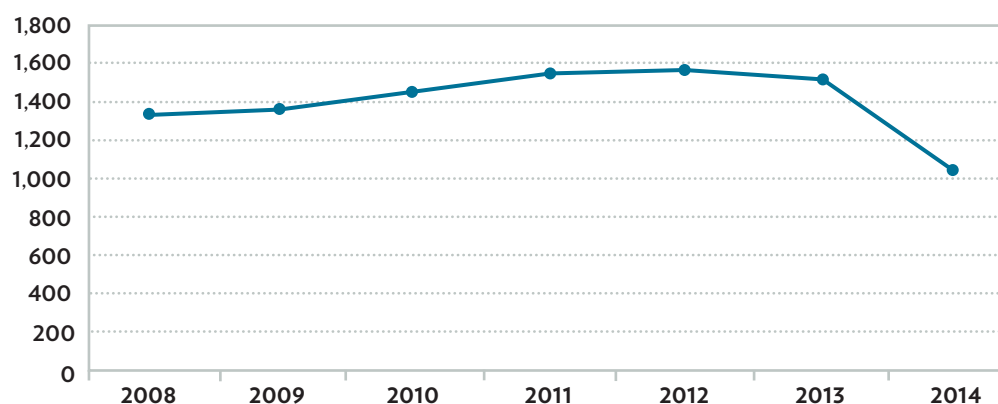
11 Somalia: "Foreign Investment" *Santander trade* (Oct. 2014), available at <https://en.santandertrade.com/establish-overseas/somalia/investing-3>.

12 African Development Bank Group, *Somalia: Country Brief 2013-2015* (2013), available at, <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/2013-2015%20-%20Somalia%20-%20Country%20Brief.pdf>.

## Inflation and Exchange Rates

The US Dollar and the Somali Shilling are both widely accepted currencies in Somalia; however, Somaliland also has its own currency, the Somaliland Shilling. The exchange rate is informally set by black-market traders rather than financial markets or the Central Bank. Over the past year, the Somali Shilling has been the world's strongest performing currency, rising more than 60% relative to the USD (Figure 5).<sup>13</sup> This has been attributed to a shortage of shillings due to high volumes of remittances, inflows of donor aid, and growing FDI.<sup>14</sup> The rising value of the Shilling has had a destabilizing effect on the economy—the majority of Somali families rely on remittances, and the falling value of foreign currencies relative to the Shilling has caused their purchasing power to fall.

FIGURE 5: USD/SOS EXCHANGE RATE, 2008-2014



Source: Oanda

Inflation is also a serious challenge. Although reliable figures are unavailable, current estimates put inflation near 300% per year,<sup>15</sup> caused largely by uncontrolled foreign currency inflows. Inflation is expected to abate somewhat as the Central Bank begins to take greater control of monetary policy.

13 *Financial Times*, “The curious tale of the world-beating Somali shilling”, <http://blogs.ft.com/beyond-brics/2014/03/20/the-curious-tale-of-the-world-beating-somali-shilling/>.

14 *Ibid.*

15 African Development Bank Group, *Somalia: Country Brief 2013-2015* (2013), available at, <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/2013-2015%20-%20Somalia%20-%20Country%20Brief.pdf>.

# SUPPLY OF IMPACT INVESTING CAPITAL

There have been no known impact investments to date in Somalia. Persistent conflict has discouraged investors—including impact investors—from placing capital in the country.

## Broader Investing Landscape

With increasing stability, the government has declared Somalia “open for business.”<sup>16</sup> In conjunction with its marketing message, the government is investing resources to improve Somalia’s legal and regulatory systems to further encourage investment. Parts of Somalia have experienced a wave of new businesses and capital inflows. At present these largely originate with the Somali diaspora, who have played a significant role in fostering economic regeneration, but there are also opportunities for non-Somali investors. International companies are opening or re-opening offices in Somalia. After ending operations in 2006, Coca-Cola, often one of the first foreign businesses in frontier markets, is re-opening its factory in Mogadishu, while a conglomerate of Djiboutian investors have invested USD 15 million to open a second Coca-Cola factory in Somaliland.<sup>17</sup> The Coca-Cola factory is the largest single foreign direct investment in Somaliland since its formation. Other international companies in Somalia include Turkish Airlines, Africa Oil, and Range Resources.<sup>18</sup> There has also been a recent emergence of diaspora groups geared toward promoting micro, small, and medium enterprise growth and private sector development such as Shuraako and the Somaliland Business Fund in Somaliland.

Despite this investment activity, most of the money channeled into Somalia is from international donor agencies. These funds are directed towards the infrastructure, agriculture, and livestock sectors aimed at rebuilding Somalia’s economy.

The Somali financial sector is weak and underdeveloped. In 2009, the transitional government re-opened the Central Bank of Somalia, but the bank is still setting up formal systems and currently has no foreign currency reserves or a coherent monetary policy.<sup>19</sup> In Somaliland, the Bank of Somaliland (a regional arm of the Central Bank) is involved in elementary treasury activities, government payment functions, and basic commercial banking activities, mainly offering national remittance services through its network of 14 branches. The bank offers savings and current accounts to a limited

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16 See for instance <http://www.telegraph.co.uk/news/worldnews/africaandindianocean/somalia/10040710/Somalia-is-open-for-business-says-president.html>.

17 The Guardian, “*Somaliland bottles its hopes on Coca-Cola*”, available at <http://www.theguardian.com/global-development/2012/jul/20/somaliland-bottles-hopes-coca-cola-plant>.

18 The East African (9/02/2013) <http://www.theeastafrican.co.ke/news/With-improved-security-investors-eyeing-Somalia/-/2558/1689618/-/f9iwpuz/-/index.html>.

19 Financial Times, “*The curious tale of the world-beating Somali shilling*”, <http://blogs.ft.com/beyond-brics/2014/03/20/the-curious-tale-of-the-world-beating-somali-shilling/>.

number of clients, typically government bodies. To date, the Somaliland Government has not instituted a legal framework for commercial or Islamic banks.<sup>20</sup> In Puntland, Puntland State Bank and Dayax Islamic Bank are the only banking institutions present, and Puntland State Bank also serves as the government treasury.<sup>21</sup>

Apart from banks, whose reach remains limited, the main actors in Somalia's financial sector are Somali remittance companies, which have extensive networks of agents that serve all towns and villages in the country, as well as major international cities with significant Somali diaspora presence.<sup>22</sup>

## Impact Capital Disbursed

Impact investors face many challenges in the region and, as a result, no known impact capital has been disbursed in Somalia to date—by either DFIs or other impact investors. However, many impact investors have regional investment mandates that include Somalia, amounting to about USD 500 million in capital committed to the region, including Somalia. A growing pipeline of viable businesses, especially in Puntland and Somaliland, could increase the attractiveness of Somalia to impact investors and stimulate impact capital flows into the country; however, based on historical investment flows, it is unlikely this would account for a significant portion of the capital committed.

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20 Istanbul Conference “Banking, remittances, and the role of the central bank in promoting financial and private sector development in Somalia (2010),” *available at* <http://www.somalitalk.com/2010/may/istambul/banking.pdf>.

21 UNHABITAT, “Municipal Finance and Public Service Delivery in the Puntland State Of Somalia,” *available at* <http://www.isgi.cnr.it/wp-content/uploads/2012/07/Operational-study-entire.pdf>.

22 Istanbul Conference “Banking, remittances, and the role of the central bank in promoting financial and private sector development in Somalia (2010),” *available at* <http://www.somalitalk.com/2010/may/istambul/banking.pdf>.

# DEMAND AND NEED FOR IMPACT INVESTING CAPITAL

Somalia lacks consistent government rule and lags global development indicators across the board. The combination of the development needs and a surprisingly vibrant private sector could present interesting opportunities for businesses to generate social impact.

## Development Context

Somalia ranked 165<sup>th</sup> in the United Nation's 2010 Global Human Development Report, with an HDI score of 0.285. Of the three key dimensions used to measure a country's development, Somalia ranks lowest in education, followed by income and health.<sup>23</sup>

Approximately 73% of Somalis live on less than USD 2 per day.<sup>24</sup> The divide between urban and rural populations is significant—whereas 61% of urban residents are below the poverty line, the poverty rate rises to 94% in rural areas. Poverty rates reach 89% in South Central Somalia, 75% in Puntland, and 72% in Somaliland.

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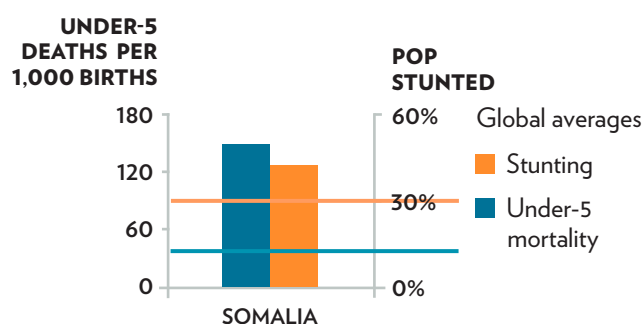
23 UNDP "Somalia Human Development Report 2012 Empowering Youth for Peace and Development," (2012) *available at*, <http://www.undp.org/content/dam/undp/library/corporate/HDR/Arab%20States/HDR-Somalia-Factsheet-2012-E.pdf>.

24 UN HDI Data.

Somalia's health indicators are among the worst in Africa. Years of conflict resulted in the near total destruction of most health facilities and infrastructure. The public health sector is slowly recovering but still remains highly reliant on the UN and donor agencies. Somalis have an estimated life expectancy of 49.7 years. Infant and child mortality rates stand at 108.4 and 178 per 1,000 live births, respectively (Figure 6). Maternal mortality rates are similarly high at 1,400 per 100,000 live births, compared with 683 on average for Africa. Nationally, only 29% of the population has access to improved water sources, and 23% to improved sanitation facilities, while these values fall to 9% and 6% respectively in rural areas.<sup>25</sup>

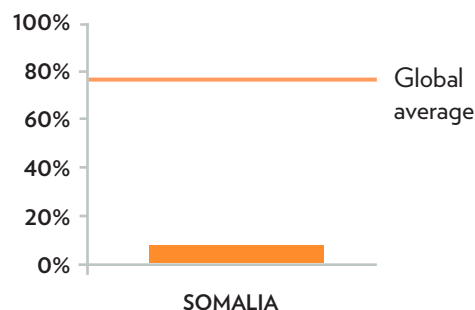
Somalia also underperforms on education metrics relative to the region. Only 22% of children aged 6-17 are in formal schooling, with boys' enrollment at 24% higher than girls' at 19%.<sup>26</sup> Seven percent of the secondary school-age population is enrolled in school (Figure 7).

**FIGURE 6: UNDER-5 MORTALITY AND STUNTING (LATEST AVAILABLE DATA POINT)**



Source: UN Human Development Report 2014

**FIGURE 7: SECONDARY SCHOOL GROSS ENROLLMENT**



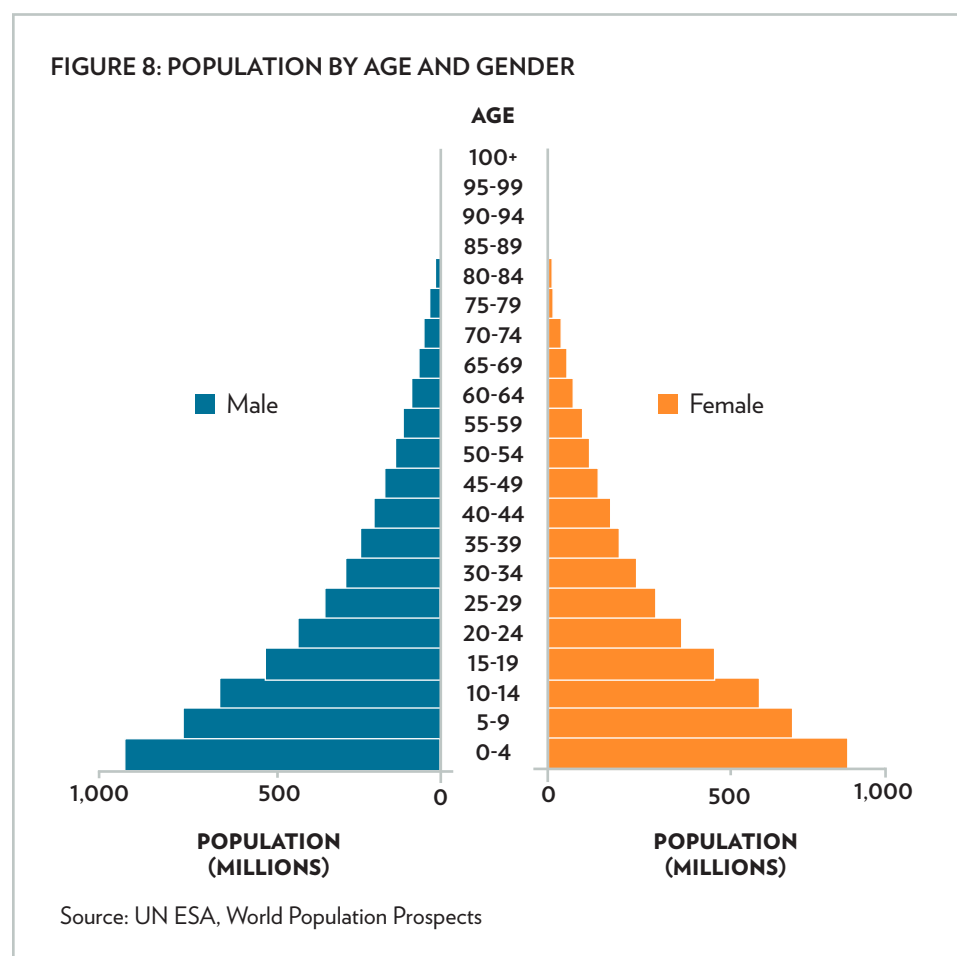
Source: UN Human Development Report 2014

25 African Development Bank Group, *Somalia: Country Brief 2013-2015* (2013), available at, <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/2013-2015%20-%20Somalia%20-%20Country%20Brief.pdf>.

26 UNESCO, *Education Sector Strategic Plan*, available at <http://planipolis.iiep.unesco.org/upload/Somalia/Somalia-Puntland-Education-Sector-Plan-2012-2016.pdf>.



Somalia's youth (14-29 years) comprise 42% of the population (Figure 8).<sup>27</sup> Somalia has one of the highest youth unemployment rates in the world at 67%. Unemployment, conflict, and poverty have left many youth frustrated, fueling both piracy and terrorism. More women than men are unemployed, with female unemployment rates as high as 74% compared to men at 61%.<sup>28</sup>



27 The survey conducted for the Somalia Human Development Report used 14-29 years as a parameter for youth following consultations with various Somali stakeholders, including young Somali men and women, <http://www.undp.org/content/dam/undp/library/corporate/HDR/Arab%20States/HDR-Somalia-Factsheet-2012-E.pdf>.

28 UNDP "Somalia Human Development Report 2012 Empowering Youth for Peace and Development," (2012) available at, <http://www.undp.org/content/dam/undp/library/corporate/HDR/Arab%20States/HDR-Somalia-Factsheet-2012-E.pdf>.

## Entrepreneurs

Despite the relative success of the private sector in the face of instability and the many opportunities for businesses to contribute, entrepreneurs still face many challenges that limit the growth of the sector, including access to finance. The Somali financial sector remains underdeveloped, informal, and unsupervised, with limited access to credit and savings. Somalia's few existing banks provide only limited services, and local entrepreneurs are forced to largely rely on savings or remittances to finance their businesses.<sup>29</sup> Further private sector growth will require additional sources of finance.

# ENABLING IMPACT INVESTING: THE ECOSYSTEM

The Somali ecosystem is not especially conducive to investing. The current administration is working to improve the regulatory and legal environment, but it still offers little protection for investors. There are also few intermediaries or other third parties to support emerging social enterprises or impact investors.

## Regulatory Environment

After the fall of Barre in 1991, Somalia underwent a prolonged period without a central administration. In its absence, the country established what academics term “governance without government.”<sup>30</sup> Communities cobbled together alternate governance structures, borrowing from customary systems and foreign regulatory systems that were overseen by a combination of local authorities, civic groups, and private businesses.

Under the new regime, the new Federal Government of Somalia (FGS) has committed to establishing stability and building regulatory institutions. Under the Somalia New Deal Compact, the government has laid out its five peace- and state-building goals. It has also committed to adopting a constitution by the end of 2015 and holding elections in 2016.<sup>31</sup> Despite these promising improvements, the regulatory and legal environment is still weak and limits Somalia's appeal to investors:

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29 Istanbul Conference “Banking, remittances, and the role of the central bank in promoting financial and private sector development in Somalia (2010),” available at <http://www.somalitalk.com/2010/may/istanbul/banking.pdf>.

30 Humanitarian Futures Program, “Prospects for an alternative approach? The private sector in Somalia's new statebuilding agenda”, available at <http://www.humanitarianfutures.org/wp-content/uploads/2014/01/SOMALIA-REPORT-FINAL.pdf>.

31 AFDB *Somalia Country Brief 2013-2013* available at, <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/2013-2015%20-%20Somalia%20-%20Country%20Brief.pdf>.

- **Foreign exchange controls:** Somalia does not have a central foreign exchange market. The system is controlled by private sector Hawala money transfer institutions dealing primarily in expatriate remittances.<sup>32,33</sup> Exchange rates pose a significant risk to investors, given the instability of the Somali Shilling.
- **Land ownership:** The current land tenure system in Somalia is a mixture of secular, sharia, and Xeer law (customary Somali law).<sup>34</sup> The new federal constitution in South Central Somalia states that “every person has the right to own, use, enjoy, sell, and transfer property” and that property will not be expropriated unreasonably.<sup>35</sup> With the exception of this clause, there is little formal legislation regarding land at the federal level. The Constitution of Somaliland stipulates that, “land is a public property commonly owned by the nation, and the state is responsible for it.” Both foreigners and Somalilanders are freely able to purchase and sell property.<sup>36</sup> Investors should, however, be aware that land record systems are still being developed, so title searches can be challenging. In Puntland, all land belongs to the state, and the government is the only body able to allocate land.
- **Government enterprises:** Without a central administration, Somalia’s public entities disintegrated during years of war. The private sector noticed the void created by failed public institutions and moved to capitalize on this. Today, the private sector offers essential services such as health and education and is involved in court services such as dispute resolution, contract enforcement, property rights protection, and law and order.

## Ecosystem Players

There are very few intermediaries operating to support social enterprises or impact investors. One example of an emerging organization is the Iftiin Foundation, a social enterprise established in 2012 to bring members of the diaspora and locals together by teaching leadership skills to young people in Mogadishu and connecting entrepreneurs to funders.<sup>37</sup> Similarly, the Shuraako Initiative is a non-profit that helps micro, small, and medium enterprises connect with capital by providing pro-bono support in writing business plans and conducting initial due diligence on potential investments. The initiative’s goal is to encourage investment in Somalia by sourcing

32 Wharton “Somalia,” available at <http://fic.wharton.upenn.edu/fic/africa/Somalia%20Final.pdf>.

33 Hawala is an informal money transfer system of a large number of money brokers operating outside of the formal financial sector.

34 Shuraako, “Land Tenure in Somalia,” available at <http://shuraako.org/sites/shuraako.org/files/documents/Land%20Tenure%20in%20Somalia%20A%20Potential%20Foundation%20for%20Security%20and%20Prosperity.pdf>.

35 The Federal Republic of Somalia. Provisional Constitution. August 1, 2012. Article 26, available at <http://unpos.unmissions.org/LinkClick.aspx?fileticket=RkJTOSpoMME>.

36 Ministry of Trade and Investment “An Investment Guide to Somaliland Opportunities & Conditions,” available at [http://somalilandinvest.net/somaliland\\_investment\\_guide.pdf](http://somalilandinvest.net/somaliland_investment_guide.pdf).

37 The National, “Back to the future: the challenges facing Somalia’s returning diaspora,” available at <http://www.thenational.ae/arts-lifestyle/the-review/back-to-the-future-the-challenges-facing-somalias-returning-diaspora#ixzz3KHM6xw9i>.

investment opportunities.<sup>38</sup> Finally, the Somaliland Business Fund offers matching grants to eligible small businesses to enable them to purchase physical assets and/or acquire business development services.<sup>39</sup> As the investment landscape matures, it is expected that an increasing number of intermediaries will enter the Somali ecosystem to support promising social enterprises.

# CHALLENGES AND OPPORTUNITIES FOR IMPACT INVESTORS

## Challenges

Potential impact investors face several significant challenges:

- **Political uncertainty:** Arguably the largest barrier to investing in Somalia is political uncertainty. The country has often been referred to as the world's "most failed state,"<sup>40</sup> and decades of conflict and repeated failed interventions have left investors wary. In addition, Somalia's weak regulatory and legal systems leave both investors and entrepreneurs vulnerable.
- **Foreign exchange:** In the absence of banks or a formal foreign exchange market, it is difficult for investors to obtain local currency or adequately hedge against currency risk. Foreign investors use three main systems to get money into Somalia: Hawala, investment-in-kind, and cross-border currency systems. Hawala is heavily used by the diaspora to remit money back to family in Somalia. Investment-in-kind is popular with international NGOs. This form of support entails the delivery of materials, goods, or labor from other countries because the equivalent does not exist in sufficient quantity in Somalia.<sup>41</sup> Cross-border currency is normally used by investors mainly in the more unstable regions of Somalia like Mogadishu. Some investors may also move money through small airports like the Wilson and Garissa airports in Kenya. Both methods are, however, extremely risky.

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38 Shuraako, "For Investors", available at <http://shuraako.org/investors>.

39 Somaliland Business Fund, "Frequently Asked Questions", available at <http://www.somalilandbusinessfund.com/index.php/faq>.

40 The Fund for Peace, "The failed states index, 2013", available at <http://ffp.statesindex.org/rankings-2013-sortable>.

41 Shuraako, "Somalia Banking: Transfers, Challenges And Opportunities," available at <http://shuraako.org/sites/shuraako.org/files/documents/Somalia%20Banking%20Transfers,%20Challenges%20And%20Opportunities.pdf>.

## Opportunities

Despite these challenges, members of Somalia's large, global diaspora are beginning to invest and/or return to the country with active encouragement from the government.<sup>42</sup> Generally, they are motivated by a combination of a desire to help their homeland and an understanding of the potential prospects. A number of opportunities are beginning to emerge for impact investors:

- **Invest in technical assistance to build pre-investment pipeline:** Somalia has very few intermediaries providing any advisory and business development services to local enterprises. Impact investors could replicate models in other countries in the region (e.g., Kenya) where pre-investment technical assistance has helped businesses grow to investment readiness.
- **Develop a regional focus:** Levels of conflict and instability vary across Somalia. Somaliland and Puntland have been essentially operating as relatively stable independent states in recent years, and most likely offer the most amenable environments for impact investment at present.
- **Partner with returning diaspora members:** Over one million Somalis live outside the country, often having acquired valuable skills and experience abroad. The government has recognized the diaspora's potential to help rebuild the economy and is actively encouraging their return by promoting the opportunities to rebuild the country and make money. Returning diaspora benefit from both an understanding of local markets as well as foreign expertise, and could provide a rich source of entrepreneurs, intermediaries, or investment partners.

Somalia's poverty levels and low human development indicators demonstrate that there is great need for investment to provide basic services, create employment, and drive economic growth. There are opportunities for entrepreneurs to launch businesses across a variety of sectors:

- **Agribusiness:** Somalia is heavily dependent on imported food. Years of conflict have displaced farmers from their land and destroyed productive assets such as irrigation systems. Along with frequent droughts, this has led to a decline in agricultural production.<sup>43</sup> Investing in agribusinesses and supporting farmers with inputs, credit, and productivity-enhancing measures could reduce the country's dependency on food aid and imports while also improving nutrition.
- **Fishing:** The Somali coast is among the richest fishing grounds in Africa, and holds great potential for development.<sup>44</sup> The sector has struggled to develop due to lack of skills and equipment and insufficient regulatory frameworks. Investments in the fisheries sector could dramatically improve the welfare of coastal communities.

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42 The National, "Back to the future: the challenges facing Somalia's returning diaspora", available at <http://www.thenational.ae/arts-lifestyle/the-review/back-to-the-future-the-challenges-facing-somalias-returning-diaspora#ixzz3KHM6xw9i>.

43 AFDB w available at, <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Project-and-Operations/2013-2015%20-%20Somalia%20-%20Country%20Brief.pdf>.

44 Relief Web, "EU boosts the Somali fishing industry", available at <http://reliefweb.int/report/somalia/eu-boosts-somali-fishing-industry>.

- **Water and sanitation:** Somalia suffers from poor access to water and sanitation services. Although Somaliland and Puntland have invested some resources in these sectors, South Central Somalia has very little in the way of centralized sanitation systems, and there has been little government investment. Improvements will require private sector investment and public-private partnerships.
- **Basic health and education:** Social services like health and education have suffered greatly in Somalia in the absence of a central administration. Although NGOs and development partners are investing in the sector, there may be additional opportunities for private players to enter the market.



#### **ABOUT THE GLOBAL IMPACT INVESTING NETWORK**

The Global Impact Investing Network (GIIN®) is a nonprofit organization dedicated to increasing the scale and effectiveness of impact investing. The GIIN builds critical infrastructure and supports activities, education, and research that help accelerate the development of a coherent impact investing industry. For more information, see [www.thegiin.org](http://www.thegiin.org).

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